

# COVER SHEET

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SEC Registration Number

E X P O R T   A N D   I N D U S T R Y   B A N K ,   I N C .  
 A N D   S U B S I D I A R I E S

(Company's Full Name)

E x p o r t B a n k P l a z a ,   E x p o r t b a n k  
 d r i v e ,   C h i n o   R o c e s   A v e n u e   M a k a t i  
 C i t y

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

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

**887-9000**  
 (Company Telephone Number)

1 2      3 1  
 Month    Day  
 (Fiscal Year)

1 7 - Q  
 (Form Type)

Month    Day  
 (Annual Meeting)

\_\_\_\_\_  
 (Secondary License Type, If Applicable)

\_\_\_\_\_  
 Dept. Requiring this Doc.

\_\_\_\_\_  
 Amended Articles Number/Section

\_\_\_\_\_  
 Total No. of Stockholders

Total Amount of Borrowings

\_\_\_\_\_  
 Domestic

\_\_\_\_\_  
 Foreign

To be accomplished by SEC Personnel concerned

\_\_\_\_\_  
 File Number

\_\_\_\_\_ LCU

\_\_\_\_\_  
 Document ID

\_\_\_\_\_ Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

**EXPORT AND INDUSTRY BANK, INC.**

(Company's Full Name)

ExportBank Plaza, Exportbank Drive corner Chino Roces Ave. Makati City

(Company's Address)

**878-0531 / 878-0539**

(Telephone Number)

**December 31**

(Fiscal year ending)  
(month & day)

**Any Day in April**

(Annual Meeting)

**SEC FORM 17-Q**

(Form Type)

\_\_\_\_\_  
Amendment Designation (If applicable)

**September 30, 2007**

(Period Ended Date)

\_\_\_\_\_  
(Secondary License Type & File Number)

\_\_\_\_\_  
LCU

\_\_\_\_\_  
(Cashier)

\_\_\_\_\_  
DTU

**93830**

(SEC Number)

\_\_\_\_\_  
Central Receiving Unit

\_\_\_\_\_  
File Number

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Document I.D.



12. Indicate by checkmark whether the registrant :

- (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the Revised Securities Act (RSA) and RSA Rule (a)-1 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding 12 months (or for such shorter period the registrant was required to file such reports).

YES [ X ]

NO [ ]

- (b) has been subject to such filing requirements for the past 90 days.

YES [ X ]

NO [ ]

#### PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

*See attached.*

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*See attached.*

#### PART II - OTHER INFORMATION

##### SIGNATURES

Pursuant to the requirements of the Securities Regulations Code, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.



\_\_\_\_\_  
**TERESITA Q. DE OCAMPO**  
Principal Accounting Officer  
November 14, 2007



\_\_\_\_\_  
**NILO L. PACHECO, JR.**  
Officer-in-Charge  
November 14, 2007

## EXPORT AND INDUSTRY BANK, INC. AND SUBSIDIARIES

## STATEMENT OF CONDITION

SEPTEMBER 30, 2007

(With Comparative Figures for December 31, 2006)

(Amounts in Thousand Philippine Pesos)

<u>RESOURCES</u>	<u>Sept. 30, 2007</u> (Unaudited)	<u>Dec. 31, 2006</u> (Audited)
CASH AND OTHER CASH ITEMS	P 189,116	P 180,506
DUE FROM BANGKO SENTRAL NG PILIPINAS	3,453,299	2,303,438
DUE FROM OTHER BANKS	311,924	1,096,248
INVESTMENT SECURITIES		
Financial Assets at Fair Value Through Profit or Loss	508,709	1,532,700
Available-for-sale Securities - net	7,795,248	7,912,412
LOANS AND OTHER RECEIVABLES - Net	19,109,193	8,813,834
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	703,623	740,205
NON-CURRENT ASSETS HELD FOR SALE - Net	-	205,288
INVESTMENT PROPERTIES - Net	2,412,584	2,276,931
OTHER RESOURCES - Net	9,808,275	9,483,927
TOTAL RESOURCES	<u>P 44,291,971</u>	<u>P 34,545,489</u>
<u>LIABILITIES AND CAPITAL FUNDS</u>		
DEPOSIT LIABILITIES		
Demand	P 707,876	P 620,475
Savings	12,748,817	10,672,504
Time	3,446,493	3,831,230
	<u>16,903,186</u>	<u>15,124,209</u>
BILLS AND ACCEPTANCES PAYABLE	18,087,814	10,360,053
ACCRUED TAXES, INTEREST AND OTHER EXPENSES	498,830	1,694,559
OTHER LIABILITIES	4,003,843	1,831,280
Total Liabilities	<u>39,493,673</u>	<u>29,010,101</u>
CAPITAL FUNDS		
Capital stock		
Common Stock	4,734,453	4,734,453
Surplus Reserve	13,716	13,716
Surplus (deficit)	(324,554)	96,861
Fair Value Gain (Loss) on Available-for-Sale Securities	306,657	618,977
Treasury Stock	(14,415)	( 14,415 )
Minority Interest	82,441	85,796
Total Capital Funds	<u>4,798,298</u>	<u>5,535,388</u>
TOTAL LIABILITIES AND CAPITAL FUNDS	<u>P 44,291,971</u>	<u>P 34,545,489</u>

