UCPB

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2004 Annual Report

On Course

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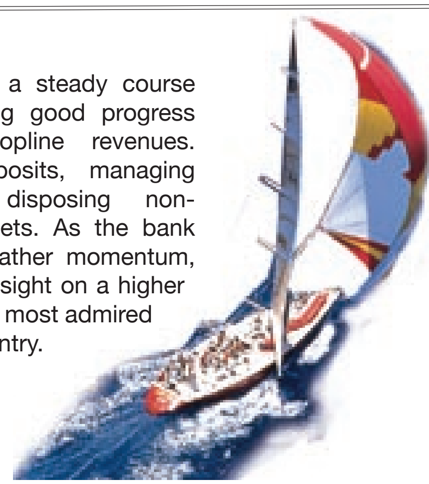
Our Cover

UCPB steered a steady course in 2004 making good progress in growing topline revenues. Increasing deposits, managing costs, and disposing non-performing assets. As the bank continues to gather momentum, it is casting its sight on a higher goal – to be the most admired bank in the country.



Corporate Vision

To be the most admired bank in the country

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 to Our Stockholders

Dear Stockholders:

The UCPB Group made marked progress on its recovery efforts in 2004 and continued to deliver on its social commitments to the coconut farmers and the communities where it operates.

Executing well against its 10-year Business Plan, the UCPB Group posted higher revenues while keeping down the growth of operating expenses. The Group's social development arms, the UCPB-CIIF Foundation and the UCPB-CIIF Finance and Development Corporation pursued their civic activities with the same focus and vigor, and produced equally strong results.

Jose R. Perez
Chairman

RESULTS OF OPERATION

At the end of the year, total revenues of the UCPB Group increased 42% to P7.5 billion from P5.3 billion a year ago, with both interest income and non-interest income showing robust growth. Interest income rose 23% to P4.8 billion from P3.9 billion while non-interest income went up 97% to P2.7 billion from P1.4 billion.

Total operating expenses, on the other hand grew by just 10% from P7.7 billion to P8.5 billion and this was only mainly due to the 18% increase in interest expense brought about by the sharp 22% rise in total deposits. Other operating expenses actually went up by a minimal 2% and would have shown a 4% decline had not the Bureau of Internal Revenue mandated banks to revert to the gross receipt tax system during the year.

Apparently, the cost management measures that we started implementing two years ago had effectively tempered the growth of overhead expenses in 2004. Manpower cost, for example, declined by 26% while occupancy and other equipment-related costs went down by 16%. We shall continue to pursue these initiatives, looking at other areas where we can further reduce costs without sacrificing the quality of customer service, which is our key competitive advantage.

With the significant improvements we attained in revenue generation and expense management, the UCPB Group's operating losses before extraordinary items declined by 9% to P2.3 billion in 2004 from P2.5 billion a year ago.

It should be noted that while the UCPB Group reported a net income of P5.0 billion in 2003, this was mainly on account of the one-time gain from the sale at face value of a large block of non-performing assets (NPA) to the Philippine Deposit Insurance Corp. (PDIC). The NPA sale resulted in the recovery of loan loss provisions.

The UCPB Group's 2004 results reflect the solid gains we achieved during the year to build our deposit base, expand our consumer banking business, increase fee-based revenues and clean up the balance sheet.

Total deposits of the Group increased to P81.6 billion in 2004 from P66.8 billion a year ago. The hefty 22% growth in deposits enabled us to prepay two months ahead of schedule the one-year, P7.5-billion liquidity assistance that the PDIC provided shortly after the signing of the Financial Assistance Agreement in July 2003. More importantly, the growth underscored the market's renewed confidence in the UCPB Group, a feat for which we received the prestigious Anvil Award for Reputation Management from the Public Relations Society of the Philippines.

With the weak loan demand in the corporate sector during the year, we channeled the increase in deposits to high-yield investment instruments and to consumer credit. This resulted in an 87% increase in our trading and investment securities, from P10.5 billion to P19.7 billion, which strengthened our liquidity position, and a 102% growth in our consumer loan portfolio, from P860 million to P1.736 billion, which further enhanced our presence in this key market segment.

In our 10-year Business Plan, we identified the consumer and middle market segments as the UCPB Group's primary target markets. Consumer banking offers an attractive area for expansion given the high margins and relatively low risks here. Leveraging our extensive branch network, we believe we can turn the business into a major driver of revenue growth in the years ahead.

Another important revenue source that we intend to fully tap is fee-based service. We provide a lot of transactional services to our clients but had not priced them competitively in the past. In 2004, we started rationalizing our fee structure, aligning it to market and removing certain subsidies such as those on ATM transactions. These moves yielded a 26% increase in fee and service charge collections at the end of the year, from P511 million to P645 million.

We see more room for growth in this revenue source. To harness its potentials, we formed last year a dedicated Working Capital Product Group. This new group has been tasked to develop and deliver more fee-based and low-cost deposit products to clients, and ensure that they are competitively priced and positioned well in the market.

In 2004, we also made strong headway in liquefying our idle assets. We sold more than P2.0 billion of our real and other properties owned or acquired (ROPOA) through retail public auctions and direct sales and successfully worked out nearly P2.4 billion of our non-performing loans

Jose L. Querubin
President and CEO

(NPL). A number of ROPOA sale transactions were financed by UCPB, which means that we had converted our non-performing assets to earning assets.

We shall continue to give emphasis on disposing our non-performing assets. In fact, as of the first half of the current year, we have sold another P11.5 billion of our NPL under the Special Purpose Vehicle Act and auctioned off P1.1 billion more of our ROPOA.

Organizational focus played a key factor in the UCPB Group's performance in 2004. As we reported to you last year, we retooled our organizational setup, separating the Good Bank from the Remedial Bank, and spinning off their non-core functions to other specialized units.The strategy is producing the desired results. With a dedicated Good Bank to grow the business and a Remedial Bank to reduce non-performing assets, we

On Course

are now able to simultaneously attend to the tasks of generating revenues and managing our NPA.

RESULTS OF COMMUNITY PROGRAMS

The same strategy of having specialized units to focus on different tasks is working effectively for our civic programs as well. The UCPB Group has a UCPB-CIIF Finance and Development Corporation to handle enterprise development activities and a separate UCPB-CIIF Foundation to attend to the requisite social development work. Both reported strong results in 2004.

During the year, our UCPB-CIIF Finance accredited 228 countryside partners to its various credit programs, thus, widening its coverage to 62 of the country's 64 coconut-producing provinces. These countryside partners, totaling 1,143 as of year-end, consisted of cooperatives, coconut farmers' and farm workers' organizations, non-government organizations and rural financial institutions.

With a wider reach, UCPB-CIIF Finance stepped up delivery of credit to the countryside. Total loans released during the year increased 54% to P604 million from P392 million in the previous year. Since the launch of the various micro credit programs in 1995, UCPB-CIIF Finance has granted over P1.7 billion in livelihood loans benefiting 187,017 small coconut farmer households.

The ultimate goal of the credit programs is to transform coconut communities into organized, self-reliant economic units. Hence, apart from extending loans, UCPB-CIIF Finance carries out a lot of training activities to build the project, organizational, financial, and marketing management capabilities of the individual farmers, farm workers and their cooperatives. In this way, the viability of the livelihood projects being financed is enhanced.

In 2004, UCPB-CIIF Finance conducted 139 technical skills training workshops and 47 values formation seminars. It also initiated preliminary talks with the Department of Education for the implementation of a functional literacy program not only for the farmers but also for their wives and children.

Over the past 10 years, UCPB-CIIF Finance has provided 660 training programs to 17,421 coconut farmers and farm workers. The participants have passed on the skills and learning they had acquired to their colleagues.

The beneficial effect of the support programs undertaken through the years has become apparent in the quality of UCPB-CIIF Finance's loan portfolio. At the end of 2004, 95% of outstanding loans were current. This could only mean two things: one, the farmer-borrowers have acquired the necessary credit discipline, and two, that their livelihood projects are generating enough revenues to cover the payment of their loans.

The UCPB Group's assistance to coconut communities is by no means limited to livelihood programs. Our UCPB-CIIF Foundation is also implementing scholarship programs to give children of coconut farmers and farm workers opportunities to better their living conditions through education.

At the end of 2004, UCPB-CIIF Foundation had 222 scholars. Of the total, 141 were pursuing college degrees in various state universities across the country and 81 were taking up vocational courses at the manpower training centers of Don Bosco Technical College.

In mid-2004, UCPB-CIIF Foundation launched a volunteers program to give associates of the UCPB Group a venue to actively participate in social work. Under this program, associates can volunteer their time and expertise to teach new skills to members of coconut farmers' groups or to join free medical clinics and relief operations during times of calamities. One hundred ten associates have so far signed up for the program.

We expect participation to go up some more. Our associates have always shown a willingness to support the social causes that the UCPB Group espouses. Their level of social awareness is amazing. Time and again, when a need arises, they stand up to be counted.

Last year, for example, they helped raise funds for typhoon victims in coconut communities in Quezon province. The amount raised including the counterpart fund provided by UCPB totaled P1.0 million. We turned this over to the GMA Kapuso Foundation, which was undertaking relief and rehabilitation work in the province.

For years, our associates have also taken part in the annual trek to plant tree seedlings at the UCPB Reforestation Program's 33.3-hectare site in Barangay Boso Boso, Antipolo, Rizal. They helped plant more than 42,000 trees of various species on the once barren hillsides. The site is now fully reforested.

The UCPB Reforestation Program is considered one of the largest and most successful private reforestation efforts in Asia. During the Third Annual Asian Forum on Corporate Social Responsibility in Malaysia last year, the program won the Most Outstanding Award for Environmental Excellence. The Asian Bankers Association also adjudged it the Best Environmental Program by a financial institution in Asia four years ago.

ON COURSE!

Summing up your bank's performance in 2004, we could say that we are firmly on course!

The programs to continue growing our deposits and topline revenues are all in place as are the programs to dispose of our non-performing loans, manage expenses, and contribute to the welfare of small coconut farmers.

We have completed the separation of the marketing and the operations functions in the branches and the other line units. This should effectively triple the time that our sales force can devote to broadening existing relationships and developing new ones. With the intensified cross-selling activities that we will be doing this year, we should see higher business volumes across all business segments.

The planned acquisition of a new Core Banking Solution will greatly aid us in building business volumes more efficiently and effectively. With a new CBS, we can create a better client information system and enhance our capability to develop and support more product offerings. These should make our marketing efforts even more focused. We will also be able to fully automate our backroom processes, allowing us to provide our clients straight-through processing, and thus enhance customer satisfaction.

Last year, we finished defining our functional requirements, and after conducting system walk throughs, finally selected a CBS vendor from among the by five pre-qualified bidders. What remains to be done is complete the gap analysis to match what we need with what the vendor can provide.

Another major initiative for 2005 is to beef up our capital base. Early this year, we submitted a proposal requesting the PDIC to convert into direct equity the balance of the loans amounting to P12 billion that it provided previously under the 2003 Financial Assistance Agreement. Such conversion will bring our total capital accounts to P16.2 billion and further enhance our long-term competitive position.

Things are coming together very well. The steps we took in the prior years to strengthen the organization have sharpened our customer focus, renewed the market's confidence in the institution and created an upbeat mood among our associates. We have every reason to be optimistic about the UCPB Group's future prospects.

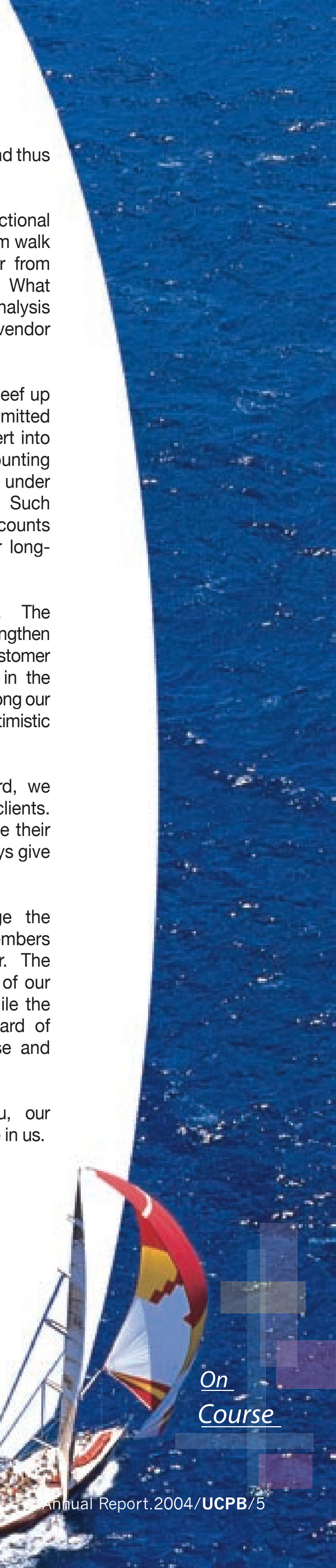
And as we continue to move forward, we would like to express our gratitude to our clients. Their abiding faith in our ability to provide their banking needs inspires us no end to always give our best.

