

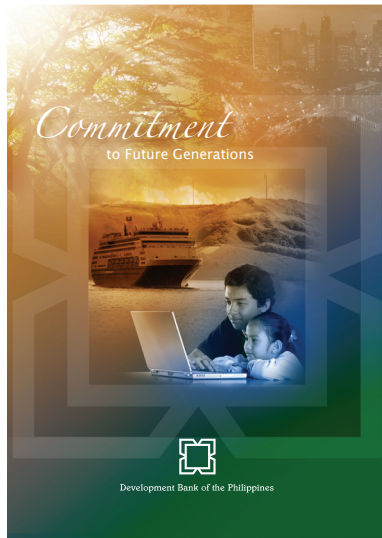
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Commitment to Future Generations



Development Bank of the Philippines

COVER STORY



This year's annual report highlights the heart of the Development Bank of the Philippines' mission – the next generation.

At the forefront of our mission is the upliftment of the Filipino condition. With that thrust, we at DBP strive to accomplish more than doing good today. The vision cascades down to the coming years, benefiting the future generations.

Behind every endeavor that we take, lies the hope to make life better for our children and our children's children. DBP is toiling today for the abundant harvest tomorrow. Technology, people, and environment are crucial elements in making that dream happen.

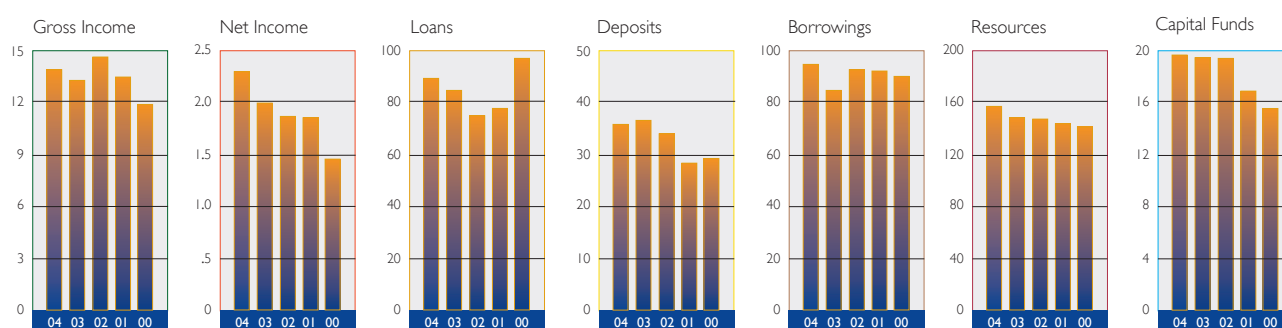
Sustained development. Viable economy. Better living conditions. Hopeful tomorrow. These are DBP's commitment to future generations.

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FINANCIAL HIGHLIGHTS (In Million Pesos)

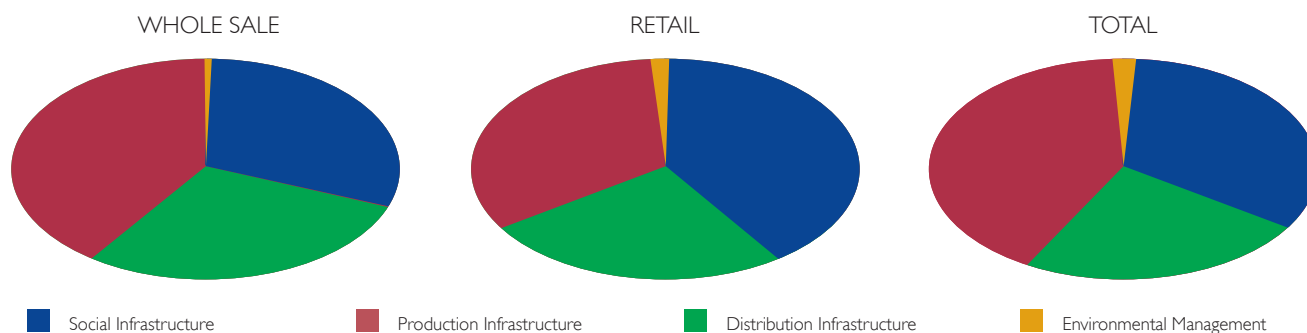
	2004	2003	2002	2001	2000
Gross Income	14,030	13,549	14,505	14,013	11,737
Net Income	2,270	1,949	1,847	1,837	1,461
Loans	84,967	82,328	76,369	78,652	98,224
Deposits	36,439	37,404	34,177	28,068	29,177
Borrowings	95,185	85,615	87,811	87,425	85,415
Resources	157,122	148,755	148,643	138,911	135,267
Capital Funds	19,855	19,241	19,105	17,408	15,572



LOAN PORTFOLIO BY PRIORITY AREAS ENDING YEAR 2004 (In Million Pesos)

	TOTAL LOANS	SOCIAL INFRASTRUCTURE	PRODUCTION INFRASTRUCTURE	DISTRIBUTION INFRASTRUCTURE	ENVIRONMENTAL MANAGEMENT
Wholesale	37,745	10,532	13,964	13,039	210
Retail	39,445*	13,624	12,193	11,705	1,923
TOTAL	77,190	24,156	26,157	24,744	2,133

* Excludes interbank loans of P7,777 million



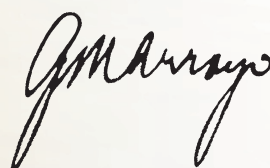


*P*inapangako ko ang isang bagong direksyon: mamamayan muna. Ang taong bayan ay ang pinakamalaki nating yaman. Nguni't madalas, kaunti lang ang atensyon na binibigay sa kanilang pag-unlad.”

* State of the Nation Address
House of Representatives
July 26, 2004

I challenge our young men and women: there is a role to play in the re-creation of our nation, some in honest public service, most in productive private endeavor. Whatever it is you decide to do, let the greater part of it be for our country. It is personal patriotism, not impersonal free markets, that makes nations strong and great.”

* Pre-Inaugural Speech
Quirino Grandstand
June 30, 2004



President Gloria Macapagal-Arroyo

R E P O R T O F T H E B O A R D O F D I R E C T O R S

We have clearly set priorities for our 2005 loan releases. We are confident that in 2005, the Bank will be performing more efficiently as an organization.

The Board of Directors of the Development Bank of the Philippines concludes its work in 2004 with a great sense of achievement that the DBP has done much to further Philippine economic development.

The Bank, through this past year, moved from strength to strength. We consolidated our processes in order to make this institution a more dynamic organization. We improved on our profitability. We pushed our logistics program, expanded our involvement to small and medium enterprises, and broadened our engagement in improving our country's environmental quality.

The year was also marked by smooth changes in the composition of the Board of Directors. President Gloria Macapagal-Arroyo appointed Reynaldo G. David as President & CEO of the Bank on October 1, 2004. David replaced Simon R. Paterno who resigned to return to the private sector. Also appointed were two new Directors, Rey M. Teves and Joseph N. Pangilinan who replaced Danilo A. Songco and Jaime S. de la Rosa, respectively.

Through 2004, the Board of Directors of DBP officially convened on over 40 occasions. In addition, the various Board committees met as often as necessary to keep its work abreast with unfolding developments in human resource, risk management, governance, audit and compliance, and trust business.

During this period, the Board approved at its level over 120 major credit transactions amounting to more than P77 Billion, which went to priority projects of the Bank. The Board also deliberated on more than 470 other transactions regarding new products, legal, and personnel matters to sustain the efficiency and profitability of Bank operations, and to enable the institution to better perform its role of financing development.

The Board likewise approved two new credit programs to further enhance the Bank's thrusts to promote environmental protection, and to energize the small and medium enterprises (SME) sector. The Sustainable Solid Waste Management Program (SWMP) was developed by DBP in response to the call of the National Government for the adoption of an ecological solid waste management program nationwide to ensure the protection of the environment and public health.

The Marketplace for SME Receivables Purchases (M4SME-RP) project, on the other hand, is an electronic trading facility designed for the auction of SME receivables. Through this program, SMEs are given the lowest possible cost of financing. The program is expected to result in improvements in SME sales turnover, and to help small industries expand and become globally competitive.



A number of major credit policies and initiatives were likewise approved to maximize the Bank's assistance to critical sectors of the economy. These include:

- Allocation of P1.25 Million in the SME Unified Lending Opportunities for National Growth or SULONG infomercial project representing DBP's share;
- Participation of up to P500 Million in the P2.7 Billion SEC-registered Corporate Retail Bond Issue of Globe Telecom, Inc.;
- Refinement of Factoring policies, procedures, and controls;
- New policies on reporting of NPLs and acquired assets, valuation of assets mortgaged as collaterals, and foreclosure of real estate assets enabling the Bank to undertake effective remedial measures to sustain a sound asset portfolio; and
- DBP's participation in a structured trade transaction with an international commodity firm for a total of US\$100 Million. This is an indication of the receptiveness of the international market to the Philippines, DBP in particular, in providing funds compared to a restricted debt capital market.

The Board likewise pushed forward with a long-term road map for the Bank by developing a Plan 2010 that incorporates the sustainable development of DBP as an institution. Because of this, a report on how our loan releases supported the plans of the National Government was produced, which was in turn inputted to the Medium Term Public Investment Program (MTPIP) of the country.

The Board also approved the Bank's participation in the 3 and 5-year Retail Treasury Bonds issued in July 2004. We have laid the groundwork for the establishment of the DBP Insurance Brokerage, Inc. with a strategic partner that opened yet another window of profitability for the institution. We will be taking advantage of the Special Purpose Vehicle (SPV) Act to unload our non-performing assets and lessen the drag effect these produce to our operations.

Further, the Board, on the recommendation of the Audit, Governance, Human Resource and other committees, approved the following:

- The Collective Negotiation Agreement Incentive Award;
- The Revised DBP Merit Selection Plan;
- The Internal Audit Charter and its Refined Organizational Structure;
- The reconstitution of Strategic Planning and Research by integrating Institutional Research & Development with Budget and Control;
- The creation of the Management Associates Program where 23 plantilla positions were created to commence the more intensified training of our junior officers;
- The transfer of plantilla positions at Management Accounting and Budget Monitoring to Strategic Planning and Research in the interest of greater efficiency and better responsiveness;
- The revision of the variable pay plan for CY 2004;

- The creation of a Comptroller's Group to protect the Bank's exposure in DBP-financed companies;
- The finalization of the DBP Code of Ethics;
- The creation of the DBP Special Educational Assistance Fund and the placement of P10 Million in trust services for the children-dependents of bank employees who sacrificed their lives in the line of duty; and
- Amendments of certain provisions of Circular No. 3 dated January 19, 2004, which provides uniform rules on administrative cases.

