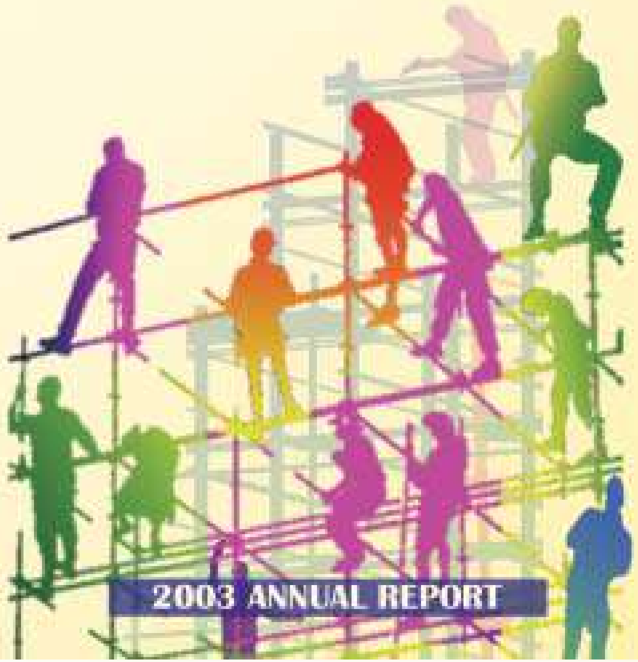
FILINVEST DEVELOPMENT CORPORATION



2003 ANNUAL REPORT

Cover Story:

Building the future. In construction, every brick, nail and plank, as well as every worker plays an important role in building the structure. In the same way, at FDC every part of the company represents a building block for long-term growth. Sound policies, solid core values, strategic investments and alliances, and a commitment to excellence all come together to form the foundation of stability that has been the company's legacy for over four decades.

Table of Contents

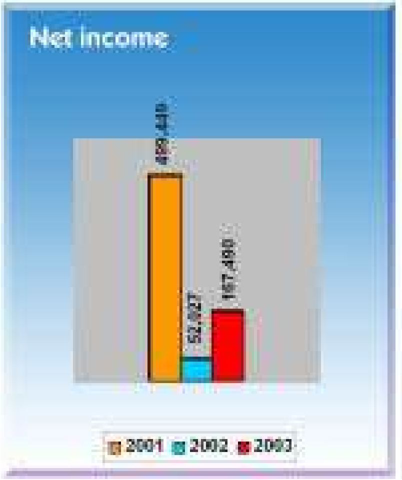
FILINVEST DEVELOPMENT CORPORATION AND SUBSIDIARIES
FINANCIAL HIGHLIGHTS

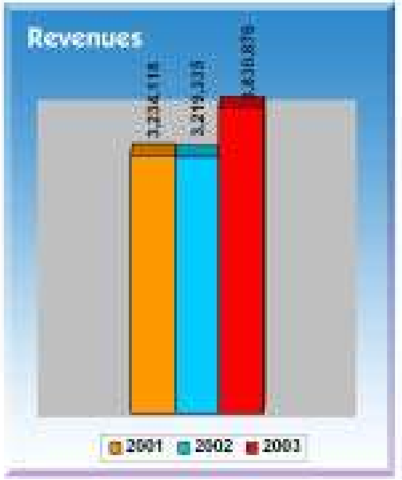
(Amounts In Thousands of Pesos, Except Per Share Data)

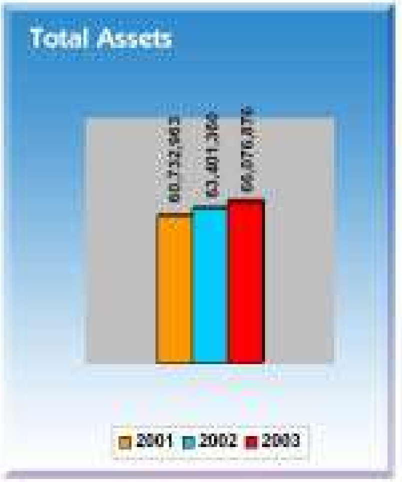
		2003	2002	2001
Operating Results				
	Net Revenues	**3,830,876**	3,219,335	3,234,118
	Net Income	**167,490**	52,027	499,449
	Return on Assets (ave.)	**0.3%**	0.1%	0.8%
	Return on Equity (ave.)	**0.6%**	0.2%	1.7%
Financial Position				
	Total Assets	**66,076,876**	63,401,360	60,732,963
	Total Debt	**9,689,021**	9,527,024	10,752,737
	Stockholders' Equity	**30,041,177**	29,883,322	29,798,617
	No. of Shares Outstanding ('000)	**5,955,725**	5,955,725	5,955,725
	Gross Debt to Equity	**32.3%**	31.9%	36.1%
	Net Debt to Equity	**21.5%**	24.8%	28.9%
Per Share Data				
	Primary Earnings	**0.028**	0.009	0.084
	Fully Diluted Earnings Per Share	**0.028**	0.009	0.084

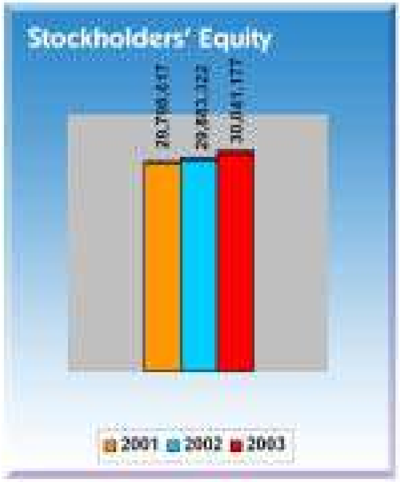
FILINVEST DEVELOPMENT CORPORATION

FINANCIAL HIGHLIGHTS









Organization Structure

Property Development

FILINVEST LAND, INC.
www.filinvest-land.com
Residential Property

FILINVEST ALABANG, INC.
www.filinvestcorpcity.com
Commercial Property

FILINVEST ASIA, CORP.
Office Development

CYBERZONE PROPERTIES, INC.
www.northgate-cyberzone.com
I.T. Bldg. Development

FESTIVAL SUPERMALL, INC.
www.festivalsupermall.com
Shopping Center Management

Banking and Financial Services

EAST WEST BANKING, CORP.
www.eastwestbanker.com
Commercial Banking

Other Services

H.B. FULLER (PHILS.)
Adhesives Manufacturing

HOCHENG PHILIPPINES
Sanitary Wares Manufacturing

Joint Message

The Philippine economy fared better than expected in 2003, despite the aftermath of the US-Iraq war, the outbreak of the SARS epidemic, and a failed Oakwood mutiny. This was attributed mainly to healthy consumer spending, remittances from the country's new heroes - Overseas Filipino Workers – and a stable agricultural sector. Exceeding both the government and private analysts' projections, gross domestic product (GDP) grew by 4.5%, slightly higher than 4.4% in 2002. The real estate industry, which comprises Filinvest Development Corporation's (FDC) core business, likewise posted a 3.8% growth, which is a significant improvement over the previous year's 1.7%.

Financial Highlights

FDC consolidated assets stood at P66.077 billion at year-end 2003 compared to P63.401 billion of the previous year while stockholders equity reached P30.04 billion up .53% from 2002 level of P29.88 billion.

In the year 2003, emphasis was made on a stronger marketing program and the building of wider sales distribution network in both the property and banking subsidiaries. The focused efforts combined with the improvement in the economy was evident in the financial performance of FDC. The group generated consolidated net revenues of P3.831 billion, up a healthy 19% from 2002. Operating expenses were well controlled and went down by 1%. As a result, income before income tax grew to P 1.054 billion in 2003 or a 156% increase from its P411.9 million level in 2002. Provisions for income tax amounted to P627.6 million against last year's P103.8 million mainly due to adjustment made on deferred income tax when utilizing a substantial portion of the company's net operating loss carryover. The year ended with net income after tax amounting to P167.5 million or an increase of 222% over the P52.0 million of last year.

The 2003 real estate operations yielded better results than last year. The company's gross profit on sale of lots, condominium and residential units and club shares increased by 19% to P 1.271 billion from previous year's P1.071 billion. The bigger contribution of sales from Filinvest Alabang, Inc.'s (FAI) commercial lot sales and its higher profit margins as well as better FLI sales margins resulted in the increase in gross profit on sales.

Contributions from investment in rental properties over the past years started to make its impact in 2003 as mall and rental revenues increased by 17% from P591.7 million to P691.2 million. This is attributable to the higher rentals as well as tenant sales from the 200,000-square meter Festival Supermall, over 48,000 square meters of grade A office buildings, as well as lot leases in Filinvest Corporate City and Westgate Center. With occupancy in the office buildings further improving and hitting over 96% occupancy in 2004, rental revenue is expected to further improve in the coming years.

The financial and banking services produced net revenues of P673.1 million or a 10% increase from 2002. A marked rise in the loan portfolio which increased to P8.249 billion from P7.396 billion in 2002, caused an increase in interest income by 15% from P858.1 million to P984.3 million. Income from trading transactions and foreign exchange profits and service fees earned during the year also boosted East West Bank's income. Interest cost increased at pace with its larger deposit base to hit P787.0 million, up from last year's P624.4 million.

Growth for 2003

The group has invested in a foundation for growth in 2003. Improved product offerings, sales networks, back office systems, and financial lines were established and enhanced to better meet an uptrend in the market.

Growth was registered across the various subsidiaries of the group in 2003. FLI registered a 25% increase in sales in 2003. Improvement in its sales and marketing networks most specially in the middle end sector of the market contributed to such growth.

FAI experienced significant 100% increase in sales in commercial lots as well. An enthusiastic response was received by Palms Pointe residential estates, the sales of which will be booked in 2004. Three high rise projects, Vivant Flats, Westparc, and 2301 Civic Place, all catering to various market segments, participated in the increased demand for affordable condominiums within Filinvest Corporate City, the definitive urban center of the South.

FAI's recurring income base grew as occupancy of both retail and office buildings improved. Robust growth was seen in the take-up of I.T. buildings. Filinvest is in a unique position to respond to the market with its significant tract of lower cost commercial properties. In addition to the take-up of most of its remaining available office spaces for lease, Filinvest has signed up 24,000 sqm of build-to-suit space to meet the growing demand of business process outsource and call centers.

Better than industry average growth rates were registered by East West Bank. The bank has aggressively improved its branch network to better serve both its commercial as well as consumer clients. In addition, it has likewise geared itself to serving the financing needs of the consumer by investing in the necessary software and manpower resources.

Outlook for 2004

Filinvest is optimistic that 2004 will prove to be an even better year. Barring any major untoward incidents arising from the elections, first quarter indicators show a surprisingly strong improvement over the same period in 2003. Your management works hard at being responsive to market demands in order to capitalize from a possible economic turnaround.

We would like to extend our gratitude to our customers, shareholders, bankers, business partners and employees for the patronage and support they have extended most especially during the years of the Asian financial crisis. Such support has been instrumental in ensuring that Filinvest continues to be one of the few business groups that remained solid during those difficult years.

JONATHAN T. GOTIANUN
Chairman

L. JOSEPHINE GOTIANUN YAP
President and CEO

OPERATING HIGHLIGHTS

Residential Property Development

FILINVEST LAND, INC.
www.filinvest-land.com

Filinvest Land, Inc. (FLI) saw its sales increase by 25% in 2003, with most of it coming from the middle-income residential sector.

This can be partly attributed to the company's company-wide reorganization where the Business Units were further refined under a project group territory approach, making project development more focused and boosting sales in the process.

High-end Residential

Brentville Clubhouse

Flagship community Brentville International continues to evolve as a thriving world-class community. Prominence II takes its cue from the successful Mediterranean classic architecture of Prominence I and incorporates this in its townhomes and single-detached luxury residences. An added feature is that foreigners can buy and register the Prominence II single-detached homes of their choice under their own name through the Certificate of Condominium Title (CCT). Another perk for Prominence II buyers is the privilege to use the first-class amenities of The Palms Country Club located within Filinvest Corporate City in Alabang.

Within Filinvest East County, FLI's township development in Rizal, new house and lot packages were introduced in Mission Hills, Highlands Pointe and Sta.


Daphne House Model

Cecilia. Mission Hills also unveiled The Villas, its newest residential cluster.

Middle Income and Regional Developments

Corte Bella sales surged to P1 billion, surpassing the sales target by almost P200 million. The projects that contributed to this landmark achievement were Serra Monte Villas, with its sub-community Aldea Verde successfully sold out; Mountain View, Spring Heights, Spring Country, Serra Monte Mansions, and The Tropics.

In regional developments, two new communities were introduced: Aldea del Sol in Cebu and Fuente de Villa Abrille in Davao.

Socialized and Affordable Housing

For 2003, a new line of improved Tree Series house models was launched. Consisting of Aspen, Walnut, Molave and Narra, these models were introduced in Blue Grass in Batangas, Woodville, Crystal Aire and Fairway View, all in Cavite.

Farm Estates

The first Nusa Dua farm estate in Tanza, Cavite enjoyed rapid development with the completion of parks and playgrounds, a model unit, and the site development works. Highlight of the year was the turnover of farm lots to the weekend farmers who have invested into planting their own vegetable lots on their respective properties.

Complementing the development of the Timberland Heights residential enclave in San Mateo, Rizal is the second farm estates development called Mandala Farm Estates.

Mandala Residential Farm Estate offers hobby farmers the best of both worlds: generous lot cuts and Tropical Asian-inspired homes that complement the mountain resort lifestyle. Unique to Mandala is its market positioning as a primary residence as well a resort product due to its proximity to the metropolis. Geared towards agro-forestry, the Mandala Farm Estate is envisioned to be a sustainable habitat where man and nature can harmoniously coexist.

Industrial Estates

Filinvest Technology Park (FTPC) now has two locators: Philippine Dong Yun, a company engaged in high technology engraving that began operations in October 2003, and 8M Plastics Technologies Inc., an export-oriented plastic-injection company that leased the Ready-Built Factory Unit#1 since December 2003. Another export-oriented company, the electronics business Northeast Precision Inc., is poised to begin operations in February 2004. The entry of these two companies saw the first quarter of 2004 post P17 million in sales.