We would also like to acknowledge the contribution of our associates and the members of our Board of Directors during the year. The enthusiasm, energy and professionalism of our associates sustained our momentum while the insights and valued counsel of our Board of Directors steered us on the right course and kept us moving on even keel.

Finally, we would like to thank you, our stockholders, for your steadfast confidence in us.

JOSE R. PEREZ
Chairman

JOSE L. QUERUBIN
President and CEO



An Interview with the President and CEO

As 2004 came to a close, UCPB president and CEO Jose L. Querubin unveiled a new corporate vision for the bank --- to be the most admired bank in the country in 10 years. In this section, Mr. Querubin explains why and talks about the challenges the bank will face and must hurdle to achieve its new vision.

Q: It has been only over a year since you came out with the corporate vision for UCPB "to be the best bank for clients by providing them the best service in the most efficient way." Why are you changing it so soon?

A: It is not so much changing the vision as bringing it the next level. We had really intended the earlier vision to merely provide the framework for all the preparatory works that we felt we must undertake to gear up the organization for the move to where we want to take UCPB over the next 10 years. And having completed these preparatory works, we are confident that we are ready to go for our ultimate goal which is industry leadership.

Q: And what were these preparatory works?

A: Being in a field with so many players, we realized early on that for us to rise above competition, we must be able to fully leverage our inherent strengths, which are excellent customer service and an extensive national franchise.

Clearly our first task was to focus these key competitive advantages on specific market segments where the long-term growth potentials are bright and where we already enjoy a strong presence. It would be too costly and would take too long to build these strengths in new markets. So we narrowed down our choice to the consumer and middle market segments. Most of the clientele of our branches belong to these segments. We already know them. We have the products and services they need. We believe we can anchor our long-term growth on these segments.

Having refined our marketing focus, we then proceeded to create the infrastructure that would allow us deliver our products and services to these chosen market segments better than competition and more efficiently and effectively than we had been able to do in the past.

Q: Is this why you undertook a major retooling of your organizational structure last year?

A: Precisely. We put in place an organizational structure that promotes functional specialization. Where before we have the different units performing similar tasks, which had resulted in costly duplications and the dilution of efforts, now we have separate and dedicated business groups handling each of the major bank activity such as sales and marketing, support and operations, and credit.

In one stroke, we have improved employee productivity by sharpening our associates' focus on their core competencies, increased organizational efficiency by eliminating functional overlaps and redundancies, and heightened synergy by delineating the role that each unit and each associate must perform in the delivery of customer service. These should lead to higher customer satisfaction, and in fact they are already doing so. Last year, I visited nearly all our branches and talked lengthily to our associates and clients there. And from what I heard from them, I can say that our relationships are built on solid ground. The time is ripe to cast our sight on our ultimate goal.

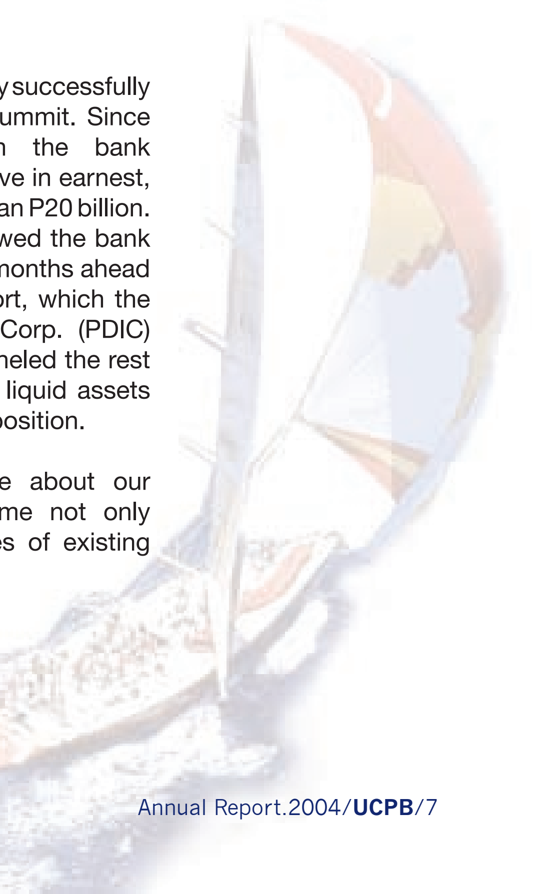
Q: What would be key to making UCPB the most admired bank in the country?

A: We see three main challenges that we must surmount to achieve our new vision. The challenges are liquidity, profitability and stability. In my talks to our associates, I have likened these challenges to a series of summits that go progressively higher. Certainly, the going would be tough but very doable because as we scale one summit, we create a momentum that will propel us to the next summit.

Q: So the most difficult would be the first summit because you would then be just starting to build your momentum. At what stage would you say you are in conquering the liquidity summit?

A: In fact, we have already successfully scaled the liquidity summit. Since August 2003 when the bank started its deposit drive in earnest, deposits have grown by more than P20 billion. The sharp rise of deposits allowed the bank to pre-pay in July 2004 or two months ahead of schedule the liquidity support, which the Philippine Deposit Insurance Corp. (PDIC) provided a year ago. We channeled the rest of the incremental deposits to liquid assets to further beef up our liquidity position.

What is particularly notable about our deposit growth is that it came not only from increases in the balances of existing



accounts but also from new corporate and retail accounts. This clearly shows that we have regained the market's confidence and our competitiveness and vigor. And being broad-based, we are sure that the growth can be sustained over the long term.

We were a little surprised ourselves by how fast we've breached the liquidity summit. Clearly, the separation of the marketing function from operations under our new organizational structure is working. And apparently too, the challenge we posed to our associates had fired up their enthusiasm. Their readiness to support and contribute to our goals makes us all the more confident going to the next summit.

Q: What's your timetable for reaching the next summit, which is the profitability summit?

A: Over the next four years, we will focus on achieving an exponential increase in our topline revenues on the one hand while continuing to manage our costs effectively and liquefying our non-performing assets on the other.

To attain a dramatic growth in top line revenues, we will closely monitor and constantly measure the profitability of every unit, department, division and group; the profitability of all customer accounts; and the profitability of each product or service delivered to a client.

The objective is to make sure that every activity or process should create both customer value and shareholder value. Thus, if an account has no way of becoming profitable, or if a product is not generating sufficient returns, we will exit the relationship or phase out the product so that resources could be deployed elsewhere.

Our Product Committee is carrying out a continuing review of all products to ensure that their pricing will cover the bank's cost while providing a reasonable spread or revenue. At the same time, our Committee on Service Charges and Fees is working on rationalizing the bank's fees and charges on various services to enhance fee-based revenues.

We will also continue to emphasize cost management. The retooling of the organizational structure last year yielded tremendous cost savings from the elimination of functional redundancies. Moving forward, we will focus on enhancing operational efficiencies to further reduce expenses and increase productivity. The new Core Banking Solution that we plan to acquire should increase productivity significantly.

The effect of our revenue enhancement and cost management initiatives is already evident in our 2004 results. As we reported in the previous section, total revenues increased by 42%, with non-interest revenues growing by 97% and interest income rising by 23%. On the other hand, operating expenses grew by only 10%.

To boost revenues further, we are going full blast on cross-selling the bank's products and services this year. In preparation for this, 1,812 line associates attended selling skills improvement workshops and seminars last year. Having completed the separation of marketing functions from operations, our line associates will now have more time to devote to sales and marketing. Such aggressive cross-selling effort is expected to provide us a tremendous revenue lift. We are looking at a 23% growth in interest income and a 30% increase in non-interest income this year.

Q: What will it take for UCPB to reach the third and final summit, which is the stability summit?

A: Sustained profitability will propel UCPB to the stability summit. By then UCPB would be able to continuously increase capital through internally generated funds from operating profits. But even as we have yet to reach that stage, we are taking a number of steps to improve our capital position. Apart from our proposal to the PDIC to convert its loans to equity, which will bring our capital to P16.2 billion, we are fleshing out our balance sheet for hidden values that we can also convert to capital.

We have identified two so far. One is the unbooked appraisal increment on the bank's fixed assets amounting to P1.8 billion as of the end of 2004. The other is our equity investment in CIIF Oil Mills. UCPB has equity investment in four coconut oil mills that own, through 14 holding companies, 25.6% of San Miguel Corp. (SMC).

The investment in the oil mills is equivalent to about 2.8% ownership of SMC, which at current market prices, is valued at P6.0 billion. Although certain legal issues prevent an outright sale at the moment, we are confident that we can eventually realize the full value of the investment.

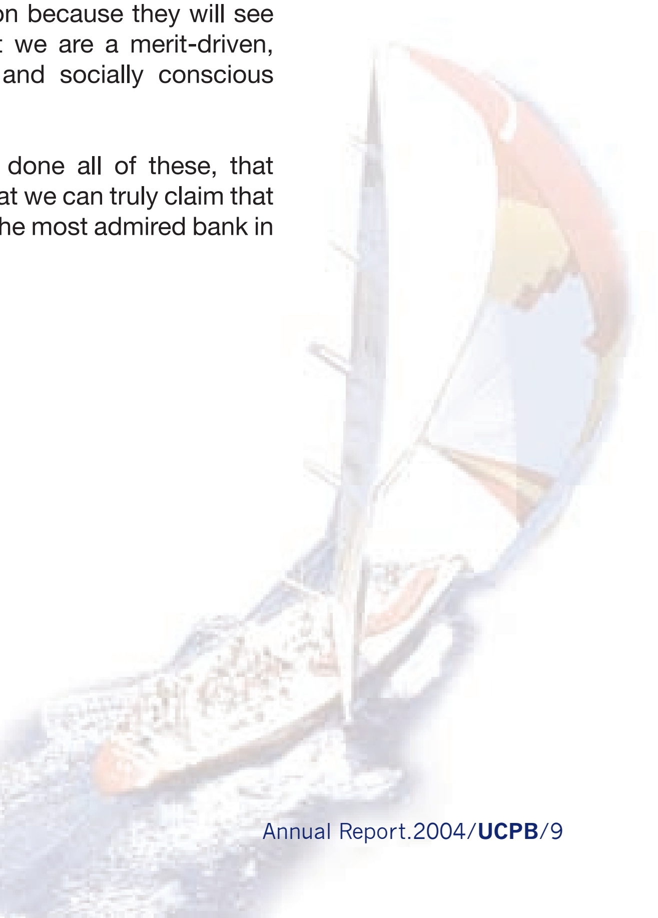
Q: When you have scaled the stability summit, what then? How would that make UCPB the most admired bank in the country?

A: By themselves, profitability and stability will not make us the most admired bank in the country.

However, as we grow more profitable and stable we will attract more clients and generate more resources, allowing us to continuously invest in improving our customer service delivery systems, in expanding our social outreach activities particularly for small coconut farmers, and in strengthening human resource development programs that will promote the personal and professional growth of our associates.

With these, we can create an environment in which our clients will make us their first choice and reward us with more of their business because we create value for them. The communities where we operate will look up to us because they will recognize our sincere interest in promoting their general welfare. Our associates will also take deeper pride in the institution because they will see and experience that we are a merit-driven, highly professional and socially conscious organization.

When we have done all of these, that would be the time that we can truly claim that UCPB has become the most admired bank in the country.



Corporate Governance

UCPB adheres to the principles of corporate governance where corporate fairness, accountability, competency and transparency are inherent practices.

Pursuant to regulatory mandates, the Bank formulated its corporate governance programs and the corresponding implementing manual in 2002. The Board of Directors approved these on that same year. The Bank updated the implementing manual in 2004 to incorporate the new regulatory provision of the Bangko Sentral ng Pilipinas (BSP) mandating banks to establish three board committees and their respective duties, responsibilities and authorities, namely, an Audit Committee, a Risk Management Committee and a Corporate Governance Committee. The revised manual was submitted the Securities and Exchange Commission (SEC) and the BSP following its approval by the Board.

In compliance with the new BSP regulatory provision, the Board created a Corporate Governance Committee. The charters of the Audit, Risk Management and Corporate Governance committees were approved last year. These mandated board committees meet regularly at least once every month.

In compliance with the Bank's corporate governance manual, the Board of Directors initiated a self-assessment on its corporate governance practices. The self-rating covered assessments on a) the Board, b) the Chairman, c) the Board Members, d) the Board Meetings, and e) the Board Committees and Board issues.

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

CORPORATE GOVERNANCE SYSTEM

Policies and Procedures

UCPB's corporate governance system is integrated into the various internal policies, guidelines 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, ethical business practices, 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 BSP, 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 anti-money laundering law 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.

Current Bank systems on anti-money laundering are regularly monitored through on site assessment of personnel to check on whether the policies are being implemented and how effective the policies are. Regular training modules on anti-money laundering are conducted across the institution.

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 enhanced 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 in view of mitigating risks rather than merely enforcing conformity with internal control procedures. Towards this end, the Bank is working to empower compliance and risk management to achieve their mandates and create an awareness of these key functions across the organization. By doing so, the Bank has taken 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

The Bank recognizes the integral role that risk management plays in the Bank's operations, and has therefore 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:

A. 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.

B. Long-term Objective

(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 top-level committee of Directors and Senior Management. 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.