EXPORT AND INDUSTRY BANK, INC. AND SUBSIDIARIES  
STATEMENT OF INCOME  
FOR THE PERIOD ENDED SEPTEMBER 30, 2007  
(With Comparative Figures for September 30, 2006)  
(Amounts in Thousand Philippine Pesos Except Per Share Data)

	Sept. 2007 (Unaudited)	Sept 2006 (Unaudited)
<b>INTEREST INCOME ON</b>		
Loans	P 413,336	P 381,031
Trading and investment securities	475,859	249,999
Others	107,240	81,901
	<u>996,434</u>	<u>712,931</u>
<b>INTEREST EXPENSE ON</b>		
Deposit liabilities	654,443	702,271
Bills payable and other borrowings	238,175	535,660
	<u>892,618</u>	<u>1,237,931</u>
<b>NET INTEREST INCOME (EXPENSE)</b>	103,815	( 525,001 )
<b>IMPAIRMENT GAINS (LOSSES)</b>	( 13,273 )	( 1,292,872 )
<b>NET INTEREST INCOME (EXPENSE ) AFTER IMPAIRMENT LOSSES</b>	<u>90,543</u>	<u>( 1,817,872 )</u>
<b>OTHER INCOME</b>		
Trading and securities gain - net	7,414	204,121
Service charges, fees and commissions	129,589	133,616
Miscellaneous	295,472	2,104,391
	<u>432,476</u>	<u>2,442,128</u>
<b>OTHER EXPENSES</b>		
Taxes and licenses	236,692	233,592
Management and professional fees	57,320	146,415
Employee benefits	168,489	147,323
Occupancy and equipment-related cost	218,048	199,854
Litigation/assets acquired	7,504	24,786
Communications	25,045	26,116
Foreign exchange loss - net	4,228	10,981
Insurance	43,288	30,433
Information technology	22,651	16,125
Stationery and supplies	4,430	9,761
Miscellaneous	60,845	57,313
	<u>848,539</u>	<u>902,701</u>
<b>INCOME (LOSS) BEFORE TAX</b>	( 325,521 )	( 278,445 )
<b>TAX EXPENSE</b>	<u>5</u>	<u>29,672</u>
<b>NET INCOME (LOSS)</b>	( <u>P 325,525</u> )	( <u>P 308,117</u> )
<b>NET INCOME (LOSS) ATTRIBUTABLE TO:</b>		
Shareholders of Parent Company	( P 318,043 )	( P 272,143 )
Minority interest	(7,482)	(35,974)
	<u>( P 325,525 )</u>	<u>( P 308,117 )</u>
<b>INCOME (LOSS) PER SHARE</b>	( <u>P 0.017</u> )	( <u>P 0.016</u> )

EXPORT AND INDUSTRY BANK, INC. AND SUBSIDIARIES  
STATEMENT OF INCOME  
FOR THE QUARTER ENDED SEPTEMBER 30, 2007  
(With Comparative Figures for the quarter ending Sept. 30, 2006)  
(Amounts in Thousand Philippine Pesos Except Per Share Data)

	Quarters Ended September 30	
	2007 <u>(Unaudited)</u>	2006 <u>(Unaudited)</u>
INTEREST INCOME ON		
Loans	P 240,294	P 88,491
Trading and investment securities	75,987	124,041
Others	<u>36,382</u>	<u>48,227</u>
	<u>352,662</u>	<u>260,757</u>
INTEREST EXPENSE ON		
Deposit liabilities	204,486	268,485
Bills payable and other borrowings	<u>110,399</u>	<u>96,422</u>
	<u>314,885</u>	<u>364,908</u>
NET INTEREST INCOME (EXPENSE)	37,777	( 104,150 )
IMPAIRMENT GAINS (LOSSES)	<u>1,951</u>	<u>( 130,737 )</u>
NET INTEREST INCOME (EXPENSE ) AFTER IMPAIRMENT LOSSES	<u>39,728</u>	<u>(234,887)</u>
OTHER INCOME		
Trading and securities gain (loss) - net	41,764	108,625
Service charges, fees and commissions	25,956	107,284
Miscellaneous	<u>45,310</u>	<u>210,306</u>
	<u>113,030</u>	<u>426,216</u>
OTHER EXPENSES		
Taxes and licenses	69,596	49,323
Management and professional fees	17,443	18,214
Employee benefits	59,900	51,884
Occupancy and equipment-related cost	76,155	67,479
Litigation/assets acquired	5,856	( 2,063 )
Communications	8,428	8,620
Foreign exchange loss - net	2,119	
Insurance	13,719	12,826
Information technology	7,228	2,765
Stationery and supplies	966	3,349
Miscellaneous	<u>24,261</u>	<u>14,595</u>
	<u>285,671</u>	<u>226,992</u>
INCOME (LOSS) BEFORE TAX	( 132,913 )	( 35,663 )
TAX EXPENSE	7	18,314
NET INCOME (LOSS)	( <u>P 132,906</u> )	( <u>P 53,978</u> )
NET INCOME (LOSS) ATTRIBUTABLE TO:		
Shareholders of Parent Company	( P 130,766 )	( P 18,003 )
Minority interest	<u>(2,141)</u>	<u>(35,974)</u>
	( <u>P 132,906</u> )	( <u>P 53,978</u> )
INCOME (LOSS) PER SHARE	( <u>P 0.007</u> )	( <u>P 0.003</u> )