Township Development

Filinvest Technology Park serves as an anchor to Ciudad de Calamba, a 300- hectare township situated in Calamba, Laguna. Ciudad now has three affordable and middle-income developments within the property.Timberland Heights, the 677-hectare township in the hills of Rizal, launched its first project, Mandala Farm Estates, in 2003. This will be followed by a host of leisure and housing developments in the coming years. Only 15 minutes from the Batasang Pambansa in Quezon City, this mountain resort town is 350 meters above sea level and boasts of a 360-degree view that allows one to see all the way from Mount Makiling to Mount Arayat.

Leisure

In the works is Laeuna de Taal, a 60-hectare lakeside resort community at Talisay, Batangas in the northeastern part of Taal Lake. Envisioned to be a private, nature-oriented community, Laeuna de Taal is initially offering 130 residential lots within the 10-hectare La Bahia and La Orilla sub-communities. These residential lots, ranging in size from 300 to 1,000 square meters, will offer private enclaves whose wholesome natural environment will nurture the body and spirit alike. Facilities will include gated entrances, 12-meter

Laeuna de Taal Waterfront

wide cemented roads and hiking trails set within the lush mountainscape. A Lake Club will showcase a boardwalk, spa, conference facilities, garden or wedding and other functions, and a generous play area for children. Non-motorized water sports such as sailing, kayaking, windsurfing and banca rides to Taal Volcano will be made available.

A second leisure offering will be made in 2004 to anchor Timberland Heights in Rizal. The Timberland Sports and Nature Club, a 8.7-hectare development, will provide its members a range of dining, traditional sports facilities and outdoor recreational facilities such as hiking trails and camping grounds. Designed by world renowned Wimberly Allison Tong and Goo, Timberland Sports Club follows the success of the Palms Country Club, the group's first venture into sports club development.

COMMERCIAL PROPERTY DEVELOPMENT

Palms Pointe

FILINVEST ALABANG, INC.

www.filinvestcorpcity.com

The year 2003 was a relatively good one for Filinvest Alabang, Inc. (FAI) as the company launched new projects and activities to spur the development of flagship project Filinvest Corporate City (FCC) in Alabang.

Commercial and Residential Lots

Commercial lot sales doubled to more than P200 million in 2003, bannered by the acquisition by Petron Corporation of a 2,385-square meter lot along Commerce Avenue. The Petron service station is scheduled to open in April 2004.

To further accelerate lot sales, FAI diversified its product mix by offering residential lots. Even before it was launched, FAI already received inquiries about Palms Pointe from people interested in acquiring residential lots within FCC. Located in Laguna Heights, right across The Palms Country Club, Palms Pointe offers 148 prime lots measuring 300 to 400 square meters within a gated community. Response to the project has been very enthusiastic and delivery to buyers is scheduled for the first quarter of 2005.

For 2004, FAI is developing new commercial lot products that will cater to clients with lower floor area requirements especially for small businesses who want to construct their own buildings. These lots will be located in the Northgate Business District. In addition, retail/commercial lots near Market Square and Westgate Center will further expand product choices.

West Parc

High-rise Projects

The first building of the West Parc Condominiums was launched in 2003. The 15-storey Alder Building which offers a total of 119 units divided into studio, 2-bedroom and 3-bedroom units, is expected to be sold out by the middle of 2004. The project broke ground in May 2004 for delivery by mid-2006. The Birch Building, the second of the West Parc Complex will be launched in the second half of 2004.

Vivant Flats construction

Vivant Flats marked several milestones in 2003 headlined by the groundbreaking ceremony in April and the first concrete pouring in December. Construction of the 17-storey condominium building is now in full swing with the substructure completed and the superstructure under construction. Substantially taken up, the building is expected to be sold out before its delivery by mid-2006.

2301 Civic Place

Flexibility was the major selling point of 2301 Civic Place, a 12-storey office condominium that features compact studio units ideal for doctors and entrepreneurs. With amenities like a full bathroom and provisions for a kitchenette, a unit can also be used as a home office or a residence. Because of its unique concept, affordability and strategic location in FCC's commercial hub, 2301 Civic Place is now substantially subscribed, and construction will commence in May for turnover by 2006.

Commercial/ Retail

Westgate Center, FCC's 9.5-hectare alternative lifestyle and recreation venue, is steadily catching the fancy of the city's modish and well-heeled communities. It features a master-planned retail, dining and entertainment center concept in a park-like setting. Currently, 83% of the area for lot leases is already leased out to various locators including PriceSmart, Westgate Alabang Home Depot, Fitness First, Congo Grille, Brothers Burger, Poquito Mas, East West Bank, Koreana Restaurant, Minerva Tyre Gallery, and Orientique Home Furnishings. FAI offered several

Westgate Center

retail cluster buildings which are 100% leased out and are under various stages of construction and tenant fit-out. Their tenants include Zoma by Cable Car, Cafe Breton, Cafe Adriatico, Peerless Coffee Café, Purple Closet, Tips ‘N Toes, among many others. More retail clusters will be launched in 2004 to build up the critical entertainment mass for Westgate.

South Central groundbreaking

Nissan Westgate along Alabang-Zapote Road was inaugurated in August 2003. Mazda and General Motors – Chevrolet Alabang have commenced construction and will join the 11-strong car service and accessories retailers to make the Westgate Auto Center a strong retail destination.

South Central, FCC’s 6.2-hectare transport terminal and bargain center near the Muntinlupa public market will start construction in June 2004. Anchored around a transport terminal, it will feature a total of 152 bargain center units and loop shops offering a wide retail mix for one-stop shopping convenience.

The Palms Country Club

Leisure

Operational for over a year, The Palms Country Club has been receiving positive feedback from its members, particularly on its excellent food. Club patronage for sports and dining facilities has been consistently high and the club has become a preferred venue in the south for weddings and corporate events. The Palms organized various activities such as a summer program for children, gourmet dinners, wine tasting events, sports tournaments and networking cocktails. Share sales continued with over 1,000 members now enjoying the club facilities.

Technofair

FESTIVAL SUPERMALL
www.festivalsupermall.com

Festival Supermall celebrated its fifth anniversary in 2003 with steady growth in sales and revenues. Its tenant roster has grown to over 555 stores and the mall is the undisputed regional shopping center south of Metro Manila.

The mall added new retail concepts to capture specific markets such as home accessories (Home Bazaar), antiques (Antique Fair) and do-it-yourself (Decor Plus) stores at the Home Decor Center on Level 4. The launching of Pearls and Precious Stones Village, the biggest source of pearl and precious stone jewelry in the south, unveiled 47 stores. The opening of Teriyaki Boy and Super Bowl of China further boosted food tenants' sales.

A positive business outlook for the mall is expected in 2004 with the opening of two anchor tenants – Savemore Supermarket and Robinson's Department Store with Handyman Home Center. Savemore, of the SM group, welcomed shoppers in February 2004 on the ground level of the Filinvest Toll Wing while Robinson's operations on the second and third levels will commence sometime in July 2004. These new attractions are expected to further boost the mall's customer traffic.

The Carousel Court on Level 2 hosted trade exhibitions and sponsored shows in 2003, notable of which were the Levi's 150 Years: From 501 to Type 1 and Nueva Vizcaya exhibits and the repeat fairs of the Chamber of Furniture Industry of the Philippines (CFIP), Chinese porcelain ware manufacturers, and La Union's "Treasures of the North."

The mall's fifth anniversary and Christmas celebrations topped its major events for this year. Jaya and the CompanY performed in a special anniversary concert while Food Junction outlets, Festival Cinema, and Pixie Forest and X-Site amusement centers offered mall patrons anniversary treats and freebies. The international award-winning Loboc Children's Choir of Bohol graced the mall's Yuletide celebration with a rare two-day concert, including their first full-length gala performance in a mall.

Anniversary Celebration

FILINVEST ASIA CORPORATION

PBCom Tower, the country's tallest office tower standing at 52 storeys, is a development of Filinvest Asia Corporation in joint venture with the Phiippine Bank of Communications. Filinvest Asia Corporation is a joint venture between FDC and Reco Herrera Pte. Ltd., an investing vehicle of the Government of Singapore Real Estate Ltd. PBCom Tower continued to attract more tenants in 2003. As of date, FAC was able to achieve 96% awarding for its total space owned within PBCom Tower.

PBCom Tower

Daksh E-services, the leading contact center in India, secured a total of 4,300 square meters to establish their Philippine office. The company started operations in the first quarter of 2004. Citibank leased 2,500 square meters for its call center and service group and is currently fitting out its offices for the targeted third quarter 2004 start of operations. A number of current tenants opted for expansion to be able to accommodate their increasing space requirements. This is a good indicator of the successful business operations of tenants such as American Express, ESS Manufacturing, New York Life, Schering Philippines and East West Bank.

PBCom Tower's food court opened in 2003 and is now fully operational. Located on the 7th floor, "Food Patio" offers tenants and guests a range of choices from 14 food stalls and both air-conditioned and alfresco dining.

CYBERZONE PROPERTIES, INC.
www.northgate-cyberzone.com


Convergys Building

Cyberzone Properties, Inc. (CPI) scored a major success in 2003. Occupancy of Plaz@ B and C buildings is now at 97%. APAC Customer Services, Inc, which operates 34 customer interaction centers across the United States is the sole tenant of Plaz@ C while Ambergris Solutions is the anchor tenant for Plaz@ B.

Two new "Build to Suit" (BTS) buildings will cement Northgate Cyberzone's reputation as the IT center of the South. Convergys Corporation, the world's largest provider of integrated billing, customer care and employee care services, will move to its 6,000-sqm building in the third quarter of 2004. The success of the Convergys contract validated CPI's capability to implement the BTS concept for Northgate CyberZone. Construction has likewise started on the 18,000-sqm Hongkong Shanghai Banking Corporation's business processing center, This will be the company's eighth center in the world.

We will continue to pursue expansion with regional business processing outsource (BPO) centers and contact centers to add to the roster of prestigious locators in Northgate CyberZone.

Banking and Financial Services

EAST WEST BANK
www.eastwestbanker.com

East West Banking Corporation's total resources stood at P18.5 billion at the end of 2003. This represents a 25% or P3.7 billion growth from the 2002 year-end level. The Bank's Net Loan Portfolio also grew by P1.2 billion (14%) to an end of year level of P10.1 billion. Total Deposit Liabilities, on the other hand, was at P14.2 billion, a growth of P3.3 billion or 30% as compared to 2002. Operating expenses rose by 14.47 % mainly due to the programmed growth of the bank in 7 new Personalized Banking Centers (PBC) as well as amortization of fixed assets and deferred charges from the acquisition of new equipment and software to support branch expansion and new credit card and consumer financing business lines . Net Income for the year was P84.5 million.

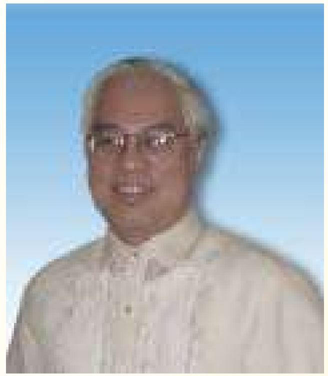
The Bank's branch network expanded to 54 PBCs. Expansion of products and services was also realized with the establishment of the EastWest Leasing and Finance Corporation which offers vehicle loans, and the formation of the Credit Cards Division which is slated to add credit card products to the Bank's wide range of consumer products and services in 2004. The Salary Loan Program was also made available to employees of accredited corporations in the last quarter of 2003.

In 2003, the Bank continued to enhance its reputation as one of the most innovative banks in the country. It introduced the following IT-enabled initiatives to further improve its operations and service delivery capabilities: Online Signature Imaging System, Loan Origination System, Credit Card System, Data Warehousing and Risk Management and Monitoring System. The Bank's ATM operations were improved and made more efficient with the acquisition and installation of a new ATM solution.

In 2004, the Bank will make a renewed focus on "community banking" which will tap the businesses and residents within the immediate vicinity of the bank's strategically-located PBC's. This focus is also part of the planned shift in the lending strategy of moving from corporate to consumer loans. Improvements and enhancements of the Bank's core systems and processes will likewise be continued.

Board of Directors

ANDREW L. GOTIANUN, SR.
Chairman Emeritus



JONATHAN T. GOTIANUN
Chairman

MERCEDES T. GOTIANUN
Vice Chairman

JOSEPHINE G. YAP
Director & President-COO

ANDREW T. GOTIANUN, JR.
Director

EFREN C. GUTIERREZ
Director

Senior Management

Filinvest Development Corporation

President
Josephine G. Yap
Sr. Vice President & Treasurer
Nelson M. Bona
Corporate Secretary
Abner C. Gener, Jr.

Filinvest Alabang, Inc.

President
Efren C. Gutierrez
Executive Vice President
Josephine G. Yap
First Vice Presidents
Erlinda G. Tan
Shirley C. Ong
Ma. Lourdes F. de Guzman
Vice Presidents
Michael T. Gotianun
Maristella A. Miñana
Juanito A. Tablizo
Jose P. Sy
Corporate Secretary
Abner C. Gener, Jr.

Filinvest Land, Inc.

Chairman & CEO
Mercedes T. Gotianun
Vice Chairman
Andrew T. Gotianun, Jr.
President & COO
Joseph M. Yap
Sr. Vice President & CFO
Efren M. Reyes
First Vice Presidents
Antonio E. Cenon
Luis T. Fernandez
Joselito K. Pascual
Marking C. Que
Fely T. Ramos
Vice Presidents
Reynaldo C. Ascaño
Concepcion L. Fernandez
Giovanni G. Gan
Abner C. Gener
Mary Eleanor A. Mendoza
Ma. Irma B. Tan
Emiliano D. Templo
Lucille M. Valley
Corporate Secretary
Benedicto P. Panigbatan

East West Banking Corp.