We also upgraded the audit rating system, our manual of operations, and our internal credit risk rating system to clarify accountabilities, pinpoint responsibilities, and mitigate risks to the Bank. We approved the key result areas for all the sectors of the Bank to ensure that DBP's strategic directions remain in consonance with the thrusts of the National Government. We have clearly set priorities for our 2005 loan releases. We are confident that in 2005, the Bank will be performing more efficiently as an organization.

The constant improvement of our corporate governance and our banking procedures allows us to more effectively fulfill our mission.

While doing all these, we have not overlooked the demands of compassion and public service in the face of calamities. A day after landslides hit several communities along the coastlines of the Pacific, the Board immediately approved financial assistance for relief operations amounting to P10 Million. Relief efforts were launched three days after the catastrophe. In addition, the DBP Family donated personal funds and other goods, as well as, their time and energy to the rescue and relief operations in Quezon, Aurora, and Nueva Ecija provinces.

The DBP Family's impressive capacity for empathy in moments of calamity demonstrates this institution's spirit and underscores its unique corporate culture. That, more than the numbers, makes us proudest to serve this Bank.


VITALIANO N. NAÑAGAS II
Chairman

R E P O R T T O T H E P R E S I D E N T

In 2004, DBP successfully delivered on its primary mandate of providing for the medium and long term financing needs of key and strategic sectors of the Philippine economy, with emphasis on small and medium-scale industries, particularly in the countryside.

Dear Madame President:

It is an honor to present to you the Annual Report of the Development Bank of the Philippines for the year 2004.

At the outset, allow me to report that DBP's developmental thrusts and accomplishments in 2004 were firmly aligned with the policy directives and priority thrusts that your administration has clearly enunciated for the next six years. Inspired by your 10-point Legacy Agenda for growth, DBP faced the challenge of living up to its own commitment to catalyze sustainable development for the future generations of Filipinos. Madame President, the 2004 Annual Report of the Development Bank of the Philippines has adopted the theme "Commitment to Future Generations" as a re-affirmation of this profound promise of the DBP to the country.

In 2004, DBP successfully delivered on its primary mandate of providing for the medium and long term financing needs of key and strategic sectors of the Philippine economy, with emphasis on small and medium-scale industries, particularly in the countryside. At the same time, the Bank strengthened its capability as a development financial institution by achieving substantial financial growth even amidst difficult economic scenarios.

Wholesale and Retail Banking

DBP focused its wholesale and retail lending operations on four priority thrusts, namely: Social Infrastructure (projects involving health care, education and community development); Production Infrastructure (projects that contribute to value-adding capacity and increase in utilization of existing capacity); Distribution Infrastructure (projects involving retail and wholesale trade, transport and communication, and those falling under the Sustainable Logistics Development Program); and Environmental Management (projects for water systems, new and renewable energy, solid waste management, and pollution control facilities).

The Sustainable Logistics Development Program (SLDP), coupled with the Distribution Infrastructure portfolio, led in the growth of the Bank's loan portfolio by 13.2%. The Bank's retail delivery systems, the Corporate Banking and Branch Banking Sectors, posted a strong 10.8% growth in loan portfolio. Manufacturing portfolio grew by 30.5% to anchor the 10.3% portfolio gain for Production Infrastructure projects.



Environmental Management accounted for 2.8% of total portfolio with a significant number of projects that are in the pipeline.

In its wholesale lending operations, the Bank made significant gains in assisting Distribution Infrastructure projects with portfolio growth recorded at 31.4%. Through a network of more than a hundred participating financial institutions (PFIs), the Bank supported the expansion of telecommunications companies as well as major RORO vessel acquisitions, while consistently encouraging the promotion and spread of retail trade in the different regional centers, among others.

Despite the wait-and-see posture that the business sector took in 2004 as it awaited the outcome of the May national elections, DBP's total loan portfolio increased by an estimated 3% to P77.2 Billion, demonstrating DBP's resolute assistance to critical economic sectors even against the odds.

SME Support

Together with other participating government financial institutions, DBP pushed the SME Unified Lending Opportunities for National Growth (SULONG) Program on its second year. Loan releases under this umbrella program for the small and medium enterprise (SME) sector reached P10.32 Billion, recording a significant 14.3% increase. This amount includes releases to Small Business Corporation amounting to P300 Million, and to Philippine Credit and Finance Corporation amounting to P150 Million. The Bank's loan releases to the SME sector were coursed mainly through its branches.

DBP's wholesale lending operations accounted for 18% of the Bank's total SME loan portfolio.

With its Factoring facility, the Bank purchased P1.8 Billion worth of accounts receivables of 46 of its enrolled SME suppliers of 29 big corporate buyers. This represents a 299% increase over the 2003 volume.

Work on a step-up facility, known as the Marketplace for SME Receivables Purchases, or M4SME-RP, program progressed well in 2004 as it was granted an Alternative Trading System license by the Securities and Exchange Commission in December 2004. The Bank has been working closely with concerned government agencies and major players on other regulatory requirements

to safeguard the interests and ensure the protection of all shareholders. Once this electronic trading and authentication facility for SME receivables is operationalized, it is expected to broaden and make transparent the funding access of SMEs as their receivables are traded among institutional investors and commercial banks.

Two internet-based support programs for micro, small and medium enterprises (MSMEs) -- the DBP m+SME internet café, which provides business-to-business matching and an information service facility, and www.buyphilippines.ph, which enables SMEs to create their own e-stores thus promoting e-commerce -- have also been strengthened into the SPEED program. The Sustainable Partnership for Energizing Entrepreneurship Development (SPEED) program sets up Business Action Centers (BACs) in the Bank's partner state universities and colleges. Aside from providing business counseling, courtesy of the Department of Trade & Industry and the Department of Science & Technology, SPEED is also a credit delivery system through partner microfinance institutions. SPEED links all BACs to the DBP m+SME internet café and the www.buyphilippines.ph e-mall. With the setting-up of the BACs, the Bank's multi-dimensional support to MSMEs and to local entrepreneurs remained on the fast track.

Greening Initiatives

In 2004, the Bank concluded its 12-year Environmental Management Program funded by the Swedish International Development Agency. Outputs from the program included 10 sector-specific Environmental Consent Agreements (ECONAs), three of which were completed in 2004. These included the Tuna Cannery Association of General Santos, Boracay Foundation, Inc., and the Plastic Packaging Council of the Philippines. The ECONAs served to institutionalize improved environmental performance of industries.

DBP's actual funding support to environmental projects also gained significant headway. In 2004, the Bank funded 25 environmental projects in the total amount of P1.7 Billion under the Environmental Infrastructure Support Credit Program II and the Industrial Pollution Control Loan Program. Among the noteworthy projects the Bank funded is an integrated hazardous waste management facility for industries and hospitals. This onshore treatment facility provides for the proper handling of wastes, while saving on foreign exchange.

Our strong finish allowed us to close with a quality income base -- the highest since the Bank's rehabilitation in 1987 and the Asian financial crisis in 1997.

The Bank also completed processing for two mini-hydroelectric projects in Romblon and Bohol using funds from the World Bank's Rural Power Project. Mandaue City's solid waste management program also received funding support from a KfW credit line. Potable water projects, benefiting some 8,467 households in seven municipalities, tapped World Bank funds under DBP's LGU Urban Water and Sanitation Project Facility. To further fast-track assistance to the environment sector, the Bank built up its pipeline of projects, assisting proponents in the preparation of feasibility studies, documentation, and pre-implementation requirements.

As the year drew to a close, DBP conceived the idea of a "DBP Forest," a re-forestation program developed in response to the devastation of Quezon and Aurora provinces in November 2004 that has been attributed to massive forest destruction and denudation. The program will re-forest open and denuded areas to avoid floods, and revitalize mangroves, the spawning sanctuaries for fish. It will provide livelihood to host communities as high value tree species will be planted. To make this endeavor a sustainable commitment, its funding lifeline will be tied up with the Bank's lending activities. The Bank plans to launch the "DBP Forest" project in the 2nd quarter of 2005. (The DBP Forest was launched in Abucay, Bataan on April 22, 2005 in celebration of Earth Day, in coordination with the Municipality of Abucay, Provincial Government of Bataan, the Department of Environment & Natural Resources, the Kinikilalang Mangingisda ng Mabatang, Inc., and the Balikatan ng mga Mangingisda para sa Bakawan, Inc.)

Strengthening the Bank

The year 2004 saw DBP registering a new high in its financial performance. The Bank posted a net income of P2.27 Billion in 2004, 16% higher than DBP's bottom line in 2003.

DBP's resource base went up by 5.6% to P157 Billion, marking as well the rise of loanable funds. In the post-election months of 2004, the Bank quickly normalized from what may be deemed a crisis-responsive management of funds. Liquidity accounts gave way to adjustments in fund allocation to maximize the Bank's income potentials. Our strong finish allowed us to close with a quality income base -- the highest since the Bank's rehabilitation in 1987 and the Asian financial crisis in 1997.

DBP's financial ratios derived from its 2004 financial statements remain consistent with those of a strong bank. Using the 2003 performance of the top five universal banks as benchmarks, DBP performed at par if not better in comparison. DBP's efficiency ratio (computed as Overhead Expenses/Gross Income Margin) of 55.04% is superior to the 61.6% average of the top five private universal banks. None of these banks, whose average return on equity was 7.25%, surpassed DBP's 12.00% return on average equity. DBP's return on average assets at 1.48% is notches higher than their average ROA of 0.95%. Lastly, the Bank's Capital to Risk Assets Ratio of 23.19% is also way above the 16.2% of the top five universal banks, and way above the minimum required by Basel I and II.

Cognizant and grateful for the continued full support of your administration, it is our pledge to serve our country in the best way we can, to give back to the community, and to do right by our fellowmen.

DBP's capability to sustain a positive financial performance demonstrates its institutional strength and capacity to face head on the challenges of the coming years.

DBP's substantial improvement in 2004 lays the foundation of gaining additional market share while further reinforcing its financial strength. This year, our thrust is to achieve a greater share of the markets that we operate in. Our accent will continue to be on premium growth.

Sustainability Factors

As the country's premier development financial institution, DBP seeks to maintain a stronger financial condition than private banks. Development projects, understandably, carry higher risk elements. As the Bank continues to build-up its loan portfolio, therefore, it must correspondingly ensure adequacy of its capital. The proper congruence of capital and risks is a major factor towards DBP's sustainability. For this reason, the Bank will be adhering very closely to the various disciplines of the Basel II framework. In 2004, the Bank began configuring its risk management system to be compliant to the risk weighted capital adequacy requirement espoused in Basel II.

