UCPB

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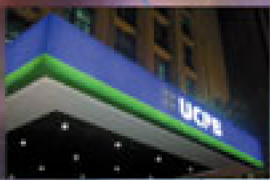
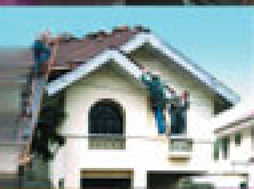
2003

Annual Report





Charting A New Course

Corporate Vision

To be the BEST BANK for OUR CLIENTS by providing them the BEST SERVICE in the MOST EFFICIENT way

Corporate Mission

Going far beyond the call of service, doing more than the clients expect – this is what UCPB is all about. At UCPB, we look at the smallest detail, go the extra mile and maintain the highest standards.

Message from the Chairman

Charting A New Course For UCPB

Dear Stockholders:

UCPB marked its 40th year anniversary in 2003 with a remarkable display of character. It was an exceptional period for your bank in terms of the challenges it confronted during the year and the resolve with which it faced up to the trials — and overcame them.

The year began inauspiciously. While some of our peers in the industry beefed up their capital to address the rising level of non-performing assets, efforts to raise ours were caught in legal issues related to the 1986 government sequestration of certain shareholdings in your bank.

Constrained by these legal issues from taking the normal corporate avenues for building our equity base, we took a non-traditional route: we approached government for assistance in the form of a long-term recapitalization program.

The move was patterned after the approach adopted by the World Bank to successfully recapitalize state-owned and state-controlled banking institutions in the Baltic countries.

In July, after months of talks and the requisite due diligence, the Philippine Deposit Insurance Corp. (PDIC) and UCPB signed a Financial Assistance Agreement (FAA) to jumpstart the bank's recapitalization program. The PDIC financial assistance package comprised of P20 billion in the form of P8 billion in direct purchase of our non-performing loans (NPL) at face value, P5 billion in purchase of NPL with buyback at the end of 10 years and P7 billion in Tier 2 capital. In addition, PDIC granted a P10 billion short-term liquidity facility due in September 2004 of which amount, P7.5 billion were drawn and as of this writing P2 billion have already been prepaid.

Immediately, the P8.0-billion purchase of our NPL at face value allowed us to recover P7.0 billion of loan loss provisions contributing to the P11.96 billion of Other Income.

In addition, UCPB also equitized the income generated by its affiliates, namely, Legaspi Oil Co., Inc., Southern Luzon Coconut Oil Mills, Inc., San Pablo Manufacturing Corp. and Granexport Manufacturing Corp. where it has equity investments equivalent to 17.5%, 17.48%, 12.77% and 2.84% ownership of these companies respectively. The equitized income of the affiliates amounting to P3.4 billion was reflected in your bank's capital accounts.

Also in July, the Sandiganbayan issued a ruling declaring the sequestered shares to be government owned. While not yet final and executory, the ruling nonetheless sends a very positive signal that the ownership issue, which has been under litigation for the past 17 years, is one step closer to a permanent resolution.

By the close of the year, your bank had regained its momentum and was firmly moving forward to get back on the growth track.

Consolidated net income after tax of UCPB and subsidiaries reached P5.04 billion at the end of 2003, a dramatic turnaround from the P3.31-billion loss in 2002. Total capital funds rose sharply to P6.67 billion from P1.53 billion. Total resources also increased to P103.77 billion from the previous year's P101.40 billion. Total deposits, which had fallen 26% prior to PDIC's entry, recovered strongly to end at P66.78 billion, lower only by 20% from the P83.55 billion a year ago.

Clearly, we have regained the public's confidence, and in its wake, a new groundswell of support for your bank from clients.

To build on these gains, we are charting a new course for UCPB, one that takes into consideration the lessons from the recent past and harnesses your bank's inherent competitive strengths.

UCPB has always been known for its exceptional customer service. It also has a strong national franchise. We intend to fully tap these key attributes of your bank as we move forward.

As a first step, we recast your bank's corporate vision to make it clear to the entire organization that future growth lies in meeting our customers' needs. The corporate vision now reads: "To be the Best Bank for Our Clients by providing them the Best Service in the Most Efficient Way."

To leverage our franchise, we will increase our focus on consumers and middle market companies, which will now be our primary target markets. We have always had a strong presence in these markets owing to our extensive branch network.

As UCPB moves forward, the Board of Directors is confident that the new management team at the helm of your bank will steer it unerringly on this new course.

As we prepare to cast off towards a new direction for UCPB, let me acknowledge and express the Board's gratitude to individuals who made key contributions to your bank in 2003.

We would like to recognize the effort of our former chairman and my immediate predecessor, Edward S. Go, who worked tirelessly to put together the PDIC FAA.

We are especially grateful to our clients who stood by your bank through the most difficult period in its history. Their continued support and patronage inspire us to give them the best product offering and customer service in the industry.

Our over 3,000 associates certainly played a stellar role during the year, and deserve special mention. Their professionalism, loyalty to UCPB, and dedication to create value for our clients are a great source of strength for your bank today and moving forward.

And finally, we would like to thank you, our stockholders, for continuing to place your trust in us.

DEOGRACIAS N. VISTAN
Chairman

Building a Roadmap to the Future

Dear Stockholders:

The year 2003 was a defining year for UCPB. Faced with one of the most difficult situations in its 40-year history, your bank demonstrated extraordinary poise and resilience to emerge from the experience with renewed vigor and confidence.

UCPB is once again well positioned for growth. Our capital position has been greatly strengthened by the Financial Assistance Agreement with the Philippine Deposit Insurance Corp. (PDIC). Having put the serious challenges in 2003 behind us, we can now give our undivided attention to becoming the best bank for our clients as contemplated by our new corporate vision.

UCPB's new vision anchors future growth on serving our clients even more effectively and efficiently. It directs us to understand the needs of our clients and meet them better than our competitors — both in terms of quality and cost.

To get your bank moving in this direction, we formulated a 10-year Business Plan. Completed in 2003, the Plan was approved in its entirety by the PDIC early this year. The Plan is UCPB's roadmap to the future. It pinpoints the target markets where we can fully leverage our main strengths, which are excellent customer service and a strong national franchise. It also sets out new strategies for growing our business in these markets.

In preparation for the full rollout of the Plan, we retooled the organizational structure in the middle of 2003. The new set-up functionally separated the "Good Bank" from the "Remedial Bank," thus, further sharpening our focus on the clients. Under our new set-up, the "Good Bank" will grow the business, while the "Remedial Bank" will reduce non-performing assets (NPA) through the sale of real and other properties owned or acquired (ROPOA) and diligent collection of non-performing loans (NPL). In this way, we can simultaneously attend to the urgent tasks of generating revenues and managing the NPA with greater focus, equal importance and sense of urgency.

The "Good Bank" consists of all the marketing units of UCPB, which we organized into four business groups, namely, Consumer Banking Group, Branch Banking Group, Corporate and Investment Banking Group and Treasury Group. Reporting to the Chief Operating Officer, the business groups of the "Good Bank" will devote their full time to acquiring new clients and growing the relationships with existing ones.

To enable these units to spend more time in getting to know their clients and serving their needs, we spun off their administrative and operations functions to the other business groups. The processing of transactions was centralized with the Operations Group, and all the other administrative and support services functions with the Support Services Group.

On the other hand, the “Remedial Bank” was housed within the Credit and Supervision Group (CSG). Apart from implementing our NPA reduction strategy, the CSG was also mandated to streamline, standardize, and enhance controls of the credit processes of your bank and its subsidiaries. In addition, the CSG was tasked to independently evaluate all loan proposals to ensure adherence with the recently established credit standards of your bank.

The clear demarcation of the marketing, credit, operations and support services functions will not only institutionalize better controls but also promote specialization among our associates. Given this thrust towards building expertise along the bank’s core functions, the Human Resources Group will develop training programs to ensure that the required skills, especially selling and technology skills, are available across the organization.

Our new organizational structure realigns the 17 bank divisions and UCPB’s financial subsidiaries into eight business groups. This eliminates functional overlaps and contributes to a more efficient delivery of customer service. At the same time it enhances synergy throughout the organization making it possible for clients to seamlessly access all their financial needs.

This early, the retooling of the organization is starting to yield the desired results. The elimination of functional overlaps, for instance, enabled us to prune down manpower complement by 14% at the end of 2003 without affecting the quality of customer service. Mainly as a result of this and the other cost management initiatives that have been put in place, we expect to achieve annual cost savings exceeding P250 million this year.

On the other hand, the improvement in market focus enhanced business development efforts. Total deposits of your bank increased by 11% in the last quarter of 2003, and grew by another 10.7% in the first quarter of 2004. Our deposit growth in the first quarter of 2004 was the highest in the sector during the period.

Our consumer banking business also posted healthy growth. Mortgage loan bookings, for example, increased 385% in the first three months of 2004 to P275.8 million from P60.2 million a year ago.

Pursuant to the Plan, our primary target markets going forward will be the consumer and middle markets where we already have a strong foothold since most of the clients of our branches belong to these segments. These markets offer high margins and low risks for your bank.

Using our 212 branches, which include the 18 branches of UCPB Savings Bank and the 16 branches of UCPB Rural Bank, as the main delivery platform for our banking products, we will expand the current single product clients into high value multi-product relationships. The goodwill that this will create for our clients will be enormous and the resulting revenue lift geometrical.

This is the same strategy that we will adopt in the corporate market. While we do not intend to aggressively grow our corporate loan portfolio in the near term, we will however continue to broaden relationships with our existing clients by cross selling to them the investment, deposit, consumer and the other value-added services of the other business groups.

A particularly important value-added service offering is UCPB’s strong electronic banking capabilities consisting of Internet banking, telephone banking and ATM facilities. In 2003, the value of transactions on our Internet and telephone banking facilities reached P5 billion, up 61% from the previous year’s level. During the same period, the number of transactions processed by our ATM network increased 12% to 19 million from 17 million.

UCPB's ATM service is widely considered as one of the most reliable in the industry. Five of the top ten and 25 of the top 50 Megalink offsite ATMs last year were UCPB ATMs. This earned for your bank a citation for "Most Successful Deployment of Offsite ATM in 2003" from Megalink, the leading ATM consortium in the country.

To fully harness the growth potentials in transactional and electronic banking, we formed a separate Transactional Banking Division last year. The unit will focus on developing new information technology and Internet-based cash management and trade products that we can make available to our clients through our electronic banking channels.

By utilizing our electronic banking channels to deliver a wider range of cash management and trade services, we can grow fee-based revenues from corporate, institutional and the retail markets, and expand deposit relationships with these segments.

Efforts to dispose our ROPOA are also proceeding very well. In 2004, a big portion of our ROPOA amounting to about P15 billion will be sold utilizing the Special Purpose Vehicle (SPV) Law. By selling these NPA, we will be able to minimize the earnings drag since funds from the sale proceeds will be redeployed in earning assets such as consumer and middle market loans.

UCPB has equity investments in four coconut oil mills, which own 14 holding companies that own a little over 25% of the shares of stock of San Miguel Corporation. Since these investments are not part of UCPB's core banking business, we intend to complete divestment in these coconut oil mills in the latter part of 2004. Based on current valuation, the sale of these investments is expected to yield about P6.0 billion in capital gains.

