Keppel Group

Keppel Bank Philippines, Inc. (KBP) is a member of the Keppel Group of Singapore. It is a thrift bank with thirty-three (33) branches, offering a full range of deposit, loans, treasury and trust products. The Keppel Group has owned and managed the Bank since 1997.

Keppel Corporation Limited (KCL) is a Singapore based conglomerate with worldwide operations in Offshore & Marine, Property and Infrastructure. Keppel has its operations in more than 27 countries, enabling us to be close to its markets and closer yet to its customers. KCL has a market capitalization of S$4,249 million as of 31 December 2004.

Keppel has attained global leadership in deep marine and offshore expertise. The group continues to build up its design and engineering capabilities as well as strengthen its production processes to achieve greater productivity and project management skills.

The Keppel brand name as a quality housing developer is its strongest intellectual property. The portfolio of internationally acclaimed developments is its testimony of delivering only the best.

Keppel has presence in the Philippines for almost 30 years beginning with the acquisition of the shipyard in Batangas. Keppel Philippines Marine, Inc. (KPM) has three (3) shipyards strategically located in Subic, Batangas and Cebu. KPM has been listed on the Philippine Stock Exchange since 1993.

The property arm of Keppel co-developed the Podium in Ortigas with the SM Group of Henry Sy. The Podium, currently a 5-storey retail development, will be further developed into an office and residential high rise building in the near future. Keppel Philippines Properties, Inc. (KPP) is also developing a 7.6 hectare residential development in Pasig.

1

2

3

1. Keppel Group Headquarters.
2. The Podium in Ortigas Business District, Mandaluyong City.
3. Drydock at Subic Shipyard and Engineering, Inc.

FINANCIAL HIGHLIGHTS

(In thousand pesos)	2004	2003	2002	2001
Operating Results				
Net Interest Income	108,670	101,497	158,570	134,795
Non Interest Income	228,717	224,609	277,978	197,566
Income Before Operating Expense	337,387	326,106	436,548	332,361
Operating Expense	(380,651)	(378,854)	(418,585)	(411,606)
Operating Income / (Loss)	(43,264)	(52,748)	17,963	(79,245)
Recoveries from (Provisions for) Probable Losses	8,503	65,820	(12,313)	(44,853)
Net Income / (Loss) Before Tax	(34,761)	13,072	5,650	(124,098)
Benefit from Taxation (Taxation)	39,011	(5,794)	(3,462)	(4,751)
Net Income / (Loss) After Tax	4,250	7,278	2,188	(128,849)
Financial Condition				
Total Resources	4,959,224	5,188,227	5,608,908	5,106,188
Loans – Net	2,036,976	2,118,704	2,376,965	2,602,681
Deposit Liabilities	4,105,692	4,339,234	4,750,850	4,191,451
Capital Funds	696,336	739,565	722,439	688,878

Note: 2001 to 2003 were restated due to adoption of new accounting standards.

CORPORATE INFORMATION

REGISTERED OFFICE

E. Rodriguez Sr. Avenue cor. Monte de Piedad St.
Cubao, Quezon City
1109 Philippines

Tel	:	(632) 727 3722
Fax	:	(632) 722 7340
Email	:	kbp@keppelbank.com.ph
Website	:	www.keppelbank.com.ph

MAKATI OFFICE

3rd and 9th Floor, Country Space 1 Building
Senator Gil Puyat Avenue, Salcedo Village
1200 Makati City

Tel	:	(632) 812 2956
	:	(632) 892 1816
Fax	:	(632) 812 6656

AUDITORS

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City

Tel	:	(632) 891 0307
Fax	:	(632) 818 1377
Email	:	sgv_information@sgv.com.ph

MAJOR SHAREHOLDER

KEPPEL CORPORATION LIMITED
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Fax	:	(65) 6413 6391
Email	:	keppelgroup@kepcorp.com
Website	:	www.kepcorp.com

BOARD OF DIRECTORS

Teo Soon Hoe Chairman
Singaporean. Senior Executive Director and Group Finance Director of Keppel Corporation Limited.

Benedict Kua Hun Guan Director
Malaysian. President of Keppel Bank Philippines, Inc.

Ramon J. Abejuela Independent Director
Filipino. Executive Vice President, Chief Financial Officer and Director of E. Zobel, Inc., Director of Keppel Philippines Properties, Inc., former Executive Vice President and Chief Operating Officer of The Insular Life Assurance Company, Ltd.

Fidel A. Bugayong Director
Filipino. Executive Director of Keppel IVI Investments, Inc. (resigned effective August 13, 2004)

Tina Chin Tin Chie Director
Singaporean. General Manager of Risk Management and Audit of Keppel Corporation Limited.

Lina De Guzman-Ferrer Director
Filipino. Partner of Ferrer and Balayan Law Offices.

Hoe Eng Hock Director
Singaporean. Senior General Manager of Keppel Singmarine Limited.

Toh Koh Lin Director
Singaporean. President of Keppel Philippines Marine, Inc.

Ma. Melva E. Valdez Director
Filipino. Senior Partner of JG Law Offices. (elected effective November 7, 2004)

Celso P. Vivas Independent Director
Filipino. Vice Chairman and Chief Executive Officer of Corporate Governance Institute of the Philippines, Director of Keppel Philippines Properties, Inc., Retired Partner of SyCip Gorres Velayo & Co.

Charles Yap Giok Twee Director
Singaporean. President of Subic Shipyard and Engineering, Inc.

SENIOR MANAGEMENT TEAM

BENEDICT KUA HUN GUAN
President

AIDA N. S. ESCALA
Senior Vice President – Credit and Corporate Secretary

RHODORA A. GONZALES
Senior Vice President – Operations

WILFREDO S. BAUTISTA
First Vice President – Information Technology

MANUEL G. BOSANO III
Vice President – Retail Banking

ERWIN JOSEPH G. PATO
Vice President – Treasury

STEFAN TONG WAI MUN
Vice President – Comptroller

MA. MICHELLE SR. VALERIANO
Assistant Vice President – Trust Banking

CHRISTINE JOY P. VARGAS
Assistant Vice President – Corporate and Consumer Banking

OTHER KEY OFFICERS

JOSEPHINE G. BERDAN
Assistant Vice President (AVP) – Asset Management

HENEDINAH S. BALATBAT
AVP – General Services

JOSEFINA M. PICART
AVP – Human Resources

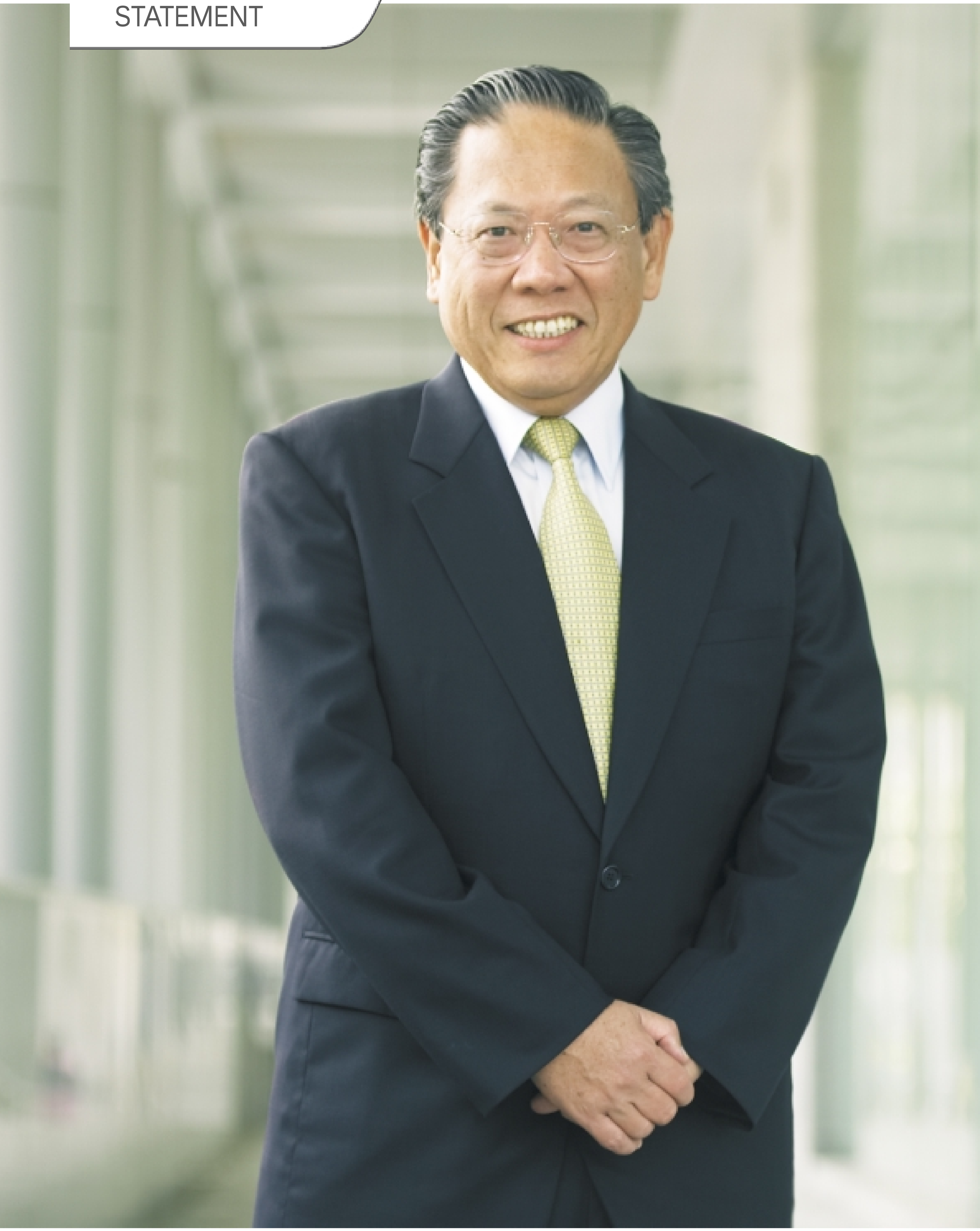
NOEL A. FLORES
AVP – Internal Audit and Compliance

LEAH J. GONZALEZ
AVP – Salcedo Branch

EMMANUEL C. IBAÑEZ
AVP – Head Office Branch

JOSE S. JIMENEZ, JR.
AVP – Bacolod Branch

YOLANDA M. TAN
AVP – Zamboanga Branch



Dear Shareholders

Net interest income and non-interest income grew by 7% and 2% respectively year-on-year. Despite the lower level of loans and deposits, we were able to increase net interest income as the Bank managed to achieve higher margins.

Business Review

2004 was another profitable year for the bank at ₱4.3 million.

The market was difficult, with the first half year dominated by uncertainties of the elections. Interest rates continued to climb as the Philippine government experienced budget deficits while inflation remained high as a result of oil price hike during the year.

Despite these setbacks, the Bank rigorously enhanced its system, resulting an overall improvement in operation.

Net interest income and non-interest income grew by 7% and 2% respectively year-on-year. Despite the lower level of loans and deposits, we were able to increase net interest income as the Bank managed to achieve higher margins.