The Bank is also addressing organizational development and leadership issues to enable it to respond more effectively to the development needs of the Filipino people. Under the aegis of

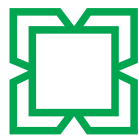
civil service, the Bank embarked on a progressive and responsive training, skill building and personnel development program to ensure smooth management succession and continued personnel quality. Alongside this, the Bank refined its performance management system and set up a Management Associates Program to develop a pool of managerial talent. An organizational review program was also begun in late 2004 to functionalize and organize the institution with the general objective of enabling the Bank to face its specific target markets, different constituent bases, and at the same time, fulfill the imperatives and mandate of its charter.

All these, Madame President, we believe are essential to our sustainability. Only when DBP is sustainable can we fulfill our commitment to future generations. Your 10-point Legacy Agenda has laid down the roadmap and the blueprint for the future economic progress of the Philippines. DBP re-commits itself to play an integral and principal role in the fulfillment of these economic policy imperatives. Cognizant and grateful for the continued full support of your administration, it is our pledge to serve our country in the best way we can, to give back to the community, and to do right by our fellowmen. The central plank of our vision in the DBP as a diversified financial services entity is to continue to march along our development mandate objectives while concurrently achieving substantial financial growth. We target to leave a strong footprint in areas that truly count as developmental.



REYNALDO G. DAVID
President & CEO

“Like the forceful water
of the falls quenching the
parchedness of the ground
below, a vision of a better
tomorrow cascades down to
the future generations.”



Development Bank of the Philippines

For you. For Industry. For Country.

Vision Statement

We are the pre-eminent Philippine Bank
for financing development.

DBP is dynamic, environmentally responsible
and globally recognized.

Mission Statement

To influence and accelerate sustainable
economic growth of the country.

DBP works with and through others to attain its objectives,
and ensures its viability by the prudent management
of risks and returns.

THE ECONOMIC ENVIRONMENT

Many quarters waited for a better year in 2004, but perhaps nobody expected an election year would be that good. Both the Gross Domestic Product (GDP) and the Gross National Product (GNP) surpassed 6%. Even the National Economic and Development Authority's best bet was only 5.5%. The relative pessimism seemed well-grounded: in the context of the nation's experience, no one wanted to underestimate the post-election scenario. So how did the Philippine economy beat these odds to post one of its best performances in the last 15 years?

BROAD-BASED 2004 GROWTH

It was more than just an election economy at work in 2004. As expected, the election campaign fueled stronger consumer spending than usual, but the momentum in private expenditure had been apparent since the turn of the millennium. Private spending had breached the 5% growth by 2003 and accelerated some more to 5.8% in 2004. Filipinos working abroad remitted consistent flows of funds to their families, shoring up the country's international reserves and expanding consumer markets in countryside areas.

Two more growth points emerged in 2004. Both exports and investments broke free from sub-5% increases in earlier years to hit 14% and 12.7%, respectively. It is worthy to note that exports and investments are both externally-driven sectors. Our major trading partners, the U.S. and Japan, made headway in their recovery efforts. At the same time, the two Asian giants, China and India, revved up their economies.

A broadly-based perking-up of the economy from its previous lethargy was taking place as well. One indicator was productivity gains in Agriculture, which has been attributed to the adoption of modern farming technologies, including the use of high-yielding seed varieties. It is unusual for Agriculture to grow more than 3%, but in 2004 the sector registered a significant 4.9% growth. Another indicator was the resurgence of the Industry sector from the effects of the Asian Financial Crisis and trade liberalization. In 2004, the sector rose a noteworthy 5.3% from just about 3% in earlier years. Much of this recovery came from Construction's 8.9% rise, lifting it out of the slump of the past years. Strong housing demand, supported by consumer loans and the office needs of the Services sector, moved it out of surplus conditions.

A key element to the transformation of the Philippine economy may also be attributed to the Filipino people themselves, particularly the younger generation. New entrants to the labor force supported the giant strides of the Services sector, particularly in Information Technology-based services. Their literacy and personality continued to make them an ideal work force for business process outsourcing and call center work. Their 24/7 work schedules also primed the nighttime business of convenience stores and fast food centers. The Services sector consistently drove the domestic economy, as it posted a 7.2% rise in 2004.

MIXED 2005 OUTLOOK

By yearend, several threats had emerged, which some projected would dim the prospects of the year 2005 in sustaining 2004's creditable performance. GDP forecasts by economists and analysts were scaled down from the 6.1% growth rate attained in 2004. Among the handicaps identified were the budget deficit and debt burden, oil price spikes, and the slowing down of export markets.

Promised tax measures to contain the fiscal deficit were foreseen to be controversial issues that would take time for Congress to arrive at a consensus. In addition, while the debates on a new expanded value-added tax law raged, international rating agencies downgraded the country's sovereign rating. The country's vulnerability to exchange rate volatilities due to a huge foreign debt exposure and dependence on imported oil began to be felt. Supply pressures and speculative rallies on industrial inputs accompanied the recoveries of developed countries and the emergence of Asian economic giants.

Amidst this scenario, Investment, which began to rally in 2004, is being forecast to be the driver of the Philippine economy in 2005. Attractive investment areas include mining and power. Mining got a shot in the arm with the favorable Supreme Court ruling on the constitutionality of the 1995 Mining Act. The skyrocketing of oil prices also encourages more oil explorations. On the other hand, the privatization of the power industry also entices foreign investments. The establishment of more call centers does not seem to be slowing down, and has even been spreading to regional centers in the South. These call centers are forecast to sustain the momentum in the Services sector.

Exports may still hit the 10% growth target as the semi-conductors market seems able to keep its brisk pace.

The reality of rising oil prices, however, may weaken consumer spending and industrial production. At the same time, government spending continues to be constrained by budget deficits. Agricultural output for early 2005 got stormed out at the close of 2004, and later harvests may be hampered by impending dry spells.

The balance of the economic factors at work tilts towards a softening of the country's growth prospects in 2005. As of the first quarter, leading economic indicators carried mixed signals. The Consumer Price Index averaged 8.5%, 250 basis points higher than the 2004 average, to suggest a cost-push inflation at work. The peso-dollar rate, at P54.97 on the average, compares well with the P56.27 foreign exchange rate at the end of 2004. The bellwether interest rate (91-day treasury bills), averaging 6.87% p.a., has eased from the 2004 average of 7.34%.

2005 is the defining year for our new national government. Government has already set the framework for the country's sustainable development, as clearly enunciated in the 10-point Legacy Agenda of the President of the Republic of the Philippines. This Agenda provides the basic structure from whence the Medium Term Philippine Development Plan proceeds in the next five years. Despite the mixed economic signals in the early part of the year, the prospects for economic growth remain positive for the rest of the year.



Multi-Purpose Freeport Facility in the Municipality of Mabini Batangas

2004 MILESTONES



DBP's Sustainable Logistics Development Program (SLDP) bagged the Asian Banking Award for Most Outstanding Development Program.



DBP's SLDP earned a citation from the Association of Development Financing Institutions in Asia and the Pacific for its contribution to the Philippine economy.



Signing of the Agreement on Marketplace for SME Receivables Purchases (M4SME-RP), an infrastructure-based electronic marketplace designed for the trading and auction of SME receivables.

- DBP received three prestigious awards during the year:
 - > DBP's Sustainable Logistics Development Program (SLDP) bagged the Asian Banking Award for Most Outstanding Development Program. The award is given to the best medium to long-term program designed or significantly enhanced the past year to develop, promote, or improve a particular industry, business sector, area or in support of a specific government development program. DBP was cited for its SLDP that is intended to modernize the processing, storage, delivery, and distribution of grain harvests and perishable goods of traders from Mindanao to Luzon.
 - > The SLDP also earned a citation from the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) for its contribution to the Philippine economy. The program garnered the Plaque of Merit award under the infrastructure development category and gave recognition to the three component projects, namely: the Road-RORO Terminal System, the Grains Highway and the Cold Chain Highway for its comprehensive integrated transport, related infrastructure and support services in the countryside.
 - > A Plaque of Appreciation was presented to the Bank for its invaluable support and active participation in the activities undertaken by the Pollution Control Association of the Philippines.
- DBP launched the Marketplace for SME Receivables Purchases (M4SME-RP), a financing program expected to provide equal practical access to financing for micro-enterprises, SMEs, and other priority industries. M4SME-RP is an electronic, infrastructure-based marketplace designed for the trading and auction of SME receivables.
- President Gloria Macapagal-Arroyo swore in Reynaldo G. David as the new president and chief executive officer of DBP on September 20, 2004. He replaced Simon R. Paterno who resigned on August 31, 2004 to join Credit Suisse First Boston as managing director.
- In partnership with key government and non-government agencies, the Bank launched "www.one-environment.ph", a one-stop-shop information resource on Philippine business, environment and financing-related information. This internet-based network system represents efforts to strengthen cooperation and partnership towards environmental protection and sustainable development.
- DBP bolstered the SULONG Program through a P500 Million loan to the Small Business (SB) Corporation for re-lending to eligible projects under the SME Unified Lending Opportunities

for National Growth (SULONG). The Program aims to simplify and standardize lending procedures, create a wider, borderless financing system and lower the effective cost of borrowing by SMEs.

- DBP launched its Sustainable Partnership for Energizing Entrepreneurship Development (SPEED) during the year. SPEED aims to harness the initiatives and resources of other government and private institutions as well as to support the 10-Point Agenda of the National Government.
- DBP, DENR and the Department of Energy signed a Memorandum of Agreement (MOA) for the implementation of the Clean Development Mechanism (CDM) under the Kyoto Protocol. Under the MOA, DBP shall identify and propose financial arrangements that will maximize investment opportunities while meeting the objectives of CDM. It will also identify and generate a portfolio of CDM-eligible projects and develop and launch an investment vehicle that will cater to the funding needs of small to medium-scale CDM-eligible projects.
- DBP, DENR and DILG signed a Memorandum of Agreement to provide local government units (LGUs) access to credit and technical assistance under the Bank's Sustainable Solid Waste Management Program. The Program promotes activities pertaining to the control of generation, storage, collection, transfer and transport, processing, disposal of solid wastes and other waste management activities in accordance with the best principles of public health, economics, conservation, and other environmental considerations.
- DBP and the World Bank signed a \$10 Million Bank loan and \$9 Million Global Environment Facility Grant for the government's rural power project. It is aimed at improving the quality of life in rural areas through the implementation of reforms and priority investments to provide adequate, affordable and reliable energy services.
- DBP inked a Memorandum of Agreement with the Department of Health, DENR, Department of Interior and Local Government, and the Philippine Hospital Association to promote the improvement of waste management practices of hospitals.
- DBP inaugurated and blessed its branches in Antique and Jolo, Sulu, respectively, that were relocated to new and bigger sites to more efficiently meet the banking and financial requirements of clients and key industries in the area.
- DBP signed a Memorandum of Understanding with the Japan Bank for International Cooperation (JBIC), U.S. Agency for International Development (USAID) and LGU Guarantee Corporation (LGUGC) on the Municipal Water Loan Financing



President Reynaldo G. David sworn in by President Gloria Macapagal-Arroyo as President and Chief Executive Officer of DBP on September 20, 2004.