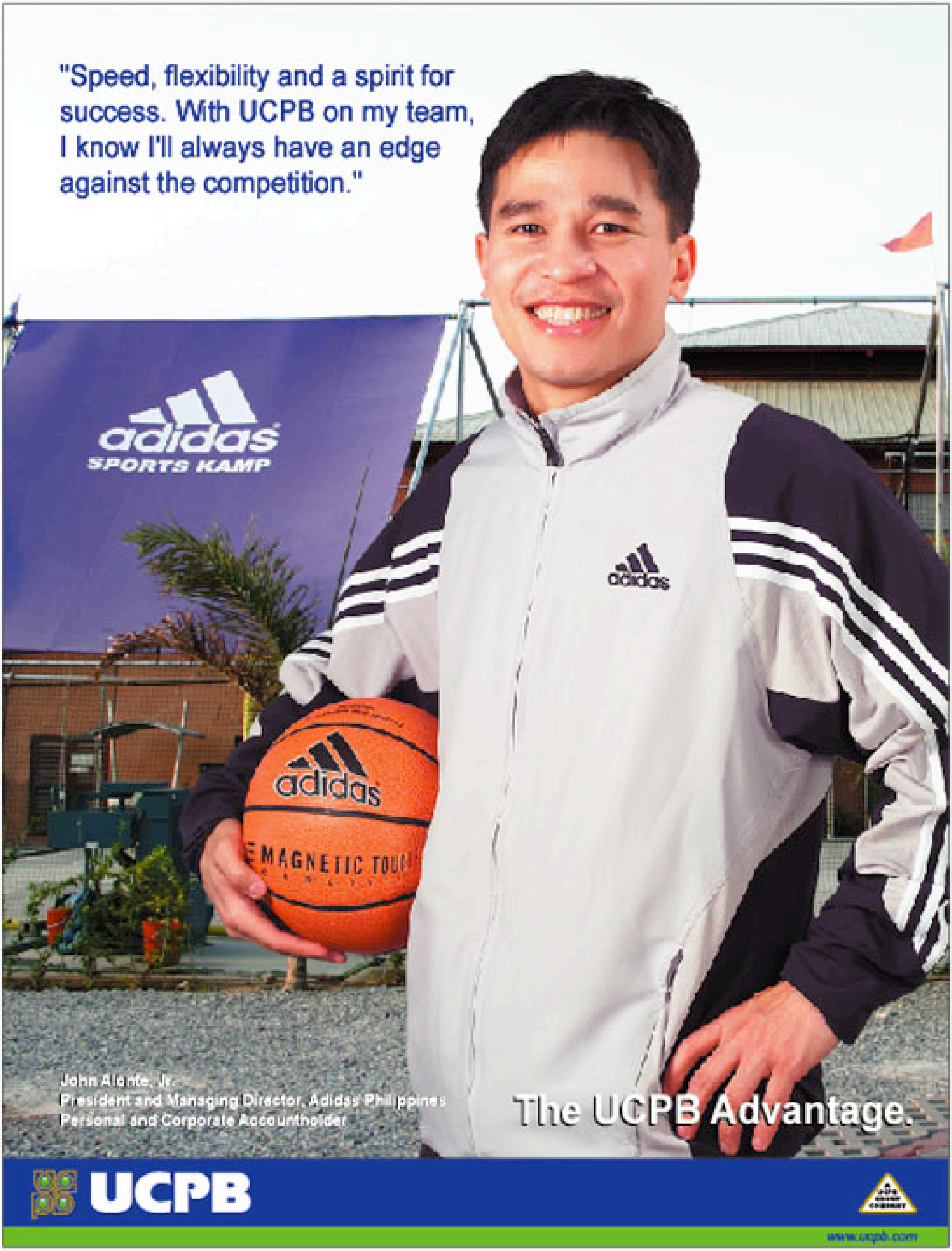
As your bank moves aggressively to grow its business, reduce NPA and exit non-strategic investment, it is also undertaking parallel efforts to manage costs by implementing measures to increase organizational efficiency, improve productivity, enhance revenues and reduce expenses.

In 2004, we will make major investments in information technology especially in new core banking solutions and front-end delivery systems to fully automate our backroom processes and centralize most of our branch operations. We will adopt the Straight Through Processing (STP) concept to minimize manual handling of transactions from beginning to end. Once in place, the new core banking solutions will allow us to create a better client information system that we can use to further enhance management information processes and improve customer service in the most cost efficient way.

Indeed, your bank's future prospects look very promising. We have a clear vision of who are clients are. We understand their business needs, know the products they will require from us and how best to deliver them. We also have a concrete plan of action and a timetable to put this into motion. With the steps we have taken in 2003, we are confident that we can execute well.

In closing, I would like to express my gratitude to my fellow UCPB associates who responded well to the challenges during the year, to my fellow members in the Board of Directors for their valued counsel and guidance, to our clients who stood by us, and to you, our stockholders for your continued confidence and support.

JOSE L. QUERUBIN
President and CEO


"Speed, flexibility and a spirit for success. With UCPB on my team, I know I'll always have an edge against the competition."
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SPORTS KAMP
adidas
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MAGNETIC TOUCH
John Alonte, Jr.
President and Managing Director, Adidas Philippines
Personal and Corporate Accountholder
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CHANGES IN ORGANIZATIONAL STRUCTURE

UCPB undertook a major organizational restructuring in 2003. The principal objectives of the restructuring were:

1. to enhance synergy by putting together under one group the divisions and units that perform similar or related functions;
2. to improve work and cost efficiency by centralizing functions that used to be duplicated across the different divisios and units; and
3. to institutionalize better controls and promote functional specialization by separating the marketing functions, credit processing functions, operations functions and support functions.

Prior to the restructuring, the bank had 17 divisions and four financial subsidiaries that operated semi-independently of each other. These divisions were reorganized into eight business groups along the lines of the bank's core businesses and key banking functions.

All revenue generating units were placed under the supervision of the Chief Operating Officer (COO). These include the following groups:

Consumer Banking Group. The Consumer Banking Group (CBG) handles all the banking needs of the consumer market segment. Leveraging UCPB's expertise in consumer finance, CBG will build a high-return, risk acceptable consumer loan portfolio consistent with the bank's renewed focus on the consumer market by creating products that satisfy the needs of this important market segment.

Corporate and Investment Banking Group. The Corporate and Investment Banking Group (CIBG) is responsible for the bank's corporate and institutional clients. CIBG is composed of the Corporate Banking Division (CBD) and the Investment Banking Division (IBD). CBD manages the Bank's relationships with this market segment. It has primary responsibility for providing credit products and delivering transactional banking, trade finance, foreign exchange and trust banking solutions to this client base. IBD focuses on delivering the Bank's financial advisory and capital markets expertise to its corporate clients. CIBG also oversees the bank's equity brokerage business through UCPB Securities, Inc. and the lease financing business through UCPB Leasing and Finance Corp.

Treasury Group. The Treasury Group (TG) manages the Bank's assets and liabilities. Working with the Asset and Liability Committee (ALCO), TG recommends the pricing strategy for deposits and loans to ensure that the deposit-taking units can offer competitive yields to generate the funding requirements of the bank and the lending units can offer rates that will attract the targeted borrowers. In addition, TG manages the regulatory reserve requirements of the bank as well as ensure its liquidity position. TG also trades in fixed income securities as well as foreign exchange.

Branch Banking Group. The Branch Banking Group (BBG) is the platform for the delivery of the bank's products to the consumer and middle market client segment. In addition to UCPB's 178 branches, the BBG functionally supervises the branch network of UCPB Savings Bank (USB) with 18 branches and UCPB Rural Bank (URB) with 16 branches. BBG's primary tasks are to generate deposits and to cross sell and distribute all the bank's products and services, as allowed by regulation, to the consumer and middle market clients.

All of the bank's non-performing assets were placed under the supervision of the Chief Credit Officer (CCO). The management of these assets and of the credit process of the bank are housed within the:

Credit and Supervision Group. The Credit and Supervision Group (CSG) performs three main tasks. One is to develop and implement the Bank's non-performing asset reduction strategy, which covers the disposal of real and other properties owned or acquired (ROPOA) and collection of non-performing loans. The second task is to independently evaluate all loan proposals from the marketing units to ensure adherence with the recently established credit standards of the bank. And the third task is to streamline, standardize and enhance controls in the credit processes of the bank and its subsidiaries.

The functional units of the bank which had been duplicated across different divisions and subsidiaries prior to the reorganization are now centralized under the following groups:

Operations Group. The Operations Group (OG) handles the processing of the transactions of all the business groups. To ensure efficient backroom support for these groups and strict compliance with internal control and regulatory requirements, OG will review, update and standardize operating policies and procedures. The group also oversees the backroom operations of all the bank's subsidiaries such as USB, URB, UCPB Securities and UCPB Leasing and Finance Corp.

Support Services Group. The Support Services Group (SSG) handles all the support services functions including comptrollership, management information, supply and facilities management, information technology, corporate planning and the development of new transactional and electronic banking products. SSG also leads the bank's cost management initiatives, which cover organizational efficiency, productivity improvement, revenue enhancement and expense reduction. All the other subsidiaries of UCPB will, subject to Bangko Sentral ng Pilipinas (BSP) approval, outsource all of their support services to SSG.

Human Resources Group. The Human Resources Group (HRG) leads the manpower rationalization initiative of UCPB and its subsidiaries. It aims to ensure that all units can cope with the expected growth in business volume by undertaking continued assessment of the manpower needs and skills level available within the organization. HRG will also develop training programs to equip the associates with the appropriate expertise and motivation to provide clients with excellent customer service. Its mandate is to provide UCPB and its subsidiaries highly motivated associates through selective hiring, continuous training and developing performance measurement tools to reward excellent performers. This will create an environment of professionalism and an institution that pays for performance.

Underscoring the premier role that the client plays in UCPB's business strategy, a new unit reporting to the Office of the President and Chief Executive Officer (CEO) was created: the Customer Quality Management Division (CQMD)..

CQMD will provide immediate response to clients' inquiries, complaints and requests for assistance through a dedicated Customer Relations Center. Using surveys and mystery client programs, CQMD will also monitor customer satisfaction levels and service gaps. The different bank units will use the data generated through these research tools in their service improvement efforts.

In accordance with the accepted corporate governance practices, Internal Audit Division, Trust Banking Division and the Risk Management Unit were placed under the following Board committees: Audit Committee, Trust Committee and Risk Management Committee respectively.

To ensure and enhance the proper coordination and teamwork within the new organizational structure, the CEO has created his **Leadership Team,** which counts as members the eight group heads. The Leadership Team meets once a week to discuss policy matters.

CORPORATE GOVERNANCE

UCPB adheres to the principles of corporate governance where corporate fairness, accountability, competency and transparency are inherent practices. It believes that corporate governance makes good business sense and that it is an essential factor to its business turnaround and success.

Pursuant to the regulatory mandates, the Board of Directors approved UCPB's corporate governance program and its implementing manual in August 2002. This was subsequently submitted to the Securities and Exchange Commission and the Bangko Sentral ng Pilipinas (BSP). Also, in compliance with regulations, the Bank undertook, a self-assessment on its corporate governance practices and, based on this test, it was determined that the Bank adheres to at least the minimum best practices in corporate governance. The Bank's self-rating consisted of the following areas:

- Board of Directors
  The Board's independence in the performance of its duties was assessed as well as the existence of certain Board Committees and their corresponding roles.

- Management
  Assessment on whether the Bank has a comprehensive Code of Conduct for officers establishing policies covering budgeting, performance monitoring and management issues from punctuality to conflicts of interests. The roles of management in planning, reporting and disclosures were also reviewed.

- Organizational and Procedural Controls
  The presence of required board of committees such as nomination and compensation committees; the role of the corporate secretary was also assessed in relation to the minimum standards set by regulators.