Going forward, the risk management process will be guided by the policies and procedures established in the risk management manual. The risk management framework will be implemented by various line and operating units in coordination with the Risk Management Unit, Compliance and Systems and Methods Department. The task of internal control, review and assessment of the risk process will be performed by Internal Audit. Management's analyses of operations and risk performance will be reported to the Board of Directors.

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

A. Market and Liquidity 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 and foreign exchange 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.

The Bank manages its currency risk exposures through various established risk measurement frameworks and limits. Meanwhile, interest rate risk management comes in the form of proper pricing and matching of asset products and liability products in terms of tenor, yield, and interest rate sensitivity.

Market risks would be controlled/limited on a daily basis by the Treasury Risk Control and Compliance, which functions independently from the business units. The Bank would continue to rely on various risk measurement methodologies such as Stop Loss Limits, Loss Alert Limits, Position Limits, Mark to Market Valuation, Value at Risk (VaR), Stress Testing and Earnings at Risk (EaR) to measure, monitor and control market risks. The VaR is based on parametric or variance-covariance model using a 260 day rolling window, and 2.326 standard deviation under 99% confidence level. The FX VaR uses 1 one day defeasance period while the Portfolio VaR for fixed-income securities use a 10-day defeasance period and its risk factor is based on the yield curve that is modeled by estimating a portfolio of zero coupon bonds.

On the other hand, 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 in the general funding of the Bank's activities and in 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 the market condition to guide pricing and asset/liability allocation strategies to manage its liquidity risks. Liquidity risks are monitored and managed through gap limits in the Maximum Cumulative Outflow limits.

Under liquidity risk management, the methodologies used are Maximum Cumulative Outflow (MCO) and funding diversification/concentration limits. These methodologies enable the Bank to perform risk analysis on individual products, group of products or on an aggregate portfolio basis.

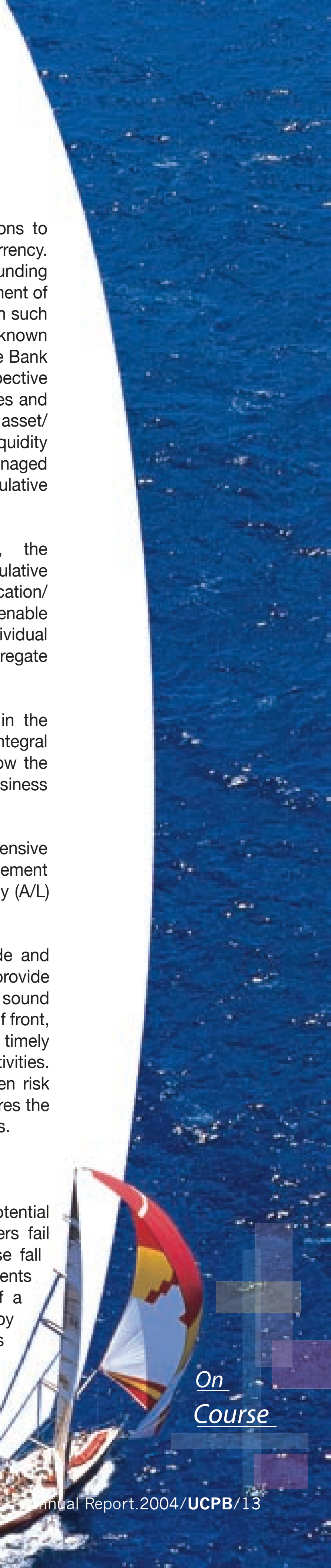
The setting up of risk control limits in the Bank's trading and banking books is an integral part of risk management. These limits allow the Bank to minimize losses while pursuing business opportunities and profit objectives.

The Bank envisions a more comprehensive approach to market and liquidity risk management for its trading, investment and asset/liability (A/L) portfolios.

The Bank is looking into the upgrade and acquisition of risk management software to provide the necessary support for a conceptually sound risk management system. The integration of front, middle and back-office software provide timely and accurate reporting of risk taking activities. A system of checks and balances between risk taking personnel and approved limits ensures the compliance and integrity of the risk process.

B. 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 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 potential of the industry in which the loan applicant operates in.

On a continuing basis, the Bank generates credit risk ratings for existing loan accounts to assess their performance and to determine which account will be retained, expanded or phased out. A separate review of the loan portfolio is conducted by the Portfolio & Credit Analysis Department. This review focuses on the quality of individual accounts and the concentration of the Bank's credit exposure in the various industries.

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

To strengthen the Bank's credit risk management systems, the Bank has reviewed and reassessed the credit review and analysis process to enhance the credit risk management of the Bank. Internal risk rating system based on BAP standards are an important tool in monitoring credit risk. Improvement of the current internal rating system to a more risk sensitive rating scale will lead to sounder credit decisions and risk analysis of loans.

To further this objective, internal risk ratings are being set up to support the identification and measurement of risk from all credit exposures, and would be integrated into the institution's overall analysis of credit risk and capital adequacy.

The Bank is looking into the development or acquisition of credit models that have the ability to estimate the probability of default, exposure at default and loss given default to enhance the analysis of the Bank's credit portfolio. These credit models will provide additional risk drivers to objectively measure and quantify the quality of loans.

The Bank is also developing of risk management strategies at the portfolio level, including the management of concentrations of risk. As such, analysis of credit risk would also take into consideration the risks involved in allowing credit concentrations to continue.

C. Operational 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.

In view of the Bank's commitment towards managing its operational risks, the Bank is developing an independent operation risk management function that is responsible for the design and implementation of the Bank's operational risk management framework.

The operational risk management function is responsible for:

(1) codifying firm-level policies and procedures concerning operational risk management and controls;

(2) the design and implementation of a risk-reporting system for operational risk; and

(3) developing strategies to identify, measure, monitor and control/mitigate operational task.

The Bank is also planning to integrate the internal operational risk measurement system with the day-to-day risk management processes of the Bank. The synergy provided by such an approach would make for an integral part of the process of monitoring and controlling the Bank's operational risk profile. For instance, this information would play a prominent role in risk reporting, management reporting, internal capital allocation, and risk analysis. The Bank would also be adopting techniques for allocating operational risk capital to major business lines and for creating incentives to improve the management of operational risk throughout the firm.

Accompanying this new approach on operational risk management is the regular reporting of operational risk exposures and loss experience to the business unit management, senior management and to the Board of Directors. The reportorial requirement would also be complemented by procedures for the Bank to take appropriate action according to the information within the management reports.

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 year ended December 31, 2004. 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 judgment of management with an appropriate consideration to materiality.

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

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

KPMG Laya Mananghaya & Co., the independent auditors appointed by the Board of Directors, have examined the financial statements of the Company in accordance with generally accepted auditing standards in the Philippines and have expressed its opinion on the fairness of presentation upon completion of such examination, in their report to the Board of Directors and Stockholders.

Signed under oath by the following:

JOSE R. PEREZ Chairman of the Board	JOSE L. QUERUBIN President and CEO	CESAR A. RUBIO Executive Vice President and CFO

REPORT OF INDEPENDENT AUDITORS

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 statements of condition of United Coconut Planters Bank and Subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in capital funds and cash flows for the years 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 audits.

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

As discussed in Note 5 to the consolidated financial statements, certain loans, real and other properties owned or acquired and other assets of the Bank amounting to P21.73 billion as of December 31, 2004 and P14.03 billion as of December 31, 2003 were not provided for with allowance for probable losses. Such unbooked provision will be recognized in the books over ten years in accordance with the Bangko Sentral ng Pilipinas (BSP) approved staggered booking guidelines. Based on management's discussion with the BSP, any further deterioration in value of accounts already included in the original P14.03 billion can also be recorded based on the BSP approved staggered booking guidelines. Accounting principles generally accepted in the Philippines (Philippine GAAP) require that adequate allowance for probable losses should be provided for loans which are assessed to be doubtful of collection, for acquired assets that have deteriorated in net realizable value and other assets that are no longer recoverable, and that this required allowance for probable losses are required to be recorded in the period they are determined.

As discussed in Note 8 to the consolidated financial statements, loss of P1.24 billion arising from the dacion en pago settlement by a wholly owned subsidiary was recorded by the Bank as deferred charges and should have been eliminated in the consolidated financial statements. The loss will be amortized over a period of ten years in accordance with the Special Purpose Vehicle Law. Philippine GAAP requires that profits and losses arising from transactions between the parent and its subsidiaries should be eliminated.

Had the additional allowance for probable losses been reflected and the deferred charges been eliminated in the financial statements, assets and capital funds would have been reduced by P22.97 billion as of December 31, 2004 and P14.03 billion as of December 31, 2003, respectively, and net income would have been reduced by P8.94 billion and P14.03 billion in 2004 and 2003, respectively.

In our opinion, except for the effects of the matters discussed in the third and fourth paragraphs, the 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, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Philippines.

The consolidated financial statements have been prepared on a going concern basis. The Bank's losses prior to 2003 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 management has taken active steps to ensure the continuing liquidity of the Group, as well as its capital build-up plan. Pursuant to the Financial Assistance Agreement with Philippine Deposit Insurance Corporation (PDIC) entered on July 7, 2003 and the approval of the Monetary Board of the 10-year staggering of provisions and waiver of penalties, the Group is now finalizing its revised 10-year Business/Rehabilitation Plan for approval by the PDIC and BSP. Furthermore, on April 11, 2005, the Group sold a significant portion of its nonperforming loans to a third party which is a step towards improving its financial structure. The accompanying consolidated financial statements have been prepared assuming that the Bank and the subsidiaries will continue their going concern status and 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.

May 5, 2005
Makati City, Metro Manila
Philippines

STATEMENTS OF CONDITION
(Amounts in Thousands of Pesos)

	GROUP		PARENT COMPANY	
	December 31			
	2004	2003 (As restated)	**2004**	2003 (As restated)
ASSETS				
Cash and Other Cash Items	**P 3,003,368**	P 3,157,180	**P 2,867,090**	P 3,083,911
Due from Bangko Sentral ng Pilipinas (Note 12)	**3,531,869**	7,064,284	**3,491,655**	7,017,535
Due from Other Banks (Note 12)	**2,072,097**	989,224	**1,738,409**	913,838
Interbank Loans Receivable (Note 12)	**1,541,775**	1,152,018	**1,335,775**	974,103
Trading and Investment Securities - net (Notes 3 and 12)	**19,665,173**	10,500,995	**19,082,232**	10,159,619
Receivables from Customers - net (Notes 4, 10, 12 and 18)	**41,836,483**	44,201,914	**41,098,925**	47,009,807
Property and Equipment - net (Note 6)	**1,384,702**	1,582,583	**1,246,074**	1,419,959
Equity Investments (Note 7)	**4,027,801**	4,309,359	**6,097,487**	5,216,893
Real and Other Properties Owned or Acquired - net (Note 8)	**22,623,148**	21,864,655	**22,430,844**	21,656,689
Other Assets - net (Notes 9, 15 and 18)	**7,120,994**	9,012,011	**5,042,779**	4,327,010
	P 106,807,410	P 103,834,223	**P 104,431,270**	P 101,779,364
LIABILITIES AND CAPITAL FUNDS				
Deposit Liabilities (Notes 12 and 18)				
Demand	**P 4,035,307**	P 3,687,580	**P 3,971,516**	P 3,635,297
Savings	**25,987,342**	54,250,757	**24,717,882**	53,223,633
Time	**51,628,232**	8,837,368	**51,169,626**	8,833,599
	81,650,881	66,775,705	**79,859,024**	65,692,529
Bills Payable (Notes 10 and 12)	**14,355,470**	22,791,702	**14,300,470**	22,596,353
Manager's Checks and Demand Drafts Outstanding (Note 12)	**292,056**	577,732	**270,732**	561,359
Accrued Taxes, Interest and Other Expenses	**1,118,754**	2,044,567	**1,010,619**	1,732,908
Other Liabilities (Notes 11 and 18)	**5,221,194**	5,028,222	**4,821,370**	4,579,920
	102,638,355	97,217,928	**100,262,215**	95,163,069
Capital Funds (Note 13)	**4,169,055**	6,616,295	**4,169,055**	6,616,295
	P 106,807,410	P 103,834,223	**P104,431,270**	P 101,779,364

See Notes to Consolidated Financial Statements.