Chairman
Andrew L. Gotianun, Sr.
Vice Chairman & CEO
Jonathan T. Gotianun
President & COO
Elrey T. Ramos
Chief Risk Management Officer
Edmundo A. Barcelon
Executive Vice Presidents
Gerardo B. Anonas
Teody D. Suarez
Senior Vice President
Alex G. Ilagan
First Vice Presidents
Antonio A. Castro
Edgardo T. Tantoco
Corporate Secretary
Ione Fay S. Canto

FILINVEST DEVELOPMENT CORPORATION

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of FILINVEST DEVELOPMENT CORPORATION is responsible for all information and representations contained in the financial statements for the year ended December 31, 2003. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with 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 auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the Financial Statements before such statements are approved and submitted to the stockholders of the company.

Sycip, Gorres, Velayo & Co., the independent auditors appointed by the stockholders, have examined the financial statements of the Company in accordance with generally accepted auditing standards in the Philippines and have expressed their 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:

Andrew L. Gotianun, Sr.
Chairman

Lourdes Josephine G. Yap
President

Nelson M. Bona
Senior Vice President & Treasurer

HEAD OFFICE: 173 P. GOMEZ ST., SAN JUAN, METRO MANILA, PHILIPPINES
TEL. NO. 727-0431 TO 39 / 727-0462 TO 76 FAX NO. 723-1323
MARKETING OFFICE: 6/F FORTUNE BLDG., 160 LEGAZPI ST., LEGASPI VILLAGE, MAKATI CITY
TEL. NO. 891-3667 TO 85 FAX NO. 891-3689

SGV & Co

Report of Independent Auditors

The Stockholders and the Board of Directors
Filinvest Development Corporation

We have audited the accompanying consolidated balance sheets of Filinvest Development Corporation and Subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Filinvest Development Corporation and Subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the Philippines.

Sycip Gorres Velayo & Co

April 23, 2004

FILINVEST DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In Thousands of Pesos)

	December 31	
	2003	2002
ASSETS		
Cash and Cash Equivalents (Note 3)	**₱3,244,375**	₱2,122,525
Receivables - net (Notes 4 and 17)	**2,690,102**	2,723,947
Receivable from Customers - net (Note 5)	**8,249,129**	7,396,123
Subdivision Lots, Condominium and Residential Units for Sale (Note 6)	**9,044,753**	8,207,770
Investments - net (Note 7)	**4,080,263**	3,579,636
Land and Land Development (Note 8)	**16,905,880**	16,378,578
Property and Equipment - net (Note 10)	**19,779,016**	19,845,683
Deferred Income Tax - net (Note 27)	**1,072,996**	1,651,862
Other Assets - net (Note 11)	**1,010,362**	1,495,236
TOTAL ASSETS	**₱66,076,876**	₱63,401,360
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposit Liabilities (Note 12)	**₱13,697,038**	₱10,784,042
Accounts Payable and Accrued Expenses (Notes 13 and 17)	**3,500,521**	4,779,897
Income Tax Payable	**156**	5,495
Deferred Income Tax (Note 27)	**1,369,450**	1,337,355
Notes Payable	**4,741**	92,613
Long-term Debt (Note 14)	**8,336,977**	8,093,288
Bonds Payable (Note 15)	**1,347,303**	1,341,123
Unrealized Gross Profit on Installment Contracts Receivable, Sales of Condominium Units and Club Shares	**102,451**	52,629
Estimated Liability for Land and Property Development	**622,878**	648,506
Total Liabilities	**28,981,515**	27,134,948
Minority Interest	**7,054,184**	6,383,090
Stockholders' Equity		
Capital stock (Note 16)	**5,958,124**	5,958,124
Additional paid-in capital	**2,099,874**	2,099,874
Revaluation increment in land	**12,399,545**	12,399,545
Retained earnings	**9,674,576**	9,507,086
Net unrealized loss on decline in value of noncurrent marketable equity securities (Note 7)	**(66,722)**	(57,087)
Treasury stock	**(24,220)**	(24,220)
Total Stockholders' Equity	**30,041,177**	29,883,322
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**₱66,076,876**	₱63,401,360

See accompanying Notes to Consolidated Financial Statements.

FILINVEST DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In Thousands of Pesos, Except Earnings Per Share)

	Years Ended December 31		
	2003	2002	2001
REVENUE			
Real Estate Operations			
Sale of lots, condominium and residential units and club shares (net of discount on sale of ₱42 million in 2003, ₱14 million in 2002 and ₱261 million in 2001) (Note 4)	**₱2,021,722**	₱1,999,847	₱1,681,437
Cost of sale of lots, condominium and residential units and club shares	**(750,897)**	(928,717)	(608,799)
Gross profit	**1,270,825**	1,071,130	1,072,638
Mall and rental revenues	**691,239**	591,713	534,286
Realized (deferred) gross profit	**(56,694)**	142,459	95,017
Other income (Note 20)	**1,252,402**	802,333	1,125,389
	3,157,772	2,607,635	2,827,330
Financial and Banking Services			
Interest income (Note 5)	**984,302**	858,080	1,080,955
Other income (Note 20)	**475,776**	378,013	211,654
Cost of financial and banking services (Note 19)	**(786,974)**	(624,393)	(885,821)
	673,104	611,700	406,788
NET REVENUES	**3,830,876**	3,219,335	3,234,118
Operating Expenses (Note 18)			
Real estate operations	**1,971,724**	2,105,935	2,332,069
Financial and banking services	**805,437**	701,507	535,664
	2,777,161	2,807,442	2,867,733
INCOME BEFORE INCOME TAX	**1,053,715**	411,893	366,385
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 27)			
Current	**16,680**	76,523	74,385
Deferred	**610,961**	27,285	(313,511)
	627,641	103,808	(239,126)
INCOME BEFORE NET EARNINGS APPLICABLE TO MINORITY INTEREST	**426,074**	308,085	605,511
NET EARNINGS APPLICABLE TO MINORITY INTEREST	**258,584**	256,058	106,062
NET INCOME	**₱167,490**	₱52,027	₱499,449
Earnings Per Share (Note 22)			
Basic	**₱0.028**	₱0.009	₱0.084
Diluted	**0.028**	0.009	0.084

See accompanying Notes to Consolidated Financial Statements.

FILINVEST DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In Thousands of Pesos)

	Capital Stock	Additional Paid-in Capital	Revaluation Increment in Land	Retained Earnings	Net Unrealized Loss on Decline in Value of Noncurrent Marketable Equity Securities	Treasury Stock	Total
BALANCES AT JANUARY 1, 2001	**₱5,958,124**	**₱2,099,874**	**₱12,356,720**	**₱8,955,610**	**₱–**	**(₱24,220)**	**₱29,346,108**
Net income for the year	–	–	–	499,449	–	–	499,449
Decline in value of noncurrent marketable equity securities	–	–	–	–	(73,255)	–	(73,255)
BALANCES AT DECEMBER 31, 2001	**5,958,124**	**2,099,874**	**12,356,720**	**9,455,059**	**(73,255)**	**(24,220)**	**29,772,302**
Net income for the year	–	–	–	52,027	–	–	52,027
Recovery in value of noncurrent marketable equity securities (Note 7)	–	–	–	–	16,168	–	16,168
Additional revaluation increment in land	–	–	42,825	–	–	–	42,825
BALANCES AT DECEMBER 31, 2002	**5,958,124**	**2,099,874**	**12,399,545**	**9,507,086**	**(57,087)**	**(24,220)**	**29,883,322**
Net income for the year	–	–	–	167,490	–	–	167,490
Decline in value of noncurrent marketable equity securities (Note 7)	–	–	–	–	(9,635)	–	(9,635)
BALANCES AT DECEMBER 31, 2003	**₱5,958,124**	**₱2,099,874**	**₱12,399,545**	**₱9,674,576**	**(₱66,722)**	**(₱24,220)**	**₱30,041,177**

See accompanying Notes to Consolidated Financial Statements.

FILINVEST DEVELOPMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of Pesos)

	Years Ended December 31		
	2003	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱1,053,715**	₱411,893	₱366,385
Adjustments for:			
Interest expense	**1,286,010**	1,407,509	1,916,588
Depreciation and amortization	**221,914**	180,606	321,323
Provision for probable losses	**86,680**	86,366	170,537
Interest income	**(1,288,430)**	(1,140,183)	(1,754,372)
Loss on sale of property	**–**	86,410	–
Operating income before changes in operating assets and liabilities	**1,359,889**	1,032,601	1,020,461
Decrease (increase) in:			
Receivables	**254,608**	(500,538)	1,808,525
Receivable from customers	**(866,970)**	(598,618)	(2,676,140)
Subdivision lots, condominium and residential units for sale	**(836,983)**	(964,045)	(113,385)
Increase (decrease) in:			
Deposit liabilities	**2,912,996**	3,165,978	1,941,682
Accounts payable and accrued expenses	**(903,219)**	(365,270)	(423,130)
Unrealized gross profit on installment contracts receivable, sales of condominium units and club shares	**49,822**	(156,141)	(339,628)
Cash generated from operations	**1,970,143**	1,613,967	1,218,385
Interest received - banking and financial services	**1,283,326**	945,983	1,059,071
Interest paid - banking and financial services	**(761,775)**	(587,037)	(650,060)
Income taxes paid	**(131,275)**	(71,027)	(74,406)
Net cash provided by operating activities	**2,360,419**	1,901,886	1,552,990
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received - real estate	**187,216**	906,613	597,385
Decrease (increase) in:			
Land and land development	**(552,930)**	742,001	(1,635,899)
Investments	**(500,627)**	(1,620,487)	823,201
Other assets	**412,158**	(22,506)	(7,436)
Net acquisitions of property and equipment	**(155,247)**	(279,785)	(367,289)
Proceeds from sale of investments in shares of stock	**–**	193,066	–
Net cash used in investing activities	**(609,430)**	(81,098)	(590,038)

(Forward)

	Years Ended December 31		
	2003	2002	2001
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term debt, notes, loans, bills and acceptances payable	**₱161,997**	₱512,492	₱3,190,076
Interest paid - real estate	**(791,136)**	(1,013,826)	(1,082,873)
Redemption of bonds	**–**	(1,738,205)	(3,784,000)
Increase in minority interest	**–**	392,132	90,113
Net cash used in financing activities	**(629,139)**	(1,847,407)	(1,586,684)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,121,850**	(26,619)	(623,732)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 3)	**2,122,525**	2,149,144	2,772,876
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 3)	**₱3,244,375**	₱2,122,525	₱2,149,144

See accompanying Notes to Consolidated Financial Statements.

FILINVEST DEVELOPMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Filinvest Development Corporation (the Company) and Subsidiaries (collectively referred to as the Filinvest Group or the Group) is engaged in real estate operations as a developer of residential subdivisions and mixed-use urban projects including condominiums and commercial buildings, industrial and farm estates. The Filinvest Group is also involved in mall operations, banking and financial services. The Company's registered office address is 173 P. Gomez Street, San Juan, Metro Manila. The Group had 1,797 and 1,595 employees as of December 31, 2003 and 2002, respectively.

The accompanying consolidated financial statements were approved and authorized for issue by the Board of Directors (BOD) on April 23, 2004.

2. Summary of Significant Accounting Policies

Basis of Financial Statement Preparation

The consolidated financial statements of the Group have been prepared in accordance with accounting principles generally accepted in the Philippines using the historical cost basis, except for land, trading account securities, available-for-sale securities which are carried at fair value.

The consolidated accounts of East West Banking Corporation (EWBC) are prepared in accordance with accounting principles generally accepted in the Philippines for the banking industry. These reflect the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The books of accounts of the RBU are maintained in Philippine pesos, while those of the FCDU are maintained in United States (US) dollars. For financial reporting purposes, the accounts of the FCDU are translated into their equivalent amounts in Philippine pesos based on the Philippine Dealing System Weighted Average Rate (PDSWAR) prevailing at the end of the year (for assets and liabilities) and at the average PDSWAR for the year (for income and expenses). Gains or losses arising from foreign exchange transactions and restatement of foreign currency denominated assets and liabilities are credited or charged to current operations.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the Philippines requires management to make estimates and assumptions that affect the reported amounts of income, expenses, assets, and liabilities and disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

Adoption of New Accounting Standards

The Company adopted the following Statements of Financial Accounting Standards (SFAS)/International Accounting Standard (IAS) issued by the Philippine Accounting Standards Council (ASC), which became effective for financial statements covering the years beginning January 1, 2003:

- SFAS 10/IAS 10, *Events After the Balance Sheet Date*, prescribes the accounting and disclosure related to adjusting and non-adjusting subsequent events. Additional disclosures required by the standard were included in the financial statements, principally the date of authorization for release of the financial statements.

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

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

The adoption of these new standards in 2003 did not result in restatements of prior year financial statements.

<u>New Accounting Standard Subsequent to 2003</u>
The following SFAS/IAS has been approved by the ASC to be effective subsequent to 2003:

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

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

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

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

- SFAS 21/IAS 21, *The Effect of Changes in Foreign Exchange Rates*, provides restrictive conditions for the capitalization of foreign exchange losses, is effective beginning January 1, 2005. As of December 31, 2003, the accumulated capitalized foreign exchange losses included under the “Land and Land Development” account in the consolidated balance sheets amounted to ₱43.7 million net of amount regarded as borrowing costs. Upon adoption in 2005, these capitalized foreign exchange losses will be adjusted against beginning retained earnings and prior years consolidated financial statements presented will be restated accordingly.

The Group will adopt SFAS 12/IAS 12 and SFAS 17/IAS 17 in 2004, however, it has not yet determined the financial impact of the adoption of these standards.

Basis of Consolidation

The consolidated financial statements include the financial statements of Filinvest Development Corporation and those of the companies it controls. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of the Company’s share in capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. The equity and net income attributable to minority interest are shown separately in the consolidated balance sheets and consolidated statements of income, respectively.