EXPORT AND INDUSTRY BANK, INC. AND SUBSIDIARIES  
 STATEMENT OF CHANGES IN CAPITAL FUNDS  
 (With Comparative Figures for the period ending September 30, 2006)  
 (Amounts in Thousands of Philippine Pesos)

	September 30	
	2007 <u>(Unaudited)</u>	2006 <u>(Unaudited)</u>
Capital Stock:		
Common A Shares - P0.25 par		
Authorized - 2,753,248,756 shares		
Issued and subscribed - 2,753,248,756 shares	P 688,313	P 688,313
Common B Shares - P0.25 par		
Authorized - 21,246,721,244 shares		
Issued: 12,000,000,000 shares	3,000,000	3,000,000
4,184,561,404 shares from		
conversion of preferred shares	<u>1,046,140</u>	<u>1,046,140</u>
Paid-up Capital	P 4,734,453	P 4,734,453
Surplus Reserve	13,716	13,716
Surplus (Deficit)	(6,511)	198,031
Net Income (Loss)	(318,043)	(272,143)
Fair Value Gain (Loss) on Available-for-Sale Securities	306,657	(7,182)
Treasury Stock	<u>(14,415)</u>	<u>(14,415)</u>
	P 4,715,857	P 4,652,460
Minority Interest	<u>82,441</u>	<u>85,869</u>
Total Capital	P 4,798,298	P 4,738,329

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

	2007	2006
	(Unaudited)	(Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income (Loss) before income tax	(325,525)	(308,117)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for (reversal of) impairment loss	-	
Depreciation	126,528	53,834
Changes in operating resources and liabilities:		
Decrease (increase) in :		
Financial Assets at Fair Value through profit and loss	1,023,991	(690,960)
Loans and Receivable	(10,295,359)	112,888
Other Resources	(988,969)	(4,077,992)
Increase (decrease) in :		
Deposit liabilities	1,778,977	1,721,827
Accrued taxes, interest and other expenses	(1,195,729)	36,862
Deferred credits and other liabilities	2,172,563	701,452
<b>Net cash provided by (used in) operating activities</b>	<b>(7,703,523)</b>	<b>(2,450,204)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net additions (disposal) to bank premises, furniture and equipment	163,110	163,730
Cash dividends received from equity investment		
Decrease (increase) in :		
Investment Properties	(135,653)	(278,956)
Non-Current Assets Held for Sale	205,288	9,988,514
Financial Assets held for trading	117,164	(737,734)
Held to Maturity Investments	(0)	(0)
<b>Net cash used in investing activities</b>	<b>349,908</b>	<b>9,135,554</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase (decrease) in :		
Bills and acceptances payable	7,727,761	(6,198,374)
<b>Net cash provided by financing activities</b>	<b>7,727,761</b>	<b>(6,198,374)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>374,147</b>	<b>486,977</b>
<b>CASH AND CASH EQUIVALENTS END OF 4TH QTR.</b>		
Cash and other cash items	180,506	333,729
Due from Bangko Sentral ng Pilipinas	2,303,438	904,864
Due from other banks	1,096,248	1,335,332
Interbank loans receivable	-	-
	<b>3,580,192</b>	<b>2,573,925</b>
<b>CASH AND CASH EQUIVALENTS AS OF JUNE 30</b>		
Cash and other cash items	189,116	218,489
Due from Bangko Sentral ng Pilipinas	3,453,299	1,280,880
Due from other banks	311,924	1,561,533
Interbank Loans Receivable	-	-
	<b>3,954,339</b>	<b>3,060,902</b>

**EXPORT AND INDUSTRY BANK, INC.****AGING OF ACCOUNT RECEIVABLE**

As of September 30, 2007

(In Thousand Pesos)