Launching of "www.one-environment.ph", a one-stop information resource on Philippine Business, environment and financing-related information.



Signing of Memorandum Of Agreement on the Capability Building Program for DTI small business counselors.

2004 MILESTONES



Inauguration and Blessing of DBP's Jolo Branch.



Signing of MOU under the Hazard Analysis Critical Control Points (HACCP) program. DBP & various government offices joined hands to support the local food industry with the launching of this Food Safety Program.



Loan signing with the Provincial Government of Batangas for its Local Education Acceleration Program.

Initiative (MWLFI) and the Philippine Water Revolving Fund (PWRF). In line with the MOU, a total of P510 Million has been allocated under the Environment Infrastructure Support Credit Program II (EISCP II) for the MWLFI to finance water and sanitation projects planned and implemented by qualified local government units and water districts.

- DBP, the Department of Science and Technology, the Small Business Guaranty Corporation, Department of Trade and Industry, Chamber of Thrift Banks, and the Department of Agriculture launched the program to enhance the global competitiveness of the food manufacturing industry. Through the project, the Bank will provide financing for members of the PHILFOODEX, enabling them to be certified under the Hazard Analysis Critical Control Points (HACCP) Program .
- DBP granted a P5 Billion subloan to Globe Telecom through a syndicate arranged by Citicorp Group and Citibank N.A., one of the Bank's active participating financial institutions. The project will provide superior cellular coverage through the installation of additional cellsites in both urban and rural areas.
- DBP forged a Memorandum of Agreement with the Department of Environment and Natural Resources (DENR), Metro Cebu Environmental Initiatives Council, Pollution Control Officers Association, and the Cebu Chamber of Commerce and Industry to promote cleaner production practices in Cebu City.
- DBP concluded the implementation of the technical assistance program under Phase 3B of the Environmental Management Project (EMP). Funded by the Swedish International Development Cooperation Agency (SIDA), the EMP sought to promote partnership cooperation between the government and the industry sector for modernizing environmental management.
- DBP extended P200 Million to the People's Credit and Finance Corporation (PCFC) to provide funds to accredited microfinance institutions for re-lending to finance the livelihood projects of micro entrepreneurs. PCFC is the government's main arm for the delivery of microfinance services for the poor.
- DBP Climate Change Program was chosen as a finalist in the Raul Locsin Awards for Business Excellence under the Innovation Category. It is the first Climate Change Program and Carbon Investment Banking Facility from a bank from a

developing country in Southeast Asia. As a recognized leader in the Clean Development Mechanism (CDM), the Bank has been invited in various local and international fora, trainings/seminars and discussions to inform participants about the Program, get the Bank's view on the financial aspect of CDM and share its insights on the different concerns affecting climate change and CDM. Network has been established with stakeholders on CDM including carbon funds, consultants, project proponents and interested parties for cooperation agreements.

- DBP, in partnership with the Global Village Energy Partnership (GVEP) and the United Nations Development Programme (UNDP), co-hosted a thematic workshop on the topic of micro-finance as a means to enhance access to energy services to consumers in rural areas. The workshop brought together various stakeholders from all over the globe to document different approaches to finance energy services.
- DBP participated as one of two Issue Managers and one among fourteen accredited Selling Agents in the Republic's 6th Retail Treasury Bond (RTB) offering in July 2004, contributing P1.9 Billion in fresh funds to the National coffers.
- DBP was Selling Agent and Investor in the P500 Million chunk of Globe Telecom, Inc.'s P3 Billion 5-Year SEC-registered Corporate Retail Bond Issue, partially financing the exercise of the company's call option under its USD220 Million notes due 2009.
- DBP acted as Arranger to North Luzon Railway Corporation's USD22 Million Syndicated Bridge Loan, addressing equity counterpart requirements in the USD421 Million first-phase construction of a 32.2 kilometer Caloocan-to-Malolos rail line, to form part of the commuter-cum-cargo railroad system connecting Metro Manila to Central and Northern Luzon.
- DBP was Financial Advisor for the National Development Company's (NDC) proposed funding of the Alabang viaduct rehabilitation and the Alabang-Calamba road construction along the South Luzon Expressway (SLEX), culminating in the execution of a Joint Venture Agreement providing for NDC's participation in the project as preferred shares investor, as well as the Philippine National Construction Corporation's (PNCC) undertaking as SLEX franchise holder, towards ensuring recovery of and return on NDC's investment in the project.



President Gloria Macapagal-Arroyo leading the inauguration and blessing of the district Hospital in Cauayan City. The Province of Isabela in partnership with DBP, will construct 75-bed hospital in four municipalities as part of its social service geared towards the promotion of officials and adequate delivery of health services.



Signing of MOU with Japan Bank for International Corporation (JBIC), US Agency for International Development (USAID) and LGU Guarantee Corporation (LGUGC) on the Municipal Water Loan Financing Initiative (MWLFI) and the Philippine Water Revolving Fund (PWRF).



Signing of Loan Agreement with the local government of Angeles City under the Bank's Socialized Housing program.

REVIEW OF OPERATIONS

The welfare of future generations is the whole rationale for responding to the challenge of financing development. What the DBP has taken upon itself, therefore, is the insurance of that future by building on the resources available now. Such commitment is all-permeating, not only in the perspective DBP takes for the development thrusts it pursues, but also in the discipline and corporate culture nurtured in the Bank. Working for the future is doing it here and doing it now.

BANK LEADERSHIP

Discontinuity is perhaps the most common pitfall in commitments. As pointed out in the Executive Strategy Session held in July 2004, tenure of office of its appointed officials is one of Bank's major weaknesses. It is not that the talent the Bank gets is any less, but what happens quite often is that the momentum is lost. A pervasive thinking goes that the frequent changes of appointed officials work against the implementation of strategic resolutions.

New Leader, Same Team

Momentum did not lose a beat, however, in the recent change of presidency at DBP in October 2004. On the contrary, the new president hit the ground running, enabling the Bank to post an 18.7% improvement in the bottomline, an achievement DBP has not turned in since the post Asian Financial Crisis years. His perspective and skills in banking lent a new spark to the bank's management team. The new national administration retained majority of the incumbent board of directors, particularly its chair, thereby ensuring stability of the Bank's policy framework.

Ensuring the Future Leadership in the Bank

What the passage of years has threatened is the Bank's core of senior officers. Being development bankers seasoned by the rehabilitation years of DBP in the mid-80's, they provide the

element of continuity even as the Bank's appointed heads move on to other positions of responsibility. This core that makes up the Management Committee and the leadership in departmental and regional offices is a rapidly vanishing breed. Inevitably, they have to retire from service after all, DBP's rehabilitation has been almost a generation ago.

Human Resource Management (HRM) deemed the Management Associates Program (MAP) one of its highlight activities in 2004. The MAPees are a special group, undergoing special training, for nurturing next-generation leaders of the Bank. Thirty-seven candidates, handpicked from among the youngest and best of DBP employees and fresh honor graduates of the country's top universities, underwent a thirteen-month comprehensive training course. The selection process was itself most rigorous. The battery of tests and panel interviews made sure that only the best materials qualify for the MAP.

Even the second-level officers are not abundant in the Bank anymore. Thus, HRM pursued its thrust to make the Bank a Center of Excellence in Development Banking. It put in place a Merit Selection Plan approved by the Civil Service Commission. The Plan's strict observance of the principles of merit fitness and equal opportunities for officer movements offer an environment for leadership development. The Plan runs in tandem with refinements introduced in the Performance Management System (PMS). Since DBP's exemption from the Salary Standardization Law, its personnel force has been responding positively to performance-based incentives.

Governance and Risk Management

Collegial decision-making continued to be the practice in 2004. While promoting transparency and participative deliberations, the committees also provided against the shirking away from responsibility through a well-defined set of approving authorities. These committees also afforded its new members and second



One of DBP-sponsored furniture exhibits under the Bank's program to boost the manufacturing industry.



An air-conditioned coaster-type jeepney, part of the Bank-sponsored exhibit on Filipino inventions.



A DBP-financed furniture project in Angeles City, the AWECA Group of Companies.

REVIEW OF OPERATIONS

level officers of the Bank a venue for learning as they could follow the processes of decision-making. Committees at the Board level included the Executive Committee, Governance Committee, Human Resource Committee, Audit & Compliance Committee, and Risk Management Committee. The new president also reconstituted and geared up Senior Management level committees (ManCom, CreCom and ALCO) into higher activity.

Toward the close of 2004, DBP re-doubled its initiatives to cope with the new framework for risk management espoused in Basel II. While for full implementation in 2007 yet, DBP wanted to set-up early and have its risk management system running ahead of schedule. This move vouched for the soundness of the Basel II framework, especially so since the Bank is putting more emphasis on balance sheet efficiency than before. As a banking dictum goes, "higher yields entail higher risks." Such balance between risks and returns must address capital adequacy issues as well.

INFORMATION TECHNOLOGY

When the National Computer Center approved DBP's Information Systems Strategic Plan (ISSP) in September 2003, the Bank embarked on its integrated IT infrastructure. ISSP envisioned to make information more accessible to management and employees, and to deliver bank products through non-traditional channels.

ISSP Implementation

Systems and Methods (SYS) reported a good measure of success in setting up the Bank's data warehousing facility after the first full year of ISSP implementation. The facility already enabled an integrated view of operations as of 2004. It successfully interrelated and consolidated information culled across transactional sources or different subject areas such as loans, deposits, human resource, treasury, trust and the financial systems. SYS has begun connecting individual units for on-line

access to the data warehouse to experience the benefits from this facility.