- Independent Audit Mechanism
  Assessment of the role of audit committee and internal auditor and their relationship with external auditors.

- Disclosure and Transparency
  Assestment of the Bank's policies on proper disclosure.

- Compliance Systems and Others
  Assessment of the role of the compliance officer, function, compliance procedures, training of bank personnel, and communicating information necessary to make the Bank personnel aware of existing regulations.

Based on the assessment of these various areas, the Bank believes that it has complied with the minimum best practices of corporate governance.

So far the Bank has already trained about 60 Bank Directors and members of Senior Management in corporate governance and risk management. Going forward, the Bank is committed to build the capability of all associates at all levels. The Bank is also in the process of tailor fitting its manual on Corporate Governance to the Bank's corporate values.

Corporate Governance Programs

The Bank's corporate governance program covers not only the Board of Directors but Senior Management, other officers and staff as well. In the case of the Board of Directors, the corporate governance program will include a code of conduct, the definition of various committees required in order for the members of the Board of Directors to perform their respective duties and the specific charters of each committee. Another important factor of good governance is the Board of Directors' self-assessment system in which the Board members themselves would have to check their performance against standards.

For Senior Management, non-senior officers and non-officers, the corporate governance program consists of a Code of Ethics, which will include policies on conflicts of interests, work decorum, sanctions and penalties for violations, etc. The program will also include a definition of roles and responsibilities for compliance.

Corporate Governance System

Policies and Procedures

UCPB's corporate governance system is integrated into the various internal policies and procedures of the bank. The system covers policies and procedures where principles of corporate fairness, accountability and transparency are basic factors. These policies cover a wide range from customer services, product development, approvals and internal controls.

Compliance Program

UCPB has an active and functioning compliance system that is in conformity with the requirement of the BSP and industry's best practices. A key function is to make all UCPB associates aware of the relevant rules and regulations that control banking services and products. UCPB has a database of all current policies and regulations of all the regulators and all the rules pertaining to banking and related businesses. The Bank's aim in establishing the database is to ensure that all Bank associates would always know and be aware of the rules by which they can do their business.

Another corporate governance program running at the Bank is the Anti-Money Laundering system. The Philippine program requires an inter-relationship between the regulator represented by the Bangko Sentral ng Pilipinas, the Bank as a covered institution and the Anti-Money Laundering Council (AMLC).

As a covered institution, UCPB strictly adheres to the reporting requirements on covered transactions and suspicious transactions as provided for in the AMLA and its implementing rules and regulations.

In compliance with the Anti-Money Laundering program, the Bank has put in place an anti-money laundering (AML) compliance desk, which is managed by compliance officers, responsible for policy and program implementation.

Led by the AML compliance desk, the Bank introduced policies in anti-money laundering which covers the "Know Your Customer" policy, now known as the Customer Due Diligence. The Bank also has an account opening policy as well as a new customer information sheet and an account information form, which cover all the requirements of what to know and how to conduct a due diligence of Bank customers. Furthermore, the Bank has policies on the monitoring of accounts, reporting and accountabilities.

To further improve its current anti-money laundering systems, the Bank has automated its current reporting system; likewise, regular training modules on anti-money laundering are conducted across the institution.

Current Bank systems on anti-money laundering are regularly monitored through on site assessment of front liners to check on whether the policies are being implemented and how effective the policies are.

Ways to Promote Sound Banking Practices

To concretize Bank's efforts towards good governance, Senior Management has implemented specific policies to correct potentially unsafe banking practices, foremost of which is the separation of credit from marketing functions and the segregation of operations functions from all the Bank's business units. These enhance the check and balance of functions in the bank. In addition, associates will be able to focus on what they do best while at the same time enhancing efficiency, productivity and controls in doing business decisions and transactions.

Reinforcing the reorganization is the Bank's commitment in training its associates to instill the discipline of keeping the interests of the business at the forefront of any undertaking.

The Bank focuses on an audit system with the end-view of mitigation of risks rather than merely on enforcing conformity with internal control procedures. Towards this end, the Bank is working to empower compliance and risk management to achieve their mandate and create an awareness of these key functions across the organization. By doing so, the Bank will take its first step in transforming itself to a premier banking institution built on meritocracy and professionalism.

With the principles of fairness, accountability, competency and transparency, the Bank hopes its corporate governance system will create good corporate culture that will ensure success in the attainment of its objectives.

RISK MANAGEMENT STRATEGIES

Cognizant of the integral role risk management plays in the Bank's operations, the Bank has put in place organizational infrastructures, policies, systems and processes to effectively manage risks that arise in the normal course of business.

At present, the Bank's risk management strategy is anchored on two principles:

1. Strict compliance with all the requirements under existing statutes and with all prudential limits set by the Bangko Sentral ng Pilipinas; and
2. Development within the organization of a risk/return consciousness that focuses on preserving capital and ensuring adequate return on capital.

From these principles, the Bank established its short- and long-term objectives on risk management:

Short-Term Objectives

1. Identify, measure, monitor and control risks (credit, market & operations) inherent in the Bank's activities.

2. Disseminate the risk management framework, risk and control infrastructure and risk policies throughout the organization.

3. Institutionalize the risk management framework, risk and control infrastructure and risk policies throughout the organization.

Long-Term Objectives

1. Compliance with Internal Risk-Based Approach of BASEL II (The New Basel Capital Accord) for market, credit and operations risks.

Risk Management Structure

The Bank's commitment to these objectives resulted in the establishment of the Risk Management Unit (RMU). On a continuing basis, the RMU performs risk/return analysis aimed at examining the Bank's risk in more detail, managing these risks in a more proactive fashion, and knitting together all existing risk management structures into a more comprehensive and more coordinated risk management infrastructure covering the entire Bank.

The RMU reports to the Risk Management Committee (RMC), a board committee. Acting on the recommendations of the RMU, the RMC is responsible for the creation and oversight of the Bank's corporate risk policy and is actively involved in planning, approving, reviewing and assessing all risks in the Bank's organization.

The Bank also has in place an authorization structure that defines and sets limits on the type and value of transactions that each officer position can approve. The Bank's Board of Directors approves the authorization structure. The Bank's Internal Audit Division examines and reviews individual units and their transactions to determine conformity or non-conformity with existing bank policies and to recommend corrective actions when necessary.

Risk Management Process

Risk oversight begins with the Bank's Board of Directors, which approves the risk management policies and key limits for the Bank's risk-taking activities and delegates the implementation of day to day oversight to the RMC and senior management.

The Bank is working towards setting up a strong enterprise-wide risk management culture, which would provide the foundation for the Bank's risk management program.

Risk Areas Covered

Market Risk Management

Trading portfolios are exposed to market risk because the values of trading positions are sensitive to changes in market prices and rates. Investment and A/L portfolios are affected by market risk because the revenues derived from these activities, such as securities gains and losses and net interest income are sensitive to changes in interest rates. In particular, the Bank faces market risks in the form of:

1. Currency risks, which arise from fluctuations in the prices of currencies; and
2. Interest rate risks, which refer to the possible impact on the Bank's financial results of the changes in interest rates that may affect the spread earned between yields on interest-earning assets and the cost of interest-bearing liabilities.

Market risks are controlled/limited on a daily basis by the risk control and compliance, which functions independently from the business units. To manage market risks, the Bank has risk controls for its four main trading desks: USD/PhP, PhP Government Securities, USD Government Securities, USD/Third Currency.

Liquidity Risk Management

Liquidity risk refers to the risk of the Bank being unable to make timely payments on any of its financial obligations to customers or counterparties in any currency. Since liquidity risk arises from the general funding of the Bank's activities and from the management of its assets, liquidity needs to be managed in such a way that will enable the Bank to meet known and unanticipated cash funding needs. The Bank closely monitors the current and prospective maturity structure of its assets and liabilities and market conditions to guide pricing and asset/liability allocation strategies for its liquidity risk management.

To manage liquidity risks, the Bank currently has in place daily and weekly reports to monitor assets and liabilities and cumulative outflows and gapping. On an annual basis, the Bank also has contingency planning for managing liquidity risks. These methodologies enable the Bank to perform risk analysis on individual products, group of products or on an aggregate portfolio basis.

Credit Risk Management

Credit risk pertains mainly to the potential loss that the Bank faces should borrowers fail to settle their loan obligations when these fall due. To manage this risk, the Bank implements a stringent process prior to the grant of a loan. The screening process is directed by the senior officers of the Bank's Credit Processing Division. The process establishes the creditworthiness of the individual loan applicant based on best credit practices, and takes into consideration the current business condition and medium-term potentials of the industry in which the loan applicant operates in.

On a continuing basis, the Bank's Chief Credit Officer conducts a credit review of existing loan accounts to assess their performance and to determine which account will be retained, expanded or phased out. A similar but separate and independent review of the loan portfolio is also conducted by the Portfolio Quality Review unit of the Strategic and Planning Analysis Division.

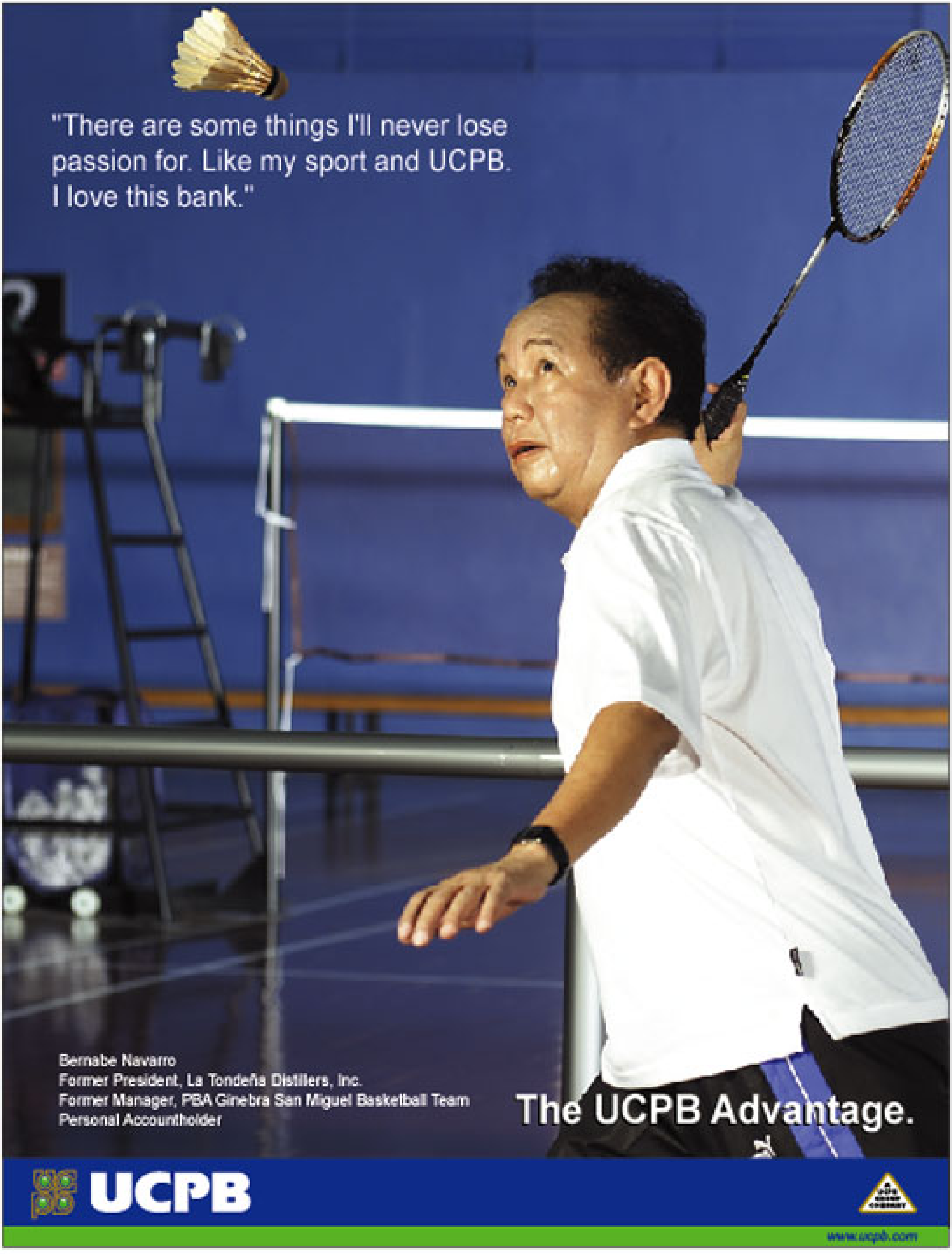
As a matter of policy, the Bank seeks to maintain a portfolio that is diversified across industries with bright growth potentials.