The consolidated financial statements include the accounts as of December 31 of each year of Filinvest Development Corporation and the following controlled subsidiaries:

	Percentage of Ownership	
	2003	2002
FDC Capital (Cayman Islands) Ltd. (FDCCCIL)	**100**	100
Filinvest (Cayman Islands) Ltd. (FCIL)	**100**	100
Filinvest Alabang, Inc. (FAI)	**90***	90*
Festival Supermall, Inc.	**100**	100
FSM Cinemas, Inc.	**60**	60
Cyberzone Properties, Inc. (CPI)	**100**	100
Northgate Convergence Corporation (NCC)	**100**	100
Proplus, Inc.	**100**	100
East West Banking Corporation (EWBC)	**60**	60
Filinvest Asia Corporation (FAC)	**60**	60
Filinvest Land, Inc. (FLI)	**58****	58**
FLI Capital (Cayman Islands) Ltd. (FLICL)	**100**	100
Property Maximizer Professional Corp.	**100**	100

* includes 20% share of FLI in FAI
** includes 10% share of FAI in FLI

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intercompany transactions and balances are eliminated in consolidation. The excess or deficiency of the Company’s cost of such investments over its proportionate share in the underlying net assets of the subsidiaries at dates of acquisition is amortized on a straight-line basis.

Minority interests include their proportion of the fair values of identifiable assets and liabilities recognized upon acquisition of a subsidiary.

The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are charged against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, the majority interest is allocated all such profits until the minority's share of losses previously absorbed by the majority has been recovered.

Revenue and Cost Recognition

a. Real Estate Operations

Income from sales of completed subdivision and commercial lots and residential units from which FAI and FLI received sufficient downpayment and development is substantially complete is accounted for using the full accrual method. Under this method, revenue is not recognized until the earnings process is substantially complete and the collectibility of the sales price is reasonably assured. Income from sales of subdivision lots and housing units with minimal downpayment, if any, is recognized on the installment method. Realized gross profit on installment sales is recognized based on collections multiplied by the gross profit rate on individual sales contract. Deferred interest income on installment contracts receivable is amortized over the term of the contracts.

Income from sales of condominium and residential units and club shares where FAI and FLI have a material obligation to complete the development of the sold property is accounted for using the percentage-of-completion method. Under this method, gross profit is recognized proportionately as the related obligations are fulfilled.

The cost of subdivision and commercial lots, condominium and residential units before completion of the projects are determined based on actual costs and project estimates of contractors and the subsidiaries' technical staff. The estimated future expenditures for the development of the sold portion of subdivision and commercial lots and condominium and residential units are shown under the "Estimated Liability for Land and Property Development" account in the consolidated balance sheets. Actual expenditures are charged to this account as incurred.

Mall revenues are recognized as income when the right to receive payment is established for lease transactions.

Rental revenue is recognized over the duration of the lease term, inclusive of the rent-free periods.

b. Financial and Banking Services

Unearned discounts is recognized or amortized to income over the term of the loans, using the interest method. Interest income on nondiscounted receivable from customers is accrued as earned, except in the case of nonaccruing accounts as required by the existing Bangko Sentral ng Pilipinas (BSP) regulations. Interest income on these nonaccruing accounts are recognized only to the extent of cash collections received.

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

Generally, fees and commissions are recognized on the accrual basis. Commitment fees are recognized as a percentage of unavailed credit lines. Service charges and penalties are recognized only upon actual collection or accrued when the collectibility reaches a reasonable degree of certainty.

c. Others

Income from temporary cash placements, government securities and other short-term investments are recognized net of the related final tax. Any accrued interest on these investments is presented as part of receivables.

Cash and Cash Equivalents
Cash includes cash on hand and cash in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

Cash and cash equivalents also include cash and other cash items, due from BSP and other banks and interbank loans receivable of EWBC that are subject to significant risk of change in value with maturities of three months or less from dates of placements.

Receivables
Receivables are stated at face value, less an allowance for any uncollectible amounts. An estimate for doubtful accounts is made when collection of the full amount is no longer probable.

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

Receivables from customers are classified as nonperforming in accordance with BSP regulations, or when, in the opinion of management, collection of interest or principal is doubtful. At the time the receivable is classified as nonperforming, interest previously recorded but not collected is reversed and charged against current operations. Interest income on these receivables is recognized only to the extent of cash collections received. Receivables are not reclassified as performing until interest and principal payments are brought current or the loans receivable are restructured in accordance with existing BSP regulations, and future payments appear assured.

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

The allowance for probable losses is established through provisions for probable losses charged to current operations and reduced by write-off and reversals. Receivables are written off against the allowance for probable losses when management believes that the collectibility of the principal is unlikely.

Subdivision Lots, Condominium and Residential Units for Sale
Subdivision lots, condominium and residential units for sale are carried at the lower of cost or net realizable value (NRV). Cost includes expenditures directly attributable to development, construction and improvement of the properties. NRV represents current selling price less estimated cost to complete the development, and marketing and selling expenses.

Trading and Investment Securities
The investment securities of EWBC are accounted for as follows:

a.	Trading account securities	Fair market value; gains or losses on revaluation to market are included in the consolidated statements of income.
b.	Available-for-sale securities	Fair market value; gains or losses on revaluation to market are deferred until realized.
c.	Investments in bonds and other debt instruments (IBODI)	Amortized cost; provision for permanent decline in market value is included in the consolidated statements of income.

Investments in noncurrent marketable equity securities are carried at the lower of aggregate cost and market value, determined at balance sheet date. The amount by which the aggregate cost of the investments exceeds market value is accounted for as a valuation allowance. The valuation allowance to reduce the carrying amount of the investments in noncurrent marketable equity securities is shown as "Net unrealized loss on decline in value of noncurrent marketable equity securities" in the Stockholders' Equity section of the consolidated balance sheets. Any substantial and presumably permanent decline in the carrying value of other investments in shares of stock is recognized in the consolidated statements of income.

Investment in club shares is carried at cost reduced by deferred gain on exchange of land.

Investments in shares of stock in which the Group does not exercise significant influence and other investments are carried at cost. An allowance, if any, is set up for any substantial and presumably permanent decline in the carrying value of these investments.

Interest in Joint Venture

FAC, a joint venture (JV) of the Company and Reco Grand Homes of Singapore, and FAI's interest in FCC, a JV, are accounted for by the proportionate consolidation of the assets, liabilities, income and expenses on a line-by-line basis. Sales of real estate by the joint venture, is accounted for using the full accrual method.

Condominium Projects in Progress

Condominium projects in progress are carried at the lower of cost and NRV. Costs include all expenditures directly attributable to the development and construction of the projects.

Land and Land Development

Land and land development is carried at the lower of cost and NRV. Expenditures for development and improvement are capitalized as part of the cost of the land. Interest and other borrowing costs incurred to finance the acquisition and development of land are capitalized as part of "Land and Land Development" account in the consolidated balance sheets. NRV represents current selling price less estimated costs to complete and estimated marketing and selling expenses.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and amortization and any impairment in value, except for land which is carried at revalued amounts.

The initial cost of property and equipment comprises its purchase price, construction cost and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

The Company's land and the land which serves as the site for the commercial mall of FAI are carried at revalued amounts as determined by independent firms of appraisers. The net appraisal increment resulting from the revaluation is shown as "Revaluation Increment in Land" account under the Stockholders' Equity section in the consolidated balance sheets.

Borrowing costs, which include interest and foreign exchange losses regarded as interest cost adjustments during the period necessary to prepare the property for its intended use are capitalized under commercial mall.

When items of property and equipment are sold or retired, their cost and accumulated depreciation and amortization are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated statements of income.

Depreciation and amortization is calculated on a straight-line basis over the estimated useful life of the asset as follows:

	No. of Years
Commercial mall	50
Buildings and improvements	20-50
Machinery and equipment	5
Furniture, fixtures and office equipment	3-5
Transportation equipment	5
Communication equipment	5

Leasehold improvements are amortized over the term of the lease or their estimated useful lives (3 to 15 years), whichever is shorter.

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

Construction-in-progress is stated at cost and includes the cost of construction and other direct costs. Construction-in-progress is not depreciated until such time as the relevant assets are completed and put into operational use.

Goodwill

Goodwill represents the excess of the cost of the acquisition over the fair value of identifiable net assets of a subsidiary or an associate at the date of acquisition. Goodwill is amortized over a period of five years on a straight-line basis.

Goodwill is subject to annual impairment tests whereby goodwill is allocated to EWBC's reporting units and impairment is deemed to exist if the carrying value of a reporting unit exceeds its estimated fair value. It is stated at cost less accumulated amortization and any impairment in value.

Impairment of Assets

The carrying values of the property and equipment and other long-lived assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property and equipment and other long-lived assets is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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

Real and Other Properties Owned or Acquired (ROPOA)
Assets acquired in settlement of receivables of EWBC are recorded at the total outstanding exposure of the loan at the time of foreclosure or bid price, whichever is lower. Nonrefundable capital gains tax and documentary stamp tax incurred in connection with foreclosure are capitalized as part of the carrying values of the foreclosed properties, provided that such carrying values do not exceed appraised values. Holding costs subsequent to the foreclosure or acquisition of the properties are charged to operations as incurred. Allowance for probable losses is set up for any anticipated significant shortfalls from recorded values based on appraisal reports and current negotiations and programs to dispose of these properties to other interested parties including estimated selling cost.

ROPOA is included in “Other Assets” account in the consolidated balance sheets.

Borrowing Costs
Borrowing costs generally are expensed as incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Borrowing costs, which include interest and foreign exchange losses regarded as interest cost adjustments during the period necessary to prepare the property for its intended use, are capitalized under “Land and Land Development” and “Property and Equipment” accounts.

Borrowing costs consisting of interest, accreted premium and foreign currency losses regarded as interest cost adjustments incurred during the construction period, relative to long-term borrowings used to finance the property development, are capitalized under “Land and Land Development”, “Property and Equipment” and “Condominium Projects in Progress” accounts in the consolidated balance sheets.

Retirement Costs
The Company and certain subsidiaries’ retirement costs are determined using the projected unit credit method. This method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees’ projected salaries. The unrecognized transition liability, past service costs, and experience adjustments are amortized over the expected average remaining working lives of covered employees.

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

Provisions

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

Foreign Currency Transactions and Translation

Transactions in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange at the balance sheet dates. Foreign exchange gains or losses arising from the settlement of monetary items at rates different from those at which they were initially recorded and those arising from translation are recognized in the consolidated statements of income during the year, except those arising from foreign currency borrowings to the extent that they are regarded as adjustments to interest costs, which are capitalized as part of the cost of the "Land and Land Development" and "Property and Equipment" accounts.

The financial statements of foreign subsidiaries are translated into Philippine pesos using the temporal method. Under this method, all monetary assets and liabilities are translated at the exchange rate prevailing at balance sheet dates. Revenues and expenses are translated at the average exchange rate for the year. The resulting translation adjustments are credited or charged to current operations.

Forward Contracts

Foreign exchange contracts are entered into as a means of reducing and managing the foreign exchange exposures. Amounts contracted are recorded as contingent accounts which are not included in the accompanying consolidated financial statements. For forward contracts that are designated and qualify as hedges, the discount or premium is amortized over the term of the contracts and the revaluation gains and losses are deferred or recognized as income or expense to match the treatment for the hedged exposures. Forward contracts which are not designated or do not qualify as hedges are marked to market with the revaluation gains and losses credited or charged to operations.

Income Taxes

Deferred income tax is provided using the liability method. Deferred income tax assets and liabilities are recognized (a) for the future tax consequences attributable to temporary differences between the financial reporting bases of assets and liabilities and their related tax bases, (b) net operating loss carryover (NOLCO) and (c) carryforward benefit of the excess of the minimum corporate income tax (MCIT) over the regular corporate income tax. Deferred income tax assets and liabilities are measured using the tax rates applicable to taxable income in the years in which (a) those temporary differences are expected to be recovered or settled and (b) carryforward benefit of NOLCO and MCIT are expected to be applied. A valuation allowance is provided for deferred income tax assets when it is more likely than not that some or all of the deferred income tax assets will not be realized in the future. Any change in the valuation allowance on deferred income tax assets is also included in the provision for deferred income tax for the year.

Subsequent Events

Post year-end events that provide additional information about the Company's position at balance sheet date (adjusting events) are reflected in the financial statements, if any. Post year-end events that are not adjusting events are disclosed in the notes when material.

Earnings Per Share (EPS)

Basic EPS is computed by dividing net income applicable to common stock by the weighted average number of common shares issued and outstanding during the year, after giving retroactive adjustment for any stock dividend declaration. Diluted EPS is computed by dividing net income by the weighted average number of common shares issued and outstanding during the year after giving effect to assumed conversion of bonds and the retroactive adjustment for any stock dividend declaration.

3. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	2003	2002
	(Amounts in Thousands)	
Cash on hand and due from other banks	**₱1,463,586**	₱699,849
Due from BSP	**1,780,789**	1,422,676
	₱3,244,375	₱2,122,525

4. Receivables

The details of the Group's receivables are as follows:

	2003			2002		
	Due Within One Year	**Due After One Year**	**Total**	Due Within One Year	Due After One Year	Total
			(Amounts in Thousands)			
Mortgage, notes and installment contracts receivable - net of deferred interest income of ₱114,577 in 2003 and ₱110,798 in 2002	**₱844,390**	**₱263,039**	**₱1,107,429**	₱718,162	₱285,921	₱1,004,083
Advances to joint venture partners	**417,132**	**–**	**417,132**	410,871	–	410,871
Accrued interests	**311,449**	**–**	**311,449**	341,758	–	341,758
Receivables from tenants	**139,998**	**–**	**139,998**	113,575	–	113,575
Receivables from sale of condominium units and club shares	**24,099**	**58,777**	**82,876**	28,605	97,345	125,950
Due from affiliates (Note 17)	**66,263**	**–**	**66,263**	108,199	–	108,199
Advances to contractors, officers and employees	**132,134**	**3,158**	**135,292**	44,978	–	44,978
Others - net of allowance for doubtful accounts of ₱10 million in 2003 and 2002	**429,663**	**–**	**429,663**	574,533	–	574,533
	₱2,365,128	**₱324,974**	**₱2,690,102**	₱2,340,681	₱383,266	₱2,723,947

On various dates in 2003 and 2002, FLI entered into agreements to sell certain installment contracts receivable with recourse to Home Development Mutual Fund (HDMF) and local banks of up to ₱300 million and ₱650 million, respectively, and without recourse to EWBC. The proceeds from the sale were used to partly redeem the Step-Up Premium Redemption Guaranteed Convertible Bonds (SUPeR bonds), which matured in February 2002 (see Note 15), and to fund various businesses and projects. For the installment contracts receivable sold to HDMF and local banks, FLI continues to collect on behalf of and remits to the purchasers, on a monthly basis, the aggregate maturing principal amortization plus interest agreed-upon by both parties. FLI is contingently liable for the amount of installment contracts receivable sold to HDMF and local banks in case debtors fail to pay.