Operating expenses increased in 2004 despite cost reduction efforts. This was due to the change in the Bank's tax basis from Value Added Tax (VAT) to Gross Receipts Tax (GRT). Excluding the impact of the change in tax basis, the Bank would have reduced expenses by 5.8%.

Major collections were successful in the prior year resulting in below industry averages on the non-performing loans for 2004. The Bank was not able to sell more properties to convert non-performing assets to performing ones, and no significant reversal of provisions was recorded in 2004.

Prospects

Building a strong and stable base of loans and deposits continues to be the main focus for 2005. The Bank will maintain a conservative lending approach that will result in a measured increase in its loan portfolio. Enhanced risk management and improved customer service have been implemented to support growth in lending. Improving deposit products and product delivery will keep customers satisfied and result in their continued patronage. We will sustain our collection efforts to ensure even lower non-performing loan ratios and remain focused on further disposal of non-performing assets.

Acknowledgements

On behalf of the Board, I would like to extend my appreciation to all our customers and business partners for their patronage and support. On our part, we will strive to serve our customers in this challenging environment.

Yours Sincerely

Teo Soon Hoe
Chairman
January 31, 2005

Keppel Plus

Keppel ATM Savings

Keppel Premium Time Deposit

Ortigas Branch in Ortigas Business District.

The management of the Bank is organized into four key strategic areas: wholesale, retail, asset management and support services. The four strategic areas allow better focus and coordination between the members of the management team.

The Wholesale Banking Group enables the Treasury, Corporate Banking and Trust divisions to work better together in terms of cross-selling of products, brainstorming of ideas, joint marketing efforts and streamlining of the support functions.

The Retail Banking Group leverages the branch network to sell deposits, consumer loans and various deposit related services. Branch operations and the information technology team meet regularly with the retail banking group to ensure strong branch operations and support. Within the retail banking team, subgroups focus on product development and marketing to further complement the retail marketing efforts.

The Asset Management Group concentrates on collection of non-performing loans and the sale of acquired assets. The main objective is to improve the balance sheet by minimizing the non-performing assets levels and increasing the income contribution from these assets.

The Support Services Group concentrates on delivering product and customer service in the most cost effective manner. Regular discussions with the wholesale, retail and asset management groups result in greater customer focused product and service delivery within the requisite control environment.

Wholesale Banking

Key highlights from the wholesale banking group include:

- Trading gains of ₱39.6 million in 2004 compared to ₱67.6 million in 2003.
- Improved credit quality of the commercial loan portfolio.
- Trust assets under management increased to ₱1.344 billion as of 31 December 2004 compared to ₱1.046 billion in the prior year.
- More efficient product distribution through the branch network.

Trading in fixed income instruments was significantly lower during the year as the trading opportunities were limited in 2004. This can be contrasted with the declining interest rate environment in 2002 when the trading team was able to book a record breaking ₱118.8 million in trading gains. In 2003, the trading opportunities were still significant allowing trading gains of ₱67.6 million even though interest rates were already on the uptrend in 2003. Treasury also serves the investment needs of institutional and high net worth clients.

Keppel Bank continued to serve top corporate clients such as Globe Telecoms, Del Monte, San Miguel Foods, Monterey Foods, GMA 7 Network, International Container Terminal Services, Asian Terminals and Aboitiz and Co.. The Bank also extended loans to small and medium enterprises with good cash flows and on a secured basis.

Loans undergo rigid credit analysis and evaluation prior to approval. All credit lines are reviewed regularly to assess credit quality and any account showing early signs of problems are placed under closer supervision. The selective lending resulted in a lower commercial

The Greenback Fund, a US Dollar-denominated common trust fund.

loan portfolio of ₱1.134 billion at the end of the year compared with ₱1.177 billion in the prior year. A total of ₱245 million past due loans were collected or reclassified to current in 2004.

The Greenback Fund, a US dollar denominated common trust fund (CTF) continued to be attractive to customers, growing to ₱646 million from ₱419 million at the end of the previous year. Other successful funds include the Peso CTF and the Equity CTF. With the introduction of new regulations, 2005 will be characterized by a transition from CTFs to Unit Investment Trust Funds (UITF). The Trust Banking Division expects a similarly good reception from its customers upon the launch of the new products.

Retail Banking

Key highlights from the retail banking group include:

- Continued rationalization of the branch network.
- Increased presence through branches located in shopping malls / commercial establishments, offsite ATMs and marketing booths.
- Continued development of market awareness through regular advertisements in newspapers and on billboards.
- Growing real estate loan portfolio.
- Continued focus on superior customer service

Three provincial branches were closed in 2004 while more branches were opened in and around the Metro Manila area. The branch rationalization efforts are intended to better tap the potentially larger customer base in the greater Metro Manila area while the remaining provincial branches continue to adequately serve our provincial customers.

The branches in malls are to capitalize on proximity to the businesses operating in and around the establishment as well as the many visitors these malls receive on a daily basis. These branches, marketing booths and offsite ATMs now numbering ten (10) at the end of 2004 compared to seven (7) last year, enable a much wider marketing reach for the Bank.

These distribution modes are efficient channels for increasing brand awareness as well as marketing and delivery of the various bank products and services. Market presence was further reinforced with billboards along major highways and regular advertisements in major daily newspapers and monthly residential village newsletters.

Consumer loan products at the branches include home loans, auto loans, jewelry loans and credit cards. The main focus continues to be home loans catering predominantly to the needs of first time homeowners who purchase homes from reputable housing developers. As an example, the Bank tied up with KPP to provide home loans to buyers of their properties. Housing loans are also offered to buyers of properties from various accredited developers. The Bank also extended home loans to cater to renovations, refinancing and new home construction. These loans grew to ₱731 million by the end of 2004 from ₱707 million at the end of 2003.

Asset Management

The group contributed in the following manner:

- Improved efforts in sale of properties resulting in gains of ₱65.0 million in 2004 compared to ₱31.3 million in 2003.
- Close monitoring of non-performing loans (NPL) to keep the Bank's NPL ratio below industry averages.

- Improved management of investment property in Cebu.
- Sale of various bank premises.

The Bank's level of foreclosed properties was lower at ₱473 million by the end of 2004, a reduction of ₱74 million from the ₱547 million level of the prior year. Although this resulted in gains of ₱65.0 million in 2004 compared to ₱31.3 million in 2003, the Bank had planned for the overall foreclosed properties level to be even lower.

Attractive pricing and financing were made available to potential buyers. Regular advertisements and access to various brokers were among the marketing strategies implemented. During the year, the Bank also managed to sell several bank premises to free up capital for more lending activities.

Close monitoring in conjunction with the lending units enabled the Bank to reduce its non-performing loan level to ₱503 million compared to ₱748 million in the prior year. The NPL ratio (net) was 7.2% at year end compared to the industry average of 11.6%[1]. Significant collections and improvements from loan accounts due to successful restructuring had contributed substantial positive results in the prior year.

Total rental income from investment properties improved by 27.1% in 2004 due to improved management of the commercial and residential condominium space at Keppel Center in Cebu Business Park. The notable tenants include IBM Solutions, Lexmark, Pilipinas Shell, PruLife, U.K., Philam Life, Manulife, Marie France Bodyline, Joaquin Cunanan & Co. and Ericsson. During the year, the Bank changed the accounting policy for these properties to better reflect their fair value.

Support Services

Key points include:

- Increased productivity as total compensation expense was reduced by 3.2% without compromising service and controls. The Bank was able to reduce the number of personnel from 383 to 361 over the course of the year.
- Negative impact of change in tax base. The Bank was more tax efficient under the value added tax (VAT) tax basis as the reversion to gross receipts tax (GRT) resulted in ₱23.9 million more in taxes.
- Excluding the change in tax basis, total operating expenses reduced by 5.8% as the efforts in cost management and reduction showed significant results.
- Continuous reengineering of branch operations to enable greater customer focused service.
- Achieved one of the highest up-time performance in the industry for the Bank's ATM services.
- Won various awards from business partners like Megalink and eBusiness Services, Inc.

Deposits and Investments Overview

Total deposits and trust investments under management have increased over the years. The table below summarizes the deposits and trust investment levels (in millions).

Year	Deposits	Trust	Total	Change
1998	2,201	330	2,531	–
1999	2,459	404	2,863	13%
2000	3,390	408	3,798	32%
2001	4,191	749	4,940	30%
2002	4,750	909	5,659	15%
2003	4,339	1,046	5,385	-5%
2004	4,105	1,344	5,449	1%

In the earlier years under Keppel's management, the Bank was able to increase the levels of deposits and investments significantly. However, in 2003 and 2004 these levels decreased and remained flat due to increased competition. These results were achieved despite a branch rationalization exercise, which involved temporary closure and reopening of several branches. Temporary closures resulted in immediate loss of deposits while deposit volumes take time to increase in newly opened relocated branches.

The Keppel Group companies in Singapore and the Philippines have total deposits and investments with

[1] *Based on latest available data from the Bangko Sentral ng Pilipinas.*

the Bank totaling ₱1,613 million at the end of 2004 compared to ₱1,641 million in 2003.

The Bank will continue to hire capable marketing personnel and increase the level of training of existing marketing personnel to better sell the Bank's range of products. Training for customer support staff will also be intensified to further improve customer service levels. Better products and marketing efforts are also planned for 2005 in order to achieve significant increases in deposits and trust assets under management in the year ahead.

Loans Overview

Reflecting a conservative credit approach, the Bank had a lower loan portfolio in 2004. Net loans were ₱2,037 million in 2004 compared to ₱2,119 million in 2003, a 3.9% decrease. Performing loans increased by ₱178 million while non-performing loans (NPL) dropped by ₱245 million. This was brought about by payments, restructuring of accounts, and foreclosure of properties.

The NPL ratio can be presented to include or exclude accounts with 100% provision for probable losses. Including such accounts, the NPL ratio decreased from 29.2% to 20.1% while on a net basis, the NPL ratio improved from 17.0% to 7.2% during the year.

Significant gains in the collections efforts in the prior year resulted in net reversal of provision for probable losses amounting to ₱65.8 million versus ₱8.5 million in 2004.

The NPL cover as of 31 December 2004 was 77.0%, compared to 56.2% at the end of 2003. This is higher than the banking industry average. Furthermore, 75.6% of the NPLs are secured by real estate or chattel mortgages.

Keppel Corporation Limited Record Earnings

On January 27, 2005, KCL announced record earnings of S$468 million for the financial year 2004 due to overall better performance from key businesses. Total resources of the Keppel Group amounted to S$10.5 billion at year end 2004.

This billboard was placed along major highways to enhance market awareness and visibility.

The Board of Directors and Management of Keppel Bank Philippines believe that a genuine commitment to good corporate governance is essential to the sustainability of the Bank's business and its performance.

Effective Board

The Board's responsibility is to oversee the business, assets, affairs and performance of the Bank in the best interest of its shareholders. The Board focuses its activities on the key requirements of the Bank, such as corporate strategy, major investments, divestments, financial performance reviews, risk management and other corporate governance practices.Management's responsibility on the other hand is to run the business in accordance with the policies and strategies set by the Board.