	<b>31-60</b>	<b>61-90</b>	<b>91-180</b>	<b>180-360</b>	<b>Over 1 Year</b>	<b>Total</b>
<b>Loans/Trade</b>	32,000			176,376	38,502	246,878
<b>Atm</b>	36,382					36,382
<b>SPV Co.</b>	4,608	3,657	1,473	3,357	3,123	16,218
<b>PAS 17</b>		1,150	330	22,798		24,277
<b>Tenants- EIB Plaza</b>	3,637			36	1,191	4,865
<b>Branches</b>	40					40
<b>Others</b>	6,192	1,524	71	5,049	2,077	14,914
	<b>82,859</b>	<b>6,332</b>	<b>1,874</b>	<b>207,616</b>	<b>44,893</b>	<b>343,574</b>

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

1. Statement showing changes in equity cumulatively for the current financial year to date, with a statement for the comparable year-to-date period of the immediately preceding financial year assuming fiscal year ending 12-31:

	(in thousands)	
	September 30, 2007 (Unaudited)	September 30, 2006 (Unaudited)
Capital Stock:		
Preferred – P1.00 par Authorized – 1,500,000,000 shares	-	-
Common A Shares – ₱ 0.25 par Authorized - 2,753,248,756 shares Issued and subscribed - 2,753,248,756 shares	₱ 688,313	₱ 688,313
Common B Shares– ₱ 0.25 par Authorized - 21,246,721,244 shares Issued : 12,000,000,000 shares 4,184,561,404 shares from conversion of preferred shares	3,000,000  1,046,140	3,000,000  1,046,140
Paid-up Capital	4,734,453	4,734,453
Surplus Reserve	13,716	13,716
Surplus (Deficit)	(6,511)	198,031
Net Income (Loss)	(318,043)	(272,143)
Fair Value Gain (Loss) on Available-for-Sale Securities	306,657	(7,182)
Treasury Stock	(14,415)	(14,415)
Minority Interest	82,441	85,869
Total Capital Accounts	₱ 4,798,298	₱ 4,738,329

2. Basic and Diluted Earnings per Share (see attached Income Statement).
3. These financial statements are prepared under the historical cost convention except that certain investment securities are carried at fair value.
4. Notes to Financial Statements:
  - a. The accompanying financial statements were prepared in compliance with Philippine Financial Reporting Standards. The financial statements have been prepared using the historical cost basis and are presented in Philippine pesos.

The financial statements of the Group have been prepared in accordance with PFRSs. These are adopted by the Financial Reporting Standards Council (FRSC), formerly the Accounting Standards Council, from the pronouncements issued by the International Accounting Standards Board (IASB).

- b. There is nothing to comment about the seasonality or cyclicity of interim operations.
- c. There is nothing to report about the nature and amount of item affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size or incidents.
- d. There is nothing to report on changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years.
- e. The remaining repayments notes of the deposits under the Liability Servicing Plan previously reflected as Bills Payable have been fully paid in September 2007.
- f. No dividends were paid during the interim period report.
- g. We have nothing to report on segment revenue.
- h. There are no material events subsequent to the end of the interim period.
- i. The effect of changes in the composition of the issuer during the interim period including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructuring and discontinuing operations were already discussed in the financial highlights in the management discussion and result of operations.
- j. Changes in the contingent liabilities or contingent assets since the last annual balance sheet date:

(In thousands of Pesos)

	September 30, 2007	December 31, 2006	Increase/ (Decrease)
Trust Dept. Accts.	₱ 2,845,470	₱ 2,702,434	₱143,036
Unused Letter of Credits	316,852	125,091	191,761
Outstanding Guarantees Issued	10,795	11,817	1,022
Outward Bills for Collection	0	25,330	(25,330)
Inward Bills for Collection	8,560	20,412	(11,852)