SYS deployed the ISSP primarily on a per business subject area basis, so that the integration of the stand-alone systems were also at various degrees of completion. The New Integrated Deposit Servicing System (NIDSS) was under more intense user testing by the close of 2004 prior to putting the first pilot branch on live status in early 2005. SYS completely rolled out the ROSS GL System to all branches in June 2004 after placing it on live production at the Head Office in February 2004. With Phase I of the Human Resource Information System made operational, employees could already access their personnel data on-line. SYS also started end-user testing of the fully automated Loans Management System in six Regional Management Offices. Its development efforts in 2005 will focus on the seamless integration of the Loan Application Processing and the Credit Investigation and Appraisal modules into the existing Loan Servicing System of the Bank.

SYS premised its phased-out deployment of the data warehouse on the completion of its security mechanism, to control and define use of the Bank's information resources. Having further automated the data feed from the transactional systems to the data repository, it has also minimized human intervention. With the security mechanism of the data warehouse facility in place, the Bank can sustain the integrity of its information assets at reasonable cost.

Outreach Systems

DBP further pushed its internet-based support programs for micro, small and medium enterprises (MSMEs) when it launched its Sustainable Partnership for Energizing Entrepreneurship Development (SPEED) in mid-year. Designed to harness the initiatives and resources of other government and private institutions, SPEED supports the 10-Point Agenda of President



A body energy electro-magnetic synchronizer, one of DBP-sponsored exhibits on Filipino inventions.



One of DBP-sponsored exhibits, assorted herbal products manufactured by CRD International.

Arroyo. It plans to set up Business Action Centers (BACs) in campuses of cooperating government and private colleges and universities. With business counseling courtesy of DTI and DOST, the BACs are seen to provide an effective credit delivery system to MSMEs. SPEED links all BACs to DBP's internet café and "buyphilippines.ph" giving them access to global markets.

DBP attained milestones in the implementation of its Marketplace for SMEs/Suppliers Receivables Purchases (M4SME-RP), putting it closer to completion. M4SME-RP is an internet-based hub designed to foster symbiotic linkages among the SMEs and large corporations. As of 2004, DBP was at the stage of enlisting Big Brothers under this facility, after it had secured approval-in-principle from BSP in June 2004 and an Alternative Trading System license from SEC in December.

Investments in IT

Based on the 2005 Budget initiated in September 2004, the Bank allots a substantial amount in Information Technology investments. These did not only address the continued work on the ISSP but also imputed the requirements of Basel II compliant risk management system. The Bank's investments in information technology are consistent with its view of the next-generation leadership and decision-making processes.

"GREENING" INITIATIVES

DBP completed its first 3 years of ISO 14001 certification in 2004. Aside from the proper maintenance of its own Environmental Management System, which assured it of subsequent re-certification, DBP also made significant headway both in funding environmental projects as well as in its advocacy role. The disasters that occurred in 2004 defined more acutely its "greening" initiatives.



Signing of Loan Agreement with People's Credit and Finance Corp. on the Bank's P200 Million assistance to microenterprises.

The Gospel of Environmental Management

In 2004, DBP concluded its 12-year Environmental Management Program funded by the Swedish International Development Cooperation Agency. During the period, the program developed ten sector-specific Environmental Management Plans. This includes three more Environmental Consent Agreements in 2004 with Tuna Cannery Association of GenSan, Boracay Foundation, Inc., and Plastic Packaging Council of the Philippines. These EMPs responded to DENR's Administrative Order No. 2003-14, the culmination of the Philippine Environmental Partnership Program that institutionalized sustainable activity to improve environmental performance of Philippine industries.

The Bank took a very active role in advocating climate change. It set up its Climate Change Program and Carbon Investment Banking Facility in 2004, a first from a bank in Southeast Asia. This earned recognition for the Bank as a leader in the Clean Development Mechanism (CDM). As such, various international forums aired its views, and it succeeded to network with other stakeholders of CDM. It also launched the "one-environment.ph" a web portal in cooperation with ten key government and non-government organizations. The portal accesses a one-stop information resource on Philippine business, environment and finance.

Financing the Green Projects

DBP manages several special funds to support its Environmental Management thrusts. During the year, twenty-five environmental projects received funding totaling P1.7 Billion under the Environmental Infrastructure Support Credit Program II and under the Industrial Pollution Control Loan Project. Among the noteworthy projects funded in 2004 was an integrated hazardous waste management facility. This project caters to the proper handling of hazardous wastes of industrial establishments and hospitals. Its onshore treatment of hazardous waste heeds the



Signing of Loan Agreement in connection with the Bank's P60 Million assistance to Capitol Medical Center.

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Government's call for assistance and saves foreign exchange since the rubbish need not be exported.

In partnership with local government units, DBP pushed several projects that addressed basic needs while at the same time uplifting the environment. Using the World Bank Rural Power Project, DBP funded P155.5 Million for two mini-hydroelectric projects in the towns of Romblon and Bohol. DBP granted a P110 Million loan to one of the component cities of Metro Cebu, to help finance the city's solid waste management program. DBP funded this project under its Sustainable Solid Waste Management Program (SWMP) accessing its KfW credit line. Responding to the President's 10-Point Agenda, DBP financed potable water supply projects for 8,467 households in 7 municipalities across the country. It tapped World Bank funds under DBP's LGU Urban Water and Sanitation Project Facility.

Seeding the DBP Forest

At the height of the nightmare caused by 3 consecutive typhoons that ravaged several towns in Quezon Province, DBP senior officers hit on a DBP Forest idea. DBP will link up the planting of trees with its lending activity, so that as it finances more business activities its forest areas will correspondingly grow. These forests will have trees that will not be cut for their wood because most of their value is in the flowers and fruits they bear. At the close of 2004, concerned Bank departments had their assignments out to pursue the seeding of the DBP Forest.

LOAN PRIORITY THRUSTS

In 2003, DBP started to sort out the projects it financed under priority area groupings. While it will take some more time before the figures under these groupings are sufficiently cleaned up, the Bank already tracks their movements. As of 2004, DBP's loan portfolio (minus interbank loans) reached P77.2 Billion for a growth rate of 3% over the P75.0 Billion in 2003. Wholesale loan portfolio dipped 4.1% while Retail climbed 10.7%.



P10 Million signing between DBP and the National Federation of Cooperatives of Persons with Disabilities (NCFPWD).

Among the priority groups, Distribution Infrastructure logged the highest increase in portfolio by 22% to P24.7 Billion. Environmental Management also posted a respectable growth of 13.3%, but its portfolio level is still at a low P2.1 Billion. Production Infrastructure with biggest portfolio at P26.2 Billion dropped by 5.8%, and Social Infrastructure also settled lower by 3.6% to P24.2 Billion.

Social Infrastructure

Loans in Social Infrastructure did not quite pick up in 2004, and in fact had a reduction in its portfolio by 3.6% to P24.2 Billion in 2004. Big hospital project syndications boosted Social Infrastructure in 2003, but did not repeat in 2004. Some of their releases, however, still ran through the first half of 2004. The Bank also released smaller loans for diagnostic medical equipment in the total amount of P80 Million, while two other medical firms awaited their loan release.

Much of the activities in this priority area resulted in a significant build-up of pipeline projects, mainly from the promotion of various specialized programs such as the Development of Poor Urban Communities Sector Project (DPUCSP), the Rural Power Project (RPP), and the LGU - Urban Water & Sanitation Project (LGU-UWSP). Responsible units of the Bank touched base with LGUs, microfinance institutions and industry associations.

Production Infrastructure

The productions sectors, while beginning to show some recovery, were still at the wait-and-see mode. Big corporate borrowers continued to postpone major expansion projects and maximized use of existing capacity and focused on the management of their working capital. While the Bank's marketing units reported a lot of activities, these hardly translated to portfolio build-up. Production Infrastructure portfolio at P26.2 Billion in 2004 carried the biggest decrease of 5.8% among the four priority areas.



Signing of Memorandum of Agreement with Benguet State University, Camarines Sur State Agriculture College, Central Philippine University and Mariano Marcos State University for the SME IT Projects.

As one of the participating government financial institutions, DBP consistently supported small and medium enterprises (SMEs) through the SULONG Program. Releases to SMEs reached P9.87 Billion, 15.8% higher than in 2003. Not counted in these figures were releases to SB Corporation and Philippine Credit and Finance Corporation of P300 Million and P150 Million, respectively. Retail, mainly the branches, accounted for 82% of the releases and Wholesale Banking, the remainder:

One of DBP's most active funding programs for SMEs is Factoring. This facility taps the credit status of big buyer corporations to lower the cost of funding the working capital needs of their SME suppliers. In 2004, Factoring's Instant Working Capital made significant progress, enrolling 46 SME suppliers of 29 corporate buyers. DBP purchased their accounts receivable from enrolled big corporations amounting to P1.8 Billion, a 299% jump over 2003.

Distribution Infrastructure

The Bank's Sustainable Logistics Development Program (SLDP) spearheads the Bank's thrust in Distribution Infrastructure. After an auspicious start in 2003, the SLDP began to face more contentious issues involved in completing a network of port terminals and route interconnections across the archipelago. It also had to grapple with the more demanding funding packages for missionary routes. Also put to test was its requirement for international classing, the underpinning of SLDP's mission to upgrade the shipping industry. All these concerns necessitated some fine-tuning of the basic loan features of the SLDP.

Bustling consumer markets of countryside regional centers also encouraged projects that supported the retail trade activities in these areas. These projects strengthened supply chains to these areas and served to de-congest the Metro Manila Area. They also confirmed the status of regional capitals as major urban centers

in the countryside. There are now many regional clusters whose consumer markets assure investors the viability of large-scale trading operations.

Distribution Infrastructure posted a 22.1% rise in 2004, to a portfolio level of P24.7 Billion. Several of the Distribution Infrastructure projects, because of their size, necessitated that they be syndicated with other banks. Among these were the P1 Billion syndication for two RORO vessels, and the P5 Billion syndication for a major telecommunications project. Loan releases to transportation, telecommunications and retail trade projects figured prominently in 2004.

Environmental Management

A convergence of Environmental Management projects with Social Infrastructure often occurred resulting in the difficulty of tracking and classifying projects properly. In 2004, Environmental Management portfolio reached P2.1 Billion, rising by 13.2% over the previous year. Its minimal share to total loan portfolio of the Bank of only 2.8% hides its significant impact on communities and on their future.

Environmental Management projects are peculiar. Very often they involve inter-agency networking and much hand-holding of the proponent by the DBP marketing unit. Processing these projects is often long-drawn, resulting in the build-up of the pipeline but allowing only a slow portfolio growth.

In 2004, DBP marketing units assisted in documentation and bidding of 4 LGU water system projects and of the mini-hydroelectric projects in Romblon and Bohol. They also conducted project briefings to 13 LGUs and water districts on the LGU-UWSP, to 5 mini-hydro proponents on Rural Power Project Financing Program, and to 11 LGU clusters on solid waste management.