Operations Risk Management

Operational risks refer to the possible impact on the Bank's financial results of problems related to service or product delivery. Currently, the Bank has an existing system of internal controls, the enforcement of which effectively manages operations risks.

Control activities engaged in by various units of the Bank include:

1. top level reviews made by senior management committees;
2. detailed periodic performance and exception reports to individual senior officers;
3. physical controls such as restricted access;
4. enforcement of exposure limits;
5. a system of approvals and authorizations; and
6. a system of verifications and reconciliations.



"There are some things I'll never lose passion for. Like my sport and UCPB. I love this bank."
Bernabe Navarro
Former President, La Tondeña Distillers, Inc.
Former Manager, PBA Ginebra San Miguel Basketball Team
Personal Accountholder
The UCPB Advantage.
UCPB
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Statement of Management's Responsibility

UCPB

Securities and Exchange Commission
SEC Building, EDSA, Greenhills,
Mandaluyong City

The management of United Coconut Planters Bank is responsible for all information and representations contained in the financial statements for the years ended December 31, 2003 and 2002. The financial statements have been prepared in conformity with accounting principles generally accepted in the Philippines and reflect amounts that are based on the best estimates and informed judgement of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

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

KPMG Laya Mananghaya & Co., the independent auditors appointed by the Board of Directors, have examined the financial statements of the Bank 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 their report to the Board of Directors and Stockholders.

JOSE L. QUERUBIN
President and CEO

CESAR A. RUBIO
Executive Vice President and CFO

Report of Independent Public Accountants

Laya Mananghaya & Co.
Certified Public Accountants and Management Consultants

The Board of Directors and Stockholders
United Coconut Planters Bank

We have audited the accompanying consolidated statement of condition of United Coconut Planters Bank and Subsidiaries as of December 31, 2003, and the related consolidated statements of income, changes in capital funds and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The accompanying consolidated financial statements of United Coconut Planters Bank and Subsidiaries as of December 31, 2002, were audited by other auditors whose report thereon dated March 31, 2003, except for Note 13, for which the date is April 25, 2003, expressed a qualified opinion on those statements with respect to the understatement of P4.9 billion in allowance for probable losses and understatement of P3.0 billion in valuation allowance on deferred tax assets, before the restatement described in Note 22 to the consolidated financial statements. The other auditors' report also included an emphasis paragraph concerning the Bank's ability to continue as a going concern.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

As discussed in Note 9 to the consolidated financial statements, in 2003, the Bank did not provide allowance for probable loan losses of P7.8 billion, allowance for Real and Other Properties Owned or Acquired (ROPOA) of P3.9 billion and allowance for Other Risk Assets of P2.3 billion. The Bank intends to set up the required allowance for probable losses amounting to P14.0 billion over ten years starting in 2004 in accordance with the proposed rehabilitation plan submitted to the Bangko Sentral ng Pilipinas. Accounting principles generally accepted in the Philippines require that adequate allowance for probable losses should be provided for loans which are assessed to be doubtful of collection for the deterioration in the estimated realizable value of ROPOA and for the non-recoverability of other risk assets. Such provisions should be charged to current operations. Had the Bank recorded the required allowance for probable losses, total resources as of December 31, 2003 and net income for the year then ended would have decreased by P14.0 billion.

In our opinion, except for the effects of the matters discussed in the preceding paragraph, the 2003 consolidated financial statements referred to above present fairly, in all material respects, the financial position of United Coconut Planters Bank and Subsidiaries as of December 31, 2003, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the Philippines.

We also audited the adjustments described in Note 22 that were applied to restate the 2002 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

The accompanying consolidated financial statements have been prepared on a going concern basis. The Bank incurred losses in prior years that brought the Bank's capital below the required minimum capital requirement for an expanded commercial bank. However, as discussed in Note 1 to the consolidated financial statements, the Bank's management has taken active steps to ensure its continuing liquidity. The Bank entered into a Financial Assistance Agreement with the Philippine Deposit Insurance Corporation on July 7, 2003 for a P20.0 billion financial assistance and into a loan agreement on September 16, 2003 for a P7.5 billion fully secured short-term loan. The accompanying consolidated financial statements do not include any adjustments relating to the recoverability of the carrying amounts of assets or the settlement amounts of liabilities that might be necessary should the going concern basis become inapplicable.

Laya Mananghaya & Co.

April 2, 2004
Makati City, Metro Manila
Philippines

Consolidated Statement of Condition

December 31, 2003
(With Comparative Figures for 2002)
(Amounts in Thousands of Pesos)

		2003		2002 (As Restated)
RESOURCES				
Cash and Other Cash Items	**P**	**3,157,180**	P	2,753,936
Due from Bangko Sentral ng Pilipinas		**7,064,284**		4,458,845
Due from Other Banks		**989,224**		1,217,599
Interbank Loans Receivable		**1,152,018**		4,639,542
Trading and Investment Securities - net (Note 3)		**10,544,143**		9,843,366
Loans - net (Notes 4, 9 and 17)		**44,201,914**		41,858,236
Bank Premises, Furniture, Fixtures and Equipment - net (Note 5)		**1,582,583**		1,759,174
Equity Investments (Note 6)		**4,321,059**		3,867,117
Real and Other Properties Owned or Acquired - net (Notes 7 and 9)		**21,864,655**		21,382,175
Other Resources - net (Notes 8, 9 and 16)		**8,895,683**		9,619,723
	P	**103,772,743**	P	101,399,713
LIABILITIES AND CAPITAL FUNDS				
Liabilities				
Deposit Liabilities (Note 10)				
Demand	**P**	**3,687,580**	P	3,972,140
Savings		**54,250,757**		65,260,252
Time		**8,837,368**		14,320,258
		66,775,705		83,552,650
Bills Payable (Note 11)		**22,791,702**		7,476,205
Manager's Checks and Demand Drafts Outstanding		**577,732**		511,245
Accrued Taxes, Interest and Other Expenses		**2,044,567**		2,260,314
Deferred Credits and Other Liabilities (Note 12)		**4,911,894**		6,067,836
		97,101,600		99,868,250
Capital Funds (Notes 13)		**6,671,143**		1,531,463
	P	**103,772,743**	P	101,399,713

See Notes to Consolidated Financial Statements.

Consolidated Statement of Income

For the Year Ended December 31, 2003
(With Comparative Figures for 2002)
(Amounts in Thousands of Pesos)

		2003		2002 (As Restated)
INTEREST INCOME ON				
Loans (Note 17)	**P**	**2,706,233**	P	3,460,000
Trading and investment securities		**1,011,728**		1,203,134
Deposits with banks		**189,889**		251,221
Interbank loans receivable		**44,129**		90,689
		3,951,979		5,005,044
INTEREST EXPENSE ON				
Deposit liabilities (Note 17)		**3,102,583**		3,911,616
Bills payable and other borrowings		**761,238**		573,549
		3,863,821		4,485,165
NET INTEREST INCOME		**88,158**		519,879
PROVISION FOR PROBABLE LOSSES		**74,783**		360,126
NET INTEREST INCOME AFTER PROVISION FOR PROBABLE LOSSES		**13,375**		159,753
OTHER INCOME (CHARGES)				
Service charges, fees and commissions		**511,026**		528,469
Trading and securities gain - net (Note 3)		**358,530**		442,925
Equity in net earnings of associates (Note 6)		**268,235**		501,623
Gain on sale of real and other properties owned or acquired		**(18,918)**		12,930
Foreign exchange loss - net		**(167,227)**		(41,057)
Miscellaneous (Notes 9 and 14)		**11,012,237**		164,620
		11,963,883		1,609,510
OTHER EXPENSES				
Compensation and fringe benefits (Note 15)		**1,481,846**		1,420,647
Occupancy and other equipment-related costs (Notes 5 and 20)		**916,194**		906,508
Taxes and licenses		**130,175**		320,544
Miscellaneous		**1,345,674**		2,267,163
		3,873,889		4,914,862
INCOME (LOSS) BEFORE INCOME TAX		**8,103,369**		(3,145,599)
PROVISION FOR INCOME TAX (Note 16)		**3,063,900**		164,250
NET INCOME (LOSS)	**P**	**5,039,469**	(P	3,309,849)

See Notes to Consolidated Financial Statements.

Consolidated Statement of Changes in Capital Funds

For the Year Ended December 31, 2003
(With Comparative Figures for 2002)
(Amounts in Thousands of Pesos, Except Par Value per Share)

	2003	2002 (As Restated)
CAPITAL STOCK - P1 par value (Notes 13 and 21)		
Preferred		
Authorized and issued - 750,000,000 shares	**P 750,000**	P 750,000
Common		
Authorized - 2,500,000,000 shares		
Issued and subscribed - 747,170,160 shares (net of subscriptions receivable of P12,327)	**734,843**	734,843
	1,484,843	1,484,843
SHARE IN CUMULATIVE TRANSLATION ADJUSTMENTS ("CTA") OF ASSOCIATES		
Balance at beginning of year	**344,572**	300,011
Share in CTA during the year	**96,347**	44,561
Balance at end of year	**440,919**	344,572
SURPLUS RESERVE (Notes 13 and 18)		
Balance at beginning of year	**679,918**	679,918
Transfer from surplus	**2,726**	–
Balance at end of year	**682,644**	679,918
SURPLUS (DEFICIT) [Note 13]		
Balance at beginning of year		
As previously reported	**(3,560,302)**	(40,498)
Prior period adjustment (Note 23)	**3,224,091**	3,014,136
As restated	**(336,211)**	2,973,638
Net income (loss) for the year	**5,039,469**	(3,309,849)
Transfer to surplus reserve (Note 18)	**(2,726)**	–
Balance at end of year	**4,700,532**	(336,211)
NET UNREALIZED LOSS ON AVAILABLE-FOR-SALE SECURITIES AND UNDER WRITING ACCOUNTS (Note 3)	**(637,795)**	(641,659)
	P 6,671,143	P 1,531,463

See Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

For the Year Ended December 31, 2003
(With Comparative Figures for 2002)
(Amounts in Thousands of Pesos)