STATEMENTS OF INCOME
(Amounts in Thousands of Pesos)

	GROUP		PARENT COMPANY	
	Years Ended December 31			
	2004	2003 (As restated)	**2004**	2003 (As restated)
INTEREST INCOME				
Receivables from customers (Note 18)	**P 2,998,454**	P 2,706,233	**P 2,617,711**	P 2,302,720
Trading and investment securities	**1,555,605**	968,580	**1,502,825**	938,482
Deposits with banks	**132,094**	185,441	**122,720**	155,747
Interbank loans receivable	**87,673**	44,129	**70,277**	37,947
Miscellaneous	**28,159**	4,448	**27,978**	4,415
	4,801,985	3,908,831	**4,341,511**	3,439,311
INTEREST EXPENSE				
Deposit liabilities (Note 18)	**3,746,347**	3,102,583	**3,715,999**	3,065,503
Bills payable and other borrowings	**823,003**	761,238	**770,937**	722,921
	4,569,350	3,863,821	**4,486,936**	3,788,424
NET INTEREST INCOME	**232,635**	45,010	**(145,425)**	(349,113)
OTHER INCOME (CHARGES)				
Service charges, fees and commissions	**645,345**	511,026	**557,209**	447,679
Trading and securities gain - net	**431,166**	362,394	**431,166**	362,394
Equity in net earnings of associates (Note 7)	**166,898**	268,235	**934,028**	258,594
Foreign exchange loss - net	**155,280**	(167,227)	**155,280**	(167,227)
Loss on sale of real and other properties owned or acquired	**(220,574)**	(18,918)	**(220,574)**	(19,262)
Miscellaneous (Notes 9 and 18)	**1,525,882**	418,597	**264,204**	345,931
	2,703,997	1,374,107	**2,121,313**	1,228,109
INCOME BEFORE PROVISION FOR PROBABLE LOSSES	**2,936,632**	1,419,117	**1,975,888**	878,996
PROVISION (REVERSAL OF ALLOWANCE) FOR PROBABLE LOSSES	**1,269,600**	(10,507,157)	**857,541**	(10,593,640)
OTHER EXPENSES				
Compensation and fringe benefits (Note 17)	**1,095,262**	1,481,846	**977,671**	1,348,067
Occupancy and other equipment-related costs (Notes 6, 14 and 18)	**765,463**	916,194	**712,686**	774,671
Taxes and licenses (Note 15)	**388,230**	130,175	**276,437**	60,382
Miscellaneous	**1,703,962**	1,345,674	**1,486,979**	1,243,669
	3,952,917	3,873,889	**3,453,773**	3,426,789
INCOME (LOSS) BEFORE INCOME TAX	**(2,285,885)**	8,052,385	**(2,335,426)**	8,045,847
PROVISION FOR INCOME TAX (Note 15)	**161,355**	3,063,900	**111,814**	3,057,362
NET INCOME (LOSS)	**(P 2,447,240)**	P 4,988,485	**(P 2,447,240)**	P 4,988,485

See Notes to Consolidated Financial Statements.

STATEMENTS OF CHANGES IN CAPITAL FUNDS

(Amounts in Thousands of Pesos, Except Par Value and Number of Shares)

	Years Ended December 31	
	2004	2003 (As restated)
CAPITAL STOCK - P1 par value (Notes 13 and 21)		
Preferred		
Authorized, issued and outstanding - 750,000,000 shares	**P 750,000**	P 750,000
Common		
Authorized - 2,500,000,000 shares		
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	**440,919**	344,572
Transfer to surplus	**(440,919)**	-
Share in CTA during the year	**-**	96,347
Balance at end of year	**-**	440,919
SURPLUS RESERVE (Notes 13 and 18)		
Balance at beginning of year	**682,644**	679,918
Transfer from surplus (deficit)	**96,743**	2,726
Balance at end of year	**779,387**	682,644
SURPLUS (DEFICIT) (Note 13)		
Balance at beginning of year		
As previously reported	**4,700,532**	(3,560,302)
Prior period adjustments (Note 20)	**(692,643)**	2,582,432
As restated	**4,007,889**	(977,870)
Net income (loss) for the year	**(2,447,240)**	4,988,485
Transfer from CTA	**440,919**	-
Transfer to surplus reserve (Note 18)	**(96,743)**	(2,726)
Balance at end of year	**1,904,825**	4,007,889
	P 4,169,055	P 6,616,295

See Notes to Consolidated Financial Statements.

STATEMENTS OF CASH FLOWS
(Amounts in Thousands of Pesos)

	GROUP		PARENT COMPANY	
	Years Ended December 31			
	2004	2003 (As restated)	**2004**	2003 (As restated)
CASH FLOWS FROM OPERATING ACTIVITIES				
Income (loss) before income tax	**(P 2,285,885)**	P 8,052,385	**(P 2,335,426)**	P 8,045,847
Adjustments for:				
Interest expense	**4,569,350**	3,863,821	**4,486,936**	3,788,424
Interest income	**(4,801,985)**	(3,908,831)	**(4,341,511)**	(3,439,311)
Provision (reversal of allowance) for probable losses	**1,269,600**	(10,518,857)	**857,541**	(10,593,640)
Depreciation and amortization	**258,329**	357,668	**233,349**	326,567
Loss on sale of real and other properties owned or acquired	**220,574**	18,918	**220,574**	19,262
Amortization of deferred charges	**-**	-	**33,263**	35,943
Minority interest in net earnings of consolidated subsidiaries	**5,093**	4,829	**-**	-
Unrealized trading loss	**-**	3,864	**17,383**	3,864
Dividends received from investees	**-**	-	**39,896**	12,491
Equity in net earnings of investees	**(166,898)**	(268,235)	**(934,028)**	(258,594)
Operating loss before changes in operating assets and liabilities	**(931,822)**	(2,394,438)	**(1,722,023)**	(2,059,147)
Decrease (increase) in:				
Trading account securities	**(253,938)**	(3,170,925)	**189,823**	(3,208,346)
Receivables from customers	**1,070,986**	8,175,179	**5,465,896**	5,965,891
Real and other properties owned or acquired	**(979,067)**	(501,398)	**(966,987)**	(485,131)
Other assets	**1,395,350**	(2,456,188)	**(1,634,481)**	(77,991)
Increase (decrease) in:				
Deposit liabilities	**14,875,176**	(16,776,945)	**14,166,495**	(17,078,172)
Manager's checks and demand drafts outstanding	**(285,676)**	66,487	**(290,627)**	65,259
Accrued taxes, interest and other expenses	**(221,540)**	(178,065)	**(129,751)**	(1,156,617)
Other liabilities	**209,178**	(1,039,614)	**241,450**	(457,334)
Cash generated from (used in) operations	**14,878,647**	(18,275,907)	**15,319,795**	(18,491,588)
Interest received	**5,310,616**	3,908,831	**4,778,858**	2,043,748
Interest paid	**(5,292,443)**	(3,863,821)	**(5,110,508)**	(2,492,790)
Income taxes paid	**(146,860)**	(37,682)	**(112,336)**	-
Net cash provided by (used in) operating activities	**14,749,960**	(18,268,579)	**14,875,809**	(18,940,630)
CASH FLOWS FROM INVESTING ACTIVITIES				
Net acquisitions of property and equipment	**(P 60,448)**	(P 181,077)	**(P 59,464)**	(P 137,574)
Decrease (increase) in:				
Investments in bonds and other debt instruments	**(8,910,240)**	2,509,432	**(9,130,354)**	(2,532,409)
Equity investments	**448,456**	(174,007)	**53,434**	(7,257)
Share in cumulative translation adjustment of associates	**-**	96,347	**-**	96,347
Net cash provided by (used in) investing activities	**(8,522,232)**	2,250,695	**(9,136,384)**	2,483,925

Forward

	GROUP		PARENT COMPANY	
	Years Ended December 31			
	2004	2003 (As restated)	**2004**	2003 (As restated)
CASH FLOW FROM FINANCING ACTIVITIES				
Increase (decrease) in bills payable	**(8,436,232)**	15,315,497	**(8,295,883)**	15,818,416
Minority interest in equity of consolidated subsidiaries	**(5,093)**	(4,829)	**-**	-
Net cash provided by (used in) financing activities	**(8,441,325)**	15,310,668	**(8,295,883)**	15,818,416
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(2,213,597)**	(707,216)	**(2,556,458)**	(638,289)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
Cash and other cash items	**3,157,180**	2,753,936	**3,083,911**	2,870,694
Due from Bangko Sentral ng Pilipinas	**7,064,284**	4,458,845	**7,017,535**	4,415,270
Due from other banks	**989,224**	1,217,599	**913,838**	783,170
Interbank loans receivable	**1,152,018**	4,639,542	**974,103**	4,558,542
	12,362,706	13,069,922	**11,989,387**	12,627,676
CASH AND CASH EQUIVALENTS AT END OF YEAR				
Cash and other cash items	**3,003,368**	3,157,180	**2,867,090**	3,083,911
Due from Bangko Sentral ng Pilipinas	**3,531,869**	7,064,284	**3,491,655**	7,017,535
Due from other banks	**2,072,097**	989,224	**1,738,409**	913,838
Interbank loans receivable	**1,541,775**	1,152,018	**1,335,775**	974,103
	P 10,149,109	P 12,362,706	**P 9,432,929**	P 11,989,387

See Notes to Consolidated Financial Statements.

1. Organization 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, 2004 and 2003, the Bank had employees of 2,916 and 3,557, respectively. In 2003, the Bank offered a special retirement plan (SRP) to its employees, a total of 496 qualified employees availed of the SRP. Subsequently, the Bank's total number of employees was reduced to 3,061.

The consolidated financial statements have been prepared on a going concern basis. The Bank's losses prior to 2003 brought the Bank's capital below the required minimum capital requirement for an expanded commercial bank. However, the Management has taken active steps to ensure the continuing liquidity of the Bank, as well as its capital build-up plan. 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, on July 7, 2003, the Bank entered into a Financial Assistance Agreement (the "Agreement") with Philippine Deposit Insurance Corporation (PDIC). The financial assistance from PDIC amounting to P20 billion, is composed of three components:

a. P8 billion direct purchase of nonperforming loans (NPL) (absolute sale to PDIC);

b. P5 billion purchase of NPL with buyback by 2013; and

c. P7 billion in Tier 2 capital with a cost to the Bank of 5% due in 2008, which may be constituted as unsecured subordinated debt.

The Agreement also provides for a P10 billion standby liquidity facility, of which P7.50 billion was availed by the Bank at an interest rate of 6.325%. This borrowing was paid by the Bank in July 2004, two months ahead of the September 2004 due date.

As required by the Agreement, the Bank prepared a detailed rationalization plan of the Bank's subsidiaries which is already being implemented.

On February 26, 2004, PDIC endorsed to the BSP for approval the Bank's 10-year Business Plan or Rehabilitation Plan (the Plan). Part of the Plan is the Bank's business strategy that has the following elements: (1) separation of "bad bank" from the "good bank"; (2) right-sizing and streamlining of operations to reduce costs; and (3) capital raising which aims to withstand the limitation brought about by the unresolved ownership issue.

In its letter to the BSP dated March 29, 2004, the Bank requested for certain concessions for the duration of the rehabilitation period of ten years or until such time that the Bank is able to comply with the regulatory requirements whichever is earlier. The BSP, in its reply dated January 10, 2005, decided among others, the following:

a. Approved the 10-Year Business/Rehabilitation Plan of the Bank;

b. Granted temporary relief by reducing the risk-weighted capital ratio to 8% for a period of three years up to 2007 or until such time that UCPB is able to comply with the required 10% capital adequacy ratio (CAR), whichever comes earlier;

c. Allowed the staggered booking of P14.03 billion required valuation reserves based on the Special Purpose Vehicle Law, as discussed in Note 2.

d. Required the Bank to seek prior BSP approval for the merger of UCPB Savings Bank (USB) and UCPB Rural Bank (URB). (See Note 7.)

Based on management's discussion with the BSP, any further deterioration in value of the accounts already included in the original P14.03 billion can also be recorded based on the approved staggered booking guidelines.

On April 11, 2005, the Bank sold a significant portion of its nonperforming loans to a third party which is a step towards improving its financial structure.

2. Summary of Significant Accounting Policies

The consolidated financial statements of the Bank and its subsidiaries (the Group) have been prepared in conformity with the accounting principles generally accepted in the Philippines (Philippine GAAP), which generally follows the historical cost convention, as modified by the revaluation of certain investment securities and derivative instruments, except for allowance for probable losses which is recognized on a staggered basis and the non-elimination of a transaction with a subsidiary for purposes of equity accounting. The significant accounting policies followed by the Group are as follows:

Basis of Presentation

The financial statements of the Bank reflect the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU) after eliminating certain significant inter-unit accounts.

The books of accounts of the Bank are maintained in Philippine Pesos and various foreign currencies. For financial reporting purposes, foreign currency-denominated assets and liabilities and income and expenses are translated into their equivalents in Philippine pesos based on the Philippine Dealing System weighted average rates (PDSWAR) prevailing at statement of condition date (for assets and liabilities) and the average PDSWAR for the year (for income and expenses). Translation gains or losses of assets and liabilities are reflected in the consolidated statements of income.

The consolidated financial statements include the accounts of the Bank 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
Banking	UCPB Rural Bank, Inc.	Philippines	94.70
Banking	UCPB Savings Bank, Inc.	Philippines	99.23

Material intercompany balances and transactions have been eliminated in consolidation except for the loss of P1.24 billion arising from the dacion en pago settlement by a wholly owned subsidiary recorded as deferred charge by the Bank.

Philippine GAAP requires that profits and losses arising from upstream and downstream transactions between the parent and its subsidiaries should be eliminated in the consolidated financial statements. However, the loss arising from the dacion en pago settlement by a wholly owned subsidiary was recorded by the Parent Company as deferred charges and was not eliminated for purposes of consolidation. The incentive provided for under the Special Purpose Vehicle Law allows the loss to be amortized over a period of ten years.