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

## **Item 2. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**2006-** The Group's total assets stood at ₱34.5 Billion, while total liabilities and equity amounted to ₱29.0 Billion and ₱5.5 Billion, respectively, as of 31 December 2006. The Bank's total resources increased by ₱9.9 Billion or by 40.29% over the December 2005 levels. Liquid assets went up by ₱1.0 Billion or 39%, while trading and investment securities likewise went up by as much as ₱7.3 Billion as a result of the additional capital infusion by the existing and new investors of the Bank of ₱2.4 Billion during the first semester of 2006, as well as the receipt of the income support from Philippine Deposit Insurance Corporation (PDIC) pursuant to the Memorandum of Agreement (MOA) dated 29 December 2005 in 20 October 2006. Loans and Other Receivables went up by ₱4.5 Billion from ₱4.3 Billion in 2005 to ₱8.8 Billion in 2006, ₱1 Billion of which is due to the increase in the Bank's lending activities to generate profits. Furthermore, as stated in the Amended Articles of Incorporation of the Bank dated 24 April 2006, the 1<sup>st</sup> quarter 2006 losses amounting to ₱621 Million and the losses on the sale of the Bank's remaining non-performing assets (NPAs) amounting to ₱1.085 Billion were charged against the Common A shareholders which were taken up as receivables from said shareholders. ₱1.4 Billion, on the other hand, pertains to the receivables from the sale of the Bank's NPAs pending completion of the closing requirements. With the sale of the Bank's NPAs amounting to ₱13.3 Billion during the first semester of 2006 to special purpose vehicle companies (SPVs), the non-current assets held for sale went down by ₱10 Billion, net of provisions. Investment properties increased by ₱228 Million as a result of the cancellation of sale of some of the Bank's properties to other buyers. The increase of ₱7 Billion in Other Resources represents the discount on the sale of the NPAs mentioned above, which the Bank will amortize over a fifteen (15) year period, pursuant to the regulatory relief extended to the Group by the *Bangko Sentral ng Pilipinas* (BSP) per MB Resolution No. 694 dated 26 May 2005. Total liabilities went up by ₱3.9 Billion from ₱25.0 Billion in 2005 to ₱29 Billion in 2006. Deposit liabilities increased by 40.57% or ₱4.3 Billion from ₱10.8 Billion in 2005 to ₱15.1 Billion in 2006, while bills payable with the PDIC likewise increased by ₱7.4 Billion as a result of the income support given by the PDIC to the Bank pursuant to the MOA dated 29 December 2005. Other borrowings on the other hand went down by ₱7.0 Billion as the Bank settled most of its interbank borrowings. Other Liabilities on the other hand went up by ₱57.0 Million as a result of the partial collection on the sale of the NPAs mentioned above, which were booked as security deposit until finalization of the sale. Total equity increased by ₱6 Billion from deficit of (₱436) Million to ₱5.5 Billion in 31 December 2006. The 31 December 2005 equity was restated to include prior period adjustments amounting to ₱3.7 Billion pertaining to impairment losses to comply with the new PFRS and PAS requirements, resulting to a decrease in equity from the original amount of ₱3.293 Billion to negative ₱436 Million as of said date. On the other hand, with the approval of the Amended Articles of Incorporation by both the BSP and the Securities and Exchange Commission in March and April 2006, respectively, the par value of the Bank's common shares were reduced from ₱1.00 to ₱0.25, with the resulting ₱2.064 Billion additional paid in capital applied against the previous years' deficit. Said reduction in the par value allowed the entry of the additional capital of ₱3 Billion, of which ₱600 Million was received in 2005, and the balance of ₱2.4 Billion was received in April 2006. The whole ₱3.0 Billion additional capital was issued Common B shares of the Bank. Likewise, the preferred shares series L, M and N were converted into common shares in May 2006 amounting to ₱1.046 Billion for an equivalent of 4.184 Billion shares. Furthermore, with the sale of the ₱10 Billion worth of NPAs to SPVs in 2006, the related allowance amounting to ₱3.1 Billion was closed to surplus in April 2006, as allowed under PDIC Board Resolution No. 2005-05-058 dated 25 May 2005.

In terms of profitability, the parent company (the Bank) did a successful turnaround from a net loss of (₱1.7) Billion in 2005 to a full year 2006 net income of ₱130 Million. Moreover, the Bank was able to register ₱323 Million in net income from the time of its re-capitalization in May 2006. The contraction in earning and liquid assets brought about by the escalating non-performing assets coupled with steady increase in the Bank's liabilities and higher cost of funds resulted to a negative revenue from funds of ₱1.102 Billion in 2005, which was significantly reduced to half in 2006 for a level of ₱667 Million. Impairment losses on account of the heavy discounts suffered by the Bank on the sale of its NPAs to SPVs in 2006 amounted to ₱1 Billion compared to just ₱79 Million in 2005 required under the new accounting standards to be set up. However, as stated in the Amended Articles of Incorporation, the losses on the sale of the Bank's remaining non-performing assets amounting to ₱1.085 Billion and the 1<sup>st</sup> quarter 2006 operating losses amounting to ₱621 Million are for the account of the Common A shareholders only, and were, therefore, taken up as receivable from such shareholders and were likewise recorded as part of other income in 2006. Other income resulted as well from the fees generated from the service agreement entered into by the Bank with the SPVs on the sale of the NPAs which amounted to ₱127 Million, the realization of the capitalized interests on sold non-performing loans amounting to ₱135 Million, as well as the recognition of the share of the Bank in the distribution of the Non-Performing Assets Pool based on the Memorandum of Agreement with shareholders of then Urban Bank, Inc. and Urbancorp Investments, Inc. in 2001. Several organizational costs such as taxes, filing fees, legal and audit fees were booked in 2006 as the Bank prepared itself for the capital infusion, the sale of the NPAs, and the release of the PDIC income support and subordinated debt in the second semester of 2006, resulting to higher overhead costs of ₱1.1 Billion compared to ₱862 Million in 2005. The ₱297 Million difference between the Bank's net income of ₱130 Million against the Group's net loss in 2006 of ₱167 Million is attributable to the recovery of losses from its subsidiaries which were eliminated upon consolidation of the Group's net income.