Opening of Antique Branch.



Socio-civic projects for typhoon victims in Quezon.

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LENDING OPERATIONS

The loans market persisted on its slow pace in 2004, growing by less than 5% over previous year. DBP's gross loan portfolio even lagged behind market as it inched up by 3.2% only. Taking into account the allowance for loan loss that grew by 5.9%, DBP's net loan portfolio of 3.0% was even at more mediocre pace. Since loans provide the dynamic push in business, did DBP fail to do its part in 2004?

Private banks seemed particularly apprehensive with the presidential elections in 2004 and went on a wait-and-see mode. As a result, DBP's Wholesale Banking operations took a backseat to its retail banking. From a dominant 52.5% share of loan portfolio in 2003, its share slipped to only 48.9% in 2004. Retail loans, on the other hand, surged by 10.7% to reach P39.4 Billion in 2004, and more than made up for the 4.1% decline in wholesale loans that settled at P37.7 Billion. With the government saddled by its debt burden, DBP pushed its loan operations harder in 2004.

Wholesale Banking

Mixed fortunes characterized Wholesale Banking in 2004. Its approvals and releases actually picked up by 18.2% and 7.9%, respectively, but portfolio level ended up lower on the spate of pay-ins and prepayments.

Wholesale Banking experienced a slowing down of sub-loans from participating financial institutions (PFIs). Social Infrastructure projects combined to pull down the portfolio by 17.2% while Production Infrastructure followed closely with a 16.5% drop. The PFIs, however, financed retail trade very aggressively that it pushed its portfolio on Distribution Infrastructure by 31.4%. In 2004, the total Wholesale Banking portfolio slowed by 4.1% to P37.7 Billion.



Zamboanga Carageenan Manufacturing Corporation Plant, a DBP-assisted project involved in the development of the seaweed industry.

Retail Banking

Corporate Banking reported upbeat loan transactions among its big corporate clients. Approvals, inclusive of renewals and restructured accounts, posted a 70% increase to hit P19.2 Billion. Its loan release record was even more impressive hitting a 154% growth. But when it comes to yearend figures, Corporate Banking could only show a 2% loan portfolio growth as prepayments reached P2.2 Billion.

Big corporates churned their working capital funds more efficiently in 2004 and maximized the utilization of their credit lines. Their accounts carried active movements, reflecting heightened renewals, availments and pay-ins. Borrowers emphasized on better debt management, while creditors wanted to see improved repayment performance, as both parties tried to shrug off the scourge of the Asian Financial Crisis. These realities augur well for improved confidence at both sides of loans market in 2005.

DBP's Retail Banking loan portfolio rose in all of the 4 priority areas. Distribution Infrastructure marked the biggest increase at 13.2%. This is on the strength of the continued push on RORO vessel financing and participation in syndicated loans for a telecommunication company. Social Infrastructure posted a 10.4% growth as release to a big hospital project in 2003 reached up to the second quarter of 2004, complementing the smaller loans to hospitals and clinics. Production Infrastructure portfolio followed with its 10.3% rise mainly from large corporations in oil and consumer products. Environmental Management brought up the rear with its 2.1% increase in 2004. Many of the initiatives for the environment in 2004 did not yet culminate in releases; several power, water and waste management projects were still on their documentation stages.



Groundbreaking Ceremony in connection with the Bank's Socialized Housing Program.

Development Banking

Program lending activities under Development Banking began to make significant contributions to loan portfolio, both under wholesale and retail, respectively. Its three booking units made unique ways in funneling funds to development areas.

Program Lending I (PL I) covered Education, Housing and Health, and as such spearheaded the Bank's involvement in the provision of Social Infrastructure. In 2004, PL I's loan portfolio of P5.4 Billion hardly budged with only a 0.3% rise, but it gained headway in preparing the potential borrowers. For the education sector, it approved a P10 Million facility for the National Federation Cooperatives of Persons with Disabilities (NFPCWD). The funds will provide source of livelihood to about 500 disabled persons and develop their skills. It promoted the Development of Poor Urban Communities Sector Project (DPUCSP) funded by ADB. Lined up were 21 potential beneficiaries of DPUCSP including NGOs, LGUs and MFIs. Among them, PL I evaluated seven accounts in 2004. For the health sector, PL I worked very closely with PhilHealth for possible working capital funding for the receivables of PhilHealth-accredited hospitals. It also coordinated with the Department of Health on the funding proposals of seventy-two government hospitals.

PL II registered a 31% portfolio growth to hit a loan level of P1.6 Billion at end-2004. Given the task of pursuing the Bank's commitment to support micro, small and medium enterprises (MSMEs), it searched for effective ways of reaching them. Thus, the bulk of its loan approvals in 2004 were to financial institutions that themselves support the MSME sector. These included P500 Million to Small Business Corporation (SBCorp), P200 Million to People's Credit & Finance Corporation (PCFC), and P20 Million to ACES Credit Cooperative Development, Inc. (ACDI). SBCorp is the prime mover of the SULONG Program, PCFC relends to microfinance institutions, while ACDI supports personnel and retirees of the Philippine Air Force.



Awarding a beneficiary of the Bank's Socialized Housing Program under the Development of Poor Urban Communities Sector Project.

Factoring is the third unit under Development Banking that covered a lot of ground in SME financing. Its principal brand is the DBP Instant Working Capital where SMEs that have creditworthy customers may be enrolled under its factoring facility. In 2004, Factoring released P1.6 Billion to 46 SME suppliers of 29 big corporate buyers. These figures were dramatic surges over their 2003 statistics. Being still on the market-making stages, Factoring also conducted roadshows to various industry associations and big brother companies like ITESAP (Telecommunications), COMDDAP (Computer/IT), SEIPI (Electronics/Semi-conductors), CCAP (Cold Chain), San Miguel Group of Companies, Smart, Globe and Ford Motor Corporation.

Through its Program Management (PM) units, Development Banking also provided technical support to other marketing units, particularly the branches. The PMs are multi-dimensional units since they respond not only to technical needs but also to policy advocacy and social marketing requirements of DBP's program lending initiatives. As such, they manage the ODA funds and technical grants coursed through DBP.

PM I fielded technical support needs of marketing units in social and environmental thrusts of the Bank (see earlier section on Environmental Management). Its initiatives included the Environmental Management Program, the Climate Change Program, water management, solid waste management, LGU assistance, among others.

Two of PM II's projects are the Sustainable Logistics Development Program (SLDP) and the Sustainable Partnership for Energizing Entrepreneurship Development (SPEED). SLDP attempts to interconnect the islands, using roll-on roll-off vessels, for a complete transport stretch from Batangas in Luzon to Dipolog in Mindanao. SPEED, on the other hand, sets up Business Assistance Centers for MSMEs in various parts of the country. PM II also gave extensive assistance to the food sector and promoted the Hazard Analysis Critical Control Points (HACCP)



Fruits and Vegetable Seeds Research and Development Center in the provincial government of Nueva Ecija.

REVIEW OF OPERATIONS

certification among SME food exporters. In 2004, it launched the "gophilippines.ph" for on-line booking and scheduling to augment the Road-RORO Terminal System (RRTS) of the SLDP.

Improving Portfolio Quality

The various lending units continued to pay attention to portfolio quality. Over time the past due rates and NPL rates were consistently brought down. In 2004, overall past due rate settled lower by 56 basis points to 10.76%, paralleled by the NPL rate losing by 91 basis points to 9.93%. Industry average of past due rate in 2004 was 13.75% based on BSP figures.

As in the immediate past two annual reports, the 2004 annual report presents the "truer" past due rates of the Bank in the spirit of full disclosure. First is the past due rate that is not diluted by interbank loans. This past due figure stood at 11.84% in 2004, posting a 59 basis points improvement over 2003. Second are the past due rates without the interbank loans, and further segregating wholesale from DBP's own retail operations. Past due rate on wholesale loan portfolio at 0.78% improved 113 basis points over 2003. The retail loan portfolio improved by a higher 162 basis points at 22.43% past due rate in 2004.

RESOURCE MOBILIZATION

DBP continued to gear up for its role in financing development despite the borrowing slack in 2004 and lined up various fund sources. Sourced fund increased by 7% to P131.6 Billion at year-end. Borrowings went higher to P95.2 Billion for an 11.2% rise while Deposits scaled down by 2.6% to P36.4 Billion. With marketing units facing weak markets, Treasury placed more funds in securities.

Conduit for ODAs

Total borrowings at P95.2 Billion accounted for 72.3% of sourced funds. Its portion maturing within a year's time, however,

went up by 30.1% to P9.9 Billion, a reminder that DBP has been a conduit for Official Development Assistance (ODA) funds for quite some time now. Bigger amounts mature yearly now as average maturity of borrowings shortened to a little over 15 years. To ensure the financing of development projects, DBP continues to tap new and more responsive fund sources.

Three new facilities came in during 2004 geared towards addressing the 10-Point Agenda of the new administration. These included the Development of Poor Urban Communities Sector Project (DPUCCSP) funded by ADB, World Bank-funded Rural Power Project (RPP), and KfW-funded Credit Line for Micro, Small and Medium Enterprises (CMSME). With these facilities in place, the Bank's Development Banking Sector pursued market-making activities in 2004.

Several prospective facilities were also lined up and were at various stages of negotiation as of 2004. Among them were loan lines for government and private companies from the European Investment Bank, for SMEs and LGUs from KfW, for infrastructure, logistics, and IT industries from JBIC, and for environmental development from the Swedish International Development Agency. In 2004, DBP made sure it is ready to jumpstart the economy under the new administration.

Liquidity and Treasury Management

Post election months saw the Bank shifting funds from liquidity accounts to trading security positions while waiting for the borrowers market to regain confidence. Total funds in investments and securities reached P62.5 Billion, including those to satisfy reserve requirements, at year-end or 10.1% higher than 2003. Available for Sale Securities and IBODI rose 12.9% and 13.7%, respectively. Because the shifts from liquidity accounts were made late in the year, their interest earnings and profit from securities trading at P4.9 Billion and P870 Million posted respective declines of 5.3% and 16.1% from their 2003 performance.



Mekeni Food Corporation's Meat Processing Plant in Central Luzon.



Loan approvals under the grains Bulk Highway Component of the SLDP have reached P696.1 Million for 110 projects as of end of December 2004.