As part of the Bank's 10-Year Business/Rehabilitation Plan, two of the Bank's subsidiaries, USB and URB, shall merge their operations. Based on the merger plan, USB will be the surviving entity and the separate corporate existence of URB shall cease. The merged corporation shall thereupon and thereafter possess all the rights, privileges, properties, branches, offices, and franchises of USB and URB, and all property, receivables due on whatever account, including subscriptions to shares, and all other interest of, or belonging to, or due to USB and URB, shall be taken by and deemed transferred to and vested in the merged corporation by operation of law as provided in the Corporation Code. USB will issue one common share for every 36 common shares of URB to stockholders of record upon approval of the merger by the SEC and the PDIC.

Use of Estimates

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

Adoption of New Accounting Standards Effective 2004

Effective January 1, 2004, the Group adopted the following Statements of Financial Accounting Standards/International Accounting Standards (SFAS/IAS) which are relevant to the Group's operations:

- SFAS 12/IAS 12, *Income Taxes;* and
- SFAS 17/IAS 17, *Leases.*

SFAS 12/IAS 12, Income Taxes, prescribes the accounting treatment for current and deferred income taxes and requires the use of a balance sheet liability method in accounting for deferred income taxes. Also, it generally requires the recognition of all deferred tax liabilities and, subject to recoverability test, of deferred tax assets for all temporary differences. The standard provides for the recognition of a deferred tax asset when it is probable that taxable income will be available against which the deferred tax asset can be used. It also provides for the recognition of a deferred tax liability with respect to asset revaluations. However, for presentation purposes, the deferred tax assets (liabilities) previously classified as current assets (liabilities) in the consolidated statements of condition are now reclassified as noncurrent assets (liabilities) upon adoption of the new standard.

SFAS 17/IAS 17, Leases, prescribes the accounting policies and disclosures to apply to finance and operating leases.

The adoption of the above new SFAS/IAS had no material effect on the respective financial position, results of operations, or cash flows of the Group. Additional disclosures required by the new standards, however, were included.

Philippine Financial Reporting Standards (PFRS) Effective 2005

Accounting standards issued by the Philippine Accounting Standards Council (ASC) were renamed to correspond better with the issuances of the International Accounting Standards Board (IASB). Philippine Accounting Standards (PAS) correspond to the adopted IAS. PFRS correspond to the adopted International Financial Reporting Standards (IFRS). The following are the PFRS consisting of the PAS based on the last batch of IAS for adoption in 2005, PAS based on the Revised IAS [2003/2004] and the PFRS based on the new IFRS [2003/2004], which will all be effective for financial statements covering periods beginning on or after January 1, 2005, and which the Group will adopt in 2005 because these are relevant to the Group's operations.

PAS Based on the Last Batch of IAS
- PAS 19, Employee Benefits; and
- PAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions.

PAS Based on the Revised IAS
- PAS 1, Presentation of Financial Statements;
- PAS 2, Inventories;
- PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors;
- PAS 10, Events After the Balance Sheet Date;
- PAS 16, Property, Plant and Equipment;
- PAS 17, Leases;
- PAS 21, The Effects of Changes in Foreign Exchange Rates;
- PAS 24, Related Party Disclosures;
- PAS 27, Consolidated and Separate Financial Statements;
- PAS 28, Investments in Associates;
- PAS 31, Interests in Joint Venture;
- PAS 32, Financial Instruments: Disclosure and Presentation;
- PAS 36, Impairment of Assets;
- PAS 38, Intangible Assets;
- PAS 39, Financial Instruments: Recognition and Measurement; and
- PAS 40, Investment Property.

PFRS Based on the New IFRS
- PFRS 1, First-time Adoption of Philippine Financial Reporting Standards; and
- PFRS 5, Noncurrent Assets Held for Sale and Discontinued Operations.

Under prevailing circumstances, the adoption of the above new/revised standards will not have a material effect on the Bank's financial position, results of operations or cash flows in 2005 except for PAS 27, 28, 30, 32 and 39, the effect of which was yet to be determined.

Income Recognition

Interest on receivables from customer, other interest-bearing placements and securities are recognized based on the accrual method of accounting, except in the case of non-performing receivables, where interest income on these loans is recognized only to the extent of cash collections received.

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

Cash and Cash Equivalents

For purposes of reporting cash flows, Cash and Cash Equivalents include cash and other cash items, amounts due from Bangko Sentral ng Pilipinas (BSP) and other banks and interbank loans receivable and securities purchased under agreements to resell with maturities of three months or less from dates of placements.

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 as trading and securities gain or loss in the consolidated statements of income. Interest earned on debt instruments is reported as interest income. Quoted market prices, when available, are used to determine the fair value of trading instruments. If quoted market prices are not available, then fair values are estimated using quoted prices of instruments with similar characteristics.

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 cost adjusted for amortization of premiums and accretion of discounts and reduced by estimated allowance for permanent decline in value, if any.

Resale Agreements

The Group enters into short-term purchases of securities under agreements to resell (resale agreements) of substantially identical securities. The amounts advanced under resale agreements are carried in the consolidated statements of condition at the principal amount advanced. Accrued interest is included in Other assets. Interest earned on resale agreements are reported as interest income.

Receivables from Customers

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

Receivables from Customers are classified as nonperforming when the principal is past due, or when, in the opinion of management, collection of interest or principal is doubtful. Receivables from customers are not reclassified as performing until interest and principal payments are brought to current status or the receivables are restructured in accordance with existing BSP regulations, and future payments appear assured.

Allowance for Probable Losses

Allowance for Probable Losses is maintained at a level considered adequate to provide for potential losses on receivables and other assets. The level of allowance is based on the management's evaluation of potential losses after consideration of prevailing and anticipated economic conditions, the character, quality and performance of the portfolios, and other pertinent indicators.

The Allowance for Probable Losses consists of specific and general provisions. Specific provisions are made at the customer level where the repayment is in doubt and reflects an estimate of the amount of loss expected. The general provision relates to the inherent risk of loan losses which, although they have not been separately identified, are known from experience to be present in any loan portfolio, and to those identified loans where material uncertainty exists as to the quantum of the specific provision required. The amount of the general provision reflects past experience and judgments about current conditions in particular locations and business sectors.

In accordance with the Bank's Ten-Year Business Plan/Rehabilitation Plan, the BSP allowed the staggered booking of P14.03 billion required valuation reserves based on Special Purpose Vehicle Law, i.e., at a fixed rate of 5% each year for the first three years, 10% each year for the next four years and 15% each year for the remaining three years, or a total of 100% during the 10-year period, provided, subsequent valuation reserves to be required in excess of the P14.03 billion shall be booked immediately (see Note 5). Based on management's discussion with the BSP, any further deterioration in value of the accounts included in the original P14.03 billion unbooked valuation reserves can also be recorded based on the approved staggered booking guidelines.

Property and Equipment

Property and Equipment are stated at cost less accumulated depreciation and amortization. The cost of leasehold rights and improvements is amortized over the estimated useful lives of the improvements or the terms of the related leases, whichever is shorter. Depreciation is computed using the straight-line method based on the following estimated useful lives:

	Number of Years
Buildings and improvements	10 - 20
Furniture, fixtures and equipment	3 - 10
Leasehold improvements	3 - 5

Costs of minor repairs and maintenance are expensed in the year incurred; significant renewals and improvements are capitalized. When property and equipment are retired or otherwise disposed of, both the cost and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Equity Investments

Equity Investments in associates, where the Bank holds 20% or more of the voting stock or where there is significant influence over operating and financial policies of the associates even though the Bank holds less than 20% of the voting stock, are accounted for under the equity method. An associate is an enterprise in which the Bank exercises significant influence (presumed if the Bank 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 statements of condition at cost plus post acquisition changes in the Bank's share in the net assets of the investees less any impairment in value. Post acquisition changes include the share in the investees' net earnings or losses. Dividends received are treated as a reduction in the carrying values of the investment.

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.

Real and Other Properties Owned or Acquired (ROPOA)

Assets acquired in settlement of loans are recorded at the lower of the balance of total loan exposure or bid price. Nonrefundable capital gains tax and documentary stamp tax incurred in connection with foreclosure are capitalized as part of the carrying values of the foreclosed properties, provided that such carrying values do not exceed the appraised values. Holding costs subsequent to the foreclosure or acquisition of the properties are charged to operations as incurred. Allowance for probable losses is set up for any anticipated significant shortfalls from the recorded values based on appraisal reports and current negotiations and programs to dispose of these properties.

Asset Impairment

An assessment is made at the balance sheet date as to whether there is any indication of impairment of 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 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 expense in the period in which it arises.

Income Taxes

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the consolidated statements of income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable with respect to previous years.

Deferred tax assets are recognized for the future tax consequences attributable to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes and the carryforward benefits of net operating loss carryover (NOLCO) and the minimum corporate income tax (MCIT) over the regular corporate income tax. The amount of deferred tax provided is based on the expected manner or realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that is no longer probable that the related tax benefit will be realized. The carrying amount of the deferred tax asset is reviewed at each balance sheet date and reduced, if appropriate.

Provision and Contingent Liabilities

A provision is a liability of uncertain timing or amount. It is recognized when the Group has a legal or constructive obligation as a result of a past event; and, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. When it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as contingent liability unless the probability of outflow of economic benefits is remote.

Derivative Instruments

The Bank is a party to foreign exchange contracts with off-balance sheet risk. These contracts are entered into as a service to customers and as a means of reducing and managing the Bank's foreign exchange and interest rate exposures, as well as for trading purposes. Amounts contracted are recorded as contingent accounts which are not included in the consolidated statements of condition. These are valued with reference to the PDSWAR. The resulting profit or loss is included in the consolidated statements of income, except where the position in the instrument has been designated as a hedge when the profit or loss resulting from marking them to market is accounted for on a basis consistent with the underlying hedged position.

Retirement Cost

Retirement cost is determined using the projected unit credit method. Under this method, the cost of employees' benefits is evenly allocated over the full period of employment. Current service cost is charged to current operations while past service cost is amortized over the expected remaining working lives of the employees.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognized in the consolidated statements of income on a straight-line basis over the term of the lease.

3. Trading and Investment Securities

This account consists of:

	GROUP		PARENT COMPANY	
	2004	2003	**2004**	2003
TAS (after unrealized loss of P655.46 million in 2004 and of P650.92 million in 2003)	**P 3,845,966**	P 4,034,621	**P 3,808,012**	P 4,015,218
IBODI:				
Government	**9,928,751**	1,711,529	**9,386,764**	1,389,556
Private	**5,890,456**	4,754,845	**5,887,456**	4,754,845
	P 19,665,173	P 10,500,995	**P 19,082,232**	P 10,159,619

As of December 31, 2004 and 2003, the market values of the Group's IBODI amounted to P15.06 billion and P5.71 billion, respectively. The impairment loss of P754.77 million in IBODI is included in the P21.73 billion unbooked valuation as discussed in Note 5.

4. Receivables from Customers

This account consists of:

	GROUP		PARENT COMPANY	
	2004	2003	**2004**	2003
Loans and discounts	**P 39,745,216**	P 42,289,793	**P 38,821,537**	P 44,951,338
Bills purchased	**3,066,743**	2,756,632	**3,066,743**	2,733,128
Customer's liabilities under acceptances, on letters of credit and trust receipts	**647,674**	770,470	**647,674**	751,458
	43,459,633	45,816,895	**42,535,954**	48,435,924
Unearned interest and discount	**(175,303)**	(614,745)	**(165,973)**	(600,047)
Allowance for probable losses (see Note 5)	**(1,447,847)**	(1,000,236)	**(1,271,056)**	(826,070)
	P 41,836,483	P 44,201,914	**P 41,098,925**	P 47,009,807

The following table shows the breakdown of loans as to secured and unsecured and the breakdown of secured loans as to type of security as of December 31, 2004 and 2003:

	GROUP				PARENT COMPANY			
	2004		2003		**2004**		2003	
	Amount	**%**	Amount	%	**Amount**	**%**	Amount	%
Secured								
Real estate	**P 6,255,163**	**14.39**	P 6,947,672	15.16	**P 5,699,812**	**13.40**	P 6,909,661	14.27
Assignment of receivables	**399,087**	**0.92**	2,124,765	4.64	**794,587**	**1.87**	2,124,765	4.39
Standby letters of credit	**745**	**0.00**	1,504,074	3.28	**745**	**0.0018**	1,504,074	3.11
Chattel	**791,139**	**1.82**	1,470,939	3.21	**640,520**	**1.51**	1,470,716	3.04
Mortgage trust indenture	**3,003,390**	**6.91**	-	-	**3,003,390**	**7.06**	-	-
Shares of stock	**3,099,111**	**7.13**	-	-	**3,099,111**	**7.29**	-	-
Hold-out on deposits	**309,279**	**0.71**	359,605	0.78	**306,219**	**0.72**	355,655	0.73
Securities	**4,133**	**0.01**	26,781	0.06	**4,133**	**0.01**	26,871	0.06
Others	**101,338**	**0.24**	6,277,036	13.71	**56,946**	**0.13**	6,277,036	12.96
	13,963,385	**32.13**	18,710,962	40.84	**13,605,463**	**31.99**	18,668,778	38.56
Unsecured	**29,496,248**	**67.87**	27,105,933	59.16	**28,930,491**	**68.01**	29,767,146	61.44
	P 43,459,633	**100.00**	P 45,816,895	100.00	**P 42,535,954**	**100.00**	P 48,435,924	100.00