### **Comparable Discussion of Interim Period as of September 30, 2007**

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EIB Group's total assets stood at ₱44.3 Billion while total liabilities and equity amounted to ₱39.5 Billion and ₱4.8 Billion, respectively, as of September 30, 2007. Comparing September 2007 against year-end 2006 level, Bank's total resources increased by ₱9.7 Billion or by 28.21%. Liquid assets increased by ₱374.1 Million or 10.4%, however, trading and investment securities went down by ₱1.1 Billion as a result of the Bank's strategy to dispose of its securities to cut down losses brought about by further decline in market prices of securities. Loans and Other Receivables on the other hand went up by ₱10.3 Billion from ₱8.8 Billion in December 2006 to ₱19.1 Billion in September 2007 as it shifted its investments to reverse repurchase agreements with the Bangko Sentral ng Pilipinas accounting for ₱3.7 Billion of the increase in loans and other receivables. Investment properties went up by ₱135.7 Million as a result of the cancellation of sale of some of the Bank's remaining properties to third party buyers, which consequently resulted to a decrease in the Bank's assets held for sale. Total liabilities went up by ₱10.4 Billion. Bank's total borrowings increased by ₱7.7 Billion or 74.59% from last year's level of ₱10.4 Billion due to the sale of its investments in reverse repurchase agreements with the BSP to clients. Accrued expenses and other liabilities went down by ₱1.2 Billion from ₱ 1.7 Billion year-end level to ₱499 Million in 2007 partially due to the settlement of the tax liabilities of Urban Bank Inc. which was assumed by the Bank upon its merger in 2002 and of payment of its other expenses and taxes.

On a period to period basis, total resources increased by ₱18.2 Billion or 69.96% compared to the 3rd quarter of 2006 level of ₱26.1 Billion. Liquid assets went up by ₱893.4 Million from last year's level of ₱3.1 Billion to September 2007 level of ₱4.0 Billion. Trading and investment securities likewise increased by ₱6.6 Billion as a result of the receipt of the income support from Philippine Deposit Insurance Corporation (PDIC) pursuant to the Memorandum of Agreement (MOA) dated 29 December 2005 in 20 October 2006. Loans and Other Receivable increased by ₱10.9 Billion as the Bank pursued its lending activities and as it shifted its investments to reverse repurchase agreements with the Bangko Sentral ng Pilipinas which accounts for ₱10.3 Billion of the increase. Investment Properties increased by ₱84.5 Million as a result of the cancellation of sale of some properties to buyers. Other assets however went down by ₱118 Million as the Bank settled its swap transactions with other financial institutions. Meanwhile, Bank's total liabilities increased by ₱18.2 Billion or by 85.22% from September 2006 level of ₱21.3 Billion to ₱39.5 Billion in September 2007. Total deposits increased by ₱4.4 Billion from ₱12.5 Billion in the same period of the previous year while total borrowings increased as well by ₱13.4 Billion from ₱4.7 Billion in September 2006 to ₱18.1 Billion in September 2007 due to the receipt of the income support from the PDIC in the last quarter of 2006 and the sale of its investments in reverse repurchase agreements with the BSP in 2007 of about ₱10.3 Billion to its clients. Meanwhile, accrued expenses and other liabilities decreased by ₱1.2 Billion or 70.69% due to the settlement of the tax liabilities of Urban Bank Inc. which was assumed by the Bank upon its merger in 2002. Other liabilities increased by ₱1.5 Billion as a result of the collections made on the sale of the non-performing assets to the SPVs, initially recognized as security deposits until finalization of sale.

In terms of profitability, net interest income in 2007 is ₱103.8 Million, which is 119% better than the ₱525 Million net interest expense in the same period in 2006. In 2007, the Bank realized minimal trading income due to the general decline in market price of government securities investments. Service fees and other income amounted to ₱129.6 Million in September 2007 against ₱134 Million in 2006. However, as stated in the Amended Articles of Incorporation as approved by the shareholders in its stockholders meeting in January 25, 2006 and by the Securities and Exchange Commission in April 24, 2006, the losses on the sale of the Bank's remaining non-performing assets amounting to ₱1.085 Billion and the 1<sup>st</sup> quarter 2006 operating losses amounting to ₱621 Million are for the account of the Common A shareholders only, and were, therefore, taken up as receivable from such shareholders and were likewise recorded as part of other income in 2006. Operating expenses in 2007 amounted to ₱848.6 Million which is 6.0% lower compared to the prior period in 2006 of ₱902.7 Million. In 2006, several organizational costs such as taxes, filing fees, legal and audit fees were incurred related to capital infusion, sale of non-performing assets and the release of PDIC income support in 2006.