While firming up of the 2005 budgets in October 2004 with the new President, the strategies to attain greater efficiencies in the Bank's balance sheet were set into motion. These strategies were placed on the hands of Treasury Management. It will start to widen its markets through product development that will suit the clients' requirements as well as active marketing of its products and services. Year-end levels began to show more active and sophisticated treasury transactions. The Bank's Foreign Currency Operations had its dry-run in late 2004 at improving earnings from treasury transactions starting 2005.

FINANCIAL PERFORMANCE

Just like other Philippine banks, the 2004 financial statements of DBP reflected management imperatives called for by the times. The shifts that occurred in the uses of funds during the period were largely influenced by the presidential election in May 2004. This political exercise, while deemed a stabilizing factor, initially created apprehensions. Normalization gradually returned in the late post-election months of 2004, prompting some re-positioning in the management of resources by year-end.

Easing the Liquidity Position

From P11.2 Billion in 2003, Cash and Cash Equivalent dropped by a third to P7.8 Billion in 2004. The liquid accounts (cash, deposits and short-term interbank loans) earlier built-up to anticipate a volatile political situation were normalized. Funds returned to Available for Sale Securities which grew by 12.9% to hit P36 Billion and to IBODI which rose to P24.7 Billion or higher by 13.7%.

Apparently, the return from liquid assets to investments in securities had been later in the year already. Revenue contributions from interbank and deposits carried increases of 4.9% and 9.4%, respectively, while interest income from investments and securities fell by 5.3%. Financial management changed positions from liquidity to greater earnings in the fourth quarter of 2004.



President Gloria Macapagal-Arroyo presents a check to Mr. Jose Lim of Liman's Rice Mill of Orion, Bataan, the First Loan avalee from DBP under the NFA Rice Milling Program and DBP's SLDP during the Rice Industry Summit in February 2004.

Loan Portfolio Yielding Higher

DBP's net loan portfolio grew only by 3.0%, showing management's conservatism by continuing to build loan loss provision by 5.9% during 2004. But even gross loans rose by 3% only as corporate borrowers tended to pay off their obligations. In a period of wait-and-see, business establishments optimized the use of their working capital. They maximized availments from credit lines but practiced regular clean up. Account officers of the Bank even complained of their frequent prepayments.

While the volumes generated by heightened use of working capital could not be seen in the financials, their revenue effects were clearly there. Interest income on loans reached P6.2 Billion, a 12.0% rise over 2003. A lower level of non-performing loans, having declined by 3.7%, also improved the revenue contribution of loans.

The Thinning of Interest Margins

Higher interest rates prevailed for most of 2004. From sub-6% p.a. in 2003, 91-day T-Bills kicked up to 7.6% in March 2004, stayed in that vicinity in the mid-year months, and went close to 8% in the last four months of the year. While fund sourcing rates could easily mimic the bellwether rate movements, yields on loans and investments proved sticky.

Borrowings had risen 11.2% more in 2004 to P95.2 Billion. The interest expense on borrowings that went up by 14.8% to P5 Billion was more the impact of increase in amount than by the interest rate hike. Deposit liabilities, on the other hand, settled lower by 2.6% at P36.4 Billion so that the increase on its interest expense to P1.1 Billion or by 9.96% was due more to the interest rate hike. Overall interest margin of the Bank thinned from 52.2% of interest income in 2003 to 47.5% in 2004.



Hybrid Wind-Diesel System Project in Makatao, Batanes, in its installation stage.

REVIEW OF OPERATIONS



Signing of Memorandum of Agreement with DENR, DILG, DOH and Philippine Hospital Association under the Bank's Health Care Waste Management Program.



Signing of Memorandum of Agreement for the promotion of cleaner production with DOH, DENR, CEBU Chamber of Commerce and Industry, Inc., Metro Cebu Environmental Initiatives Council, Pollution Control Association of the Philippines, Inc. (Region 7) and Environmental Management Division, Region 7.



Biogas Plant in Rocky Farms, Pililia, Rizal.

Restraining the Expenses

Other Income and Operating Expenses hardly changed in 2004 with the former contributing P2.4 Billion income or 2.8% more than in 2003. Main sources of other income were still trading gains and miscellaneous income. Operating expenses, on the other hand, ticked up by 0.6%. Administrative Order No. 103, the austerity measures imposed on government institutions, restrained expenses. The biggest cost component, manpower expenses, incurred P2.4 Billion or 4.5% higher than in 2003. The Bank spent P1.4 Billion on other operating expenses to lower it by 2.9%.

Measures of Improving Efficiencies

DBP posted a net income of P2.270 Billion in 2004, 16.5% higher than 2003's P1.949 Billion, on resources that had grown to P157 Billion or 5.6% more. Most key financial indicators saw parallel improvements. Return on Average Equity at 12% was 176 basis points better; while Return on Average Assets at 1.48% was 19 basis points improved over 2003. The Bank's Efficiency Ratio (Overhead Expenses/Gross Income Margin), however, rose to 55.04% from 53%. Capital to Risk Assets Ratio strengthened by 99 basis points at 23.19%, and remained to be one of the highest in the commercial banking industry.

SUSTAINABILITY

Sustainability seems the apt term to underscore the Bank's commitment to future generations. As DBP bankrolls development projects, understandably with high risk elements, it has to ensure its continued operations by remaining profitable. Thus, it needs to maximize its earning capabilities. Bigger earnings, even after dividend remittance to the National Government, translate to a building up of its capital base. Only when DBP continuously become financially stronger can it commit to match the greater growing demand for development finance. Only when DBP promotes projects that preserve and improve the country's resources may both business and the DBP remain sustainable over many generations.



Mega Sardines Fishing Corporation, a fish processing plant in Zamboanga City

COMPLIANCE WITH EXTERNAL REGULATORY AGENCIES

To formalize and disseminate the basic tenets of good governance, the DBP Board of Directors approved the charters of Governance Committee, and of the Audit and Compliance Committee, respectively. The concerns of the Governance Committee are further addressed by the manuals on Corporate Governance and Code of Ethics of the DBP. Those of the Audit and Compliance Committee are supported by a parallel charter of Internal audit. The Risk Management Committee is also finalizing its revised charter that is compliant with BASEL II, for Board approval.

CHARTER OF THE GOVERNANCE COMMITTEE

COMPOSITION

The Governance Committee shall be composed of at least five (5) members¹ of the Board of Directors who shall elect the Chairman from among themselves.

The Chief Executive Officer and the Chief Operating Officer of the bank shall be ex-officio members of the Committee.

The Committee shall have the full discretion to invite any director or executive officer to attend its meetings.

MISSION

The Governance Committee's Mission is to assist the Board of Directors in fulfilling its corporate governance responsibilities and address systemic breaches from the rules and regulations of good governance. Thus, the Committee is primarily responsible for ensuring the Board's effectiveness and due observance of the Bank's code of ethics and corporate governance principles and guidelines.²

AUTHORITY AND FUNCTIONS

The Mission connotes the Committee's authority and duty, among others, specifically —

1. To oversee the periodic performance evaluation of the Board and its committees.
2. To establish internal guidelines to determine/decide whether or not a director is able to and has been adequately carrying out his/her duties as director bearing in mind the director's contribution, performance (e.g. competence, candor; attendance, preparedness and participation) and sufficiency of time allocated to the DBP Board relative to commitments with other corporate boards being served.
3. To make recommendations to the Board regarding the continuing education of directors, assignment to Board Committees and succession plan for the Board members and Senior Officers.
4. To review and evaluate the qualification standards of all positions requiring appointment by the Board.

5. To ensure that the Board and Management adhere to the Bank's Code of Ethics and Corporate Governance Manual.
6. To ensure that an annual self-evaluation of the Board & Management's compliance with corporate governance principles is conducted.

PROPOSED CRITERIA TO ASSESS PERFORMANCE

In fulfilling its mandate to assess performance, the Governance Committee shall have the authority to decide the manner by which the Board's performance may be evaluated and propose an objective performance criteria for approval by the Board. Such performance criteria shall address how the board has enhanced long term shareholder's value and in accomplishing its mandate under the Bank's charter.

COMPLIANCE WITH THE CODE OF ETHICS & GOOD GOVERNANCE GUIDELINE

The handling of violations to the bank's ethical standards shall follow existing regulations and the bank's uniform rules on administrative cases. The role of the Governance Committee shall be limited to the review of all major cases in the bank related to ethical and governance issues as determined by management to extract possible systemic flaws in the bank's operations or procedures that may have caused the violation. In this regard, the Committee shall be furnished regularly with updated reports on all such cases being handled by management. Likewise, regular report and/or scorecard on the bank's observance of the corporate governance guidelines shall be submitted to the Committee for review and appropriate action.

INTERRELATIONSHIP WITH MANAGEMENT & OTHER COMMITTEES

In this Charter of the Governance Committee, the following functional interrelationships are acknowledged —

1. Compliance with the principles of good corporate governance is the responsibility of the Board, Management, officers and staff of the Bank.³
2. The oversight role over the Bank's Human Resource, Personnel and Compensation policies and programs is the primary function of the Human Resource Committee.

¹ DBP Board Resolution No. 0406 dated November 11, 2004.

² BSP Circular No. 456 series of 2004.

³ Manual on Corporate Governance of the DBP Board Resolution No. 0445 dated December 19, 2003.

CHARTER OF THE AUDIT AND COMPLIANCE COMMITTEE

COMPOSITION

The Audit and Compliance Committee shall be composed of members of the Board of Directors, at least four (4) directors, inclusive of the Chairman, preferably with accounting, auditing or related financial management expertise or experience.¹

The Chief Executive Officer and Chief Operating Officer of the Bank shall be ex-officio members of the Committee.²

The Committee shall have the full discretion to invite any director or executive officer to attend its meetings.³

MISSION

The Audit and Compliance Committee's Mission is to provide oversight of the Bank's financial report and control functions, as well as its internal audit functions.⁴ To that end, the Committee is primarily responsible for monitoring, reviewing, and evaluating (1) the adequacy, integrity and transparency of the Bank's financial reports and statements, (2) the adequacy and effectiveness of the Bank's internal controls and risk management,⁵ as well as (3) the Bank's compliance with existing laws, rules and regulations,⁶ and for the timely submission of periodic reports thereon to the full board.