On September 19, 2002, the BSP issued Circular No. 351 which allows banks to exclude from nonperforming classification receivables classified as Loss in the latest examination of the BSP which are fully covered by allowance for probable losses, provided that interest on said receivables shall not be accrued and that such receivables shall be deducted from total receivable portfolio for purposes of computation. As of December 31, 2004 and 2003, the NPL of the Group are as follows:

	2004	2003
Total NPLs	**P 16,614,218**	P 17,628,599
Less NPLs fully covered by allowance for probable losses	**114,788**	58,300
	P 16,499,430	P 17,570,299

As of December 31, 2004 and 2003, information on the concentration of credit as to industry follows:

	GROUP				PARENT COMPANY			
	2004		2003		2004		2003	
	Amount	%	Amount	%	Amount	%	Amount	%
Manufacturing (various industries)	**P 10,429,990**	**24.00**	P 12,130,481	26.47	**P10,429,490**	**24.52**	P 12,129,933	25.04
Real estate, renting and business services	**7,300,410**	**16.80**	7,923,045	17.29	**7,547,581**	**17.74**	9,869,359	17.62
Financial intermediation	**7,142,960**	**16.44**	2,126,878	4.64	**7,142,960**	**16.79**	3,185,243	6.57
Wholesale and retail trade	**4,044,021**	**9.31**	4,429,091	9.67	**4,035,253**	**9.49**	4,421,730	9.13
Transportation, storage and communications	**3,964,904**	**9.12**	2,059,743	4.50	**3,964,104**	**9.32**	2,953,381	6.10
Hotels and restaurants	**3,179,051**	**7.31**	-	-	**3,179,051**	**7.47**	-	-
Electricity, gas and water	**1,693,453**	**3.90**	2,954,181	6.44	**1,691,203**	**3.98**	2,124,628	4.39
Other community, social and personal services	**1,803,660**	**4.15**	7,337,498	16.01	**1,410,974**	**3.32**	7,923,045	16.36
Construction	**1,139,251**	**2.62**	1,308,229	2.86	**1,137,751**	**2.67**	1,306,729	2.70
Agriculture	**776,055**	**1.78**	750,086	1.65	**553,306**	**1.30**	577,239	1.19
Public administration and defense	**394,487**	**0.91**	-	-	**394,487**	**0.93**	-	-
Mining and quarrying	**330,421**	**0.76**	406,287	0.89	**330,273**	**0.78**	406,287	0.84
Others	**1,260,970**	**2.90**	4,391,376	9.58	**719,521**	**1.69**	3,538,350	7.30
	P 43,459,633	**100.00**	P 45,816,895	100.00	**P42,535,954**	**100.00**	P 48,435,924	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 of December 31, 2004 and 2003, the Group does not have credit concentration in any particular industry.

As of December 31, 2004 and 2003, the Group has restructured loans amounting to P8.57 billion and P12.10 billion, respectively.

As discussed in Note 10, the Bank pledged certain receivables as collateral for the standby liquidity facility availed by the Bank amounting to P7.50 billion, which was paid in July 2004. The Bank also sold to PDIC certain NPL for a total amount of P5.00 billion which will be bought back in 2013.

5. Allowance for Probable Losses

Changes in allowance for probable losses are as follows:

	GROUP		PARENT COMPANY	
	2004	2003	**2004**	2003
Balance at beginning of year				
Receivables from customers	**P 1,000,236**	P 10,772,999	**P 826,070**	P 9,977,697
Equity investments	**11,700**	-	**-**	-
ROPOA	**495,095**	705,717	**372,435**	574,087
Other assets	**1,058,714**	1,156,225	**17,176**	1,107,620
	2,565,745	12,634,941	**1,215,681**	11,659,404
Provisions charged to operations				
Receivables from customers	**458,156**	21,122	**434,172**	-
Equity investments	**-**	11,700	**-**	-
ROPOA	**194,146**	6,563	**192,832**	-
Other assets	**617,298**	400,747	**230,537**	-
	1,269,600	440,132	**857,541**	-
Write-off, recovery and reversal				
Receivables from customers	**(21,359)**	(9,943,802)	**-**	(9,301,544)
ROPOA	**(28,450)**	(217,185)	**-**	(201,652)
Other assets	**(817,804)**	(498,258)	**(8,147)**	(1,090,444)
	(867,613)	(10,659,245)	**(8,147)**	(10,593,640)
Transfer of allowance for probable losses				
ROPOA	**18,200**	-	**-**	-
Other assets	**(18,200)**	-	**-**	-
	-	-	**-**	-
Transfer from UCPB Leasing and Finance Corporation				
Receivables from customers	**10,814**	-	**10,814**	-
Transfer from Trust Banking Division				
Receivables from customers	**-**	149,917	**-**	149,917
Balance at end of year				
Receivables from customers	**1,447,847**	1,000,236	**1,271,056**	826,070
Equity investments	**11,700**	11,700	-	-
ROPOA	**678,991**	495,095	**565,267**	372,435
Other assets	**840,008**	1,058,714	**239,566**	17,176
	P 2,978,546	P 2,565,745	**P 2,075,889**	P 1,215,681

As discussed in Note 1 to the consolidated financial statements, the BSP has approved the staggered booking, starting 2004, of the unbooked valuation reserves on receivables from customers, ROPOA and other assets amounting to P14.03 billion as of December 31, 2003. Accordingly, the Bank recognized approximately P860 million in 2004, representing 5% of the total unbooked valuation reserves, as mandated by the BSP. In addition, the Bank has not recorded in 2004 additional required allowance on loans of P7.70 billion. Below is the summary of the proforma balance of the Allowance for Probable Losses had the Bank recorded the unbooked valuation reserves as of December 31, 2004:

	December 31 2003 Balance	December 31, 2003 Unbooked Valuation	2003 Proforma Balance	2004 Booked Valuation	December 31, 2004 Unbooked Valuation	2004 Proforma Balance
Receivables from customers	P 826,070	P 7,837,109	P 8,663,179	P 444,986	P 3,170,405	P 12,278,570
IBODI	-	-	-	-	754,766	754,766
ROPOA	372,435	3,856,633	4,229,068	192,832	4,812,870	9,234,770
Other assets						
Inter office float items	-	674,365	674,365	33,718	(17,427)	690,656
Accounts receivable	8,269	653,490	661,759	138,160	(174,798)	625,121
Accrued interest receivables	8,907	594,134	603,041	29,707	(450,866)	181,882
Sales contract receivables	-	412,383	412,383	20,218	(412,383)	20,218
Others	-	3,711	3,711	587	15,937	20,235
	P 1,215,681	P 14,031,825	P 15,247,506	P 860,208	P 7,698,504	P 23,806,218

6. Property and Equipment

This account consists of:

GROUP

For the Year Ended December 31, 2004

	Land	Buildings and Improvements	Leasehold Improvements	Furniture, Fixtures and Equipment	Total	2003
Cost:						
Balance at beginning of year	P 182,562	P 1,151,264	P 167,020	P 2,461,585	P 3,962,431	P 3,965,839
Additions during the year	10,361	2,047	3,382	211,291	227,081	246,167
Transfer/adjustment	-	(3,915)	3,866	226	177	-
Disposals during the year	(5,552)	(5,406)	(39,888)	(258,559)	(309,405)	(249,575)
Balance at end of year	**187,371**	**1,143,990**	**134,380**	**2,414,543**	**3,880,284**	**3,962,431**
Accumulated depreciation and amortization						
Balance at beginning of year	-	423,199	6,537	1,950,112	2,379,848	2,206,665
Depreciation and amortization during the year	-	54,368	38,073	165,888	258,329	358,137
Transfer/adjustment	-	-	-	117	117	-
Disposals/write-off during the year	-	(4,992)	(39,780)	(97,940)	(142,712)	(184,954)
Balance at end of year	**-**	**472,575**	**4,830**	**2,018,177**	**2,495,582**	**2,379,848**
Carrying amount:						
Balance at beginning of year	P 182,562	P 728,065	P 160,483	P 511,473	P 1,582,583	P 1,759,174
Balance at end of year	**P 187,371**	**P 671,415**	**P 129,550**	**P 396,366**	**P 1,384,702**	**P 1,582,583**

PARENT COMPANY

For the Year Ended December 31, 2004

	Land	Buildings and Improvements	Leasehold Improvements	Furniture, Fixtures and Equipment	Total	2003
Cost:						
Balance at beginning of year	P 111,241	P 1,110,744	P 147,356	P 2,296,965	P 3,666,306	P 3,701,999
Additions during the year	5,552	1,621	3,059	180,693	190,925	195,501
Disposals during the year	(5,552)	(5,406)	(35,500)	(192,789)	(239,247)	(231,194)
Balance at end of year	**111,241**	**1,106,959**	**114,915**	**2,284,869**	**3,617,984**	**3,666,306**
Accumulated depreciation and amortization						
Balance at beginning of year	-	403,453	-	1,842,894	2,246,347	2,093,047
Depreciation and amortization during the year	-	52,474	35,686	145,189	233,349	326,567
Disposals/write-off during the year	-	(4,992)	(35,686)	(67,108)	(107,786)	(173,267)
Balance at end of year	**-**	**450,935**	**-**	**1,920,975**	**2,371,910**	**2,246,347**
Carrying amount:						
Balance at beginning of year	P 111,241	P 707,291	P 147,356	P 454,071	P 1,419,959	P 1,608,952
Balance at end of year	**P 111,241**	**P 656,024**	**P 114,915**	**P 363,894**	**P 1,246,074**	**P 1,419,959**

Depreciation and amortization expense amounting to P258.32 million and P358.10 million for the years ended December 31, 2004 and 2003, respectively, are included in the Occupancy and Other Equipment-Related Costs account in the consolidated statements 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 P2.40 billion with historical book value of P0.60 billion as of date of valuation shows an appraisal increment of P1.80 billion. The 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 property and equipment which is at cost.

7. Equity Investments

This account consists of:

		GROUP	
	Percentage of Ownership	**2004**	2003
At equity:			
Acquisition cost:			
CIIF Companies			
Legaspi Oil Company, Inc. ("LOCI")	17.50	**P 56,000**	P 56,000
San Pablo Manufacturing Corporation ("SPMC")	12.77	**25,000**	25,000
Southern Luzon Coconut Oil Mills, Inc. ("SLCOMI")	17.48	**24,950**	24,950
Granexport Manufacturing Corporation ("GMC")	2.84	**6,250**	6,250
UCPB - CIIF Finance and Development Corp.	10.26	**100,000**	100,000
UCPBPI - ACM Property Ventures, Inc.	50.00	**90,000**	90,000
Lighthouse Credit Technologies Corporation	60.00	**60,000**	-
United Foreign Exchange Corporation	100.00	**40,250**	-
UCPB Properties - Macaria Homes Corporation	50.00	**25,000**	25,000
Dutch Boy (Phils.), Inc.	33.00	**8,957**	8,957
Mastercaterers, Inc.	100.00	**250**	250
Strategic Partners, Inc. ("SPI")	100.00	**-**	25,000
UCPB Europe	100.00	**-**	18,528
		436,657	379,935
Accumulated equity in net earnings:			
Balance at beginning of year		**3,392,168**	3,089,521
Equity in net earnings for the year		**166,898**	268,235
Cash dividends		**(400,000)**	-
Equity investment written-off		**(71,042)**	34,412
Balance at end of year		**3,088,024**	3,392,168
Share in cumulative translation adjustment of associates		**440,919**	440,919
Disposal of Dutch Boy (Phils.), Inc.		**(8,957)**	-
Disposal of Mastercaterers, Inc.		**(250)**	-
Write-off of investment in SPI		**-**	(25,000)
Liquidation of UCPB Europe		**-**	(18,528)
		3,956,393	4,169,494
At cost		**83,108**	151,565
Allowance for probable losses		**(11,700)**	(11,700)
		P 4,027,801	P 4,309,359

	Percentage of Ownership	PARENT COMPANY 2004	2003
At equity:			
Acquisition cost:			
UCPBLeasing and Finance Corp. ("ULFC")	100.00	**P 400,000**	P 400,000
UCPB Properties, Inc. ("UPI")	100.00	**315,500**	315,500
UCPB Savings Bank, Inc. ("USB")	99.23	**267,394**	267,394
UCPB Rural Bank, Inc. ("URB")	94.70	**103,387**	103,387
UCPB - CIIF Finance and Development Corp.	10.26	**100,000**	100,000
Legaspi Oil Comapny, Inc. ("LOCI")	17.50	**56,000**	56,000
UCPB Securities, Inc. ("USI")	100.00	**35,000**	35,000
San Pablo Manufacturing Corporation ("SPMC")	12.77	**25,000**	25,000
Southern Luzon Coconut Oil Mills, Inc. ("SLCOMI")	17.48	**24,950**	24,950
Granexport Manufacturing Corporation ("GMC")	2.84	**6,250**	6,250
UCPB Europe	100.00	**-**	18,528
Strategic Partners, Inc. ("SPI")	100.00	**-**	25,000
		1,333,481	1,377,009
Accumulated equity in net earnings:			
Balance at beginning of year		**3,409,638**	3,196,556
Equity in net earnings for the year		**934,028**	258,594
Cash dividends		**(85,227)**	(79,924)
SPI Equity investment written-off		**-**	25,000
UCPB Europe investment written-off		**-**	9,412
Balance at end of year		**4,258,439**	3,409,638
Share in cumulative translation adjustment of associates		**440,919**	440,919
Write-off of investment in SPI		**-**	(25,000)
Liquidation of UCPB Europe		**-**	(18,528)
		6,032,839	5,184,038
At cost		**64,648**	32,855
		P 6,097,487	P 5,216,893

The Bank 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 ("CCSF"), 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 13). 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, 2004, the Bank's interests in the aggregate book value of these CIIF companies amounted to P3.75 billion, which is P3.65 billion higher than the aggregate value of its original investment amounting to P0.10 billion. Moreover, had the investment in SMC shares been accounted for at fair value by the 14 CIIF holding companies, the Bank's net income for 2004 and 2003 would be higher by P2.39 billion and P1.60 billion, respectively.