The Board meets six times a year. The Management provides a comprehensive presentation of the Bank's business and strategic plans, actions and results during these meetings. Detailed discussions and feedback are also undertaken. The Bank recognizes that the continual flow of relevant information on an accurate and timely basis is critical for the Board to be effective in the discharge of its duties.

By late 2003, the Board had commenced the implementation of a formal process to evaluate performance of the Board as a whole. The Board is mindful that the assessment exercises have to be handled with great tact and sensitivity such that the exercise would be able to serve its intended objectives.

The primary objective of this performance evaluation exercise is to establish a platform to encourage an even greater exchange of feedback and interaction among the Board members. In the process, the Board hopes to further draw on the strengths of the individual Directors and elevate the collective strength of the entire Board to an even higher level.

The following board committees implement the board of directors' various initiatives:

- Audit Committee
- Trust Banking Committee
- Credit Review and Risk Management Committee
- Compensation and Nomination Committee

Audit Committee

The Audit Committee assists the Board to ensure integrity of financial reporting and to assure that there are sound internal control and risk management systems. The members of the Committee met seven times during the year.

The Committee is chaired by an independent director, Mr. Celso Vivas. The other members are: Mr. Ramon Abejuela (independent director) who replaced Mr. Fidel Bugayong; and Ms. Tina Chin (non-executive director) who is the Group Risk Management and Audit Head of KCL.

All committee members are equipped with accounting and related financial management expertise necessary to discharge their responsibilities.

Trust Banking Committee

The Trust Banking Committee oversees the strategic direction, performance, product management, regulatory compliance and operational management of the Trust Banking Division. It had twelve meetings for the year 2004.

The Committee is chaired by a non-executive director, Mr. Toh Koh Lin. The other members are: Atty. Lina de Guzman-Ferrer (non-executive director) who replaced Mr. Charles Yap; and Atty. Melva Valdez (non-executive director) who replaced Mr. Ramon Abejuela when the latter joined the Audit Committee. Messrs. Yap and Abejuela resigned from the Committee only in the year 2004.

The management member of the Trust Banking Committee is Mr. Ben Kua, President of Keppel Bank. The Trust Officer is Ms. Michelle Valeriano.

Credit Review and Risk Management Committee

The Committee is headed by a non-executive director, Ms. Tina Chin, as Chairperson. The other members are Mr. Hoe Eng Hock, Mr. Charles Yap (non-executive directors), Mr. Ben Kua, Ms. Aida Escala and Mr. Erwin Pato. The CRRMC met three times in 2004.

The Bank is exposed to many risks, such as credit risk, interest rate risk, liquidity risk and operational risk. In 2002, the Keppel Group introduced the Enterprise Risk Management (ERM) methodology. Through ERM, the Bank would have a common risk language, thereby allowing each department to actively participate in identifying and managing risks through a more standardized approach.

Credit risk is reviewed in terms of industry concentration, single and group borrower's limits and concentration, credit process, and non-performing loan levels. Credit risk is managed by the Management through the Credit Committee (CRECOM). The CRECOM approves all loans below a certain threshold while approvals above that threshold shall be approved by the Board of Directors. Any director and member of the CRECOM that may have a conflict of interest vis-a-vis a potential borrower shall abstain from casting a vote. The decision of the CRECOM and the Board of Directors is carried on a simple majority vote. The CRECOM meets at least once a week or when the need arises to approve loan applications and review credit risks.

Interest rate and liquidity risks are managed by the Management through the Asset and Liability Committee (ALCO). The daily monitoring and implementation of strategies to manage these risks rests with the Treasury Division while ALCO meets once a month or when the need arises. Interest rate risk is reviewed in terms of the direction and extent of interest rate movements. Value at Risk is also measured in order to determine the various strategies that can be undertaken to mitigate or take advantage of various interest rate movements. Yields and repricing frequency are also reviewed to better manage interest rate risk. Liquidity risk is reviewed in terms of cash flows from all asset and liability classes and its impact on the liquidity of the Bank. Value at Risk measurements are also analyzed for better liquidity management. A summary of the risk management efforts of ALCO and its results are discussed at CRRMC.

Operational risk is managed by Management through the Support Services Committee, Branch Operations Committee and the Centralized Operations Committee. Operational risk management includes review of compliance with the existing manual of operations, review of the standard procedures to improve customer service and productivity, improvements to cost management, monitoring of various deliverables from the operations and support services teams, and regulatory compliance.

Compensation and Nomination Committee

This committee is chaired by Mr. Teo Soon Hoe. Other members of this committee include Atty. Melva Valdez and Mr. Hoe Eng Hock. The brief of this committee includes reviewing nominations for the appointment of directors, performance evaluation of the respective directors and the board as a whole, and performance and compensation review of the senior management. This committee shall meet for the first time in 2005.

PRODUCTS AND SERVICES

PESO DEPOSITS
Ordinary Checking
Ordinary Savings
Keppel ATM 500
Keppel Plus
Keppel Premium Time Deposit

FOREIGN CURRENCY DEPOSITS
US$ Savings
US$ Time Deposit

TREASURY SERVICES
Money Market Instruments
Government Securities
  Treasury Bills
  Fixed Rate Treasury Notes
Foreign Exchange
Currency Transfer Service

TRUST SERVICES
Portfolio / Investment Management Services
  Special Trust Account
  Investment Management Account
Employee Benefit Trust
Trusteeship of Pre-Need Plans
Escrow Agency
Mortgage Trust Indenture
Custodianship
Unit Trust Investment Funds (UITF)
  (to be launched soon)
  Keppel Classic Fund
  Keppel Greenback Fund
  Keppel Growth Fund
  Keppel Income Fund
  Keppel Institutional Gainer Fund

CONSUMER LOANS
Home Loan
Car Loan
Jewelry Loan
Visa Credit Card

CORPORATE LOANS
Mortgage Loan
Term Loan
Loan Line/Revolving Credit Line
Domestic Bills Purchase Line
Trade Check Discounting Facility (TCDF)
Discounting of Receivables
Domestic LC/TR Line
Import Letter of Credit (ILC)
Trade Financing
Floor Stock Financing
Export Packing Credit Line

OTHER SERVICES
ATM
Telegraphic Transfer
Safe Deposit Box
Payroll Services
Deposit Pick-up Service
Manager's Check
Payment Collection Service
Check Writing Facility
Post-dated Check Warehousing
Inter Branch Transaction
Western Union Money Transfer Service

BRANCH DIRECTORY

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Philippines
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(632) 7268529
Fax: (632) 4106363

METRO MANILA AREA

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Ayala Alabang, Muntinlupa
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Fax: (632) 8504173

Ayala
Multinational Bancorporation Centre
6805 Ayala Ave., Makati
Tel: (632) 8445286; 8445278
Fax: (632) 8445301

Cainta
Gov. Felix Ave. cor Karangalan Gate 2
Cainta, Rizal
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Fax: (632) 2400195

Cainta East
Ground Flr., Sta. Lucia East Grand Mall,
Marcos Highway cor. Gov. Felix Ave.
Cainta, Rizal
Tel: (632) 6819262
Fax: (632) 6819142

Del Monte
128 Del Monte Ave., cor. Biak-na-Bato St., Sienna,
Quezon City
Tel: (632) 7431072; 7431075;
(632) 7129377
Fax: (632) 7431081

Greenhills
VAG Building, Ortigas Ave.,
Greenhills West, San Juan
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Fax: (632) 7252499

Kalookan
A. Mabini cor. P. Burgos St.
Kalookan
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Fax: (632) 2879722

Libis
Centro Building
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Bagumbayan, Quezon City
Tel: (632) 4219928 to 29
Fax: (632) 4219930

Navotas
M. Naval St., San Jose,
Navotas
Tel: (632) 2819938 to 39
Fax: (632) 2829037

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San Miguel Ave., Ortigas Center,
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Fax: (632) 6334256

Paco
Corea St. cor. United Nations Ave.
Paco, Manila
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Fax: (632) 5264111

Pioneer
Robinsons Place Pioneer, Level 1
Edsa cor. Pioneer St., Mandaluyong
Tel: (632) 6871259
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Quiapo, Manila
Tel: (632) 7334448; 7332878
Fax: (632) 7334446

Salcedo
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H.V. Dela Costa St.
Salcedo Village, Makati
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(632) 8179967
Fax: (632) 8131493

Sampaloc
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Sampaloc, Manila
Tel: (632) 7497051
Fax: (632) 7812876

Shangri-la
Lower Ground Level, Shangri-la Plaza
Edsa cor. Shaw Blvd., Mandaluyong
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Sta. Cruz
Plaza Sta. Cruz,
Sta. Cruz, Manila
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Fax: (632) 7336958

LUZON AREA

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Batangas
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Fax: (043) 7220876

Carmona
Macaria Business Center, Governor's
Drive, Mabuhay, Carmona, Cavite
Tel: (046) 4302945
Fax: (046) 4302946

Lipa
C.M. Recto Ave.
Lipa, Batangas
Tel: (043) 7561713
Fax: (043) 7561317

Malolos
Lot 698-A Paseo del Congreso Rd.
Malolos, Bulacan
Tel: (044) 7917513; 7917515
Fax: (044) 7917514

Marilao
SM City Marilao, Km. 21 Mc Arthur
Highway, Brgy. Ibayo, Marilao
Bulacan
Tel: (044) 9332158
Fax: (044) 9332161

San Pablo
M. Paulino St., San Pablo
Laguna
Tel: (049) 5624991; 5620357
Fax: (049) 5206071

Sta. Rosa
Paseo de Sta. Rosa Bldg.
Don Jose, Sta. Rosa, Laguna
Tel: (049) 5413239; 5413284
Fax: (049) 5412900

VISAYAS AREA

Bacolod
San Juan, Rizal St.,
Bacolod
Tel: (034) 4334822 to 23
Fax: (034) 4337885

Cebu Business Park
Keppel Center,
Samar Loop cor. Cardinal Rosales Ave.
Cebu Business Park, Cebu
Tel: (032) 2331540; 2331542
Fax: (032) 2331531

Cebu - Plaridel
Dy Building, Plaridel St., Cebu
Tel: (032) 2561477 to 79
Fax: (032) 2561470

Iloilo
John Tan Bldg., Iznart Street
Iloilo
Tel: (033) 3382749; 3370066
Fax: (033) 3370065

Iloilo West
La Fiesta Hotel, M. H. del Pilar St., Molo,
Iloilo
Tel: (033) 3358147
Fax: (033) 3358148

Lapu-Lapu
Radaza Bldg., Osmeña St.
Lapu-Lapu, Cebu
Tel: (032) 3408611 to 13
Fax: (032) 3408614

MINDANAO AREA

Cagayan de Oro
Tiano cor. Borja St.
Cagayan de Oro
Tel: (08822) 2314248
(08822) 728533
Fax: (08822) 727454

Davao
C.M. Recto Ave.,
Davao
Tel: (082) 2278384; 2263706
Fax: (082) 2263697

Zamboanga
I. Magno St. cor. Barcelona St.
Zamboanga
Tel: (062) 9912527 to 28
Fax: (062) 9911536

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Keppel Bank Philippines, Inc. (A Thrift Bank) is responsible for all information and representations contained in the financial statements for the years ended December 31, 2004 and 2003. The financial statements have been prepared in conformity with generally accepted accounting principles and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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

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

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

Teo Soon Hoe
Chairman of the Board

Benedict Kua Hun Guan
President

Stefan Tong Wai Mun
Vice President – Comptroller

REPORT OF INDEPENDENT AUDITORS

The Stockholders and the Board of Directors
Keppel Bank Philippines, Inc.
(A Thrift Bank)

We have audited the accompanying statements of condition of Keppel Bank Philippines, Inc. (A Thrift Bank) as of December 31, 2004 and 2003, and the related statements of income, changes in capital funds and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Keppel Bank Philippines, Inc. 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.