The following summarizes the information on installment contracts receivable sold (Amounts in Thousands):

Buyer		Amount Sold	Discount on Sales	Deferred Interest	Net Amount	Realized Gross Profit
EWBC						
	2003	**₱779,054**	**(₱42,420)**	**(₱235,167)**	**₱501,567**	**₱143,637**
	2002	₱1,071,772	(₱14,016)	(₱476,532)	₱581,224	₱142,667
HDMF						
	2003	**–**	**–**	**–**	**–**	**–**
	2002	164,045	–	(83,019)	81,026	31,591
Local bank						
	2003	**900,129**	**(136)**	**(489,277)**	**410,716**	**173,136**
	2002	143,154	–	(16,949)	126,205	6,892
TOTAL	**2003**	**₱1,679,183**	**(₱42,556)**	**(₱724,444)**	**₱912,283**	**₱316,773**
TOTAL	2002	₱1,378,971	(₱14,016)	(₱576,500)	₱788,455	₱181,150

The related gross profit realized from the sale of the receivables amounting to ₱316.77 million in 2003 and ₱181.15 million in 2002 is reported in the consolidated statements of income.

FLI has a mortgage insurance contract with Home Guaranty Corporation (HGC), a government insurance company, for retail guarantee lines amounting to ₱2.0 billion over a period of 20 years starting October 1, 1988 and renewable annually. In 2003 and 2002, additional retail guarantee line amounting to ₱3.0 billion were secured by FLI with coverage period of one year and renewable annually. Under the terms of the line, HGC guarantees the repayment of the loans granted by FLI to buyers of subdivision lots and housing units including interest specified thereon. In case of default by the buyers, HGC shall pay the insured loan to FLI with a 10-year interest-bearing bond.

Installment contracts receivable amounting to ₱1.72 billion and ₱879.39 million were insured under this guarantee line as of December 31, 2003 and 2002, respectively. The insured balance as of December 31, 2003 and 2002 includes installment contracts receivable sold amounting to ₱1.63 billion and ₱788.46 million, respectively.

5. Receivable from Customers

Receivable from customers consist of:

	2003	2002
	(Amounts in Thousands)	
Loans and discounts (Note 4)	**₱7,966,197**	₱7,399,736
Customers' liabilities under acceptances and trust receipts	**741,457**	469,791
Bills purchased	**103,828**	80,042
	8,811,482	7,949,569
Unearned discounts	**(83,874)**	(116,222)
Allowance for probable losses	**(478,479)**	(437,224)
	₱8,249,129	₱7,396,123

The following presents the breakdown of receivables from customers by contractual maturity dates (Amounts in Thousands):

	2003			2002		
	Due Within One Year	**Due After One Year**	**Total**	Due Within One Year	Due After One Year	Total
Loans and discounts	**₱4,277,325**	**₱3,688,872**	**₱7,966,197**	₱3,751,572	₱3,648,164	₱7,399,736
Customers' liabilities under acceptances and trust receipts	**741,457**	**–**	**741,457**	214,016	255,775	469,791
Bills purchased	**103,828**	**–**	**103,828**	80,042	–	80,042
	₱5,122,610	**₱3,688,872**	**₱8,811,482**	₱4,045,630	₱3,903,939	₱7,949,569

The following shows information relating to loans by collateral (Amounts in Thousands):

	2003	**%**	2002	%
Secured:				
Real estate	**₱4,452,945**	**50.53**	₱3,069,187	38.61
Securities	**165,952**	**1.88**	787,250	9.90
Chattel	**86,118**	**0.98**	28,411	0.36
Hold-out on deposits	**85,652**	**0.97**	245,645	3.09
Quedans	**80,000**	**0.91**	80,000	1.00
Others	**50,926**	**0.58**	84,212	1.06
	4,921,593	**55.85**	4,294,705	54.02
Unsecured	**3,889,889**	**44.15**	3,654,864	45.98
	₱8,811,482	**100.00**	₱7,949,569	100.00

Non-performing loans amounted to ₱1.2 billion and ₱1.3 billion as of December 31, 2003 and 2002, respectively.

Information on the concentration of credit as to industry follows (Amounts in Thousands):

	2003	%	2002	%
Real estate, leasing and business services	**₱2,466,856**	**27.99**	₱2,677,723	33.68
Manufacturing	**2,020,990**	**22.94**	1,717,596	21.61
Wholesale and retail trade	**1,537,868**	**17.45**	1,220,958	15.36
Financial intermediaries	**481,850**	**5.47**	652,877	8.21
Agriculture, fisheries and forestry	**350,829**	**3.98**	390,034	4.91
Transport, storage and communications	**210,308**	**2.39**	152,299	1.91
Others	**1,742,781**	**19.78**	1,138,082	14.32
	₱8,811,482	**100.00**	₱7,949,569	100.00

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

Changes in the allowance for probable losses related to receivable from customers of EWBC are summarized as follows:

	2003	2002
	(Amounts in Thousands)	
Balance at beginning of year	**₱437,224**	₱348,229
Provisions	**41,255**	88,995
Balance at end of year	**₱478,479**	₱437,224

6. **Subdivision Lots, Condominiums and Residential Units for Sale**

Subdivisions lots, condominiums and residential units for sale consist of:

	2003	2002
	(Amounts in Thousands)	
Subdivision and residential units	**₱6,552,022**	₱5,627,205
Office condominium (Note 9)	**2,492,731**	2,580,565
	₱9,044,753	₱8,207,770

7. Investments

Investments consist of:

	2003	2002
	(Amounts in Thousands)	
Trading and investment securities - net of allowance for probable losses of ₱30.51 million in 2003 and ₱54.21 million in 2002	**₱2,584,896**	₱2,079,773
Investment in club shares	**595,617**	705,323
Shares of stock of other companies - net of allowance for impairment loss of ₱74.83 million in 2003 and ₱70.97 million in 2002 and allowance for probable losses of ₱77.84 million in 2003 and ₱16.67 million in 2002	**681,472**	578,099
Noncurrent marketable equity securities - net of unrealized decline in value of ₱66.72 million in 2003 and ₱57.09 million in 2002	**218,278**	216,441
	₱4,080,263	₱3,579,636

The aggregate market value of EWBC's trading and investment securities (consisting of BSP treasury bills, private commercial papers, debt securities fixed rate treasury notes and others) amounted to ₱2.24 billion and ₱1.63 billion as of December 31, 2003 and 2002, respectively.

The Company's retained earnings include undistributed equity in net earnings of subsidiaries amounting to ₱12.00 billion, ₱11.28 billion and ₱10.92 billion in 2003, 2002, and 2001 respectively, which are not available for dividend declaration until distributed by the subsidiaries and associates. Retained earnings are further restricted for payment of dividends to the extent of the cost of common shares held in treasury amounting to ₱24.22 million.

On various dates in 2002, the Company sold approximately 2% equity in FLI and realized a loss amounting to ₱86.4 million. The loss on disposal of FLI shares is included in "Other Income" revenue account in the consolidated statements of income.

Investment in Club shares of "The Palms" consists of (Amounts in Thousands):

	2003	2002
Subscription cost of club shares:		
Class A, B and C	**₱420,000**	₱420,000
Class D	**2,292**	2,292
Original subscription value	**422,292**	422,292
Development cost (including capitalized interest of ₱48.1 million)	**737,495**	723,634
Total subscription cost	**1,159,787**	1,145,926
(Forward)		

		2003	2002
Less:	Allocated cost of sold shares	**₱485,189**	₱342,935
	Deferred gain on exchange of parcel of land	**78,981**	97,668
		₱595,617	₱705,323

8. **Land and Land Development**

Land and land development consists of:

	2003	2002
	(Amounts in Thousands)	
Land	**₱10,537,059**	₱10,555,412
FCC Project (Note 9)	**6,368,821**	5,823,166
	₱16,905,880	₱16,378,578

Capitalized interest and foreign exchange losses regarded as borrowing costs arising from loans obtained to finance the Company's and subsidiaries' (FAI and FLI) on-going projects that are capitalized as part of "Land and Land Development" account in the balance sheets amounted to ₱600 million in 2003, ₱594 million in 2002 and ₱462 million in 2001.

As of December 31, 2003 and 2002, certain parcels of land with carrying value of ₱2.86 billion secure the loans payable of the Company and FAI (Note 14).

9. **Interest and Agreements in Joint Ventures**

<u>PBCom Tower</u>
On June 14, 1995, the Company and FLI (collectively referred to as "Filinvest") entered into a Memorandum of Agreement (the "MOA") with the Philippine Bank of Communications (PBCom) for the construction of the PBCom Office Tower (the Project) on parcels of land (the Property) located in Ayala Avenue, Makati City. On January 30, 1996, Filinvest and PBCom entered into a First Supplemental Agreement covering the MOA.

Pursuant to the MOA and the First Supplemental Agreement, PBCom shall provide the Property while Filinvest shall contribute technical expertise and cash equivalent to the fair market value of the Property for the construction of the Project. For purposes of the Project, the fair market value of PBCom's Property was fixed at ₱900 million.

In consideration for PBCom's Property and for Filinvest's equal financial contribution, the parties agreed to divide equally the Project upon completion thereof. To maintain this 50:50 sharing basis, all interest income on Filinvest's cash contribution as well as project cost overruns shall likewise be shared equally by both parties.

On September 11, 1996, Filinvest and a third party entered into a Memorandum of Understanding to form a Joint Venture (JV) corporation that shall hold and manage the 50% ownership interest of Filinvest under the MOA and in the Project, with the third party acquiring 40% and Filinvest acquiring 60% of the JV corporation's issued capital. FLI waived and relinquished all of its rights and interests in and obligations with respect to the Project and under the MOA in favor of the Company.

On November 15, 1996, the Company and a wholly-owned subsidiary of the third party executed a Shareholders' Agreement (SA) whereby the parties agreed to form a joint venture corporation to be named Filinvest Asia Corporation which shall hold and manage the 50% ownership interest of the Company under the MOA and in the Project under the terms and conditions of the MOA and the SA.

On April 1, 2001, the construction of the Project has been completed. FAC and PBCom have already agreed on the assignment of PBCom Office Condominium units based on their respective contributions. These condominium units are intended for sale. However, in view of the market conditions, certain condominium units are currently being leased for three to five years and depreciated over the estimated life of 50 years (Note 6).

Borrowing costs capitalized as part of PBCom Office Tower Project arising from advances from affiliates and stockholders amounted to ₱35 million in 2003 and 2002.

FAC's 50% share of the assets, liabilities, revenue and expenses of the joint venture, which are proportionately consolidated into FAC's financial statements, for the years ended December 31, 2003 and 2002 are as follows (Amounts in Thousands):

	2003	2002
Assets		
Cash	**₱3,826**	₱1,398
Receivables	**21,012**	1,419
Due from affiliates	**1,235**	5,721
Office condominium units	**2,044,559**	2,040,462
Property and equipment	**79**	–
Other assets	**118**	5
	2,070,829	2,049,005
Liabilities		
Accounts payable and accrued expenses	**23,030**	36,058
Net Assets	**₱2,047,799**	₱2,012,947
Other income	**₱–**	₱1,596
Cash flows from (used in):		
Operating activities	**(₱65,390)**	₱14,909
Investing activities	**7,315**	(31,381)
Financing activities	**62,930**	(8,196)
	₱4,855	(₱24,668)

FCC
On April 14, 1993, the Public Estates Authority (PEA) under the Office of the President of the Republic of the Philippines (as "Owner") by virtue of Memorandum Order No. 371, entered into a Joint Venture Agreement (JVA) with the Company (as "Developer") for the development of a 244-hectare property known as the FCC, formerly Alabang Stock Farm, located in Alabang, Muntinlupa City into a modern, mixed-use urban center. In September 1993, the Company assigned to FAI all of its rights and interests relative to the JVA.

FAI undertakes the horizontal development and subdivision of the FCC in accordance with the Master Development Plan, and the subsequent sale, lease and disposition of individual sites and lots within the property.

The JVA provides for the contribution by the Philippine Government of the property to the Joint Venture through PEA. As its contribution to the joint venture, FAI undertakes to develop, at its own cost, the property in accordance with the Master Development Plan and provide all administrative, marketing, collection and cash management services for the joint venture. In addition, FAI shall pay the Philippine Government ₱200 million to be used for the relocation of existing government structures and facilities in the property and shall relocate at its own expense all existing squatters and residents of the property. It shall also deliver 2,000 additional housing units at no additional cost to the Philippine Government.

Exercising its option provided in the JVA, the Philippine Government further required FAI to construct and deliver up to a maximum of 19,000 socialized housing units on land to be provided exclusively by FAI, in exchange for a proportionate percentage of the Philippine Government's ownership interest in the joint venture.

In consideration of the respective contributions and undertakings of the parties under the JVA, FAI and the Philippine Government as represented by PEA are entitled to a share in all revenue to be derived from the joint venture project at a ratio of 74:26.