8. Real and Other Properties Owned or Acquired

This account consists of:

	GROUP		PARENT COMPANY	
	2004	2003	**2004**	2003
Real and other properties owned or acquired	**P 23,302,139**	P 22,359,750	**P 22,996,111**	P 22,029,124
Less allowance for probable losses (see Note 5)	**(678,991)**	(495,095)	**(565,267)**	(372,435)
	P 22,623,148	P 21,864,655	**P 22,430,844**	P 21,656,689

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 P7.50 billion obligation obtained on September 16, 2003, which was paid in July 2004, two months ahead of the September 2004 due date.

During the year, the Bank accepted the dacion en pago settlement of UPI's outstanding loans. The Bank received three properties from the dacion settlement. The outstanding balance of the loans including interests (P2.98 billion) exceeded the dacion price (P1.74 billion) of the property by P1.24 billion which the Bank included as part of Deferred Charges (under Other Assets in the consolidated statements of condition; see Note 9). Such amount will be amortized over a period of ten years in accordance with the Special Purpose Vehicle Law. This transaction resulted to a Gain on Extinguishment of Debt for UPI of P1.30 billion since the total of the net book values of the assigned property is lower than the total of the outstanding convertible notes and related accrued interest.

9. Other Assets

This account consists of:

	GROUP		PARENT COMPANY	
	2004	2003	**2004**	2003
Accounts receivable	**P 2,282,543**	P 2,764,868	**P 856,168**	P 757,256
Deferred charges (see Note 8)	**1,280,911**	104,498	**1,278,566**	89,348
Sales contract receivable	**996,029**	488,904	**960,787**	456,043
Accrued interest receivable	**762,115**	1,420,117	**753,284**	1,395,563
Interoffice float items	**719,119**	434,367	**716,700**	423,578
Real estate for sale or lease	**549,993**	2,735,589	**-**	-
Foreign currency notes and coins on hand	**392,876**	862,865	**392,876**	862,865
Deferred tax asset (Note 15)	**329,028**	387,275	**-**	-
Other investments	**93,573**	93,350	**92,570**	92,176
Miscellaneous	**612,456**	781,052	**287,063**	268,671
	8,018,643	10,072,885	**5,338,014**	4,345,500
Unrealized income on sales contract receivable	**(57,641)**	(2,160)	**(55,669)**	(1,314)
Allowance for probable losses (see Note 5)	**(840,008)**	(1,058,714)	**(239,566)**	(17,176)
	P 7,120,994	P 9,012,011	**P 5,042,779**	P 4,327,010

10. Bills Payable

	GROUP		PARENT COMPANY	
	2004	2003	**2004**	2003
PDIC	**P 12,000,000**	P 19,500,000	**P 12,000,000**	P 19,500,000
Other Banks	**1,499,211**	2,208,908	**1,499,211**	2,208,908
Social Security System	**556,909**	768,830	**556,909**	768,830
Others	**299,350**	313,964	**244,350**	118,615
	P 14,355,470	P 22,791,702	**P 14,300,470**	P 22,596,353

As discussed in Note 1, bills payable by the Bank to PDIC pertain to the P7 billion subordinated debt to be converted into common shares in 2008 and the P5 billion proceeds from sale of NPL which will be bought back in 2013. The P7.50 billion availment of standby liquidity facility, which was collateralized by certain receivables (see Note 4), was paid by the Bank in July 2004, two months ahead of the due date of September 2004.

11. Other Liabilities

This account consists of:

	GROUP		PARENT COMPANY	
	2004	2003	**2004**	2003
Accounts payable	**P 705,202**	P 437,822	**P 711,318**	P 415,140
Other charges	**354,816**	461,653	**352,482**	461,653
Outstanding acceptances	**175,923**	374,284	**175,923**	374,284
Deferred tax liability	**100,160**	116,328	**-**	-
Withholding tax payable	**95,648**	88,707	**93,503**	87,323
Due to BSP	**59,110**	122,519	**58,231**	125,434
Minority interest	**52,289**	64,484	**-**	-
Miscellaneous	**3,678,046**	3,362,425	**3,429,913**	3,116,086
	P 5,221,194	P 5,028,222	**P 4,821,370**	P 4,579,920

The miscellaneous account includes the liability counterpart of domestic bills purchased amounting to P2.78 billion and P2.44 billion in 2004 and 2003, respectively. It also includes the change in fair value of forward exchange contracts amounting to P1.1 million and P9.2 million as of December 31, 2004 and 2003, respectively.

12. Maturity Profile of Financial Assets and Liabilities

The following tables present the financial assets and liabilities by contractual maturities and settlement dates as of December 31, 2004 and 2003:

GROUP

	2004			2003		
	Due Within One Year	**Over One Year**	**Total**	Due Within One Year	Over One Year	Total
Due from BSP	**P 3,519,369**	**P 12,500**	**P 3,531,869**	P 7,051,784	P 12,500	P 7,064,284
Due from other banks	**2,072,097**	**-**	**2,072,097**	989,224	-	989,224
Interbank loans receivable	**1,541,775**	**-**	**1,541,775**	1,152,018	-	1,152,018
Trading and investment securities	**9,393,172**	**10,272,001**	**19,665,173**	3,595,417	6,905,578	10,500,995
Receivables from customers	**8,100,984**	**35,358,649**	**43,459,633**	13,776,120	32,040,775	45,816,895
	P 24,627,397	**P 45,643,150**	**P 70,270,547**	P 26,564,563	P 38,958,853	P 65,523,416

	2004			2003		
	Due Within One Year	**Over One Year**	**Total**	Due Within One Year	Over One Year	Total
Deposit liabilities						
Demand	**P 4,035,307**	**-**	**P 4,035,307**	P 3,687,580	-	P 3,687,580
Savings	**25,987,342**	**-**	**25,987,342**	54,250,757	-	54,250,757
Time	**47,414,825**	**4,213,407**	**51,628,232**	8,300,787	536,581	8,837,368
	77,437,474	**4,213,407**	**81,650,881**	66,239,124	536,581	66,775,705
Bills payable	**1,798,561**	**12,556,909**	**14,355,470**	8,922,046	13,869,656	22,791,702
Manager's checks and demand drafts outstanding	**292,056**	**-**	**292,056**	577,732	-	577,732
	P 79,528,091	**P 16,770,316**	**P 96,298,407**	P 75,738,902	P 14,406,237	P 90,145,139

PARENT COMPANY

	2004			2003		
	Due Within One Year	**Over One Year**	**Total**	Due Within One Year	Over One Year	Total
Due from BSP	**P 3,491,655**	**P -**	**P 3,491,655**	P 7,017,535	P -	P 7,017,535
Due from other banks	**1,738,409**	**-**	**1,738,409**	913,838	-	913,838
Interbank loans receivable	**1,335,775**	**-**	**1,335,775**	974,103	-	974,103
Trading and investment securities	**9,079,949**	**10,002,283**	**19,082,232**	3,519,568	6,640,051	10,159,619
Receivables from customers	**8,866,118**	**33,669,836**	**42,535,954**	13,373,060	35,062,864	48,435,924
	P 24,511,906	**P 43,672,119**	**P 68,184,025**	P 25,798,104	P 41,702,915	P 67,501,019

	2004			2003		
	Due Within One Year	**Over One Year**	**Total**	Due Within One Year	Over One Year	Total
Deposit liabilities						
Demand	**P 3,971,516**	**P -**	**P 3,971,516**	P 3,635,297	P -	P 3,635,297
Savings	**24,717,882**	**-**	**24,717,882**	53,223,633	-	53,223,633
Time	**46,956,219**	**4,213,407**	**51,169,626**	8,297,018	536,581	8,833,599
	75,645,617	**4,213,407**	**79,859,024**	65,155,948	536,581	65,692,529
Bills payable	**1,743,561**	**12,556,909**	**14,300,470**	8,921,880	13,674,473	22,596,353
Manager's checks and demand drafts outstanding	**270,732**	**-**	**270,732**	561,359	-	561,359
	P 77,659,910	**P 16,770,316**	**P 94,430,226**	P 74,639,187	P 14,211,054	P 88,850,241

13. Capital Funds

The Bank's preferred shares are nonparticipating, nonvoting and are convertible to common shares. These shares are entitled to cumulative dividends of 14% per annum. The Bank, 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, 2004 and December 31, 2003 amounted to P525.0 million and P420.0 million, respectively.

Prior to May 25, 2004, a substantial portion of the outstanding shares of the Bank remains sequestered as a result of the sequestration orders issued by the PCGG on June 26, 1986. Court proceedings on the ownership issue have been ongoing since then with the Sandiganbayan and the Supreme Court. Meantime, PCGG exercised the right to vote on the sequestered shares of the Bank.

On May 25, 2004, the First Division of the Sandiganbayan resolved the aforementioned ownership issue through a Partial Summary Judgment. It declared that the CIIF Companies, the 14 CIIF Holding Companies and the CIIF block of San Miguel Corporation shares of stock, together with all dividends declared, paid and issued thereon as well as any increments thereto arising from, but not limited to, exercise of pre-emptive rights are owned by the government in trust for all the coconut farmers and ordered reconveyed to the government.

Subsequently, a Motion for Reconsideration (Re: Partial Summary Judgment promulgated on May 7, 2004) dated May 25, 2004 was filed by defendant Eduardo M. Cojuangco, Jr., et al.; and a Class Action Omnibus Motion to Dismiss for Lack of Subject Matter Jurisdiction. Alternatively, motion for reconsideration and motion to set case for trial dated May 26, 2004 was filed by defendants COCOFED, et al. and Ballares, et al. These motions were denied by the Sandiganbayan on December 28, 2004 for lack of merit, thus affirming its earlier decision granting ownership to the government in trust for all the coconut farmers.

Surplus reserve includes the amount of P641.82 million representing the total stock dividends of 43% and 30% on common stock declared by the Bank'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 Bank's BOD revoked such declaration of stock dividends.

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. As of December 31, 2004 and 2003, the Bank has not complied with the minimum capital-to-risk assets ratio. The capital-to-risk assets ratio of the Bank as of December 31, 2004 and 2003 is 2.999% and -5.952%, respectively.

The Bank is also unable to meet certain required minimum financial requirements prescribed by banking regulations for an expanded commercial bank, such as the minimum capital of P4.95 billion. The BSP prescribed certain sanctions for non-compliance with the minimum capital requirements.

14. Leases

The Bank leases the premises occupied by most of its branches. The terms of the lease contracts range from 10 to 20 years subject to future increases. Rent expense included in Occupancy and Other Equipment-Related Costs amounted to P368.40 million and P349.70 million for each of the years ended December 31, 2004 and 2003, respectively.

Non-cancellable operating lease rentals are payable as follows:

	GROUP		PARENT COMPANY	
	2004	2003	**2004**	2003
Less than one year	**P 239,336**	P 230,307	**P 225,333**	P 218,883
Between one and five years	**1,168,459**	1,151,311	**1,100,179**	1,083,173
More than five years	**428,580**	701,023	**323,557**	565,896
	P 1,836,375	P 2,082,641	**P 1,649,069**	P 1,867,952

15. Income and Other Taxes

Under Philippine tax laws, the RBU of the Bank is subject to percentage and other taxes (presented as Taxes and Licenses in the consolidated statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp taxes. Income taxes paid consist of corporate income tax and a final withholding tax of 20% on gross interest income from government securities and other deposit substitutes. These income taxes are presented in the consolidated statements of income as Provision for Income Tax.