Sycip Gorres Velayo & Co.

Amelia B. Cabal
Partner
CPA Certificate No. 15534
SEC Accreditation No. 0068-A
Tax Identification No. 105-342-543
PTR No. 1195833, January 3, 2005, Makati City

January 18, 2005

STATUTORY REPORT & ACCOUNTS

Statements of Condition

	December 31	
	2004	2003 (As restated)
RESOURCES		
Cash and Other Cash Items (Note 10)	**₱ 100,181,618**	₱ 122,382,997
Due from Bangko Sentral ng Pilipinas (Notes 10 and 14)	**90,052,268**	141,157,692
Due from Other Banks (Note 14)	**371,793,557**	439,993,616
Investment Securities Purchased under Reverse Repurchase Agreement (Note 14)	**385,000,000**	330,000,000
Trading Account Securities - at market (Notes 3 and 14)	**1,840,201**	1,606,484
Available-for-Sale Securities - at market (Notes 3 and 14)	**9,894,449**	–
Investment in Bonds and Other Debt Instruments - at amortized cost (Notes 3, 10, 14 and 22)	**295,362,274**	325,712,984
Loans - net (Notes 4, 14 and 21)	**2,036,975,962**	2,118,704,091
Bank Premises, Furniture, Fixtures and Equipment - net		
At appraised values (Note 5)	**162,523,783**	273,794,165
At cost (Note 5)	**47,569,600**	65,341,606
Real and Other Properties Owned or Acquired (ROPOA) - net (Note 6)	**472,792,338**	547,032,933
Investment in Real Estate - at market (Note 7)	**623,878,100**	607,983,186
Other Resources - net (Note 8)	**361,359,395**	214,517,743
	₱4,959,223,545	₱5,188,227,497
LIABILITIES AND CAPITAL FUNDS		
Liabilities		
Deposit Liabilities (Notes 10, 14 and 21)	**₱4,105,691,889**	₱4,339,233,519
Bills Payable (Notes 11 and 14)	**–**	121,969
Manager's Checks (Note 14)	**12,460,392**	8,519,634
Accrued Taxes, Interest and Other Expenses (Notes 12 and 14)	**35,058,037**	40,903,578
Other Liabilities (Note 13)	**109,677,307**	59,883,457
	4,262,887,625	4,448,662,157
Capital Funds		
Capital stock	**2,424,714,300**	2,424,714,300
Subscription receivable	**(42,849,800)**	(42,849,800)
Paid-in surplus	**484,909,714**	484,909,714
Surplus reserve	**18,898,208**	18,898,208
Deficit (Note 2)	**(2,281,003,163)**	(2,331,781,721)
Revaluation increment (Note 16)	**92,826,752**	185,674,639
Unrealized loss on available-for-sale securities (Note 3)	**(1,160,091)**	–
	696,335,920	739,565,340
	₱4,959,223,545	₱5,188,227,497

See accompanying Notes to Financial Statements.

Statements of Income

	Years Ended December 31	
	2004	2003 (As restated)
INTEREST INCOME ON		
Loans (Notes 4 and 21)	**₱262,363,057**	₱272,701,097
Trading and investment securities (Note 3)	**43,238,121**	35,480,462
Deposits with banks	**10,413,422**	13,701,542
	316,014,600	321,883,101
INTEREST EXPENSE ON		
Deposit liabilities (Notes 10 and 21)	**207,344,547**	220,356,334
Bills payable	**–**	29,354
	207,344,547	220,385,688
NET INTEREST INCOME	**108,670,053**	101,497,413
RECOVERIES FROM PROBABLE LOSSES - Net (Note 9)	**8,503,354**	65,820,007
NET INTEREST INCOME AFTER RECOVERIES FROM PROBABLE LOSSES	**117,173,407**	167,317,420
NONINTEREST INCOME		
Income from sale of properties	**64,830,874**	31,356,372
Service charges, fees and commissions	**49,348,582**	52,421,870
Rental (Note 7)	**48,686,341**	40,840,505
Trading gains - net	**39,630,365**	67,651,695
Trust fees	**17,709,832**	17,722,784
Foreign exchange gain - net	**1,188,204**	1,891,010
Miscellaneous	**7,322,900**	12,724,399
	228,717,098	224,608,635
OPERATING EXPENSES		
Compensation and fringe benefits (Note 18)	**115,669,167**	119,435,140
Occupancy and equipment-related expenses (Notes 5, 8 and 17)	**95,879,940**	105,619,130
Taxes and licenses (Note 20)	**34,137,422**	8,488,526
Representation, travel and transportation (Note 20)	**23,320,696**	29,177,936
Security, messengerial and janitorial	**21,902,338**	21,433,419
Foreclosure, management and other professional fees	**20,785,488**	19,049,294
Litigation expenses	**17,251,349**	13,277,259
Insurance	**10,418,919**	10,418,952
Miscellaneous (Note 19)	**41,285,766**	51,953,594
	380,651,085	378,853,250
INCOME (LOSS) BEFORE INCOME TAX	**(34,760,580)**	13,072,805
BENEFIT FROM (PROVISION FOR) INCOME TAX (Note 20)	**39,010,738**	(5,794,293)
NET INCOME	**₱ 4,250,158**	₱ 7,278,512

See accompanying Notes to Financial Statements.

Statements of Changes in Capital Funds

	Years Ended December 31			
				2003
	2004		(As restated)	
	In Shares	**Amount**	In Shares	Amount
CAPITAL STOCK - ₱100 par value				
Authorized	**30,000,000**	**₱3,000,000,000**	30,000,000	₱3,000,000,000
Issued	**23,691,644**	**2,369,164,400**	23,691,644	2,369,164,400
Subscribed	**555,499**	**55,549,900**	555,499	55,549,900
		2,424,714,300		2,424,714,300
SUBSCRIPTIONS RECEIVABLE		**(42,849,800)**		(42,849,800)
PAID-IN SURPLUS		**484,909,714**		484,909,714
SURPLUS RESERVE		**18,898,208**		18,898,208
DEFICIT				
Balance at beginning of year, as previously reported		**(2,334,852,602)**		(2,345,300,886)
Effect of change in accounting for:				
Leases (Note 2)		**(7,171,526)**		(6,231,135)
Deferred tax assets (Notes 2 and 20)		**(6,808,646)**		(6,808,646)
Investment in real estate (Notes 2 and 7)		**18,139,418**		18,139,418
Deferred tax liability (Notes 2, 13 and 20)		**(1,088,365)**		(1,088,365)
Balance at beginning of year, as restated		**(2,331,781,721)**		(2,341,289,614)
Net income		**4,250,158**		7,278,512
Transfer of revaluation increment realized through:				
Disposal of bank premises (Note 5)		**45,106,883**		–
Depreciation (Notes 5 and 16)		**1,421,517**		2,229,381
Balance at end of year		**(2,281,003,163)**		(2,331,781,721)
REVALUATION INCREMENT (Note 16)				
Balance at beginning of year		**185,674,639**		187,904,020
Deferred tax liability (Notes 13, 16 and 20)		**(45,146,708)**		–
Transfer of revaluation increment realized through:				
Disposal of bank premises (Note 5)		**(45,106,883)**		–
Depreciation (Note 5)		**(1,421,517)**		(2,229,381)
Reduction in appraised values		**(1,172,779)**		–
Balance at end of year		**92,826,752**		185,674,639
UNREALIZED LOSS ON AVAILABLE- FOR-SALE SECURITIES (Note 3)		**(1,160,091)**		–
		₱ 696,335,920		₱ 739,565,340

See accompanying Notes to Financial Statements.

Statements of Cash Flows

	Years Ended December 31	
	2004	2003 (As restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	**(₱34,760,580)**	₱13,072,805
Adjustments to reconcile income before income tax to net cash used in operations:		
Depreciation and amortization	**25,745,959**	41,931,208
Amortization of deferred software costs	**5,452,402**	7,781,221
Recoveries from probable losses - net	**(8,503,354)**	(65,820,007)
Income from sale of properties	**(38,468,092)**	(20,683,269)
Loss on (income from) sale of bank premises, furniture, fixtures and equipment	**15,878,172**	(1,777,834)
Write-down of bank premises, furniture, fixtures and equipment	**2,925,429**	–
Unrealized trading gain on trading account securities	**(14,588)**	(111,327)
Changes in operating resources and liabilities:		
Decrease (increase) in:		
Trading account securities	**(219,129)**	82,462,197
Loans	**83,358,298**	274,525,052
Other resources	**20,185,240**	55,407,955
Increase (decrease) in:		
Deposit liabilities	**(233,541,630)**	(411,616,873)
Manager's checks	**3,940,758**	(38,541,041)
Accrued taxes, interest and other expenses	**(7,092,389)**	5,982,746
Other liabilities	**4,647,142**	700,354
Net cash used in operations	**(160,466,362)**	(56,686,813)
Income taxes paid	**(5,977,487)**	(3,722,817)
Net cash used in operating activities	**(166,443,849)**	(60,409,630)
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in:		
Available-for-sale securities	**(11,054,540)**	–
Investment in bonds and other debt instruments	**30,350,710**	(77,249,811)
Proceeds from sale of:		
Bank premises, furniture, fixtures and equipment	**9,186,948**	4,344,994
Real and other properties owned or acquired	**63,837,650**	14,031,729
Additions to:		
Bank premises, furniture, fixtures and equipment	**(7,696,583)**	(14,944,248)
Investment in real estate	**(4,565,229)**	(1,903,095)
Net cash provided by (used in) investing activities	**80,058,956**	(75,720,431)

(Forward)

	Years Ended December 31	
	2004	2003 (As restated)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on bills payable	**(₱ 121,969)**	(₱ 765,375)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(86,506,862)**	(136,895,436)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and other cash items	**122,382,997**	93,227,541
Due from Bangko Sentral ng Pilipinas	**141,157,692**	174,626,639
Due from other banks	**439,993,616**	326,575,561
Investment securities purchased under reverse repurchase agreement	**330,000,000**	576,000,000
	1,033,534,305	1,170,429,741
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and other cash items	**100,181,618**	122,382,997
Due from Bangko Sentral ng Pilipinas	**90,052,268**	141,157,692
Due from other banks	**371,793,557**	439,993,616
Investment securities purchased under reverse repurchase agreement	**385,000,000**	330,000,000
	₱947,027,443	₱1,033,534,305

See accompanying Notes to Financial Statements

Notes to Financial Statements

1. Corporate Information

Keppel Bank Philippines, Inc. (the Bank), formerly Monte de Piedad and Savings Bank, the oldest savings and mortgage bank in the Philippines, was established in 1879 and started operations on August 2, 1882.