	2003	2002 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	**P 8,103,369**	(P 3,145,599)
Adjustments for:		
Interest expense	**3,863,821**	4,485,165
Depreciation and amortization	**357,668**	369,666
Provision for probable losses	**74,783**	360,126
Gain on sale of real and other properties owned or acquired	**19,262**	(12,930)
Minority interest in net earnings (losses) of consolidated subsidiaries	**4,829**	6,108
Unrealized trading loss (gain)	**3,864**	(176,324)
Equity in net earnings of investees	**(268,235)**	(501,623)
Interest income	**(3,951,979)**	(5,005,044)
Operating income (loss) before changes in operating resources and liabilities	**8,207,382**	(3,620,455)
Decrease (increase) in:		
Trading account securities	**(2,882,132)**	(274,214)
Available-for-sale securities	**284,791**	(282,636)
Underwriting accounts	**(612,868)**	–
Loans	**(2,418,461)**	10,662,512
Other resources	**(2,339,860)**	659,365
Increase (decrease) in:		
Deposit liabilities	**(16,776,945)**	(6,059,105)
Manager's checks and demand drafts outstanding	**66,487**	(96,597)
Accrued taxes, interest and other expenses	**(178,065)**	597,843
Deferred credits and other liabilities	**(1,155,942)**	1,038,911
Cash generated from (used in) operations	**(17,805,613)**	2,625,624
Interest received	**3,951,979**	5,005,044
Interest paid	**(3,863,821)**	(4,485,165)
Income taxes paid	**(37,682)**	(168,978)
Net cash provided by (used in) operating activities	**(17,755,137)**	2,976,525
CASH FLOWS FROM INVESTING ACTIVITIES		
Net acquisitions of bank premises, furniture, fixtures and equipment	**(P 181,077)**	(P 205,066)
Decrease (increase) in:		
Investments in bonds and other debt instruments	**2,509,432**	(2,615,296)
Equity investments	**(185,707)**	(326,695)
Share in cumulative translation adjustment of associates	**96,347**	44,561
Real and other properties owned or acquired	**(501,742)**	(1,515,960)
Net cash provided by (used in) investing activities	**1,737,253**	(4,618,456)

Forward

	For the Year Ended December 31	
	2003	2002 (As Restated)
CASH FLOW FROM FINANCING ACTIVITIES		
Increase (decrease) in bills payable	**P 15,315,497**	(P 1,469,079)
Minority interest in equity of consolidated subsidiaries	**(4,829)**	(6,108)
Net cash provided by (used in) financing activities	**15,310,668**	(1,475,187)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(707,216)**	(3,117,118)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and other cash items	**2,753,936**	4,431,604
Due from Bangko Sentral ng Pilipinas	**4,458,845**	4,262,913
Due from other banks	**1,217,599**	1,464,525
Interbank loans receivable	**4,639,542**	6,027,998
	13,069,922	16,187,040
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and other cash items	**3,157,180**	2,753,936
Due from Bangko Sentral ng Pilipinas	**7,064,284**	4,458,845
Due from other banks	**989,224**	1,217,599
Interbank loans receivable	**1,152,018**	4,639,542
	P 12,362,706	P 13,069,922

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

(With Comparative Figures for 2002)
(Amounts in Thousands of Pesos Unless Otherwise Indicated and Except Amounts per Share)

1. CORPORATE INFORMATION AND STATUS OF OPERATIONS

United Coconut Planters Bank ("the Parent Company" or "the Bank") is a universal bank organized to provide expanded commercial banking services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange, investment banking and trust services. In addition, the Bank is licensed to enter into regular financial derivatives such as forward exchange contracts. The Bank is subject to the laws and provisions embodied in the General Banking Law of 2000 (Republic Act No. 8791) and the regulations promulgated by the Bangko Sentral ng Pilipinas ("BSP").

The Bank's principal place of business is located at UCPB Building, Makati Avenue, Makati City. As of December 31, 2003 and 2002, the Bank and its subsidiaries (collectively "the Group") had employees of 3,993 and 4,136, respectively. In 2003, the Bank offered a special retirement plan ("SRP") to its employees. Total retirement expense for 2003 includes costs of additional incentives offered to 496 qualified employees who availed of the SRP. Subsequently, the Group's total number of employees was reduced to 3,497.

The accompanying consolidated company financial statements have been prepared on a going concern basis. The Bank's management has taken active steps to ensure the continuing liquidity of the Bank. After taking into account the legal impediments arising out of the pending cases relating to the legal ownership of the shares of stock of the Bank which directly affect the ability of the Bank to recapitalize and to ensure the continuing liquidity, the Bank entered into a Financial Assistance Agreement with the Philippine Deposit Insurance Corporation ("PDIC") on July 7, 2003 for a P20.0 billion financial assistance. The components of the P20.0 billion are (a) P7.0 billion in the form of direct loan, a portion or all of which may be constituted as unsecured subordinated debt and (b) P13.0 billion in the form of purchase by PDIC of selected UCPB non-performing loans and non-performing assets. On September 16, 2003, the Bank executed a fully secured promissory note to PDIC amounting P7.5 billion payable on March 14, 2004. The said loan is secured by the Bank's foreclosed assets and real estate mortgage executed by the Bank's subsidiary in favor of PDIC. However, on March 14, 2004, PDIC and UCPB amended the loan agreement consequently extending the maturity date of the remaining balance of P5.5 billion as of that date to September 10, 2004. Moreover, such credit accommodations will not in any manner impair the capacity of the Bank to solicit from third parties proposals for fresh capital contributions. On February 26, 2004, PDIC endorsed to the BSP for approval the Bank's ten year financial projections. The accompanying consolidated financial statements do not include any adjustments relating to the recoverability of the carrying amounts of assets or the settlement amounts of liabilities that might be necessary should the going concern basis become inapplicable.

The need to increase the capital funds of the Bank may further be addressed through the disposition of certain investments made by the Bank. As discussed in Note 6, the Bank owns shares in CIIF Companies which have investments in fourteen (14) CIIF holding companies whose funds were invested in San Miguel Corporation ("SMC") shares that were sequestered by the Presidential Commission on Good Government ("PCGG") in May 1986. The Bank anticipates to realize a significant gain from the sale of its investment in the CIIF Companies. As of December 31, 2003, the Bank's indicative interest in SMC shares based on book value and traded value amounted to P3.4 billion and P5.0 billion, respectively. These values are higher than its original cost of investment of P0.1 billion (see Note 6) by P3.3 billion and P4.9 billion, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The Group follows the accounting principles generally accepted in the Philippines ("Philippine GAAP") for the banking industry which follow the historical convention, as modified for the measurement at fair value of trading accounts securities ("TAS"), available-for-sale securities ("ASS"), underwriting accounts ("UA") and certain derivative instruments.

The financial statements of the parent company reflect the accounts maintained in the Regular Booking 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 dollars. For financial reporting purposes, the accounts of the FCDU are translated into their equivalents in Philippine pesos based on the Philippine Dealing System weighted average rate ("PDSWAR") prevailing at the end of the year (for resources and liabilities) and the average PDSWAR for the year (for income and expenses).

The consolidated financial statements include the accounts of the Parent Company and the following wholly and majority owned subsidiaries:

Principal Activities	Subsidiary	Country of Incorporation	Effective Percentage of Ownership
Leasing and finance	UCPB Leasing and Finance Corporation (ULFC)	Philippines	100.00
Real estate	UCPB Properties, Inc. (UCPBPI)	Philippines	100.00
Stock brokerage	UCPB Securities, Inc. (USI)	Philippines	100.00
Foreign exchange	United Foreign Exchange Corporation (UFEC)		
	- a wholly owned subsidiary of ULFC	Philippines	100.00
Banking	UCPB Rural Bank, Inc. (URB)	Philippines	94.70
Banking	UCPB Savings Bank, Inc. (USB)	Philippines	99.23

Material intercompany balances and transactions have been eliminated in consolidation.

The consolidated financial statements do not include the accounts of UCPBPI's wholly owned subsidiaries, which are not significant in relation to the Group financial statements. Strategic Partners, Inc. ("SPI") and UCPB Europe, S.p.A. ("UCPB Europe"), all wholly owned subsidiaries of the Parent Company, are not consolidated in the Group's financial statements as of and for the years ended December 31, 2003 and 2002. As discussed in Note 6, SPI has ceased commercial operations since 1997 and is in the process of liquidation, and UCPB Europe was formally dissolved as of May 2003, with the receipts of liquidation received in February 2004.

Adoption of New Accounting Standards

The Group adopted the following new Statements of Financial Accounting Standards/International Accounting Standards ("SFAS/IAS"), which became effective on January 1, 2003:

- SFAS 10/IAS 10, Events After the Balance Sheet Date;
- SFAS 37/IAS 37, Provisions, Contingent Liabilities and Contingent Assets; and
- SFAS 38/IAS 38, Intangible Assets.

The adoption of new SFAS/IAS had no material effect on the financial position, results of operations, or cash flows of the Group.

New Accounting Standards Effective Subsequent to 2003

The Accounting Standards Council has approved the following accounting standards, which will be effective subsequent to 2003:

a. SFAS/IAS that will become effective for financial statements covering periods beginning on or after January 1, 2004 and which the Bank will adopt in 2004 are the following:

    - SFAS 12/IAS 12, Income Taxes, which prescribes the accounting treatment for income taxes and establishes the principles and provide guidance in accounting for the current and future income tax consequences related to the future recovery (settlement) of carrying amounts of assets (liabilities) in an entity's balance sheet; and, current period transactions recognized in the income statement or directly through equity.

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

b. SFAS/IAS that will become effective for financial statements covering periods beginning on or after January 1, 2005 and which the Group will adopt in 2005 are the following:

    - SFAS 21/IAS 21, The Effects of Changes in Foreign Exchange Rates, which provides certain restrictions in allowing the capitalization of foreign exchange differentials.

    - SFAS 32/IAS 32, Financial Instruments: Disclosure and Presentation, which prescribes how to present financial instruments and what information should be disclosed about them.

    - SFAS 39/IAS 39, Financial Instruments: Recognition and Measurement, which establishes principles for recognizing, measuring and disclosing information about financial assets and financial liabilities.

Under prevailing circumstances, the adoption of the above SFAS/IAS will not have a material effect on the Group's financial position, results of operations or cash flows in 2004/2005.

Investments in Associates

Equity investments in associates, where the Group holds 20% or more of the voting stocks or where there is significant influence over operating and financial policies of the associates even though the Group holds less than 20% of the voting stocks, are accounted for under the equity method. An associate is an enterprise in which the Group exercises significant influence (presumed if the Group holds 20% or more of the voting power) and which is neither a subsidiary nor a joint venture. Under the equity method, the investment is carried in the consolidated statement of condition at cost plus post acquisition changes in the Group's share in the net assets of the associates less any impairment in value. Post acquisition changes include the share in the associates' net earnings or losses. Dividends received are treated as a reduction in the carrying values of the investment.

The equity investment in subsidiaries are also accounted for under the equity method.

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

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

Trading and Investment Securities

Trading Account Securities

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

Available-for-Sale Securities and Underwriting Accounts

Securities are ASS when purchased and held indefinitely, i.e. neither held to maturity nor for trading purposes, where the Group anticipates that the securities will be available to be sold in response to liquidity requirements or in anticipation of changes in interest rates or other factors. UA are available-for-sale underwritten debt securities and equity securities purchased and held principally with the intention of selling them within a defined short-term period. ASS and UA are carried at fair market value; unrealized gains and losses are excluded from reported earnings and are reported as a separate component of capital funds.

Investments in Bonds and Other Debt Instruments

Investments in bonds and other debt instruments ("IBODI") are debt securities where the Group has the positive intent and ability to hold to maturity. These securities are carried at amortized cost; realized gains and losses are included in Trading and Securities Gain in consolidated statement of income. An allowance for probable losses, if any, is established by a charge to income (included in Trading and Securities Gain) to reflect other-than-temporary impairment in value. Under current BSP regulations, IBODI shall not exceed 50% of adjusted statutory net worth plus 40% of total deposit liabilities.