Pursuant to Revenue Regulation No. 12-2003 issued on March 12, 2003, a 10% Value-Added Tax (VAT) is now imposed on services of banks, non-bank financial intermediaries and finance companies effective January 1, 2003. Accordingly, the Bank was subjected to a 10% VAT on its gross receipts in lieu of the GRT from January 1, 2003. However, Republic Act (R.A.) No. 9238 reverting the services of banks and non-bank financial intermediaries to GRT was approved on February 5, 2004 with retroactive effect from January 1, 2004.

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

FCDU offshore income (income from nonresidents) is tax-exempt. Onshore income (income from residents) is subject to 10% gross income tax. Interest income on deposits with other FCDUs and Offshore Banking Units (OBUs) are subject to 7.5% final tax.

The Comprehensive Tax Reform Bill (which became R.A. No. 8424 otherwise known as the Tax Reform Act of 1997) amended the Tax Code provision governing taxation of income derived under the Expanded Foreign Currency Deposit System which included the FCDUs and OBUs. As amended, the items previously classified as exempt from all taxes have become subject to 10% final income tax, namely, income derived from transactions with local commercial banks, including branches of foreign banks that may be authorized by the BSP to transact business with foreign currency deposit system units, and other depository banks under the expanded foreign currency deposit system.

On April 28, 2004, Republic Act No. 9294 (R.A. No. 9294) was enacted into law. R.A. No. 9294 is the Act restoring the tax exemption of OBUs and FCDUs. Under this law, income derived by FCDUs from foreign currency transactions with nonresidents, OBUs in the Philippines, local commercial banks including branches of foreign banks that may be authorized by the BSP to transact business with foreign currency deposit system units and other depository banks under the foreign currency deposit system shall be exempt from all taxes, except net income from such transactions as may be specified by the Secretary of Finance, upon recommendation by the Monetary Board to be subject to the regular income tax payable by banks. However, interest income from foreign currency loans granted by other FCDUs to residents under the offshore units in the Philippines or other depository banks under the expanded system shall be subject to a final tax at a rate of 10%.

Subsequent to April 28, 2004, the banking industry with FCDU and OBU operations in the Philippines received Letter Notices, Preliminary Assessment Notice and/or Formal Assessment Notice from the Bureau of Internal Revenue (BIR) assessing the FCDUs for alleged deficiency gross receipts, branch profit remittance, value-added and documentary stamp taxes for taxable years covering the intervening years to the date of restoration. The Bankers Association of the Philippines (BAP) and the tax counsel of the banks had been in discussion with the BIR to come up with a final resolution of the issue. However, up to this date, nothing has yet been agreed.

In relation to this, the Bank received Letter Notices and Preliminary Assessment Notice for taxable years 1998, 1999, 2000 and 2001 on various dates after April 28, 2004. The Bank management, through their tax counsel and the support of the BAP, is contesting the assessments on certain grounds which, if considered, will not give rise to material tax deficiencies.

Provision for income taxes consists of:

	GROUP		PARENT COMPANY	
	2004	2003	**2004**	2003
Current tax expense:				
Final tax	**P 127,911**	P 72,482	**P 111,814**	P 60,689
Corporate income tax	**21,504**	38,231	**-**	-
MCIT	**9,852**	1,972	**-**	-
	159,267	112,685	**111,814**	60,689
Deferred tax expense:				
Origination and reversal of temporary differences	**103,997**	2,966,007	**-**	2,996,673
Benefit of NOLCO recognized	**111,554**	(55,243)	**-**	-
Benefit of MCIT recognized	**(1,953)**	(959)	**-**	-
Write-off of expired NOLCO	**1,663**	7,404	**-**	-
Write-off of expired MCIT	**-**	960	**-**	-
Change in unrecognized deferred tax assets	**(213,173)**	33,246	**-**	-
	2,088	2,951,215	**-**	2,996,673
Provision for income tax	**P 161,355**	P 3,063,900	**P 111,814**	P 3,057,362

The reconciliation of the provision for (benefit from) income tax computed at statutory tax rate to the provision for income tax shown in the consolidated statements of income follows:

	GROUP		PARENT COMPANY	
	2004	2003	**2004**	2003
Statutory income tax at 32%	**P (484,319)**	P2,610,791	**P (747,336)**	P 2,592,189
Additions to (reductions in) income tax resulting from:				
Unrecognized NOLCO	**1,197,886**	-	**1,177,112**	-
Non-deductible expense	**531,689**	49,145	**517,400**	31,890
Unrecognized MCIT	**7,899**	-	**-**	-
Expired MCIT	**1,110**	760	**-**	-
Expired NOLCO	**553**	7,404	**-**	-
Change in valuation allowance on DTA	**-**	1,629,510	**-**	1,651,135
Dividend income	**(12,767)**	(3,997)	**(12,767)**	(3,997)
Tax exempt income	**(27,042)**	(8,753)	**(24,393)**	(1,740)
Write-off of allowance for impairment losses	**(100,085)**	-	**-**	-
Applied NOLCO	**(113,123)**	33,246	**-**	-
Tax paid income	**(214,826)**	(81,594)	**(201,633)**	(65,898)
FCDU income	**(291,693)**	(1,087,360)	**(291,693)**	(1,087,360)
Equity in net earnings of associates	**(300,223)**	(104,369)	**(298,889)**	(86,494)
Others	**(33,704)**	19,117	**(5,987)**	27,637
	P 161,355	P 3,063,900	**P 111,814**	P 3,057,362

Deferred tax assets are attributable to the following:

	GROUP	
	2004	2003
Allowance for probable losses	**P 285,107**	P 368,193
NOLCO	**31,252**	8,446
MCIT	**6,972**	6,128
Others	**5,697**	4,508
Tax assets	**P 329,028**	P 387,275

Deferred tax liabilities (shown as part of Other Liabilities in the consolidated statements of condition) are attributable to the following:

	GROUP	
	2004	2003
Leasing income differential between finance and operating lease methods	**P 100,123**	P 115,372
Unrealized gross profit on sale of real estate	**37**	956
Tax liabilities	**P 100,160**	P 116,328

Deferred tax assets have not been recognized in respect of the following items:

	GROUP	
	2004	2003
Deductible temporary differences	**P 708,992**	P 437,562
Tax losses	**3,615,128**	4,068,830
	P 4,324,120	P 4,506,293

Deferred tax assets have not been recognized in respect of the above items because it is not probable that future taxable profit will be available against which the Group can utilize the benefits therefrom.

Details of the Group's NOLCO are as follows:

GROUP

Year Incurred	Amount Incurred	Used	Expired	Remaining Balance	Expiry Date
2001	P 5,417,808	P -	P 5,417,808	P -	2004
2002	3,939,671	84,808	-	3,854,863	2005
2003	4,244,261	240,499	-	4,003,762	2006
2004	3,974,000	28,203	-	3,945,797	2007
	P 17,575,740	P 353,510	P 5,417,808	P 11,804,422	

PARENT COMPANY

Year Incurred	Amount Incurred	Used/Expired	Remaining Balance	Expiry Date
2001	P 5,096,295	P 5,096,295	P -	2004
2002	3,826,384	-	3,826,384	2005
2003	3,792,416	-	3,792,416	2006
2004	3,678,475	-	3,678,475	2007
	P 16,393,570	P 5,096,295	P 11,297,275	

The details of the Group's MCIT which are available for offsetting against future taxable income are shown below:

GROUP

Year Incurred		Amount Incurred		Expired		Remaining Balance	Expiry Date
2001	P	1,110	P	1,110	P	-	2004
2002		3,661		-		3,661	2005
2003		1,972		-		1,972	2006
2004		9,852		-		9,852	2007
	P	16,595	P	1,110	P	15,485	

16. Trust Assets

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

In compliance with current banking regulations relative to the Bank's trust functions, government securities owned by the Bank with face value amounting to P3.9 million and P2.7 million as of December 31, 2004 and 2003, respectively, are deposited with the BSP.

In accordance with BSP regulations, the Bank transfers 10% of income from trust operations to surplus reserve until such reserve reaches 20% of the Bank'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.

On 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.

17. 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 statements of income) amounted to P83.82 million and P125.96 million as of December 31, 2004 and 2003, respectively.

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

Name of Company	Date of Valuation
Parent Company	April 30, 2004
UCPBPI	January 1, 2005
USB	June 1, 2004
URB	September 30, 2003
USI	April 25, 2002

The actuarial accrued liability of retirement benefits of these companies amounted to P810.16 million and the fair value of the plan assets amounted to P781.82 million. The principal actuarial assumptions used to determine retirement benefits were an investment rate of 10% 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.

18. Related Party Transactions

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. Transactions between related parties are based on terms similar to those offered to non-related parties.

In the ordinary course of business, the Bank enters into loan and other transactions with affiliates, and with certain directors, officers, stockholders and related interests ("DOSRI"). Under the Bank's policy, these loans and other transactions are made substantially on the same terms as with other individuals and business of comparable risks.

Under current banking law and regulations, the aggregate amount of loans to DOSRI should not exceed the total capital funds or 15% of the total loan portfolio of the Bank, whichever is lower. In addition, 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.

The following table shows information relating to DOSRI loans:

	GROUP		PARENT COMPANY	
	2004	2003	**2004**	2003
Total outstanding DOSRI loans	**P 520,391**	P 562,176	**P 519,022**	P 555,862
Percent of DOSRI loans to total loans	**1.04%**	1.24%	**1.043%**	1.25%
Percent of unsecured DOSRI loans to total DOSRI loans	**27.47%**	23.97%	**27.395%**	23.76%
Percent of past due DOSRI loans to total DOSRI loans	**0.02%**	14.35%	**-**	14.29%
Percent of non-performing DOSRI loans to total DOSRI loans	**0.03%**	14.37%	**-**	14.29%

Other related party transactions conducted in the normal course of business include purchase and sale of investment securities, leases and regular banking transactions.

The following table shows the related party transactions included in the consolidated financial statements:

	GROUP		PARENT COMPANY	
	2004	2003	**2004**	2003
Consolidated statements of condition amounts				
Receivables from customers	**P 3,612,526**	P 4,346,032	**P 3,612,526**	P 4,346,032
Other assets	**244,533**	235,862	**244,533**	235,862
Deposit liabilities	**199,704**	186,618	**199,704**	186,618
Other liabilities	**218,681**	-	**218,681**	-
Consolidated statements of income amounts				
Interest income on loans	**57,437**	153,103	**57,437**	153,103
Interest expense	**27,647**	6,404	**27,647**	6,404
Rent expense (included under Occupancy and other Equipment-Related Costs)	**4,065**	-	**4,065**	-
Rental income (included under Miscellaneous Income)	**-**	1,400	**-**	1,400

19. Commitments and Contingent Liabilities

In the normal course of the operations of the Group, there are various outstanding commitments and contingent liabilities which are not reflected in the consolidated financial statements. The Group does not anticipate material unreserved losses as a result of these transactions.

The Group is contingently liable for lawsuits or claims filed by other third parties which are either pending decision by the courts or under negotiation or under review by regulatory agencies, the outcome of which is not presently determinable. In the opinion of management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements.

The Bank has pending tax examination for taxable years 1998 to 2001. In the opinion of management and its tax counsel, the eventual liability under this examination, if any, will not have a material effect on the consolidated financial statements.

The following is a summary of the Group's commitments and contingent liabilities at their equivalent peso contractual amounts as of December 31, 2004 and 2003:

	GROUP		PARENT COMPANY	
	2004	2003	**2004**	2003
Standby letters of credit/unused commercial letters of credit	**P 2,064,827**	P 1,504,066	**P 2,064,827**	P 1,504,066
Spot exchange sold	**788,774**	88,567	**788,774**	88,567
Spot exchange bought	**450,728**	60,779	**450,728**	60,779
Sight import letters of credit	**476,640**	168,321	**476,640**	168,321
Outward bills for collection	**215,501**	236,055	**215,478**	236,010
Inward bills for collection	**215,057**	93,340	**215,057**	93,340
Outstanding guarantees	**160,761**	27,907	**160,761**	27,907
Usage import letters of credit	**148,962**	100,559	**148,962**	100,559
Domestic letters of credit	**115,111**	37,119	**115,111**	37,119
Forward exchange bought	**112,682**	1,020,849	**112,682**	1,020,849
Forward exchange sold	**112,682**	1,664,647	**112,682**	1,664,647
Late deposits	**3,825**	6,140	**-**	-
Others	**228**	74	**-**	-

20. Prior Period Adjustments

The prior period adjustments consist of adjustments on the unrealized losses on ASS and UA accounts originally classified as held for sale but were adjusted as TAS as required by the BSP and adjustments on change in accounting for certain investments from cost to equity.

21. Financial Performance

The following basic ratios measure the financial performance of the Bank:

	2004	2003
Return on average equity	**(0.67)**	1.23
Return on average assets	**(0.03)**	0.07
Net interest margin	**(1.37%)**	(6.24%)

22. Approval of Consolidated Financial Statements

The Board of Directors of the Bank authorized the issuance of its consolidated financial statements as of and for the year ended December 31, 2004 on May 5, 2005.

23. Reclassification

Certain accounts in the 2003 consolidated financial statements have been reclassified to conform with the 2004 consolidated financial statements presentation.