The Bank is a domestic corporation registered with the Securities and Exchange Commission (SEC) on December 22, 1949. The Bank's principal place of business is at Monte de Piedad Street corner E. Rodriguez, Sr. Avenue, Cubao, Quezon City. The Bank is 98% owned by Keppel Group of Companies, of which Keppel Corporation Limited, a Singapore-based company has 38% share. The Bank has 33 and 30 operational branches as of December 31, 2004 and 2003 within the Philippines, and 361 and 383 employees as of December 31, 2004 and 2003, respectively. The Bank has 3 and 6 temporarily closed branches as of December 31, 2004 and 2003 for reopening to better locations.

The Bank is authorized by the Bangko Sentral ng Pilipinas (BSP) to carry on the business of thrift banking, providing services such as deposit-taking (including foreign currency deposits), loans, safe deposit business and trust services. The Bank is also an authorized dealer of government securities.

The accompanying comparative financial statements of the Bank were approved and authorized for issue by the board of directors (BOD) through its Audit Committee on January 18, 2005.

2. Summary of Significant Accounting Policies

Basis of Financial Statement Preparation
The Bank follows the accounting principles generally accepted in the Philippines (Philippine GAAP) and reporting practices applicable to the banking industry. These financial statements were prepared under the historical cost convention except that trading account securities (TAS), available-for-sale securities (ASS) and investment in real estate are carried at fair market value.

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

Adoption of New Accounting Standards
On January 1, 2004, the following new accounting standards became effective and were adopted by the Bank:

- Statement of Financial Accounting Standards (SFAS) 12/International Accounting Standard (IAS) 12, *Income Taxes*, prescribes the accounting treatment for income taxes. The adoption of this accounting standard resulted in retroactive upward adjustment to deficit as of December 31, 2003 amounting to ₱6.8 million.

- SFAS 17/IAS 17, Leases, prescribes the accounting policies and disclosures applicable to finance and operating leases. The adoption of the standard resulted in the recognition of lease payments under operating leases on a straight-line basis. Previously, all leases under operating lease are recognized in the statement of income on the basis of the terms of the lease agreement. The adoption of this accounting standard resulted in a retroactive upward adjustment to deficit as of December 31, 2003 and 2002 amounting to ₱7.2 million and ₱6.2 million, respectively. Net income decreased by ₱475,112 and ₱940,391 in 2004 and 2003, respectively.

Additional disclosures required by the new standards were included in the financial statements, where applicable.

In 2005, Philippine Accounting Standards (PAS) and Philippine Financial Reporting Standard (PFRS) will replace SFAS/IAS and International Financial Reporting Standard (IFRS), respectively.

In 2004, the Bank took on the early adoption of PAS 40, Investment Property, which will take effect in 2005. The adoption of PAS 40 resulted in a change in accounting policy for the measurement of investment in real estate. Investment in real estate is currently recorded in the statement of condition at fair value. Previously, the Bank recorded investment in real estate at cost. In accordance with the transitional provisions of PAS 40, the opening balance of deficit have been restated to reflect this change in accounting policy, resulting in a decrease in the balance of deficit as of January 1, 2004 of ₱17.1 million, net of deferred tax liability, and an increase in net income in 2004 amounting to ₱9.9 million.

<u>New Accounting Standards Effective in 2005</u>
The Bank will adopt the following applicable new accounting standards in 2005:

- PAS 19, ***Employee Benefits***, provides for the accounting for long-term and other employee benefits. The standard requires the use of the projected unit credit method in measuring retirement benefits of the employees and a change in the manner of computing benefit expense relating to past service cost and actuarial gains and losses. It also requires the Bank to determine the present value of defined benefit obligation and the fair value of any plan assets with sufficient regularity that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the statement of condition date.

  The effect of adopting the standard will result in a transition liability amounting to ₱2.9 million as of January 1, 2005. Transition liability is the present value of the obligation at the time of adoption minus fair value of plan assets at the time of adoption, minus any past service cost that should be recognized in later periods. The Bank will recognize the amount as part of its deferred retirement liability as a charge against surplus.

- PAS 21, *The Effects of Changes in Foreign Exchange Rates*, provides restrictive conditions for the capitalization of foreign exchange losses. The standard addresses the accounting for transactions in foreign currency and translating the financial statements of foreign operations that are included in those of the reporting enterprise by consolidation, proportionate consolidation and equity method. The adoption of this standard will not materially impact the financial statements.

- PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, provides for the required disclosure and presentation in respect of the accounts of banks and similar financial institutions. It also provides that general banking risks are treated as appropriations of surplus and should not be included in the determination of net income for the period. As of December 31, 2004 and 2003, the Bank has general provision amounting to ₱16.2 million and ₱16.9 million, respectively. Upon adoption of this standard, the Bank will evaluate the level of allowance for probable losses and consider their sufficiency to cover any losses from non-collection or non-realization of its loans and other risk assets. Any excess in general provision will result in a retroactive downward adjustment to deficit as of December 31, 2004 and 2003. To date, the Bank has not yet determined the impact to the financial statements.

- PAS 32, ***Financial Instruments: Disclosure and Presentation***, covers the disclosure and presentation of all financial instruments. The standard requires more comprehensive disclosures about a bank's financial instruments, whether recognized or unrecognized in the financial statements. New disclosure requirements include terms and conditions of financial instruments used by the Bank, types of risks associated with both recognized and unrecognized financial instruments (price risk, credit risk, liquidity risk, and cash flow risk), fair value information of both recognized and unrecognized financial assets and financial liabilities, and the Bank's financial risk management policies and objectives. The standard also requires financial instruments to be classified as liabilities or equity in accordance with its substance and not its legal form.

- PAS 39, ***Financial Instruments: Recognition and Measurement***, establishes the accounting and reporting standards for recognizing, measuring, and disclosing information about a bank's financial assets and financial liabilities including derivative instruments. The standard requires a financial asset or financial liability to be recognized initially at fair value. Subsequent to initial recognition, the Bank should continue to measure financial assets at their fair values, except for loans and receivables originated or purchased by the Bank and held-to-maturity investments, which are measured at cost or amortized cost using the effective interest rate method. Financial liabilities are subsequently measured at cost or amortized cost, except for liabilities classified as "at fair value through profit and loss" and derivatives, which are subsequently measured at fair value.

  The Bank has established a task force that will implement the provisions of PAS 32 and PAS 39 and assess the implications of these standards to the Bank's financial statements. To date, the Bank has not yet determined the impact to the financial statements due to the following reasons:

  - The Bank is still in the process of establishing policies, procedures and necessary systems related to the adoption of these standards.
  - The Bangko Sentral ng Pilipinas, through BSP Monetary Board Resolution No. 1869 dated December 23, 2004, has given the banks and financial institutions until December 31, 2005 to ready their infrastructures to be PAS 32 and 39 compliant. Interim reports that will be submitted to the BSP for 2005 need not be in compliance with the provisions of the said standards.

  On the impact of account classification and related measurement of its trading and investment securities portfolio, the Bank will submit to the BSP the classification of its trading and investment securities portfolio as presented in the accompanying financial statements. Accordingly, the Bank does not expect any material impact on its financial statements in respect to the classification of financial assets and liabilities other than trading and investment portfolio.

  The effect of adopting the effective interest rate method in measuring amortized cost for loans and AFS has not yet been quantified since the existing systems of the Bank have not yet been reconfigured to adopt effective interest rate method of amortization. Due to the volume of transactions, it is impracticable to compute for the financial impact manually. The Bank will report the financial implication as soon as the information is available.

  PAS 39 requires that if there is objective evidence that an impairment on loans and other financial assets carried at amortized cost are incurred, the amount of loss is measured as the difference between the assets' carrying amount and the present value of future cash flows. The effect of adopting this provision will not be material to the financial assets and liabilities of the Bank, except for the impairment of loans and other receivables. Currently, the adequacy of allowance for probable losses on loans and other receivables is determined based on management criteria and BSP requirements. The existing systems of the Bank have not yet been programmed to adopt the discounted cash flow method. Due to the volume of transactions, it is impracticable to compute for the financial impact manually. The Bank will report the financial implication as soon as the information is available.

The Bank has yet to review all its outstanding contracts to ascertain if there are derivatives embedded in those contracts. In addition, the Bank does not have any stand alone derivatives.

The disclosures required by these standards will be reflected in the 2005 financial statements, where applicable.

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, specifies the accounting for assets held for sale and the presentation and disclosure of discontinued operations. It requires assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell, and the depreciation on such assets to cease. Furthermore, assets that meet the criteria to be classified as held for sale should be presented separately on the face of the statements of condition and the results of discontinued operations to be presented separately in the statements of income. Currently, the Bank is embarking on a program to actively sell its ROPOA. Accordingly, management believes the adoption of PFRS 5 has no impact in the financial statements of the Bank.

The Bank will also adopt in 2005 the following revised standards:

- PAS 1 (revised 2003), *Presentation of Financial Statements*, provides a framework within which an entity assesses how to present fairly the effects of transactions and other events; provides the base criteria for classifying liabilities as current or noncurrent; prohibits the presentation of income from operating activities and extraordinary items as separate line items in statement of income; and specifies the disclosures about key sources of estimation uncertainty and judgments management has made in the process of applying the entity's accounting policies.

- PAS 8 (revised 2003), *Accounting Policies, Changes in Accounting Estimates and Errors*, removes the concept of fundamental error and the allowed alternative to retrospective application of voluntary changes in accounting policies and retrospective restatement to correct prior period errors. It defines material omission or misstatements, and describes how to apply the concept of materiality when applying accounting policies and correcting error.

- PAS 16 (revised 2003), *Property, Plant and Equipment*, provides additional guidance and clarification on recognition and measurement of items of property, plant and equipment. It also provides that each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

- PAS 17 (revised 2003), *Leases*, provides a limited revision to clarify the classification of a lease of land and buildings and prohibits expensing of initial direct costs in the financial statements of lessors.

- PAS 24 (revised 2003), *Related Party Disclosures*, provides additional guidance and clarity in the scope of the standard, the definitions and the disclosures for related parties. It also requires disclosure of the compensation of key management personnel by benefit type.

The Bank does not expect any significant impact on the financial statements from adoption of the above revised standards. The disclosures required by these revised PAS will be reflected in the 2005 financial statements, where applicable.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash equivalents include cash and other cash items, amounts due from BSP and other banks, and investment securities purchased under reverse repurchase agreement with original maturities of three months or less from dates of placement that have insignificant risk of changes in value.

Investment Securities Purchased Under Reverse Repurchase Agreement
(Investments Purchased under Reverse Repo)

Investments purchased under reverse repo consist of government securities purchased from the BSP under resale agreement within a period of five days. Reverse repos are recorded as securities purchased under agreements to resell. These investments are stated at fair market value. The corresponding interest income is accrued when earned. Securities lent to counterparties are also retained in the financial statements.

Trading and Investment Securities

TAS consists 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 Gains - net in the 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.