10. Property and Equipment

The details of property and equipment are as follows (Amounts in Thousands):

	At January 1, 2003	Additions	Disposals	Transfer	**At December 31, 2003**
At cost:					
Commercial mall	₱3,733,585	₱1,481	₱–	₱–	**₱3,735,066**
Buildings and improvements	722,348	19,332	(2,703)	5,814	**744,791**
Leasehold improvements	290,234	60,396	–	–	**350,630**
Machinery and equipment	489,200	20,461	(9,270)	–	**500,391**
Furniture, fixtures and office equipment	350,372	56,454	(5,204)	–	**401,622**
Transportation equipment	63,198	4,743	(11,923)	–	**56,018**
Communication equipment	3,660	225	–	–	**3,885**
	5,652,597	163,092	(29,100)	5,814	**5,792,403**

(Forward)

	At January 1, 2003	Additions	Disposals	Transfer	**At December 31, 2003**
Accumulated depreciation and amortization:					
Commercial mall	₱349,366	₱76,945	₱–	₱–	**₱426,311**
Buildings and improvements	73,978	32,196	–	–	**106,174**
Leasehold improvements	91,209	28,802	–	–	**120,011**
Machinery and equipment	162,194	39,793	(1,107)	–	**200,880**
Furniture, fixture and office equipment	245,435	43,037	(4,447)	–	**284,025**
Communication equipment	3,075	243	(21)	–	**3,297**
Transportation equipment	61,782	898	(9,866)	–	**52,814**
	987,039	221,914	(15,441)	–	**1,193,512**
Net book value	4,665,558	(58,822)	(13,659)	5,814	**4,598,891**
Revalued amount- land	15,180,125	–	–	–	**15,180,125**
	₱19,845,683	(₱58,822)	(₱13,659)	₱5,814	**₱19,779,016**

Depreciation and amortization charged to operations in 2003, 2002 and 2001 amounted to ₱222 million, ₱181 million and ₱321 million, respectively.

As of December 31, 2003 and 2002, total accumulated borrowing costs consisting of interest and net foreign exchange losses regarded as interest cost adjustments, capitalized as part of commercial mall project cost amounted to ₱935 million and ₱955 million, respectively.

11. Other Assets

Other assets consist of:

	2003	2002
	(Amounts in Thousands)	
ROPOA	**₱475,146**	₱522,977
Deferred charges	**253,181**	319,443
Others - net	**359,953**	699,526
	1,088,280	1,541,946
Less allowance for probable losses	**77,918**	46,710
	₱1,010,362	₱1,495,236

12. Deposit Liabilities

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

The EWBC's total liquidity and statutory reserves set aside are as follows:

	2003	2002
	(Amounts in Thousands)	
Cash	**₱347,618**	₱316,145
Due from BSP	**1,522,654**	1,124,222
IBODI	**518,074**	517,251
	₱2,388,346	₱1,957,618

The details of deposit liabilities by contractual settlement dates are as follows:

	2003			2002		
	Due Within One Year	**Due After One Year**	**Total**	Due Within One Year	Due After One Year	Total
			(Amounts in Thousands)			
Demand	**₱1,550,864**	**₱–**	**₱1,550,864**	₱1,187,987	₱–	₱1,187,987
Savings	**4,717,333**	**–**	**4,717,333**	4,102,354	–	4,102,354
Time	**1,581,963**	**5,846,878**	**7,428,841**	1,161,700	4,332,001	5,493,701
	₱7,850,160	**₱5,846,878**	**₱13,697,038**	₱6,452,041	₱4,332,001	₱10,784,042

13. **Accounts Payable and Accrued Expenses**

The details of accounts payable and accrued expenses are as follows:

	2003			2002		
	Due Within One Year	**Due After One Year**	**Total**	Due Within One Year	Due After One Year	Total
			(Amounts in Thousands)			
Accounts payable	**₱537,774**	**₱–**	**₱537,774**	₱1,041,196	₱–	₱1,041,196
Due to affiliates (Note 17)	**583,527**	**–**	**583,527**	1,086,105	–	1,086,105
Bills payable and demand drafts	**891,022**	**–**	**891,022**	558,016	–	558,016
Accrued interest and bond premium	**193,667**	**–**	**193,667**	255,815	–	255,815
Advances from customers	**765,581**	**–**	**765,581**	473,023	–	473,023
Installment contracts	**32,352**	**118,636**	**150,988**	32,240	148,057	180,297
Domestic bills purchased	**75,034**	**–**	**75,034**	50,558	–	50,558
Sundry and other credits	**15,946**	**–**	**15,946**	49,124	–	49,124
Other liabilities	**229,555**	**57,427**	**286,982**	1,000,683	85,080	1,085,763
	₱3,324,458	**₱176,063**	**₱3,500,521**	₱4,546,760	₱233,137	₱4,779,897

Installment contracts payable represent the balance of the purchase price of a parcel of land acquired from Fort Bonifacio Development Corporation in 1997, which is subject to an interest rate of 10% per annum and payable in 35 equal quarterly installments from January 7, 1999 to October 7, 2007.

14. Long-term Debt

Long-term debt consists of the following respective borrowings of the Group and their contractual settlement dates:

	2003	2002
	(Amounts in Thousands)	
Company Loans		
Loans obtained from a financial institution with interest rate of 15.43%. The loan is payable in lumpsum in January 2012 and is collateralized by parcels of land with carrying value of ₱378.2 million.	**₱1,000,000**	₱1,000,000
Term loans from local banks:		
Interest equivalent to 3.75% spread over the 91-day Treasury Bill rate with quarterly repricing, payable quarterly in arrears. The principal amount is payable in 12 equal quarterly installments commencing in August 2004.	**750,000**	750,000
Interest equivalent to 3% spread over the MART 1 (three-month Treasury Bill) interest rate or 2.00% above the average of three-month PHIBOR rate and MART 1, payable quarterly in arrears. The principal amount is payable in 12 equal quarterly installments commencing in March 2004.	**500,000**	500,000
Interest equivalent to 3.25% spread over the MART 1 (three-month Treasury Bill) interest rate or 1.25% above the 90-day PHIBOR, payable quarterly. The principal amount is payable in 16 equal quarterly installments commencing in June 2003.	**663,000**	683,000
Interest equivalent to 4.00% spread over the MART (1 three-month Treasury Bill) interest rate or 2.75% above the 90-day PHIBOR, payable quarterly. The principal amount is payable in four equal quarterly installments commencing in April 2004.	**265,000**	265,000

	2003	2002
	(Amounts in Thousands)	
These foregoing term loans from local banks are collateralized by parcels of land including the buildings and improvements thereon with carrying value and market value of ₱823.9 million and ₱4.64 billion, respectively.		
Interest equivalent to 6.00% spread over the 91-day Treasury Bill rate with quarterly repricing, payable quarterly in arrears for the first two years starting May 2003. The principal amount is payable in 12 installments starting May 2005 with quarterly amortizations of ₱3.3 million including interest, the balance payable upon maturity. The loan is collateralized by a real estate mortgage on condominium units with carrying value of ₱28.72 million.	**₱40,000**	₱–
Short-term loans from local banks:		
Unsecured - interest rate ranging from 11.50% to 12.00% per annum in 2003 and 12.00% per annum in 2002.	**650,000**	200,000
Secured - with various interest rates ranging from 9.05% to 11.18% per annum in 2003 and 7.65% to 13.20% per annum in 2002. This loan is secured by a Notice of Assignment and Third Party Memorandum of Charge covering US$2.2 million deposit in 2003 and US$1.0 million deposit in 2002	**112,200**	112,200
Unsecured loan with interest rates ranging from 6.75% to 7.65% in 2003 and 5.00% to 10.75% in 2002.	**3,000**	3,000
Total Company Loans	**3,983,200**	3,513,200

Subsidiaries' Loans

FAI

Syndicated and long-term loans with interest at fixed rates payable quarterly in arrears. The loans are payable in equal quarterly installments, the earliest started in 2002 (Note 17).	**1,398,623**	1,659,021

	2003	2002
	(Amounts in Thousands)	
Long-term dollar loan with interest equivalent to 3.25% over the LIBOR and payable semi-annually in arrears. This loan is payable in 15 equal semi-annual installments starting in September 2004.	**₱889,376**	₱852,063
Unsecured short-term loan from a financial institution with interest rate of 9.80% in 2003. This loan is payable in 2 installments amounting to ₱15.00 million and ₱10.00 million on June 9 and July 5, 2004, respectively.	**25,000**	–
	2,312,999	2,511,084
<u>FLI</u>		
Long-term commercial paper (LTCP) No. LT - 00171 with interest of 2% over weighted average 91-day Treasury Bills, payable quarterly. This commercial paper matures in November 2004.	**2,000,000**	2,000,000
Long-term promissory note with interest rate of 12%, reviewable monthly and payable quarterly. This is payable in 8 quarterly installments commencing on June 11, 2003.	**40,778**	69,004
	2,040,778	2,069,004
Total Subsidiaries' Loans	**4,353,777**	4,580,088
Total	**₱8,336,977**	₱8,093,288

The annual maturities of the foregoing Company loans are as follows:

Years of Maturity:	**2003**	2002
	(Amounts in Thousands)	
2003	**₱–**	₱440,262
2004	**1,093,867**	598,667
2005	**466,667**	653,667
2006	**571,820**	587,417
2007	**345,333**	233,187
Thereafter	**1,505,513**	1,000,000
	₱3,983,200	₱3,513,200

Syndicated long-term and US dollar loans of FAI

	2003			2002		
	(Amounts in Thousands)			(Amounts in Thousands)		
	Syndicated Long-term Loans	**Long-term US Dollar Loan**	**Total**	Syndicated Long-term Loans	Long-term US Dollar Loan	Total
2003	**₱–**	**₱–**	**₱–**	₱260,398	₱–	₱260,398
2004	**424,355**	**59,292**	**483,647**	424,355	56,804	481,159
2005	**402,482**	**118,584**	**521,066**	402,482	113,608	516,090
2006	**275,139**	**118,584**	**393,723**	275,139	113,608	388,747
2007	**131,843**	**118,584**	**250,427**	131,843	113,608	245,451
Thereafter	**164,804**	**474,332**	**639,136**	164,804	454,435	619,239
	₱1,398,623	**₱889,376**	**₱2,287,999**	₱1,659,021	₱852,063	₱2,511,084

LTCP

The instrument was sold through general public offering starting November 15 to 17, 1999. The principal amount of LTCP shall be paid in full at the fifth year from said issue dates. Interest on the outstanding principal shall be paid quarterly.

The LTCP is secured by a negative pledge on the assets of FLI. FLI undertook not to allow any of its assets to be the subject of any liens or encumbrances, unless the benefit of such liens or encumbrances is extended at the same time to secure payment of the LTCP.

Long-term Promissory Note

The long-term promissory note represents the balance of the ₱70 million loan granted by a local bank to FLI to partly finance the land development and construction of houses of a certain project. The loan is payable in three years, inclusive of one year grace period on principal, in eight quarterly installments to commence on June 11, 2003. The loan is covered by, among others HGC bond guarantee cover, and assignment of contracts of sale for end-buyers whose accounts shall be taken out by the lender.

The related borrowing costs arising from the foregoing borrowings that were capitalized as part of land and land development amounted to ₱160.79 million and ₱171.31 million in 2003 and 2002, respectively.

Syndicated and Long-term Loans

The syndicated and long-term loans substantially obtained by FAI in 2001 was used to finance FAI's project in Northgate Cyberzone Information Technology Park, other projects and for its working capital requirements.

The syndicated loans carry a term ranging from five to eight years and were granted by several banks and financial institutions. The loans are payable in equal quarterly installments, the earliest started in 2002. Interests on the loans are fixed rates preceding the day in which the interest periods commence and shall be paid quarterly in arrears.

US$22 million Dollar Loan Agreement with International Finance Corporation (IFC)
In July 2001, FAI entered into a US$22 million loan agreement with IFC. In October 2001, the Company received US$16 million proceeds representing a portion of the original loan availment. The loan is payable in fifteen (15) equal semi-annual installments starting on September 15, 2004 and will mature on September 15, 2011. The interest on the loan is based on LIBOR plus a 3.25% spread and shall be paid semi-annually in arrears. The Company has duly executed a guarantee agreement in favor of the lender for the performance of all the obligations under the terms and conditions set forth in the loan agreement.

The loan agreements provide restrictions and requirements with respect to, among others, payment of cash dividends, making any distribution on FAI's share capital, purchase, redemption or acquisition of any share of FAI, incurrence or assumption of indebtedness, sale or transfer and disposal of all or a substantial part of its capital assets, utilization of funds, maintaining certain financial ratios, and entering into any partnership, merger, consolidation or reorganization. The loans are secured by mortgage on certain parcels of land of FAI with a carrying value of ₱571 million and ₱444 million as of December 31, 2003 and 2002, respectively.

The exchange rates used to translate the US dollar denominated loans to Philippine peso were ₱55.586 and ₱53.254 per US $1.00 at December 31, 2003 and 2002, respectively. Net foreign exchange losses charged against income amounted to ₱37.3 million ₱27.4 million in 2003 and 2002, respectively.

15. Bonds Payable

Bonds payable consist of:

	2003	2002	**2003**	2002
	(Amounts in Thousands)			
	(In US Dollar)		(In Philippine Peso)	
FCIL bonds	**$2,150**	$2,150	**₱119,510**	₱114,496
FDCCCIL bonds	**500**	500	**27,793**	26,627
Convertible bonds	**–**	–	**1,200,000**	1,200,000
	$2,650	$2,650	**₱1,347,303**	₱1,341,123

FCIL Bonds
The bonds issued by FCIL may be converted any time between April 30, 1994 and January 31, 2004 into the Company's common shares at an adjusted conversion price of ₱11.04 per share with the option to convert 100% of the value of each bond into the Company's shares or 65% of the value of each bond into the Company's shares and the remaining 35% into FLI common shares held by the Company, at an adjusted conversion price of ₱5.07. The initial rate of exchange on conversions shall be fixed at ₱27.75 for every US$1, subject to adjustments in certain events. Interest on the bonds is payable on February 28 of each year, commencing on February 28, 1995.