On a quarter to quarter basis, net interest margins went up by 136% or ₱141 Million. However, in 2007, the Bank realized minimal trading income due to the general decline in market prices of securities resulting to lower income by ₱313 million. Overhead expenses, mostly tax related have gone up by 25.8% or ₱59 million in 2007.

#### Discussion and Analysis of Material Events

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

1. Trading securities decreased by ₱1.1 Billion as a strategy to cut down on potential losses due to the continuous decline in the market prices of securities.

2. Loans and Other Receivables on the other hand went up by ₱10.3 Billion as the Bank shifted its investments to reverse repurchase agreements with *Bangko Sentral ng Pilipinas*.
  3. Investment properties went up by ₱135.6 Million as a result of the cancellation of sale of some of the Bank's remaining properties to third party buyers.
  4. Deposit Liabilities increased by ₱1.8 Billion brought about by marketing efforts by the Bank.
  5. Bills and Acceptances Payable increased by ₱7.7 Billion representing sale of investments in reverse repurchase agreements with the *Bangko Sentral ng Pilipinas* to clients.
  6. Accrued expenses and other liabilities decreased by ₱1.2 Billion due to the settlement of the tax liabilities pertaining to Urban Bank which was assumed by the Bank upon its merger in year 2002 and other expenses as well.
- b. There are no seasonal aspect that has a material effect on the financial statements
  - c. There are no known trends, events or uncertainties that will have a material impact on income.
  - d. The bank sources of liquidity are deposits, inter-bank transactions and swaps.
  - e. There are no known trends, events or uncertainties that will have a material impact on the company's liquidity.
  - f. There are no material commitments as yet for capital expenditures pending the completion of the rationalization of the operations of the company.
  - g. To date, there's nothing to disclose regarding any event that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.
  - h. There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.
  - i. The cause of any material change from period to period which shall include vertical and horizontal analyses of any material item are as follows:
    1. Trading and investment securities increased by ₱6.6 Billion as a result of the receipt of the income support from Philippine Deposit Insurance Corporation (PDIC) pursuant to the Memorandum of Agreement (MOA) dated 29 December 2005.
    2. Loans and receivables increased by ₱10.9 Billion as the Bank pursued its lending activities and as the Bank shifted its investments to reverse repurchase agreements with *Bangko Sentral ng Pilipinas*.
    3. Investment Properties increased by ₱84.5 Million as a result of the cancellation of sale of some properties to other buyers
    4. Other assets decreased by ₱118 Million due to the settlement of Bank's swap transactions with other financial institutions.
    5. Deposit Liabilities increased by ₱4.4 Billion brought about by marketing efforts of the Bank.
    6. Total borrowings increased by ₱13.4 Billion due to the receipt of income support from the PDIC in the last quarter of 2006 and the sale of its investments in reverse repurchase agreement with *Bangko Sentral ng Pilipinas* in 2007.
    7. Accrued expenses and other liabilities decreased by ₱1.2 Billion due to the settlement of the tax liabilities of Urban Bank Inc. which was assumed by the Bank upon its merger in 2002.
    8. Other liabilities increased by ₱1.5 Billion as a result of the collections made on the sale of the non-performing assets to the SPVs, initially recognized as security deposits.

## Key Performance Indicators

	September 2007	December 2006
<b>Capital Adequacy</b>		
Risk Based Capital Adequacy Ratio	23.04%	26.91%
<b>Asset Quality</b>		
Non-Performing Loan (NPL) Ratio	1.73%	7.20%
Non-Performing Asset (NPA) Ratio	1.11%	2.12%
<b>Liquidity</b>		
Liquid to Total Assets Ratio	51.37%	39.63%
Quick Asset to Total Deposits	134.62%	89.51%

With to the implementation of the revised Risk-Based Capital Adequacy Basel 2 framework , the Bank's (RBCAR) stood at 23.04% from last year's level of 26.91%, which is way above the 10% and 8% minimum requirements of the *Bangko Sentral ng Pilipinas* and of the Bank for International Settlement (BIS). Risk weighted assets went up by 12.8% from ₱17.357 Billion to ₱19.574 Billion. Said ratio was computed by dividing the Total Qualifying Capital over the Total Risk weighted Assets as follows:

	<u>2007</u>	<u>2006</u>
Total Qualifying Capital	₱ 4.510Bn	₱ 4.671Bn
Total Weighted Risk Assets	<u>19.574Bn</u>	<u>17.357Bn</u>
Ratio	23.04%	26.91%