Securities are classified as ASS when purchased and held indefinitely but which the Bank anticipates to sell in response to liquidity requirements or in anticipation of changes in interest rates or other factors. ASS are carried at fair market value; unrealized gains and losses are excluded from the reported income and are reported as a separate component of capital funds.

Investment in bonds and other debt instruments (IBODI) are debt securities where the Bank has the positive intent and ability to hold to maturity. These securities are carried at amortized cost; amortization of premium or discount is included in Interest Income in the statements of income; realized gains and losses are included in Trading Gains - net in the statements of income. An allowance for probable losses, if any, is established by a charge against income to reflect other-than-temporary impairments in value. Under current banking regulations, IBODI shall not exceed 50% of adjusted statutory net worth plus 40% of total deposit liabilities.

Loans

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

Unearned discount is recognized as income over the terms of the loans. Interest income on non-discounted loans is accrued as earned, except in the case of non-accruing loans as required by existing regulations of the BSP. Interest income on these non-accruing loans is recognized upon actual collection.

Loans are classified as non-accruing in accordance with BSP regulations, or when, in the opinion of management, collection of interest or principal is doubtful. Interest income on these loans is recognized only to the extent of cash collections received. Loans are not reclassified as accruing until interest and principal payments are brought current or the loans are restructured in accordance with existing BSP regulations, and future payments appear assured.

Allowance for Probable Loan Losses

The allowance for probable loan losses, which comprises both specific and general loan loss reserves, represents management's estimate of probable losses inherent in the loan portfolio, after consideration of prevailing and anticipated economic conditions, prior loss experience, estimated recoverable values based on fair market values of underlying collaterals, prospects of supports from any financially responsible guarantors, subsequent collections, estimated cash flows, and evaluation made by the BSP. The BSP requires banks to observe certain criteria and guidelines based largely on the classification of loans in establishing specific loan loss reserves. To supplement the specific loan loss reserves, a general reserve on unclassified loans is set aside.

The allowance for probable losses is established through provisions for probable losses charged to current operations. Loans are written off against the allowance when management believes that the collectibility of the principal is unlikely.

Bank Premises, Furniture, Fixtures and Equipment

Land and buildings are stated at appraised values less accumulated depreciation and any impairment in value. The appraised values were determined by an independent firm of appraisers in 2002. The net appraisal increment resulting from the revaluation was credited to Revaluation Increment as shown in the statements of changes in capital funds. Furniture, fixtures and equipment and leasehold improvements are carried at cost less accumulated depreciation and amortization, and any impairment in value.

The initial cost of bank premises, furniture, fixtures and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance are normally charged to operations in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of bank premises, furniture, fixtures and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of bank premises, furniture, fixtures and equipment. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization are removed from the accounts, any resulting gain or loss is reflected as income or loss in the statements of income.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

	Estimated Useful Lives
Building	25 - 40 years
Furniture, fixtures and equipment	3 - 7 years

The cost of leasehold improvements is amortized over the period of ten years or the lease term, whichever is shorter.

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

The carrying values of the bank premises, furniture, fixtures and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount (see accounting policy on Impairment of Assets).

Real and Other Properties Owned or Acquired (ROPOA)
These properties, which were acquired in settlement of loans, are stated at the total outstanding exposure at the time of acquisition or bid price/appraised value, whichever is lower, less allowance for probable losses. Nonrefundable capital gains tax and documentary stamp tax incurred in connection with foreclosures are capitalized as part of the carrying values of the foreclosed properties, provided that such carrying values do not exceed appraised values. Holding costs subsequent to the foreclosure or acquisition of the properties are charged against operations as incurred. Allowance for probable losses is set up for any anticipated losses based on BSP provisioning requirements, appraisal reports and/or current negotiations and programs to dispose of these properties including estimated selling cost.

Investment in Real Estate
Upon adoption of PAS 40, investment in real estate, which was previously carried at cost, is stated at fair value starting in 2004. Upon initial adoption of the standard, the difference between the fair value and the book value of the property was adjusted to the beginning balance of the retained earnings account. Subsequent changes to the fair value of the property will be charged to the statement of income in the period where it arises.

Deferred Software Costs
Deferred software costs are amortized on a straight-line basis over a period of seven years.

Income Taxes
Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the statement of condition date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax and the net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused MCIT and NOLCO can be utilized.

The carrying amount of deferred income tax assets is reviewed at each statement of condition date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of condition date.

Impairment of Assets

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

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged against statements of income in the year in which it arises, unless the asset is carried at a revalued amount in which case the impairment loss is charged to the revaluation increment of the said asset.

A previously recognized impairment loss is reversed by a credit to current operations, unless the asset is carried at a revalued amount in which case the reversal of the impairment loss is credited to the revaluation increment of the same asset, to the extent that it does not restate the asset to a carrying amount in excess of what would have been determined (net of any accumulated depreciation) had no impairment loss been recognized for the asset in prior years.

Income Recognition

Income is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the income can be reliably measured. The following specific recognition criteria must also be met before income is recognized:

Interest Income

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

Fees and Commission

Generally, fees and commissions are recognized on the accrual basis.

Loan commitment fees are recognized as earned over the terms of the credit lines granted to each borrower.

Loan syndication fees are recognized upon completion of all syndication activities and where the Bank does not have further obligations to perform under the syndication agreement.

Service Charges and Penalties

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

Foreign Currency Translations and Transactions

Foreign currency denominated transactions are translated into their equivalent in Philippine pesos based on the Philippine Dealing System weighted average rate (PDSWAR) prevailing at end of the year (for resources and liabilities) and at the PDSWAR prevailing on transaction dates (for income and expenses). Foreign exchange differentials arising from foreign currency transactions and restatements of foreign currency-denominated resources and liabilities are credited to or charged against current operations.

Retirement Cost
The Bank's retirement expense is determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current period. This method reflects services rendered by employees to the date of valuation and incorporate assumptions concerning employees' projected salaries. Past service cost is the present value of any units of future benefits credited to employees for service in periods prior to the commencement or subsequent amendment of the plan. Unrecognized experience adjustments and past service costs are amortized over the average expected remaining working life of the employees.

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

Provisions and Contingencies
Provisions are recognized when the Bank has a present obligation (legal or constructive) where, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable.

Subsequent Events
Post year-end events that provide additional information about the Bank's position at the statement of condition date (adjusting events), are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes when material.

3. Trading and Investment Securities

TAS includes unrealized gain of ₱14,588 in 2004 and ₱111,327 in 2003.

ASS is presented net of unrealized loss of ₱1,160,091 in 2004.

IBODI consists of:

	2004	2003
Government bonds	**₱205,743,636**	₱222,514,593
BSP Treasury bills	**77,246,795**	97,180,000
Treasury notes	**12,371,843**	3,100,000
Private	**–**	2,918,391
	₱295,362,274	₱325,712,984

As of December 31, 2004 and 2003, the market value of IBODI amounted to ₱296.1 million and ₱326.0 million, respectively.

As of December 31, 2004 and 2003, IBODI bear a nominal annual interest rates ranging from 4.0% to 16.3% and 4.0% to 14.1%, respectively.

4. Loans

This account consists of:

	2004	2003
Commercial	**₱1,134,712,856**	₱1,177,650,306
Real estate	**730,589,576**	707,064,898
Consumption	**445,455,654**	494,859,839
Others	**189,624,976**	187,897,310
	2,500,383,062	2,567,472,353
Allowance for probable losses (Note 9)	**(442,831,096)**	(444,539,370)
Unearned discounts	**(20,576,004)**	(4,228,892)
	₱2,036,975,962	₱2,118,704,091

As of December 31, 2004 and 2003, 72.7% and 72.9% of the total peso-denominated loans, respectively, are subject to periodic interest repricing. Remaining loans earn annual fixed interest rates ranging from 11.5% to 39.0% in 2004 and 8.0% to 39.0% in 2003. Foreign currency-denominated loans earn annual fixed interest rate of 7%.

The Bank's loan portfolio includes non-risk loans totaling ₱121.7 million and ₱75.3 million as of December 31, 2004 and 2003, respectively. Under existing BSP regulations, non-risk loans are excluded in determining the Bank's general loan loss provision.

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

	2004		2003	
	Amount	**%**	Amount	%
Secured by:				
Real estate	**₱1,039,406,307**	**41.57**	₱1,140,509,915	44.42
Chattel mortgage	**695,018,153**	**27.80**	703,308,357	27.39
Hold-out on deposits	**121,691,305**	**4.86**	74,925,367	2.92
	1,856,115,765	**74.23**	1,918,743,639	74.73
Unsecured	**644,267,297**	**25.77**	648,728,714	25.27
	₱2,500,383,062	**100.00**	₱2,567,472,353	100.00

As of December 31, 2004 and 2003, non-accruing loans amounted to ₱502.4 million and ₱748.3 million, respectively. Of these non-accruing loans, ₱380.4 million and ₱464.5 million as of December 31, 2004 and 2003, respectively, are secured by real estate and chattel mortgages.

Current banking regulations allow banks with no unbooked valuation reserves and capital adjustments to exclude from nonperforming classification, those loans classified as Loss in the latest examination of the BSP which are fully covered by allowance for probable losses, provided that interest on said loans shall not be accrued and that such loans shall be deducted from total loan portfolio for purposes of computing the nonperforming loans (NPLs). The Bank's NPLs not fully covered by allowance for probable losses follow:

	2004	2003
Total NPLs	**₱502,355,875**	₱748,301,612
Less NPLs fully covered by allowance for probable losses	**347,540,041**	374,753,577
	₱154,815,834	₱373,548,035

Restructured loans as of December 31, 2004 and 2003 amounted to ₱350.3 million and ₱133.5 million, respectively.