When a debt security is transferred from ASS to IBODI, the unrealized holding gain or loss at the date of the transfer is maintained as a separate component of capital funds and is amortized over the remaining life of the security as an adjustment of yield in a manner consistent with the amortization of the premium or discount. For other transfers of investment securities, the unrealized holding gain or loss at the date of transfer is considered realized and, accordingly, is charged to current operations.

Loans

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

Interest income on non-discounted loans is accrued monthly as earned, except in the case of non-accruing or non-performing accounts as required by existing BSP regulations. Interest income on these non-accruing loans is recognized upon actual collection. Unearned discount is recognize as income over the life of the loan using the interest method, with the amortization discontinued when the loan becomes non-performing.

Loans are classified as non-accruing or non-performing in accordance with BSP regulations, or when, in the opinion of management, collection of principal and interest is doubtful. At the time the loan is classified as non-performing, interest previously recorded but not collected is reversed and charged to current operations. Loans are not reclassified as performing until interest and principal payments are brought current or the loans are restructured in accordance with existing BSP regulations, and future payments appear assured.

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

The allowance for probable loan losses is established through provisions for probable losses charged to current operations. Loans are written off against the allowance when management believes that the collectibility of the principal is unlikely. The Bank intends to set up the required allowance for probable losses over 10 years starting 2004 in accordance with its proposed rehabilitation plan submitted to the BSP.

Bank Premises, Furniture, Fixtures and Equipment
Bank premises, furniture, fixtures and equipment are stated at cost less accumulated depreciation, amortization and impairment loss, if any. The Group provides depreciation on its depreciable assets on a straight-line basis over the estimated useful lives of the respective assets. Leasehold improvements are depreciated over the shorter of the estimated useful lives of the improvements or the terms of the related leases.

Estimated useful lives of bank premises, furniture, fixtures, equipment and leasehold improvements are as follows:

	No. of Years
Buildings and improvements	10-20
Furniture, fixtures and equipment	3-10
Leasehold improvements	3-5

The useful lives and depreciation method are reviewed periodically to ensure that such useful lives and depreciation method are consistent with the expected pattern of economic benefits from items of bank premises, furniture, fixtures and equipment.

Initially, an item of bank premises, furniture, fixtures and equipment is measured at its cost, which comprises its purchase price and any directly attributable costs of bringing the asset to working condition. Subsequent expenditures are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance, will flow to the Group. All other subsequent expenditures are recognized as expenses in the period in which they are incurred.

When assets are disposed of, or are permanently withdrawn from use and no future economic benefits are expected from their disposals or retirements, the cost and the related depreciation, amortization and impairment losses, if any, are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is credited to or charged against current operations.

The carrying values of the bank premises, furniture, fixtures and equipment 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 amounts (see policy on Impairment of Assets).

The accumulated impairment in value is established through impairment loss charged to current operations.

Real and Other Properties Owned or Acquired
Resources acquired in settlement of loans are stated at the total outstanding exposure of the loans at the time of foreclosure or bid price, whichever is lower. Nonrefundable capital gains tax and documentary stamp tax incurred in connection with foreclosures are capitalized as part of the carrying values of the foreclosed properties, provided that such carrying values do not exceed appraised values. Holding costs subsequent to the foreclosure or acquisition of the properties are charged to current operations as incurred.

Allowance for probable losses is provided for any anticipated losses based on latest appraisal reports and/or current negotiations and programs to dispose of these properties. The Bank intends to set up the required allowance for probable losses over 10 years starting 2004 in accordance with its proposed rehabilitation plan submitted to the BSP.

Real Estate for Sale and Lease
Condominium units for sale (certain units in Forbes Tower in 2001) are carried at cost less allowance for probable losses. Expenditures for development and improvement, including borrowing costs, are capitalized as part of the cost of real

estate. Borrowing costs include interest and other finance costs incurred during the construction period on borrowing used to finance property development. The capitalization of borrowing costs for the assets are being incurred and activities that are necessary to prepare the assets for their intended use are in progress. Capitalization ceases when substantially all the activities necessary to prepare the assets for their intended use are complete.

Residential units are held for sale and carried at cost.

Condominium units for lease and furniture and fixtures furnishing those units are carried at cost less accumulated depreciation and any impairment in value. Depreciation is computed on a straight-line basis over the estimated useful life of the assets as follows:

	No. of Years
Condominium Units	40
Furniture and fixtures	5

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Deferred Income Tax
Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial reporting bases of assets and liabilities and their related tax bases and the tax effect of net operating loss carry-over ("NOLCO"). Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled, and the carry forward benefit of NOLCO is expected to be applied. A valuation allowance is provided for the portion of deferred tax assets that is not expected to be realized in the future.

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

Forward Contracts
The Bank is a party to foreign exchange forward and swaps contracts. These contracts are entered into as a service to customers and as a means of reducing the Group's foreign exchange exposure.

For derivative contracts that are designated and qualify as hedges, the discount or premium is amortized over the term of the contract and the revaluation gains and losses are deferred or recognized as income or expense to match the treatment for the hedged item. Derivative instruments that are not designated as hedges are marked to market with the revaluation gains or losses credited to or charged against current operations.

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

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

A previously recognized impairment loss, if any, is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset but not, however, 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. The reversal of an impairment loss, if any, is credited to current operations.

Retirement Cost
The Group's retirement expense is determined using the projected unit credit cost method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current period. The past service cost is the present value of any units of future benefits credited to the employees for services in

periods prior to the commencement or subsequent amendment of the plan. The accrued actuarial liability is the present value of benefits payable in the future with respect to services rendered to date. Unfunded past service costs, experience adjustments and actuarial gains or losses are amortized over the average of the expected working lives of employees.

Cash and Cash Equivalents

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

Use of Estimates in the Preparation of Financial Statements

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

Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

3. TRADING AND INVESTMENT SECURITIES

This account consists of:

	2003			2002		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
TAS - at market	**P 2,765,619**	**P 635,779**	**P 3,401,398**	P 30,956	P 488,310	P 519,266
ASS - at market	**2,018**	**–**	**2,018**	18,599	268,210	286,809
UA - at market	**233,705**	**397,500**	**631,205**	18,337	–	18,337
IBODI - at amortized cost (see Note 18)	**594,075**	**5,915,447**	**6,509,522**	3,772,921	5,296,033	9,018,954
	P 3,595,417	**P 6,948,726**	**P 10,544,143**	P 3,790,813	P 6,052,553	P 9,843,366

The Group's net unrealized gain (loss) on revaluation to market of TAS amounting to P13,926 and P(20,916) for the years ended December 31, 2003 and 2002 respectively, is shown as part of Trading and Securities Gain-net in the consolidated statement of income.

The net unrealized gain (loss) on revaluation to market of UA amounting to P620,043 and P626,061 as of December 31, 2003 and 2002, respectively and ASS amounting to P17,752 and P15,598 as of December 31, 2003 and 2002, respectively, are shown as a separate component of capital funds in the consolidated statement of changes in capital funds.

As of December 31, 2003 and December 31, 2002, the market value of the IBODI, mostly based on data provided by Clearstream Luxembourg and Bloomberg, the Bank's financial data provider, amounted to P14,446,824 and P11,897,967, respectively, which is higher than its amortized cost by P8,870,261 and P2,879,013, respectively. As of December 31, 2003, IBODI consist mainly of dollar investments in MRT bonds, with market value amounting to P12,374,834, which is P7,864,624 higher than its book value of P4,510,210. The market value of MRT bonds as reflected in Clearstream Luxembourg report approximates its face value at maturity date.

4. LOANS

This account consists of:

		2003		2002 (As Restated)
Loans and discounts	P	42,289,793	P	49,383,728
Bills purchased		2,756,632		3,273,162
Customers' liabilities on acceptances, letters of credit and trust receipts		770,470		982,379
		45,816,895		53,639,269
Allowance for probable loan losses (see Note 9)		(1,000,236)		(10,772,999)
Unearned discounts		(614,745)		(1,008,034)
	P	44,201,914	P	41,858,236

The following table presents the breakdown of loans by contractual maturity dates:

		2003		2002
Due within one year	P	13,776,120	P	18,013,699
Due beyond one year		32,040,775		35,625,570
	P	45,816,895	P	53,639,269

Starting September 19, 2002, BSP Circular No. 351 allows banks with no unbooked valuation reserves and capital adjustments required by the BSP to exclude from non-performing classification those loans classified as Loss in the latest examination of the BSP which are fully covered by allowance for probable losses, provided that interest on said loans shall not be accrued. The Non Performing Loans ("NPL") were as follows:

		2003		2002
Total NPLs	P	17,628,599	P	20,845,149
Less NPLs fully covered by allowance for probable losses		58,300		5,110,470
	P	17,570,299	P	15,734,679

The following table shows the breakdown of loans as to secured and unsecured and the breakdown of secured loans as to type of security:

		2003			2002	
		Amount	%		Amount	%
Secured						
Real estate	P	6,947,672	15.16	P	10,172,584	18.96
Assignment of receivables		2,124,765	4.64		2,820,245	5.26
Standby letters of credit		1,504,074	3.28		1,886,777	3.52
Chattel		1,470,939	3.21		2,507,365	4.67
Deposit hold-out		359,605	0.78		545,036	1.02
Securities		26,871	0.06		2,839,700	5.29
Surety		–	–		40,000	0.07
Others		6,277,036	13.71		2,934,337	5.48
		18,710,962	40.84		23,746,044	44.27
Unsecured		27,105,933	59.16		29,893,225	55.73
	P	45,816,895	100.00	P	53,639,269	100.00

As of December 31, 2003 and 2002, information on the concentration of credit as to industry sector follows:

		2003			2002	
		Amount	%		Amount	%
Manufacturing (various industries)	P	12,130,481	26.47	P	14,225,609	26.52
Real estate, renting and business services		7,923,045	17.29		5,996,210	11.18
Other community, social and personal activities		7,337,498	16.01		5,247,212	9.78
Wholesale and retail trade		4,429,091	9.67		5,270,304	9.83
Electric, gas and water		2,954,181	6.44		2,673,024	4.98
Financial intermediaries		2,126,878	4.64		7,501,730	13.99
Transportation, storage and Communication		2,059,743	4.50		2,957,854	5.51
Construction		1,308,229	2.86		1,991,747	3.71
Agriculture		750,086	1.65		870,233	1.62
Mining and quarrying		406,287	0.89		404,840	0.75
Others		4,391,376	9.58		6,500,506	12.13
	P	45,816,895	100.00	P	53,639,269	100.00

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

As discussed in Note 1, the Parent Company requested for a financial assistance from PDIC in July 7, 2003 by purchasing the Parent Company's NPLs and assets amounting to P13.0 billion, P8.0 billion of which was purchased by way of an absolute sale while the remaining P5 billion was purchased by PDIC subject to a mandatory buyback by the Bank at the end of ten (10) years from actual date of purchase at the buyback price equal to the amount for which those assets were sold to PDIC. The Parent Company was also granted a provision for possible deferment of the buyback of specified amounts of assets for a maximum additional period of five (5) years reckoned from the mandatory buyback date conditioned on the full and complete attainment of the milestones agreed with PDIC within the first three (3) years of the rehabilitation period.

5. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The movements in this account for the year ended December 31, 2003 are as follows:

		Land		Buildings and Improvements		Furniture, Fixtures and Equipment		Leasehold Improvements		Total
Gross carrying amount:										
Balance at beginning of year	P	181,551	P	1,124,834	P	2,415,385	P	244,069	P	3,965,839
Additions		–		34,365		172,131		39,671		246,167
Disposals		–		(6,924)		(125,931)		(116,720)		(249,575)
Balance at end of year		181,551		1,152,275		2,461,585		167,020		3,962,431
Accumulated depreciation and amortization:										
Balance at beginning of year										
As previously stated		–		391,301		1,821,831		53,591		2,266,723
Prior period adjustment		–		(60,058)		–		–		(60,058)
As restated		–		331,243		1,821,831		53,591		2,206,665
Depreciation and Amortization		–		94,263		233,557		30,317		358,137
Disposals		–		(2,307)		(105,276)		(77,371)		(184,954)
Balance at end of year		–		423,199		1,950,112		6,537		2,379,848
Net carrying amount:										
Balance at beginning of year										
As previously stated		181,551		733,533		593,554		190,478		1,699,116
Prior period adjustment		–		60,058		–		–		60,058
As restated	P	181,551	P	793,591	P	593,554	P	190,478	P	1,759,174
Balance at end of year	**P**	**181,551**	**P**	**729,076**	**P**	**571,473**	**P**	**160,483**	**P**	**1,582,583**

As discussed in Note 1, the Parent Company assigned its land and building with a carrying value of P0.7 billion as of December 31, 2003 to PDIC to secure it's P7.5 billion obligation obtained on September 16, 2003.

Depreciation and amortization expense are shown under Occupancy and Other Equipment-Related Costs in the consolidated statement of income.

Based on the latest appraisal conducted by an independent appraiser in February 2003, the appraised values of certain land and buildings amounting to P2.4 billion with historical book value of P0.6 billion as of date of valuation shows an appraisal increment of P1.8 billion. The accompanying consolidated financial statements do not include any adjustment pertaining to this appraisal since the Bank's management preferred to continue its present method of accounting for Bank premises, furniture, fixtures and equipment which is at cost.

6. EQUITY INVESTMENTS

The details of equity investments are as follows:

	Percentage of Ownership		2003		2002 (As Restated)
At equity:					
Acquisition cost:					
UCPB - CIIF Finance and Development Corp.	36.36	P	100,000	P	100,000
UCPBPI - ACM Property Ventures, Inc.	50.00		90,000		90,000
Legaspi Oil Company, Inc. (“LOCI”)	17.50		56,000		56,000
San Pablo Manufacturing Corporation (“SPMC”)	12.77		25,000		25,000
Strategic Partners, Inc. (“SPI”)	100.00		25,000		25,000
UCPB Properties - Macaria Homes Corporation	50.00		25,000		25,000
Southern Luzon Coconut Oil Mills, Inc. (“SLCOMI”)	17.48		24,950		24,950
UCPB Europe	100.00		18,528		18,528
Dutch Boy (Phils.), Inc.	33.00		8,957		8,957
Granexport Manufacturing Corporation (“GMC”)	2.84		6,250		6,250
Pusan Point Properties, Inc.	100.00		1,000		1,000
Verdant Mountain Properties, Inc.	100.00		1,000		1,000
Dreamscape Properties, Inc.	100.00		1,000		1,000
Mastercaterers, Inc.	100.00		250		250
			382,935		382,935
Accumulated equity in net earnings:					
Balance at beginning of year					
As previously reported			412,590		454,113
Prior period adjustment			2,676,931		2,133,785
As restated			3,089,521		2,587,898
Equity in net earnings			268,235		501,623
SPI equity investment written-off			25,000		–
UCPB Europe in investment written-off			9,412		–
Balance at end of year			3,392,168		3,089,521
Share in cumulative translation adjustment of associates			440,919		334,572
Write-off of investment of SPI			(25,000)		–
Liquidation of UCPB Europe			(18,528)		–
			4,172,494		3,817,028
At cost			148,565		50,089
		P	4,321,059	P	3,867,117

The Parent Company has investments in LOCI, SPMC, SLCOMI and GMC, herein referred to as Coconut Industry Investment Fund ("CIIF") companies ["CIIF companies"] that were established from the CIIF. The CIIF formed part of the Coconut Consumers Stabilization Fund ("CSSF"), otherwise known as the coconut levy fund which was created in 1973 by Presidential Decree No. 276. These CIIF companies have investments in fourteen (14) CIIF holding companies whose funds were invested in SMC shares that were sequestered by the PCGG in May 1986 [see Note 1]. The Bank's investments in these CIIF companies, where the Bank exercises significant influence over operating and financial policies, are accounted for using the equity method even though the Bank holds less than 20% of the voting stock of the companies. As of December 31, 2003, the Bank's interests in the aggregate book value of these CIIF companies amounted to P3.4 billion, which is P3.3 billion higher than the aggregate value of its original investment amounting to P0.1 billion. Also, as discussed in Note 1, the Bank's indicative interests in traded value of SMC shares is P1.6 billion higher than its indicative interests in book value of those shares.

On September 2003, UPI executed a real estate mortgage in favor of PDIC assigning and conveying their real properties to secure the P7.5 billion obligation with PDIC (Note 1).

On May 29, 1988, the Board of Directors ("BOD") and stockholders approved the dissolution of UCPB Europe. The Bank has liquidated UCPB Europe on May 23, 2003 and resulted into a final settlement amounting to Euro 15,813.22.

Minority interest in net earnings of consolidated subsidiaries amounting to P4,829 and P6,108 in 2003 and 2002, respectively, is included in Miscellaneous Income account in the consolidated statements of income.

7. REAL AND OTHER PROPERTIES OWNED OR ACQUIRED

This account consists of:

		2003		2002
Real and other properties owned or acquired ("ROPOA")	P	22,359,750	P	22,087,892
Less allowance for probable losses (see Note 9)		(495,095)		(705,717)
	P	21,864,655	P	21,382,175

As discussed in Note 1, the Bank assigned its foreclosed properties with a carrying value of P12.3 billion as of December 31, 2003 to PDIC to secure its P7.5 billion obligation obtained on September 16, 2003.

8. OTHER RESOURCES

This account consists of:

		2003		2002 (As Restated)
Accrued interest receivable (see Notes 9 and 17)	P	1,420,117	P	1,009,701
Real estate for sale and lease		2,735,589		2,897,247
Accounts receivable (see Notes 9 and 17)		2,764,868		842,273
Foreign currency notes and coins on hand		862,865		321,525
Sales contract receivable		488,904		400,920
Interoffice float items - net		434,367		713,604
Deferred tax asset - net (see Note 16)		270,947		3,202,012
Deferred charges - net		104,498		120,951
Other investments		93,350		134,494
Miscellaneous		781,052		1,219,153
		9,956,557		10,861,880
Unrealized income on sales contract receivable		(2,160)		(85,932)
Allowance for probable losses (see Note 9)		(1,058,714)		(1,156,225)
	P	8,895,683	P	9,619,723

Accrued interest receivable and accounts receivable as of December 31, 2003 and 2002 are all due within one year.

On September 2003, UPI executed a real estate mortgage in favor of PDIC assigning and conveying their real properties to secure the P7.5 billion obligation with PDIC (Note 1).

9. ALLOWANCE FOR PROBABLE LOSSES

Changes in the allowance for probable losses are as follows:

		2003		2002 (As Restated)
Balance at beginning of period				
Loans	P	10,772,999	P	10,613,178
ROPOA		705,717		644,354
Others		1,156,225		1,138,848
		12,634,941		12,396,380
Provision for probable losses				
Loans		21,122		303,163
ROPOA		6,563		56,348
Other resources		400,747		615
		428,432		360,126
Write-off, recovery and reversal				
Recovery on loans sold to PDIC		(7,009,578)		–
Reversal		(3,584,062)		–
Write-off		(65,605)		(121,565)
		(10,659,245)		(121,565)
Transfer from Trust (see Note 18)		149,917		–
Balance at end of period				
Loans (see Note 4)		1,000,236		10,772,999
ROPOA (see Note 7)		495,095		705,717
Others (see Note 8)		1,058,714		1,156,225
	P	2,554,045	P	12,634,941

The recovery and reversal of allowance for probable losses is included as part of Miscellaneous Income (see Note 14).

The Parent Company has not recorded the following required allowance for probable losses as of December 31, 2003, of which the amount of P4.9 billion should have been provided in 2002.

		Amount
Loans	P	7,837,109
ROPOA		3,856,633
Other Resources		
Interoffice float items		674,365
Accounts receivable		653,490
Accrued interest receivable		594,134
Sales contract receivable		412,383
Others		3,711
	P	14,031,825

In line with the proposed rehabilitation plan, the Parent Company plans to set up its required allowance on a staggered basis over the next 10 years beginning 2004.

10. DEPOSIT LIABILITIES

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

	2003			2002		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Demand	**P 3,687,580**	**P –**	**P 3,687,580**	P 3,972,140	P –	P 3,972,140
Savings	**54,250,757**	**–**	**54,250,757**	65,259,931	321	65,260,252
Time	**8,300,787**	**536,581**	**8,837,368**	14,320,258	–	14,320,258
	P66,239,124	**P 536,581**	**P 66,775,705**	P 83,552,329	P 321	P 83,552,650

11. BILLS PAYABLE

This account consists of borrowings from:

	2003			2002		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Government, private firms and individuals	**P 7,643,300**	**P13,869,656**	**P 21,512,956**	P 827,694	P 2,517,726	P 3,345,420
Foreign banks	**1,278,746**	**–**	**1,278,746**	4,129,550	1,235	4,130,785
	P 8,922,046	**P13,869,656**	**P 22,791,702**	P 4,957,244	P 2,518,961	P 7,476,205

As discussed in Note 1, the Parent Company received a financial assistance from PDIC for a total of P27.5 billion, of which the amount of P19.5 billion represents bills payable as follows:

Particulars	Terms	Amount
Fully Secured short term loan (see Notes 1 and 7)	6 months at 1% over average prevailing 91 day Treasury bill rate per annum payable quarterly in arrears	P7,500,000
Secured loan with mandatory buy back by UCPB at the end of the term (see Notes 1 and 4)	10 years	5,000,000
Secured direct loan (with conversion rights to unsecured subordinated loan) (see Notes 1 and 4)	10 years at 5% interest per annum	5,000,000
Unsecured subordinated loan (convertible into common shares of stock of UCPB) (see Note 1)	10 years at 5% interest per annum	2,000,000
		P19,500,000

As of December 31, 2002, the Parent Company has no outstanding secured liabilities and assets pledged as security.

12. DEFERRED CREDITS AND OTHER LIABILITIES

This account consists of:

		2003		2002 (As Restated)
Capitalized interest and other charges	P	461,653	P	542,922
Accounts payable		437,822		408,457
Outstanding acceptances		374,284		308,719
Due to BSP		122,519		290,812
Withholding taxes payable		88,707		61,079
Minority Interest		64,484		63,994
Dividends payable		–		151,708
Miscellaneous		3,362,425		4,240,145
	P	4,911,894	P	6,067,836

13. CAPITAL FUNDS

The Parent Company's preferred shares are nonparticipating, nonvoting and are convertible to common shares. These shares are entitled to cumulative dividends of 14% per annum. The Parent Company, as provided in its articles of incorporation, is required to reserve a portion of the authorized and unissued common shares for the conversion of such preferred shares.

In 2001, the BSP disapproved the cash dividends declared by the BOD in 2000 amounting to P105.0 million. Dividends in arrears as of December 31, 2003 and 2002 amounted to P420.0 million and P315.0 million, respectively.