As of end-September 2007, Non-performing ratio (NPL) improved to 1.73% compared to previous year of 7.20%. This resulted from the increase in the gross loans level by P9.6Billion due to the investment made in reverse repurchase agreements with *Bangko Sentral ng Pilipinas* in 2007. The NPL Ratio is computed as follows:

	<u>2007</u>	<u>2006</u>
Total Non-Performing Loans	₱0.229Bn	₱0.260 Bn
Total Gross Loans	<u>13.261Bn</u>	<u>3.616Bn</u>
Ratio	1.73%	7.20%

Similarly, the ratio of the Bank's non-performing assets (NPA) to gross assets went down from 2.12% in 2006 to 1.11% in 2007. The NPA ratio was calculated as follows:

	<u>2007</u>	<u>2006</u>
Non-Performing Loans	₱ 0.229Bn	₱0.260Bn
ROPA	<u>.269Bn</u>	<u>0.246Bn</u>
Total Non-Performing Assets	.498Bn	.506Bn
Gross Assets (gross of allowance)	44.849Bn	36.140Bn
Ratio	1.11%	2.12%

Liquidity ratios indicate the proportion of total assets which can be readily converted into cash over the total assets to meet withdrawals and other liquidity requirements. Liquid assets include Cash and Other Cash Items, Due from Other Banks, Interbank Loans Receivables, Held for Trading and Financial Assets Available for Sale. Below are the computations of the Liquidity and Quick Assets ratio:

	<u>2007</u>	<u>2006</u>
Total Liquid Assets	₱22.755Bn	13.689Bn
Total Assets	<u>44.292Bn</u>	<u>35.545 Bn</u>
Ratio	51.37%	39.63%
	<u>2007</u>	<u>2006</u>
Total Quick Assets	₱22.755Bn	13.689Bn
Total Deposits	<u>16.903Bn</u>	<u>15.294 Bn</u>
Ratio	134.62%	89.51%

## **OTHER INTIATIVES IN 2007**

### **EXPORTBANK'S ANNUAL STOCKHOLDER'S MEETING**

Exportbank held its Annual Stockholder's Meeting last August 23, 2007 at the Manila Polo Club, Makati City. The stockholders unanimously elected the following as the members of the Board of Directors for the term 2007-2008 to hold office as such and until their respective successors are duly nominated, elected and qualified, to wit:

1. Dionisio E. Carpio, Jr.
2. Sai Chong Cheng
3. Albert S. Cheok
4. Douglas Chew
5. Jaime C. Gonzalez
6. Marie Constance Y. Gonzalez
7. Jaideep Krishna
8. John Luen Wai Lee
9. Nilo L. Pacheco, Jr.
10. Antonio I. Panajon
11. Joseph N. Pineda
12. Edna Daguinsin-Reyes
13. Rainer Silhavy
14. Alfredo M. Yao
15. Jeffrey S. Yao

#### *For Independent Directors*

16. Roberto A. Atendido
17. George V. Cunanan
18. Ignacio D. Maramba

In the same meeting, the stockholders approved the appointment of Punongbayan and Araullo as the Bank's external auditor for 2007 with Mr. Francis B. Albalate as Partner-in-Charge.

In the Organizational Meeting of the Board of Directors held immediately after the said annual meeting, the Board unanimously elected the following as the corporate officers of the Bank for the period of 2007-2008 to hold office as such and until their respective successors are duly nominated, elected and qualified:

Chairman	-	Jaime C. Gonzalez
Vice Chairman	-	Alfredo M. Yao
Vice Chairman	-	Albert S. Cheok
President	-	Nilo L. Pacheco, Jr.
Corporate Secretary	-	Daisy P. Arce
Assistant Corporate Secretary and Corporate Information Officer	-	Riva Khristine V. Maala
Treasurer	-	Benedicto Jose R. Arcinas

### **EXPORTBANK'S ELEVATED TO HALL OF FAME**

The Small and Business Corp. (SB Corp.) conferred the Hall of Fame Award to Export Bank in recognition of the Bank's consistent performance in its Credit Guarantee program since 2002. Exportbank contributed a remarkable ₱454 Million in SME loans out of its total ₱1.3 Billion guarantee portfolio.

### **EXPORTBANK ADOPTS NEW AMLA SYSTEM**

Exportbank started with the live implementation of the new AMLA system last October 31, 2007 to protect and preserve the integrity and confidentiality of the Bank accounts.

The Bank's new AMLA system is designed based on the guidelines from the AMLC and BSP. Among others, the system helps the Bank to implement a strict "Know your Customer" procedure by providing a customer database; enables the Bank to define several Filter Rules through which all the transactions are passed and generate the Cash Transactions Report (CTR) and Suspicious Transactions Report (STR).