On February 28, 1994, the Company signed a Trust Deed with FCIL to unconditionally guarantee FCIL's US$100.0 million, 3.75% convertible bonds due in 2004.

FDCCCIL Bonds
The bonds issued by FDCCCIL may be converted any time between July 15, 1996 and April 15, 2006 into fully-paid common shares of the Company at the adjusted conversion price of ₱12.85 per share, at a fixed rate of exchange on conversion of ₱26.16 per US$1. The bonds may also be redeemed, at the option of the bondholders, in whole or in part at 133.27% of their principal amount, together with accrued interest thereon, on November 15, 2001. Interest on the bonds is payable on May 15 of each year commencing on May 15, 1997.

On May 15, 1996, the Company signed an Indenture/Trust Deed with FDCCCIL to unconditionally and irrevocably guarantee FDCCCIL's US$150 million, 2.5% convertible bonds.

Convertible Bonds
On February 7, 2002, FLI issued ₱1.2 billion convertible bonds to Reco Grandhomes Pte, Ltd. (Reco), a Singaporean company, due on February 7, 2007. The bonds are convertible into FLI's shares of stock at the option of the holders at any time during the conversion period at an amount equivalent to the historical weighted average market price of the shares plus 10% thereon, but shall not in any event be less than ₱1.70 nor more than ₱1.875 per share, subject to adjustments in certain events. All or some of the bonds are likewise redeemable by FLI at any time during the conversion period. Unless previously redeemed or converted and cancelled, FLI will redeem all of the outstanding bonds on the maturity date of an amount such that the annualized internal rate of return in the bonds is equivalent to 19% per annum. Interest on the bonds is payable semi-annually in arrears commencing on August 7, 2002 at the rate of 10% per annum until the bonds mature in February 2007. Proceeds from the issuance of the convertible bonds were used for the complete redemption of SUPeR Guaranteed Convertible Bonds issued on August 1, 1996.

Guaranteed Convertible Bonds (SUPeR Bonds)
On July 25, 1996, FLICL initiated an offering of its US$100.0 million SUPeR Bonds. The bonds are convertible at the option of the holders any time during the conversion period into FLI shares at an initial conversion price of ₱11.20 per share, subject to adjustments in certain events, at a fixed foreign exchange rate conversion of ₱26.192 per US$1.00. Interest on the bonds is payable semi-annually since February 1, 1997. Interest was accrued at the rate of 3.75% per annum up to July 31, 1999 and at the rate of 6.25% per annum from August 1, 1999 until the bonds mature in 2002.

On August 1, 1996, FLI signed an Indenture/Trust Deed with FLICL to unconditionally and irrevocably guarantee the issuance of the convertible bonds by FLICL. Proceeds from the issuance of the convertible bonds were used to help finance the continued construction of low cost and affordable housing units and the development of other on-going projects of FLI.

The related borrowing cost capitalized as part of "Land and Land Development" account in 2002 amounted to ₱18.50 million.

In December 2001, FLI entered into short-term forward exchange contracts with a local bank to establish the amounts of the US Dollar currency required to repay the complete redemption of SUPeR Guaranteed Convertible Bonds on February 8, 2002. FLI has no outstanding forward contract as of December 31, 2003.

The outstanding balance of SUPeR bonds amounting to US$56.92 million as of December 31, 2001 was redeemed in full at 121.89% of principal plus accrued interest of $1.84 million on February 7, 2002.

16. Capital Stock

The details of capital stock are as follows:

	2003	2002
	(Amounts in Thousands)	
Capital Stock - ₱1 par value		
Preferred - cumulative		
Authorized - 2,000,000,000 shares		
Common		
Authorized - 8,000,000,000 shares		
Issued - 5,958,124,000 shares	**₱5,958,124**	₱5,958,124

The preferred stock shall be issued subject to the following conditions, rights, preferences, qualifications and limitations:

a. The holder thereof shall be entitled to dividends at the rate to be determined by the BOD prior to issuance of the preferred stock. The dividends are payable out of the surplus profits of the Company so long as such preferred stock is outstanding.

b. Dividends on preferred stock shall be payable on the last business day of each calendar period as shall be determined by the BOD prior to the issuance of such preferred stock. Preferred stock shall not be entitled to participate in any such dividends paid to the holders of common stock. Accumulation of dividends shall not bear interest.

c. In the event of voluntary or involuntary liquidation, dissolution, receivership, bankruptcy or winding up of the affairs of the Company, except in the case of a merger or consolidation, the holders of the preferred stock shall be entitled to be paid in full at par, or ratably, in Philippine currency, insofar as the assets of the Company will permit, for each share of preferred stock held, together with the accumulated and unpaid dividends thereon, up to date of distribution, before any distribution is made to holders of common stock. After the holders of the preferred stock shall have received their share in distribution, the remaining assets of the Company shall be appropriated to the holders of common stock.

d. Beginning on the fourth year up to the day before the end of the fifth year from the date of issuance of the preferred stock, the Company, at any one time or from time to time at the option of the BOD, may redeem in whole or in part the preferred stock at the time outstanding, upon notice duly given as hereinafter provided, by paying thereof in cash the amount equal to the par value of the shares to be so redeemed, plus such premium, if any, (expressed in percentages of the par value) as shall be fixed by the BOD prior to the issuance of such preferred stock, provided that any and all preferred stock remaining unredeemed and outstanding shall be redeemed by the Company not later than the last business day of the fifth year from the date of issuance of the preferred stock, by paying therefore in cash the amount equal to the par value of the shares to be redeemed.

e. The holders of the preferred stock shall not be entitled to any voting rights or privileges except in those cases expressly provided by law.

f. The preferred stock shall not be convertible into any other shares or securities of the Company.

17. Related Party Transactions

Significant transactions with related parties are as follows:

a. The Company has conducted a review of its financial transactions particularly the borrowings made and the corresponding costs. Included in the review was the manner by which the Company has acted as a conduit for FAI for the purpose of the latter securing loans.

   Considering that while the Company is the borrower of record, FAI is the real borrower and beneficiary of the loans. Management has adopted the position that, among others, the borrowing costs charged by the lenders should actually be charged to FAI by way of reimbursement to properly reflect the transaction between the two parties.

b. The Company has management agreements with two affiliates engaged in Sugar Central operations. The management agreements provide for tax, legal, fund management and other finance related services, purchasing and other corporate services that the Company will render in connection with finance and administrative functions. In 2003 and 2002, management fee is based on 15.0% and 7.5%, respectively of the affiliates' gross sales. In 2001, the management fee is based on 10% of the affiliates' net income before tax and management fee. Management fee included in consolidated statements of income amounted to ₱292.3 million, ₱137.3 million and ₱24.2 million in 2003, 2002, 2001, respectively.

c. Transactions with Reco consist mainly of interest bearing cash advances to fund the PBCom project. In 2002, Reco provided additional advances amounting to ₱20 million.

d. FAI has outstanding long-term loan of ₱25 million from GCK Realty Corporation, an affiliate. The loan, which bears interest at 10% per annum and payable quarterly in full on or before September 5, 2004, is included in the "Syndicated and long-term loans" under the "Long-term debt" account (see Note 14).

e. Professional service agreement with Festival Supermall, Inc., an affiliate, for legal, tax, fund management, payroll and other services. Professional fees credited to operations amounted to ₱7.20 million in 2003, 2002 and 2001.

f. EWBC has loans and other transactions with affiliates and with certain directors, officers, stockholders and related interests (DOSRI). Under EWBC's policy, these loans and other transactions, which were within limits prescribed by the BSP, were made substantially on the same terms as with other individuals and businesses of comparable risk.

DOSRI
The General Banking Act and BSP Regulations limit the amount of the loans to DOSRI such that 70% of the loans must be secured and should not exceed the amount of their respective deposits and book values of their respective investments in EWBC. As of December 31, 2003 and 2002, EWBC is in compliance with these regulatory requirements.

The following shows information relating to DOSRI loans (Amounts in Thousands):

	2003	2002
Total outstanding DOSRI loans	**₱1,771,660**	₱1,415,517
Breakdown:		
Non-risk DOSRI loans (fully-secured)	**1,771,660**	1,415,517
Risk DOSRI loans	**–**	–
Percentage of DOSRI loans to total loans	**16.46%**	14.98%
Percentage of unsecured DOSRI loans to total DOSRI loans	**–**	–
Percentage of past due DOSRI loans to total DOSRI loans	**–**	–
Percentage of nonperforming DOSRI loans to total DOSRI loans	**–**	–

g. Other transactions with related parties include interest-bearing cash advances and various charges to and from affiliates for administrative and other expenses.

The amounts and the balances arising from the foregoing significant related party transactions are as follows (Amounts in Thousands):

	2003	2002
Due from affiliates:		
The Palms Country Club	**₱41,727**	₱41,813
Pro-Excel Property Managers, Inc.	**5,583**	–
Davao Sugar Central Company	**–**	61,100
Filinvest Telos	**–**	4,849
Others	**18,953**	437
	₱66,263	₱108,199

(Forward)

	2003	2002
Due to affiliates:		
Pacific Sugar Holdings Corp.	**₱407,665**	₱426,318
Reco	**113,812**	543,811
FCC Foundation, Inc.	**37,423**	31,026
ALG Holdings, Inc.	**–**	71,920
Others	**24,627**	13,030
	₱583,527	₱1,086,105

18. **Operating Expenses**

Operating expenses consist of:

	2003	2002	2001
	(Amounts in Thousands)		
Real estate operations			
Interest expense	**₱499,063**	₱616,441	₱725,763
General and administrative:			
Salaries and wages	**250,005**	257,033	218,981
Foreign exchange loss	**227,295**	101,109	203,195
Depreciation and amortization	**115,751**	100,872	260,626
Outside services	**149,219**	168,617	184,654
Repairs and maintenance	**72,662**	64,637	57,139
Rent	**70,512**	14,933	22,605
Provision for doubtful accounts	**44,719**	69,649	–
Travel and transportation	**35,841**	35,739	42,009
Entertainment, amusement and recreation	**25,945**	22,343	22,692
Bank charges	**5,495**	12,384	5,038
Provision for impairment loss	**3,865**	70,968	–
Others	**293,165**	410,340	421,555
	1,793,537	1,945,065	2,164,257
Marketing expenses	**178,187**	160,870	167,812
	1,971,724	2,105,935	2,332,069

(Forward)

	2003	2002	2001
	(Amounts in Thousands)		
Financial and banking services			
General and administrative:			
Salaries and wages	**₱240,665**	₱182,277	₱148,704
Depreciation and amortization	**106,163**	79,734	60,697
Rent	**66,578**	60,374	49,577
Entertainment, amusement and recreation	**43,883**	39,155	36,234
Travel and transportation	**33,125**	29,748	24,617
Outside services	**25,011**	23,704	18,221
Others	**203,332**	212,896	163,603
	718,757	627,888	501,653
Provision for probable losses	**86,680**	73,619	34,011
	805,437	701,507	535,664
	₱2,777,161	₱2,807,442	₱2,867,733

19. **Cost of Financial and Banking Services**

Cost of financial and banking services consist of:

	2003	2002	2001
	(Amounts in Thousands)		
Interest and other borrowings:			
Deposit liabilities	**₱755,685**	₱610,523	₱878,219
Other borrowings	**31,289**	13,870	7,602
	₱786,974	₱624,393	₱885,821

20. **Other Income**

Other income from real estate operations consist of:

	2003	2002	2001
	(Amounts in Thousands)		
Services income	**₱314,877**	₱278,476	₱32,799
Interest income	**304,128**	155,581	673,416
Foreign exchange gain	**194,211**	132,443	–
Others	**439,186**	235,833	419,174
	₱1,252,402	₱802,333	₱1,125,389

Other income from financial and banking services consist of:

	2003	2002	2001
	(Amounts in Thousands)		
Foreign exchange profits and trading gain	**₱174,728**	₱131,106	₱64,172
Service charges, fees and commissions	**71,650**	58,876	54,918
Foreign exchange gains (losses)	**15,401**	7,762	(21,953)
Others	**213,997**	180,269	114,517
	₱475,776	₱378,013	₱211,654

21. Retirement Plan

The Company and certain subsidiaries have their respective funded and non-contributory retirement plans covering all of their respective full-time regular employees. The plans provide for lump-sum benefits equivalent to 100% of the employees' salary for every year of creditable service. The normal retirement age is 60 years old; however, an employee who attains the age of 55 years old with 15 years of service and opts for an early retirement is entitled to benefits ranging from 70% to 90% of the normal retirement pay depending on the age upon retirement.

Based on the latest actuarial valuation reports, the fair value of the plan assets was ₱30.8 million. The actuarial present value of retirement benefits was ₱140.0 million. The unfunded actuarial accrued liability was ₱109.2 million. The principal actuarial assumptions used to determine retirement benefits were an investment yield of 10% per annum and a salary increase of 12% per annum compounded annually.

Retirement cost charged to operations amounted to ₱27.1 million, ₱21.2 million and ₱30.8 million in 2003, 2002 and 2001, respectively.

22. Earnings Per Share

Earnings per share is computed as follows:

	2003	2002	2001
	(Amounts in Thousands, Except Per Share Amounts)		
a. Net income	**₱167,490**	₱52,027	₱499,449
b. Weighted average number of outstanding common shares	**5,955,725**	5,955,725	5,955,725
c. Weighted average number of common shares from potential conversion of convertible bonds	**6,422**	6,422	6,422

(Forward)

	2003	2002	2001
	(Amounts in Thousands, Except Per Share Amounts)		
d. Weighted average number of outstanding common shares and potential conversion of convertible bonds (b+c)	**5,962,147**	5,962,147	5,962,147
e. Earnings per share - basic (a/b)	**₱0.028**	₱0.009	₱0.084
f. Earnings per share - diluted (a/d)	**₱0.028**	₱0.009	₱0.084

23. Contingencies

The Group is contingently liable in respect to certain lawsuits and other matters arising out of the normal course of business. Management believes that the resolution of these contingencies will not have a material effect on the consolidated financial statements.