A substantial portion of the outstanding shares of stock of the Parent Company remains sequestered as a result of the sequestration orders previously issued by the PCGG on June 26, 1986. The issue of the ownership of the sequestered shares has been the subject of on-going court proceedings pending with the Sandiganbayan and the Supreme Court ("SC"). The legal issues arising from such proceedings have not been resolved with finality. The SC, however, in its July 2, 2002 Resolution of the case entitled "Republic of the Philippines vs. COCOFED, et al. and Ballares, et al., Eduardo M. Cojuangco, Jr. and Sandiganbayan" (G.R. Nos. 147062-64) directed the Sandiganbayan First Division to resolve with all deliberate speed and not later than six (6) months such ownership issue.

Likewise, on December 14, 2001, the SC through G.R. Nos. 147062-64, ruled that the PCGG shall continue to exercise the right to vote the sequestered shares of stock of the Parent Company until the pending cases with the Sandiganbayan are finally and completely resolved. Subsequently, on February 22, 2002, a new set of members of the BOD of the Parent Company was nominated and elected by the PCGG. Based on the partial summary judgment of the Sandiganbayan dated July 11, 2003, the UCPB shares of the alleged fronts, nominees and dummies of the defendant Eduardo M. Cojuangco, Jr., belong to the plaintiff Republic of the Philippines as their true and beneficial owner.

Surplus reserve includes the amount of P641,819 representing the total stock dividends of 43% and 30% on common stock declared by the Parent Company's BOD to stockholders of record as of June 30, 1988 and 1986, respectively. These stock dividends shall be issued after approval of the stockholders. However, last April 25, 2003, the Parent Company's BOD revoked such declaration of stock dividends.

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

A portion of the surplus amounting to P3,392,168 and P3,089,521 as of December 31, 2003 and 2002, respectively, corresponding to the undistributed equity of the Parent Company in net earnings of subsidiaries (see Note 6) is not available for dividend declaration under existing banking regulations.

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

14. MISCELLANEOUS INCOME

This account consists of:

		2003		2002
Recovery of allowance for probable losses on loans sold to PDIC (see Note 9)	**P**	**7,009,578**	P	–
Reversal of allowance for probable losses (see Note 9)		**3,584,062**		–
Others		**418,597**		164,619
	P	**11,012,237**	P	164,619

15. RETIREMENT PLAN

The Group has a funded noncontributory and defined retirement benefit plans covering substantially all of its employees. The funds are being administered and managed by the Group's trust department. Total retirement expense (included in Compensation and Fringe Benefits in the consolidated statement of income) amounted to P125,962 and P119,795 as of December 31, 2003 and 2002, respectively.

The Group's latest actuarial valuations were made on the following dates:

Name of Company	Date of Valuation
Parent Company	January 1, 2003
UCPBPI	September 30, 2002
USB	March 31, 2001
URB	September 30, 2003
USI	April 25, 2002

The actuarial accrued liability of retirement benefits of these companies amounted to P1,089,098 and the fair value of the plan assets amounted to P913,419. The principal actuarial assumptions used to determine retirement benefits were an investment rate of 11% and salary increases of 9%, both compounded annually. The Group's annual contribution to the retirement plan consists of payment covering the current service cost, interest on unfunded accrued liability and amortization of the unrecognized net transition obligation and experience adjustment.

16. TAXES

Provision for income tax consists of:

		2003		2002
Current	**P**	**112,685**	P	176,519
Deferred		**2,951,215**		(12,269)
	P	**3,063,900**	P	164,250

Provision for income tax - current consists of the regular corporate income tax, and final taxes paid on interest and other income.

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

Effective January 1, 2003, the Bank is subject to the value added tax ("VAT") instead of the gross receipts tax ("GRT"). However with the enactment of Republic Act No. 9238, ("the Act") "An Act amending certain sections of the National Internal Revenue Code of 1997, as amended, by excluding several services from the coverage of the VAT and re-imposing the GRT on banks and non-bank financial intermediaries performing quasi-banking functions and other non-bank financial intermediaries beginning January 1, 2004", the GRT will be re-imposed to the Bank effective January 1, 2004. The Act provided among others that the GAAP as may be prescribed by the BSP for bank or non-bank financial intermediary performing quasi banking functions, or as maybe prescribed by the SEC for other non-bank financial intermediaries, shall likewise be the basis of the calculation of the gross receipts.

Significant components of the Group's deferred tax assets - net, included in Other Resources are as follows:

		2003		2002 (As Restated)
Net operating loss carry-over ("NOLCO")	**P**	**4,403,055**	P	4,281,700
Allowance for probable losses		**669,245**		3,196,269
MCIT		**7,652**		4,007
Difference in reporting lease income under the finance method for financial reporting purposes and operating method for tax purposes		**(115,372)**		(126,528)
Others - net		**224,175**		116,211
		5,188,752		7,471,659
Less valuation allowance		**(4,917,805)**		4,269,647
	P	**270,947**	P	3,202,012

The Parent Company is entitled to NOLCO which may be carried over as a reduction from taxable income up to three (3) consecutive years following the year of loss. The details of the Group's unused NOLCO as of December 31, 2003 are as follows:

Year Incurred		Amount		Used/Expired		Balance	Expiry Year
2000	P	3,974,780	P	3,974,780	P	–	2003
2001		5,502,616		–		5,502,616	2004
2002		4,295,046		–		4,295,046	2005
2003		3,961,884		–		3,961,884	2006
	P	17,734,326	P	3,974,780	P	13,759,546	

Management believes that the Parent Company may not be able to realize the deferred tax assets in the future. Accordingly, a full valuation allowance on said deferred tax assets has been provided.

The Group has MCIT which are available for offsetting against income tax as follows:

Year Incurred		Amount		Used/Expired		Balance	Expiry Year
2001	P	1,110	P	–	P	1,110	2004
2002		3,661		–		3,661	2005
2003		2,881		–		2,881	2006
	P	7,652	P	–	P	7,652	

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

		2003		2002 (As Restated)
Statutory income tax	P	**2,593,078**	(P	1,006,592)
Tax effect of:				
Change in valuation allowance on deferred tax assets		**1,686,063**		1,209,416
Non-deductible interest expense		**37,636**		24,090
Non-taxable income		**(8,753)**		(46,357)
Equity in net earnings of investees		**(103,976)**		(160,519)
Interest income subjected to final tax		**(85,676)**		151,227
FCDU income		**(1,087,360)**		(144,723)
Others		**32,888**		440,162
Effective income tax	P	**3,063,900**	P	164,250

17. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the banking entities in the Group enters into loan and other transactions with affiliates, and with certain directors, officers, stockholders and related interests ("DOSRI"). Under, the banking entities' policy, these loans and other transactions are made substantially on the same terms as with other individuals and business of comparable risks. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the banking entities. In the aggregate, loans to DOSRI generally should not exceed the lower of the Bank's total regulatory capital or 15% of the total loan portfolio.

The following table shows information relating to DOSRI loans:

		2003		2002
Total outstanding DOSRI loans	P	**562,176**	P	1,020,745
Percent of DOSRI loans to total loans		**1.24%**		1.90%
Percent of unsecured DOSRI loans to total DOSRI loans		**23.97%**		17.21%
Percent of past due DOSRI loans to total DOSRI loans		**14.35%**		2.54%
Percent of non-performing DOSRI loans to total DOSRI loans		**14.37%**		2.55%

18. TRUST OPERATIONS

Securities and other properties held by the Bank in fiduciary or agency capacity for clients and beneficiaries are not included in the accompanying consolidated statements of condition since these are not resources of the Group.

Governments bonds with a total face value of P2,667,966 and P292,150 as of December 31, 2003 and 2002, respectively, are deposited with the BSP in compliance with the trust regulations relative to the trust functions of the Bank.

In accordance with BSP regulations, the Bank transfers 10% of income from trust operations to surplus reserve until such reserve reaches 20% of the Group's authorized capital stock. No part of such surplus reserve shall at any time be paid out in dividends, but losses accruing in the course of its business may be charged against such surplus.

Effective September 12, 2003, the Bank recognized various assets from UCPB Trust Banking Division totaling P7.2 billion which includes loans of P4.8 billion and government securities of P1.2 billion.

19. COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of operations, the Parent Company makes commitments and incurs certain contingent liabilities such as guarantees, commitments to extend credit, forward exchange contracts, pending lawsuits, etc., which are not reflected in the accompanying consolidated financial statements. The Parent Company does not anticipate any material unreserved losses as a result of these commitments and contingent liabilities.

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

		2003		2002
Forward exchange bought	**P**	**1,020,849**	P	3,870,797
Standby letters of credit		**1,504,066**		1,541,747
Forward exchange sold		**1,664,647**		1,067,131
Sight import letters of credit		**168,321**		746,940
Domestic letters of credit		**37,119**		73,158
Usage import letters of credit		**100,559**		68,325
Outstanding guarantees		**27,907**		116,822

20. LEASES

The Group leases the premises occupied by the offices of certain subsidiaries and by most of the branches and extension offices of the Parent Company and certain subsidiaries. The lease contracts provide for annual rentals amounting to 224,485 and P404,490 in 2003 and 2002, respectively. The basic lease period ranges from 10 to 20 years. Most of the leases contain renewal options which provide for the right to extend the lease for varying periods at terms agreeable upon with the lessors.

Minimum annual rentals for the next five years are as follows:

Year		Amount
2004	P	233,356
2005		250,116
2006		272,561
2007		297,773
2008		323,734

21. FINANCIAL PERFORMANCE

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

	2003	2002 (As Restated)
Return on average equity ("ROE")	**1.23**	(2.19)
Return on average assets ("ROA")	**0.05**	(0.03)

Had the required allowance for probable losses been established in 2003 and 2002 (as discussed in Note 9), and had the additional valuation allowance on deferred tax assets of P3.0 billion been provided in 2001, ROE and ROA would have been as follows:

	2003	2002
ROE	**n.a.**	n.a.
ROA	**(0.04)**	(0.08)

22. RESTATEMENT

The Group's 2002 financial statements have been restated to correct certain accounting errors made in preparing the consolidated financial statements, as discussed below:

	December 31, 2002					
		As Previously Reported		Adjustment		As Restated
Asset accounts						
Loans – net	P	41,862,331	(P	4,095)	P	41,858,236
Bank premises, furniture, fixtures and Equipment – net		1,699,116		60,058		1,759,174
Equity investments		454,113		3,413,004		3,867,117
Other resources		9,666,931		(61,280)		9,619,723
	P	53,682,491	P	3,407,687	P	57,104,250
Liability accounts						
Accrued Taxes, Interest and Other Expenses	P	1,649,075	P	611,239	P	2,260,314
Deferred credits and other liabilities		6,840,051		(772,215)		6,067,836
	P	8,489,126	(P	160,976)	P	8,328,150
Capital funds (deficiency) accounts						
Surplus (deficit), beginning balance	(P	40,498)	P	3,014,136	P	2,973,638
Share in CTA		–		344,572		344,572
Equity in net earnings (losses) of investees		(41,524)		543,147		501,623
Miscellaneous expense		(1,949,352)		(317,811)		(2,267,163)
Provision for income tax		(148,869)		(15,381)		(164,250)
	(P	2,180,243)	P	3,568,663	**P**	**1,388,420**

The foregoing adjustments relate principally to double recording of accumulated depreciation as well as adjustments in provision for losses, equity investments and other resources.

23. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements as of and for the year ended December 31, 2003 were authorized for issue by the Board of Directors on April 2, 2004.

24. RECLASSIFICATION OF ACCOUNTS

Certain accounts in the 2002 consolidated financial statements were reclassified to conform to the 2003 presentation.