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

	2004		2003	
	Amount	**%**	Amount	%
Real estate, renting and business services	**₱ 707,530,882**	**28.30**	₱ 631,318,898	24.59
Wholesale and retail trade	**423,013,045**	**16.92**	437,562,147	17.04
Manufacturing (various industries)	**349,808,733**	**13.99**	305,687,582	11.91
Construction	**297,237,166**	**11.89**	293,385,330	11.43
Transportation, storage and communication	**218,871,056**	**8.75**	207,359,490	8.08
Agriculture	**195,295,482**	**7.81**	233,383,303	9.08
Financial intermediaries	**37,155,216**	**1.49**	41,593,426	1.62
Others	**271,471,482**	**10.85**	417,182,177	16.25
	₱2,500,383,062	**100.00**	₱2,567,472,353	100.00

5. Bank Premises, Furniture, Fixtures and Equipment

The composition and movements in this account follow:

At Appraised Values	Land	Building	Total
Balance at January 1, 2004			
Cost	₱31,127,581	₱82,319,787	₱113,447,368
Appraisal increment	125,831,419	71,345,375	197,176,794
	156,959,000	153,665,162	310,624,162
Additions	–	686,444	686,444
Disposals	(38,144,000)	(74,957,628)	(113,101,628)
Transfer to investment property (Note 7)	–	(12,356,584)	(12,356,584)
Others	–	(4,396,602)	(4,396,602)
Balance at December 31, 2004			
Cost	1,321,750	39,379,226	40,700,976
Appraisal increment	117,493,250	23,261,566	140,754,816
	118,815,000	62,640,792	181,455,792
Accumulated depreciation at January 1, 2004			
Cost	–	(25,327,842)	(25,327,842)
Appraisal increment	–	(11,502,155)	(11,502,155)
	–	(36,829,997)	(36,829,997)
Depreciation	–	(3,512,542)	(3,512,542)
Disposals	–	20,085,237	20,085,236

At Appraised Values	Land	Building	Total
Transfer to investment property (Note 7)	–	1,026,899	1,026,899
Others	–	298,394	298,394
Accumulated depreciation at December 31, 2004			
Cost	–	(14,667,202)	(14,667,202)
Appraisal increment	–	(4,264,807)	(4,264,807)
	–	(18,932,009)	(18,932,009)
Net Book Value at December 31, 2004	**₱118,815,000**	**₱ 43,708,783**	**₱162,523,783**
Net Book Value at December 31, 2003	₱156,959,000	₱116,835,165	₱273,794,165

At Cost	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost			
Balance at January 1, 2004	₱219,459,273	₱ 60,307,542	₱279,766,815
Additions	5,185,607	1,824,532	7,010,139
Disposals and others	(5,997,394)	–	(5,997,394)
Balance at December 31, 2004	218,647,486	62,132,074	280,779,560
Accumulated Depreciation and Amortization			
Balance at January 1, 2004	(182,815,269)	(31,609,940)	(214,425,209)
Depreciation and amortization	(16,125,025)	(6,108,392)	(22,233,417)
Disposals and others	3,448,666	–	3,448,666
Balance at December 31, 2004	(195,491,628)	(37,718,332)	(233,209,960)
Net Book Value at December 31, 2004	**₱ 23,155,858**	**₱ 24,413,742**	**₱ 47,569,600**
Net Book Value at December 31, 2003	₱ 36,644,004	₱ 28,697,602	₱ 65,341,606

During the year, the Bank sold some of its land and buildings to third parties. The outstanding revaluation increment on the sold properties amounting to ₱45.1 million shown under the statements of capital funds have been realized and transferred to Deficit.

The transfer to investment property includes appraisal increment - net of accumulated depreciation of ₱1.5 million shown under Revaluation Increment in the statements of capital funds.

Depreciation and amortization charged against current operations (including depreciation on appraisal increment of about ₱1.4 million in 2004 and ₱2.2 million in 2003) which amounted to ₱25.7 million and ₱32.0 million in 2004 and 2003, respectively, are included in Occupancy and Equipment-related Expenses in the statements of income.

6. Real and Other Properties Owned or Acquired

This account consists of:

	2004	2003
ROPOA	**₱499,015,455**	₱572,859,448
Less allowance for probable losses (Note 9)	**26,223,117**	25,826,515
	₱472,792,338	₱547,032,933

Upon instructions from the BOD, management has carried out its plan to dispose the above properties within one year. These properties are available for sale and actively marketed at a price that is reasonable in relation to its current fair value.

7. Investment in Real Estate

This account consists of:

	2004
Balance at January 1, 2004 as previously reported	₱589,843,768
Fair value adjustment	18,139,418
Balance at January 1, 2004, as restated	607,983,186
Transfer from bank premises (Note 5)	11,329,685
Additions	4,565,229
Balance at December 31, 2004	₱623,878,100

Investment in real estate is stated at fair value, which has been determined based on valuations performed by CB Richard Ellis in using the sales comparison approach.

The account consists of Keppel Center condominium units in Cebu Business Park allocated to the Bank as a return of the Bank's capital in the construction project. The Bank is one of the partners in the joint venture that undertook the construction of the 15-storey building. Rental income earned from the condominium units leased out amounted to ₱41.2 million in 2004 and ₱32.4 million in 2003 is included in Rental Income in the statements of income.

8. Other Resources

This account consists of:

	2004	2003 (As restated)
Sales contract receivable (Note 14)	**₱148,296,009**	₱91,584,560
Accounts receivable (Note 14)	**78,980,306**	44,256,328
Advances to stockholders (Note 15)	**52,089,627**	52,089,627
Deferred tax asset (Note 20)	**46,235,073**	–
Prepaid taxes	**29,026,491**	15,868,454
Deferred software costs	**17,574,560**	23,026,962
Inter-office accounts	**17,556,995**	4,605,420

	2004	2003 (As restated)
Accrued interest receivable (Note 14)	**15,891,309**	27,541,081
Prepaid expenses	**7,982,920**	25,658,781
Returned checks and other cash items	**2,833,928**	6,457,481
Miscellaneous	**45,269,461**	33,284,429
	461,736,679	324,373,123
Allowance for probable losses (Note 9)	**(73,612,110)**	(74,551,653)
Unrealized profit on sales contract receivable	**(26,765,174)**	(35,303,727)
	₱361,359,395	₱214,517,743

Movement in Deferred Software Costs follows:

	2004	2003
Balance at beginning of year	**₱ 23,026,962**	₱ 29,584,138
Additions	**–**	1,224,045
Amortization	**(5,452,402)**	(7,781,221)
Balance at end of year	**₱ 17,574,560**	₱ 23,026,962

Amortization of deferred software costs charged against current operations is included in the Occupancy and Equipment-related Expenses in the statements of income.

9. Allowance for Probable Losses

Changes in the allowance for probable losses are as follows:

	2004	2003
Balance at beginning of year		
Loans (Note 4)	**₱444,539,370**	₱557,361,611
ROPOA (Note 6)	**25,826,515**	21,553,151
Other resources (Note 8)	**74,551,653**	73,842,351
	544,917,538	652,757,113
Provision for probable losses	**–**	33,202,567
Reversals	**(8,503,354)**	(99,022,574)
Write-offs and others	**6,252,139**	(42,019,568)
	(2,251,215)	(107,839,575)
Balance at end of year		
Loans (Note 4)	**442,831,096**	444,539,370
ROPOA (Note 6)	**26,223,117**	25,826,515
Other resources (Note 8)	**73,612,110**	74,551,653
	₱542,666,323	₱544,917,538

With the foregoing level of allowance for probable losses, management believes that the Bank has sufficient allowance to cover for any losses that may be incurred from the non-collection or non-realization of its loans to customers and other risk assets.

10. Deposit Liabilities

Components of the deposit liabilities are as follows:

	2004	2003
Demand	**₱ 796,752,786**	₱ 770,045,693
Savings	**592,320,240**	3,276,930,815
Time	**2,716,618,863**	292,257,011
	₱4,105,691,889	₱4,339,233,519

Of the total deposit liabilities of the Bank as of December 31, 2004 and 2003, 70% is subject to periodic interest repricing. Remaining deposit liabilities earn annual fixed interest rates ranging from 2% to 5.75% for peso deposits in 2004 and 2003 and 1% to 1.5% for dollar deposits in 2004 and 2003.

Under existing BSP regulations, deposit liabilities are subject to liquidity reserve equivalent to 2% as of December 31, 2004 and 2003 and statutory reserve of 6% as of December 31, 2004 and 2003. As of December 31, 2004 and 2003, the Bank is in compliance with such regulation.

The total liquidity and statutory reserves are as follows:

	2004	2003
Cash	**₱130,798,613**	₱136,286,091
Due from BSP	**99,963,450**	107,127,705
IBODI	**3,500,000**	3,500,000
	₱234,262,063	₱246,913,796

Amounts of cash reported as reserves pertain to cash balances of the previous banking day.

11. Bills Payable

This account represents interbank borrowing subject to fixed interest rate of 12.7% as of December 31, 2003.

12. Accrued Taxes, Interest and Other Expenses

This account consists of:

	2004	2003 (As restated)
Accrued interest	**₱ 7,393,673**	₱10,206,643
Accrued other expenses	**27,664,364**	30,696,935
	₱35,058,037	₱40,903,578

13. Other Liabilities

This account consists of:

	2004	2003 (As restated)
Deferred tax liability (Notes 16 and 20)	**₱46,235,073**	₱1,088,365
Accounts payable (Note 14)	**25,893,124**	12,972,716
Advance rentals and security deposits (Note 14)	**9,990,862**	11,431,433
Withholding tax payable (Note 14)	**6,490,280**	4,210,727
Due to the Treasurer of the Philippines (Note 14)	**1,555,589**	1,584,792
Miscellaneous	**19,512,379**	28,595,424
	₱109,677,307	₱59,883,457

14. Financial Resources and Financial Liabilities

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

	2004			2003		
Financial Resources	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Due from BSP	₱ 90,052,268	₱ –	₱ 90,052,268	₱ 141,157,692	₱ –	₱ 141,157,692
Due from other banks	371,793,557	–	371,793,557	439,993,616	–	439,993,616
Investment securities purchased under reverse repurchase agreement	385,000,000	–	385,000,000	330,000,000	–	330,000,000
Trading account securities	1,840,201	–	1,840,201	1,606,484	–	1,606,484
Available-for-sale securities	89,475	9,804,974	9,894,449	–	–	–
Investment in bonds and other debt instruments	82,153,653	213,208,621	295,362,274	82,946,056	242,766,928	325,712,984
Loans - gross (Note 4)	1,179,297,468	1,321,085,594	2,500,383,062	1,276,615,890	1,290,856,463	2,567,472,353
Other resources (Note 8):						
Accounts receivable	78,980,306	–	78,980,306	39,462,133	4,794,195	44,256,328
Accrued interest receivable	15,891,309	–	15,891,309	27,541,081	–	27,541,081
Sales contract receivable	20,859,853	127,436,156	148,296,009	17,309,759	74,274,801	91,584,560
	₱2,225,958,090	₱1,671,535,345	₱3,897,493,435	₱2,356,632,711	₱1,612,692,387	₱3,969,325,098

Financial Liabilities	2004 Due Within One Year	2004 Due Beyond One Year	2004 Total	2003 Due Within One Year	2003 Due Beyond One Year	2003 Total
Deposit liabilities	₱4,105,691,889	₱ –	₱4,105,691,889	₱4,339,233,519	₱ –	₱4,339,233,519
Bills payable	–	–	–	121,969	–	121,969
Manager's checks	12,460,392	–	12,460,392	8,519,634	–	8,519,634
Accrued taxes, interest and other expenses	35,058,037	–	35,058,037	40,903,578	–	40,903,578
Other liabilities (Note 13):						
Accounts payable	25,893,124	–	25,893,124	12,972,716	–	12,972,716
Advance rentals and security deposits	4,607,658	5,383,204	9,990,862	6,073,533	5,357,900	11,431,433
Withholding tax payable	6,490,280	–	6,490,280	4,210,727	–	4,210,727
Due to the Treasurer of the Philippines	1,555,589	–	1,555,589	1,584,792	–	1,584,792
	₱4,191,756,969	₱5,383,204	₱4,197,140,173	₱4,413,620,468	₱5,357,900	₱4,418,978,368

15. Capital Funds

On May 12, 1994, prior to the entry of the Keppel Group into the Bank, the previous set of BOD approved the payment of 15% cash dividends to the holders of preferred stocks. The declaration and payment of the said cash dividends were done without prior approval by the BSP. Accordingly, as of December 31, 2004 and 2003, said payments totaling ₱52.1 million remain recorded under the account "Advances to Stockholders" included as part of Other Resources (see Note 8). The advances are fully provided although the Bank is still pursuing collection of these advances.