There are pending tax assessments and preassessments on EWBC by the Bureau of Internal Revenue relating to prior tax periods, a substantial portion of which pertains to issues affecting the banking industry. There are also pending tax assessments against the Company and FAI relating to 1996 and 1997. Management, through its tax counsels, is contesting these assessments and preassessments on the ground that factual situations and the legal basis were not considered and which, if considered, would not give rise to material tax deficiencies.

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

The following is a summary of EWBC's commitments and contingent liabilities at their equivalent peso contractual amounts (Amounts in Thousands):

	2003	2002
Trust department accounts	**₱2,093,676**	₱1,173,118
Unused commercial letters of credit	**257,858**	154,443
Outstanding guarantees	**206,198**	139,801
Inward bills for collection	**126,956**	68,160
Spot exchange sold	**166,758**	53,254
Spot exchange bought	**55,586**	26,627
Late deposits/payment received	**12,283**	9,937
Outward bills for collection	**8,864**	9,179
Unsold traveler's check	**1,579**	1,752
Items held for safekeeping	**20**	19
Forward exchange bought	**–**	159,762
Others	**5**	6

24. Merger of EWBC with Filinvest Capital, Inc. (FCI) and Ecology Savings Bank, Inc. (ESBI)

FCI

In 2000, EWBC and FCI, an affiliate, determined that it is to their best interest to merge into one corporation in accordance with the Corporation Code of the Philippines and the terms set forth in their Plan of Merger, which was approved by EWBC's BOD on July 11, 2000. On August 1, 2000, FCI transferred certain assets and liabilities to the EWBC.

Under the Articles of Merger (AOM) dated August 15, 2000, EWBC, as the surviving corporation, will purchase all the outstanding capital stock of FCI from the Company in exchange for 2,622,219 preferred "A" shares of stocks of EWBC which was computed based on the net book value of FCI's shares as of July 31, 2000. The AOM further stipulates that all rights, business (except for the investment house license, which shall be surrendered to the SEC), certain assets and other properties of FCI as well as certain liabilities shall be conveyed, assigned, transferred to EWBC as of August 1, 2000. On December 19, 2001, EWBC's BOD approved a resolution wherein instead of 2,622,219 preferred "A" shares to be issued to the Company as previously agreed under the AOM, only 2,615,281 preferred "A" shares will be issued and the excess will be booked as part of paid up capital. On January 8, 2002, EWBC issued 2,615,281 Preferred "A" shares of stocks in favor of FDC. This represents the share value of the net assets of FCI, which EWBC assumed on a 1:1, by virtue of Articles of Merger entered into between EWBC and FCI.

On July 12, 2001 and December 20, 2001, the merger between EWBC and FCI was approved by the BSP and the SEC, respectively.

FCI is engaged in investment house activities. Based on the AOM, the separate existence of FCI shall cease after the merger.

On January 8, 2002, the EWBC issued 2,615,281 preferred "A" shares of stock in favor of the Company. This represents the share value of the net assets of FCI, which EWBC assumed on a 1:1 basis, by virtue of the AOM.

ESBI

In October 2002, EWBC signed a share purchase and sale agreement (the Agreement) with EBC Strategic Holdings Corp. (ESHC) for the purchase of ESBI. In consideration of the purchase price and on the terms and subject to the conditions contained in the agreement, ESHC agrees to sell and deliver to the EWBC and the EWBC agrees to purchase and accept from the ESHC the shares and all of the rights, titles and interests of ESBI. It is expressly agreed that the rights, titles and interests of ESHC in and to the shares include: a) all of the qualifying shares held in the name of the directors of ESBI nominated by ESHC but which are beneficially owned by ESHC; b) any shares hereunder issued by ESBI by way of stock dividends on the shares; c) any property or cash dividend paid on the shares after the date of the agreement; d) all the rights accruing on the shares after the date of the agreement; and e) the proceeds of any of the foregoing.

On January 7, 2003, the BSP authorized EWBC to acquire 100% of ESBI's outstanding capital stock, and subject to certain conditions set by the BSP, informed EWBC that a separate approval shall be obtained from the BSP should the EWBC decides to pursue its planned merger with ESBI. In January 2003, EWBC paid ₱172.8 million to ESHC for the purchase of ESBI's 6,980,000 shares.

On January 31, 2003, the Plan of Merger between EWBC and ESBI was executed and approved by a majority vote of EWBC's BOD and the stockholders owning or representing at least two-thirds of the outstanding capital stock of the constituent corporations. The BSP, through the MB Resolution No. 904 dated June 26, 2003, has approved the merger with EWBC as the surviving company subject to certain conditions. The SEC approved the Articles of Merger on August 6, 2003.

The salient features of the AOM are as follows:

a) The Corporation that will survive the contemplated merger shall be EWBC, hereinafter referred to as the "Surviving Corporation";
b) The Articles of Incorporation of the Surviving Corporation, upon approval of the merger by SEC, shall continue to be in full force and effect;
c) The By-Laws of the Surviving Corporation shall remain unchanged until amended in accordance with law;
d) Except for the qualifying shares, ESBI is wholly owned by the Surviving Corporation. Hence, upon the effect of merger, all outstanding shares of ESBI shall be deemed cancelled by reason of the Merger and there shall be no issuance of new shares of stocks. The investment account of the Surviving Corporation will be closed against the net assets acquired from ESBI and any excess shall be treated as goodwill;
e) In accordance with the AOM, the Surviving Corporation shall acquire all the rights, business assets and other properties of ESBI including but not limited to all its real assets, if any, and personal properties, contractual rights, licenses and privileges, property rights, claims, bank deposits, stocks, account receivables, credit lines, supplies, equipment, inventories and in such other assets as well as assume all of its liabilities as of January 31, 2003.

25. **Agreements**

Project Investments

FAI entered into project investment agreements (PIAs) with various investors to undertake the development of "Vivant Flats", "Pioneer Pointe", and "2301 Civic Place" (the Projects) on the Company's lots (except for Pioneer Pointe where FAI acts only as project manager). Under these agreements, the investors (co-owners and co-developers of the projects) committed to invest in the Projects by contributing a proportionate share in the total project cost through capital contributions.

Simultaneous with the signing of the PIAs, each investor opened a trust account to be maintained in the investor's name. EWBC acts as the trustee and will receive, hold, manage and disburse the fund in trust for the Investor and in a manner set forth in the PIAs and Trust Agreements. The trustee will also hold in trust for the Investor, the latter's undivided pro-rata interest and title to the related project until the same is transferred to the name of the Investor or his assignee.

FAI, as owner of the lots, grants in favor of the investors an option to purchase the said lots subject to the terms and conditions as specified in the PIAs.

FAI acts as the Manager of the Projects. In consideration of the services to be rendered, FAI will receive a management fee of 12% of the total project cost. Actual construction has not yet started as of December 31, 2003 except for Vivant Flats. Total cost incurred by FAI on the projects as of December 31, 2003 amounted to ₱57.7 million which was included in "Other condominium projects in progress" accounts in the balance sheets.

26. Registrations with the Philippine Economic Zone Authority (PEZA)

On May 29, 2000, FAI was registered with PEZA pursuant to the provisions of Republic Act (R.A.) No. 7916 as an Ecozone Developer/Operator to establish, develop, construct, administer and operate a special ECOZONE to be known as the Northgate Cyber Zone - Special Economic Zone in FCC.

On June 6, 2000, CPI was registered with the PEZA pursuant to the provisions of R.A. No. 7916 as an Ecozone Facilities Enterprise.

On June 29, 2000, NCC was registered with the PEZA as an Ecozone Utilities Enterprise pursuant to the provisions of R.A. No. 7916, particularly to provide bandwidth, communication lines, internet facilities and related support services to locators at the Northgate Cyber Zone - Special Economic Zone in FCC.

On February 13, 2002, FLI was registered with PEZA pursuant to the provisions of R.A. No. 7916 as the Ecozone Developer/Operator to lease, sell, assign, mortgage, transfer or otherwise encumber the area designated as a Special Economic Zone (the Ecozone) to be known as Filinvest Technology Park - Calamba.

As registered enterprises, these subsidiaries are entitled to certain tax benefits and nontax incentives such as VAT zero-rating with their local suppliers and exemption from national and local taxes and in lieu thereof, a special five percent (5%) income tax rate based on gross income.

27. Income Taxes

The significant components of deferred income tax assets and liability follow:

	2003	2002
	(Amounts in Thousands)	
Current:		
Deferred income tax assets on:		
NOLCO	**₱809,703**	₱1,520,339
Provisions and accruals	**255,097**	272,208
Unrealized foreign exchange losses	**143,712**	107,543
MCIT	**81,149**	68,695
Others	**8,319**	9,289
	1,297,980	1,978,074
Less valuation allowance	**224,984**	326,212
	₱1,072,996	₱1,651,862
Noncurrent:		
Deferred income tax liability on capitalized borrowing costs	**₱1,369,450**	₱1,337,355

The Company made an adjustment of its NOLCO as a result of the adoption of a policy that all borrowing costs charged by the lenders should be charged to its subsidiary, the beneficiary of the loans, by way of reimbursement (Note 17).

Details of the Group's NOLCO and MCIT are as follows (Amounts in Thousands):

Year Incurred	NOLCO	MCIT	Expiry Date
2001	₱796,263	₱22,320	December 31, 2004
2002	1,327,028	30,993	December 31, 2005
2003	407,029	27,836	December 31, 2006
	₱2,530,320	₱81,149	

A reconciliation between income tax computed at the statutory rate to the provision for (benefit from) income tax follows:

	2003	2002	2001
	(Amounts in Thousands)		
Income tax at statutory rate	**₱337,189**	₱131,806	₱117,243
Adjustments for:			
Adjustment in NOLCO	**679,489**	–	–
Tax-free realized gross profit on sold socialized housing units	**(44,704)**	(26,407)	(43,277)
Realized gross profits on sales of club shares	**(17,641)**	(31,555)	(39,898)

(Forward)

	2003	2002	2001
	(Amounts in Thousands)		
Capital gains tax	**₱2,634**	₱4,325	₱4,219
Interest income subject to final tax	**(106,005)**	(87,550)	(4,386)
Gain on sale of investment	**–**	(64,768)	–
Tax-free interest on HGC-enrolled installment contracts receivables	**(19,650)**	(16,431)	(36,453)
Changes in valuation allowance on deferred income tax assets	**(101,228)**	212,060	25,126
Others	**(102,443)**	(17,672)	(261,700)
	₱627,641	₱103,808	(₱239,126)

28. **Segment Information**

Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. Generally, financial information is required to be reported on the basis that is used internally for evaluating segment performance and deciding how to allocate resources to segments.

The Company derives its revenues from the following reportable segments:

Real Estate
This involves acquisition of land, planning and development of large-scale fully integrated residential and commercial communities; development and sale of residential and commercial lots and the development and leasing of retail and office space and land in these communities; construction and sale of residential, housing and condominiums and office buildings; development of farm estates, industrial and business parks; operation of cinema and mall; and property management.

Banking and Financial Services
This involves commercial banking operations, including savings and time deposits in pesos and foreign currencies; commercial mortgage and agribusiness loans; payment services, fund transfers, international trade settlements and remittances from overseas workers; trust and investment services including portfolio management, unit funds, trust administration and estate planning; and safety deposit facilities.

Financial information on the operations of these business segments are summarized as follows (Amounts in Thousands):

	Real Estate Operations		**Banking and Financial Services**		**Combined**	
	2003	2002	**2003**	2002	**2003**	2002
Revenues	**₱4,277,293**	₱4,081,214	**₱1,304,826**	₱1,169,136	**₱5,582,119**	₱5,250,350
Net income	**1,064,024**	753,018	**74,874**	119,258	**1,138,898**	872,276
Segment assets	**100,386,478**	94,683,474	**18,423,061**	14,739,542	**118,809,539**	109,423,016
Less deferred tax asset	**641,431**	1,372,802	**431,565**	279,060	**1,072,996**	1,651,862
Net segment assets	**99,745,047**	93,310,672	**17,991,496**	14,460,482	**117,736,543**	107,771,154
Segment liabilities	**30,289,425**	26,573,184	**15,685,707**	12,046,035	**45,975,132**	38,619,219
Less:						
Income tax payable	**156**	5,514	**–**	–	**156**	5,514
Deferred tax liabilities	**1,369,450**	1,337,355	**–**	–	**1,369,450**	1,337,355
Net segment liabilities	**28,919,819**	25,230,315	**15,685,707**	12,046,035	**44,605,526**	37,276,350
Cash flows arising from:						
Operating activities	**1,219,378**	638,886	**957,078**	1,116,280	**2,176,456**	1,755,166
Investing activities	**(1,408,098)**	(556,041)	**(172,362)**	(904,063)	**(1,580,460)**	(1,460,104)
Financing activities	**511,417**	(1,615,164)	**333,006**	388,508	**844,423**	(1,226,656)

	Eliminating		**Consolidated**	
	2003	2002	**2003**	2002
Revenues	**(₱1,751,243)**	(₱2,031,015)	**₱3,830,876**	₱3,219,335
Net income	**(971,408)**	(820,249)	**167,490**	52,027
Segment assets	**(52,732,663)**	(46,021,656)	**66,076,876**	63,401,360
Less deferred tax asset	**–**	**–**	**1,072,996**	1,651,862
Net segment assets	**(52,732,663)**	(46,021,656)	**65,003,880**	61,749,498
Segment liabilities	**(16,993,617)**	(11,484,271)	**28,981,515**	27,134,948
Less:				
Income tax payable	**–**	–	**156**	5,495
Deferred tax liabilities	**–**	–	**1,369,450**	1,337,355
Net segment liabilities	**(16,993,617)**	(11,484,271)	**27,611,909**	25,792,098
Cash flows arising from:				
Operating activities	**183,963**	146,720	**2,360,419**	1,901,886
Investing activities	**971,030**	1,379,006	**(609,430)**	(81,098)
Financing activities	**(1,473,562)**	(620,751)	**(629,139)**	(1,847,407)