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

Under current banking regulations, the combined capital accounts of a bank should not be less than an amount equal to ten percent (10%) of its risk assets. Risk assets consist of total resources 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 is in compliance 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 19.8% and 19.5%, respectively.

16. Revaluation Increment

The composition and movements in this account follow:

	Land	Building	Investment in Real Estate	Total
Balance at January 1, 2004	₱125,831,419	₱59,843,220	₱ –	₱185,674,639
Revaluation increment transferred to deficit realized through:				
Disposals of bank premises	(8,338,169)	(36,768,714)	–	(45,106,883)
Depreciation	–	(1,421,517)		(1,421,517)
Transfer to investment property	–	(1,483,451)	1,483,451	–
Reduction in appraised values	–	(1,172,779)	–	(1,172,779)
Deferred tax liability (Notes 13 and 20)	(37,597,840)	(7,443,701)	(105,167)	(45,146,708)
Balance at December 31, 2004	**₱ 79,895,410**	**₱11,553,058**	**₱1,378,284**	**₱92,826,752**

17. Long-term Leases

The Bank leases the premises occupied by some of its branches (about 5.6% of the branch sites are Bank-owned). The lease contracts are for periods ranging from 1 to 20 years and are renewable at the Bank's option under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 5% to 10%. Rent expense charged to current operations (included in Occupancy and Equipment-related Expenses) amounted to ₱24.7 million in 2004 and ₱23.3 million in 2003.

The Bank has entered into lease agreements for its investment in real estate. These leases include a clause allowing an annual increase of the rental charge based on prevailing market conditions.

Future minimum rentals receivable under non-cancelable operating leases are as follows:

	2004	2003
	(In Millions)	
Within one year	**₱19.1**	₱20.7
After one year but not more than five years	**20.8**	31.4
After more than five years	**6.4**	9.5
	₱46.3	₱61.6

18. Retirement Plan

The Bank has a funded, noncontributory defined benefit retirement plan covering substantially all of its employees. The retirement fund is administered by the Bank's Trust Banking Division, which acts as trustee under the plan. The benefits are based on years of service and compensation during the last five years of employment. Total retirement expense for 2004 and 2003 amounted to ₱6.1 million and ₱5.1 million, respectively, and are included in Compensation and Fringe Benefits in the statements of income.

As of August 31, 2004, the date of the latest actuarial valuation, the present value of accrued retirement benefits amounted to about ₱35.8 million. The fair value of the plan assets amounting to ₱22.3 million approximates the actuarially computed vested benefits of the employees covered by the Plan. The present value of the actuarial liability amounted to ₱13.5 million and is being amortized over the estimated working life of the employees of 24 years. The principal actuarial assumptions used to determine pension benefits were a discount rate and a return on plan assets of 12% and salary increases of 10%. The Bank's annual contribution to the pension plan consists of payment covering the current service cost plus a payment toward funding the actuarial accrued liability. Actuarial valuations are made every two years.

19. Miscellaneous Expenses

This account consists of:

	2004	2003
Fuel and lubricants	**₱7,342,697**	₱7,592,560
Supplies	**6,951,968**	8,449,441
Keppel Center expenses	**6,343,057**	16,691,033
Sales commission	**6,122,783**	6,076,920
Banking fees	**4,345,185**	3,675,672
Membership fees	**852,458**	837,162
Miscellaneous	**9,327,618**	8,630,806
	₱41,285,766	₱51,953,594

Keppel Center expenses pertain to the real estate taxes and association dues paid and the depreciation incurred on the Bank's investment in real estate. In 2004, following the change to fair value measurement of the investment in real estate, the Bank no longer recognized depreciation. In 2003, depreciation expense (shown as Keppel Center expenses) in Keppel Center amounted to ₱9.9 million.

20. Income and Other Taxes

Under Philippine tax laws, the Bank is subject to percentage and other taxes (presented as Taxes and Licenses in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax or GRT (GRT was in effect until 2002) and documentary stamp taxes. Effective January 1, 2003, the Bank is subjected to the value-added tax (VAT) instead of GRT. However, Republic Act No. 9238 reimposes GRT on banks and financial intermediaries effective January 1, 2004. The implementation of the GRT is subject to the implementing regulations issued by the Bureau of Internal Revenue (BIR).

Income taxes include corporate income tax, as discussed below, and final taxes paid at the rate of 20%, which is a final withholding tax on gross interest income from government securities and other deposit substitutes.

Under current tax regulations, the regular 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. In addition, Revenue Regulation No. 10-2002 provides for the ceiling on the amount of entertainment, amusement and recreation (EAR) expense that can be claimed as a deduction against taxable income.

Under the regulation, EAR expense allowed as a deductible expense for a service company like the Bank is limited to the actual EAR paid or incurred but not to exceed 1% of net revenue. The regulations also provide for MCIT of 2% on modified gross income and allow a 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.

The benefit from (provision for) income tax consists of:

	2004	2003
Final tax	**(₱ 2,872,561)**	(₱2,689,367)
MCIT	**(4,351,774)**	(3,104,926)
Deferred	**46,235,073**	–
	₱39,010,738	(₱5,794,293)

The components of the net deferred tax assets are as follows:

	2004	2003 (As restated)
Deferred tax asset (liability) on:		
Allowance for probable losses	**₱–**	₱174,373,612
NOLCO	**46,235,073**	127,571,850
MCIT carryfoward	**–**	6,400,469
Advance rentals	**–**	3,658,059
Unamortized past service cost	**–**	1,733,938
Lease	**–**	2,294,888
Unrealized foreign exchange loss	**–**	153,053
Asset revaluation	**(46,235,073)**	(1,088,365)
	–	315,097,504
Valuation allowance	**–**	308,288,858
Deferred tax asset as previously reported	**–**	6,808,646
Effect of change in accounting for deferred tax asset (Note 2)	**–**	(6,808,646)
Net deferred tax asset as restated	**₱–**	₱ –

The Bank recognizes that portion of the deferred income tax asset equivalent to the NOLCO which will be realized when it offsets the effect of the ordinary gain upon sale of property carried at appraised value.

The following are the components of the net deferred tax asset which the Bank did not recognize in 2004:

Allowance for probable losses	₱173,653,223
NOLCO	58,727,000
MCIT carryforward	8,490,149
Advance rentals	3,197,076
Unamortized past service cost	2,760,666
Lease	2,294,888
Writedown of bank premises	936,137
Other income	(170,758)
Unrealized foreign exchange gain	(38,649)
	₱249,849,732

The details of the Bank's NOLCO and MCIT are as follows:

Year Incurred	Amount	Used/Expired	Balance	Expiry Date
NOLCO				
2001	₱128,860,825	₱128,860,825	₱ –	December 31, 2004
2002	120,757,659	–	120,757,659	December 31, 2005
2003	149,043,547	–	149,043,547	December 31, 2006
2004	58,205,272	–	58,205,272	December 31, 2007
	₱456,867,303	₱128,860,825	₱328,006,478	

Year Incurred	Amount	Used/Expired	Balance	Expiry Date
MCIT				
2001	₱ 2,262,094	₱ 2,262,094	₱ –	December 31, 2004
2002	1,033,449	–	1,033,449	December 31, 2005
2003	3,104,926	–	3,104,926	December 31, 2006
2004	4,351,774	–	4,351,774	December 31, 2007
	₱ 10,752,243	₱ 2,262,094	₱ 8,490,149	

The reconciliation between the statutory income tax rate and effective income tax rate is as follows:

	2004	2003 (As restated)
Statutory income tax rate	**(32.00%)**	32.00%
Addition to (deduction from) statutory income tax rate resulting from:		
Recognition of deferred income tax	**(29.86)**	–
Trading gain	**(36.48)**	(165.61)
Tax-paid and tax-exempt on interest income on investments on government securities and deposits with banks	**(28.67)**	(41.74)
Nondeductible expense	**14.78**	66.10
Effect of valuation allowance on deferred income tax	**–**	153.57
Effective income tax rate	**(112.23%)**	44.32%

21. Related Party Transactions

In the ordinary course of business, the Bank has loan transactions with its affiliates and with certain directors, officers, stockholders and related interests (DOSRI). Under the Bank's policy, these loans are made substantially on the same terms and conditions as loans granted to other individuals and businesses of comparable risks. Under the General Banking Law and BSP 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 individual regular deposits and/or quasi-deposits and book value of their respective investments in the Bank. As of December 31, 2004 and 2003, the Bank is in compliance with these regulatory requirements.

The following table shows information relating to DOSRI loans:

	2004	2003
Total outstanding DOSRI loans	**₱175,443**	₱181,707
Percent of DOSRI loans to total loans	**0.01%**	0.01%
Percent of unsecured DOSRI loans to total DOSRI loans	**–**	–
Percent of past due DOSRI loans to total DOSRI loans	**–**	–

The outstanding balances in respect of accounts with related parties included in the financial statements are as follows:

	2004	2003
Deposits	**₱1,028,367,125**	₱1,201,760,954
Loans and advances - net of advances to stockholders that are fully provided	**175,443**	181,707

The income and expenses in respect of transactions with related parties included in the financial statements are as follows:

	2004	2003
Interest expense	**₱54,486,312**	₱69,106,465
Interest income	**34,183**	7,328,153
Various expenses	**9,078,361**	6,520,729

22. Trust Operations

Securities and other properties held by the Bank in fiduciary or agency capacities for clients and beneficiaries are not included in the accompanying statements of condition since these are not resources of the Bank (see Note 23). In connection with the trust functions of the Bank, government securities with total face value of ₱11.7 million and ₱11.3 million as of December 31, 2004 and 2003, respectively, are deposited with the BSP in compliance with the requirements of the current banking regulations.

23. Commitments and Contingent Liabilities

a. In the normal course of its operations, the Bank has certain contingent assets and liabilities that are not reflected in the accompanying financial statements. Management does not anticipate any material losses as a result of these transactions.

   The following is a summary of contingent assets and liabilities arising from off-balance sheet transactions:

	2004	2003
Late deposits/payments received	**₱302,722,446**	₱310,372,780
Outward bills for collection	**1,011,463**	1,380,483
Others	**3,988**	4,091

b. In the normal course of business of the Bank's trust operations, there are various fiduciary obligations and responsibilities, which are not reflected in the accompanying financial statements. Management does not anticipate any material unreserved losses as a result of these transactions. Trust Banking division accounts amounted to ₱1,341 million and ₱1,040 million in 2004 and 2003, respectively.

c. The Bank is contingently liable for certain tax deficiency assessments. In addition, there are several loan related suits and claims that remain unsettled. It is not practicable to estimate the potential financial impact of these contingencies. However, in the opinion of management, the suits and claims, if decided adversely, will not involve sums which may have a material effect on the financial statements of the Bank.

24. Financial Performance

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

	2004	2003 (As restated)
Return on average equity	**0.59%**	0.99%
Return on average assets	**0.08**	0.13
Net interest margin on average earning assets	**3.50**	3.09

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