OVERSIGHT AUTHORITY AND FUNCTIONS

The Mission connotes the Committee's authority and duty, among others, specifically —

1. To evaluate compliance with applicable accounting principles, and to identify, with management and the auditors, the major and critical accounting policies that have the greatest effect on the company's financial position.
2. To define and establish with management the periodic qualitative information needed by the Committee related to internal control and risk management, particularly on higher risk areas.
3. To review the reports of internal and external auditors and regulatory agencies and to monitor management's corrective actions on identified control deficiencies and their compliance with regulatory requirements.
4. To review and discuss with management and auditors —
 - a. Significant financial and regulatory reporting issues, including highly complex or unusual transactions that render the determination of their effects on the financial statements difficult or highly subjective.
 - b. Significant changes in the selection or application of accounting principles.
 - c. Significant related-party transactions not in the ordinary course of business, or with related entities that either are not audited or are audited by another firm.
 - d. Significant unadjusted audit differences.
 - e. Significant off-balance sheet structures.
5. To review the quarterly, half-year and annual financial statements before submission to the Board.⁷

6. To review and approve the annual internal audit plan, the scope of audit and its frequency.⁸

7. To determine the overall internal auditing and compliance policies to ensure that the Offices of Internal Audit and Compliance are vested with adequate authority to fulfill its responsibilities.⁹

INVESTIGATIVE AUTHORITY

The Audit and Compliance Committee shall have explicit authority to investigate breaches of major risk management and control processes and policies and of the Bank's Code of Conduct, which may have a significant adverse effect on the Bank's financial position. In the exercise of this authority, the Committee shall have full access to and cooperation by management.¹⁰

The Committee shall report the initiation of its investigation to the Board of Directors and BSP, in accordance with its rules and regulations and shall promptly submit its findings and recommendations.

FUNCTIONAL RELATIONSHIP TO THE OFFICES OF INTERNAL AUDIT AND COMPLIANCE

The initial responsibility for assessing the effectiveness of and compliance with the Bank's internal control and risk management systems rests with the Office of the Internal Auditor.¹¹ Consequently, the Committee is vested with functional authority over the office and shall be responsible for the appointment of the internal auditor and compliance officer to be confirmed by the Board of Directors, who shall report directly to it, and for setting up and reviewing the structure of the internal audit department¹² and its operating budget and installing a professional development program for its staff.¹³

This functional authority likewise extends to the Compliance office whose role is to assess the compliance system established in the bank to prevent the risk of legal and regulatory sanctions, financial loss, or loss to reputation a bank/non-bank may suffer as a result of its failure to comply with all applicable laws, regulations, codes of conduct and standards of good practice.¹⁴

INTERRELATIONSHIP WITH OTHER UNITS

In this Charter of the Audit Committee, the following functional interrelationships are acknowledged —

1. The Integrity and Quality of the Operational Processes and Internal Control is the primary responsibility of Management.
2. The operational supervision of and oversight role over the Bank's Risk Management System is the primary function of the Risk Management Officer/Risk Management Committee.

¹ BSP Circular No. 456, Series of 2004.

² Board Resolution No. 0406, 2004.

³ BSP Circular No. 456, Series of 2004.

⁴ DBP Board Resolution No. 0101, February 27, 1997; DBP Board Resolution No. 0101, February 27, 1997.

⁵ BSP Circular No. 456, Series of 2004.

⁶ SEC Memorandum Circular 02-02.

⁷ Ibid.; DBP Board Resolution No. 0101, February 27, 1997.

⁸ Ibid.

⁹ See Ibid.

¹⁰ See DBP Board Resolution No. 0101, February 27, 1997.

¹¹ BSP Circular No. 456, Series of 2004; SEC Memorandum Circular 02-02.

¹² DBP Board Resolution No. 0101, February 27, 1997.

¹³ BSP Circular No. 429, Series of 2004.

COMPLIANCE WITH EXTERNAL REGULATORY AGENCIES

INTERNAL AUDIT CHARTER

MISSION STATEMENT

Enhance the control and ethical environment in support of the Bank's developmental and strategic objectives through quality operations and credit reviews and consulting activities designed to add value to improve internal control and operational efficiency. Internal Audit shall provide independent advice and assistance to the Audit and Compliance Committee to enable it to fulfill its oversight function over the financial reporting and control system of the Bank. It is committed to conduct assurance activities to be able to provide the committee with objective and timely assessment and evaluation of the (1) adequacy and effectiveness of the Bank's internal control, risk management and corporate governance processes (2) compliance with existing laws, rules and regulations and (3) reliability of financial reporting system.

VISION STATEMENT

We are an inspired team of professionals accepted as partners by our client units in the Bank in finding innovative solutions towards effective business processes and sound banking operation. We promote and maintain professionalism and ethical standards among our staff through continuing skills training, value formation, as well as other capability build-up initiatives.

FUNCTIONS AND SCOPE OF WORK

Internal Audit shall assist the Bank by identifying and evaluating risk exposures relating to the organization's governance, operations and information systems and evaluating the effectiveness and adequacy of controls encompassing these areas. Its specific functions are as follows:

1. Conduct review of the Bank's internal control system, operations and financial activities to obtain reasonable assurance that:
 - a. Financial and operating information are accurate, reliable and timely.
 - b. Resources are used economically and efficiently and adequately safeguarded from losses.
 - c. Bank's and other regulatory and certifying bodies' policies, standards, procedures and applicable laws are complied with.
 - d. Identified business risks are effectively managed.
2. Perform credit review of the Bank's risk asset processes and portfolio to :
 - a. Be reasonably assured that credit risks are managed within well-defined parameters through adherence to established credit policies and procedure.
 - b. Evaluate the degree of potential losses that may be expected from accounts adversely classified.
 - c. Assist in problem recognition, loan recovery management and loss minimization.

3. Conduct systems review of the Bank's information technology environment particularly on:
 - a. Systems development, enhancements and applications.
 - b. Hardware and software controls and security.
 - c. Evaluation whether the bank's computerization is achieving what it sets out to achieve in line with the Information System plan.

From proposal stage or during parallel run, IA shall already be involved in the review of the systems in terms of control and efficiency.

The independent reviews to be conducted by IA on the different units/departments/branches/offices/activities of the Bank will be done on desired frequency, selected from the risk assessment ranking and included in IA's annual audit plan. The rankings are based on each unit's activities/potential impact on Bank's goals and objectives and the existence of other factors contributing to business risk. On the other hand, the audit plan is to be flexible so that audit resources can be reallocated to address the Board's/management's special requests for audit of adverse situations that may require immediate review of the unit/activity concerned.

4. Conduct analysis of reports on financial performance, risk asset portfolio, and financial data provided by management to be able to provide independent advice and assistance to the Audit and Compliance Committee in identifying significant financial, regulatory, and accounting issues that should be brought to the attention of the Board and management.
5. Assist the Audit and Compliance Committee in the performance of its investigative authority under its charter.

ACCOUNTABILITY

The Head of Internal Audit as well as its officers and staff shall be accountable and responsible to the Board of Directors through the Audit Committee to :

1. Provide a report on the unit/department/branch/activity reviewed to include risk management assessment, effectiveness of its control processes, operational efficiency, and significant accounting and financial reporting issues to include recommendations on how to strengthen weak areas noted.
2. Report significant issues related to control processes including potential improvements to those processes and provide information concerning issues for resolution.
3. Submit periodically report on the status and compliance of IA's annual audit plan and sufficiency of IA's resources. A yearly overall evaluation of the results of IA operations shall be submitted to the Board of Directors through the Audit Committee.
4. Perform their functions with proficiency and due professional care under the highest norm and ethical conduct in accordance with the Code of Ethics for Internal Auditors and Civil Service rules and regulations.

When there is a perceived conflict of interest of any personnel with his/her function or abuse of his/her functions/duties, the Head of Internal Audit, with clearance from the Audit Committee, may have the erring personnel transferred from Internal Audit to other departments subject to Civil Service rules, and/or charge him/her administratively under existing office rules and regulations.

INDEPENDENCE

- To maintain its independence, the officers and staff of Internal Audit report to the Head of Internal Audit who reports functionally to the Audit Committee and administratively to the President/CEO.
- Internal Audit shall be independent of the activities reviewed. The department must also be independent of the everyday internal control process.

RESPONSIBILITY

The Head and staff of Internal Audit have the responsibility to:

1. Develop an annual audit plan for submission to the Audit Committee for review and approval.
2. Implement the approved audit plan including any special tasks or projects assigned by executive management and the Audit Committee.
3. Submit reports on a timely basis to the Board of Directors through the Audit Committee summarizing results of the review done on each unit/department/branch/activity.
4. Report suspected irregular activities within the Bank to the Board of Directors through the Audit Committee and assist in the investigation.
5. Maintain a professional audit staff with sufficient knowledge, skills, competencies and experience to meet the requirements of this Charter. Towards this end, the Head, under the direction of the Audit Committee, shall implement a professional development program.
6. Maintain integrity and objectivity.

AUTHORITY

The Head of Internal Audit is authorized to:

1. Have full and unrestricted access at all times to all functions, records, properties and personnel of the Bank relevant to the performance of audits which authority can be delegated to selected officers of the department.
2. Allocate resources, set frequencies, select subjects, determine scopes of work and apply the techniques required to accomplish audit objectives with the approval of the Board/Audit Committee.
3. Have full and free access to the Board of Directors and the Audit Committee.

Internal Audit staff are authorized to obtain the necessary assistance of personnel in units of the Bank where they perform reviews, as well as other specialized services from within or outside the organization in the performance of their work.

LIMITS

The Head and staff of Internal Audit are not allowed to:

1. Perform operational duties for the Bank.
2. Initiate or approve accounting transactions outside of Internal Audit.
3. Direct the activities of any bank employee not connected with Internal Audit, except to the extent such employees have been assigned to the auditing teams or otherwise assist the internal auditors.
4. Divulge confidential information gathered unless properly authorized.

OBJECTIVITY AND IMPARTIALITY

- Internal Audit shall be objective and impartial in performing its assignment. It should seek to avoid any conflict of interest. To this end, and among others, staff assignments within the department shall be rotated periodically. Auditors shall not audit activities or functions they performed in the past two (2) years and will not be allowed to review the work earlier performed by them.
- Impartiality requires that the department is not involved in the Bank's operations or in selecting or implementing internal control measures. However, the department may give recommendations for strengthening internal controls and give opinions on specific matters related to internal control procedures at the request of senior management.

STANDARDS OF AUDIT PRACTICE

The Internal Audit will be guided by the Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors.

METHODOLOGY OF CHARTER CHANGE

Any revision of this charter shall be recommended by IA to the Audit and Compliance Committee and agendaed for discussion with the President/Chief Executive Officer, and submitted to the Board of Directors for final approval.

B OARD OF DIRECTORS





Standing: L-R

JOSEPH N. PANGILINAN
Director

FERNANDO T. BARICAN
Director

FLORO F. OLIVEROS
Director

REY MAGNO TEVES
Director

Seated: L-R

REYNALDO G. DAVID
President & CEO

RICARDO G. NEPOMUCENO, JR.
Director

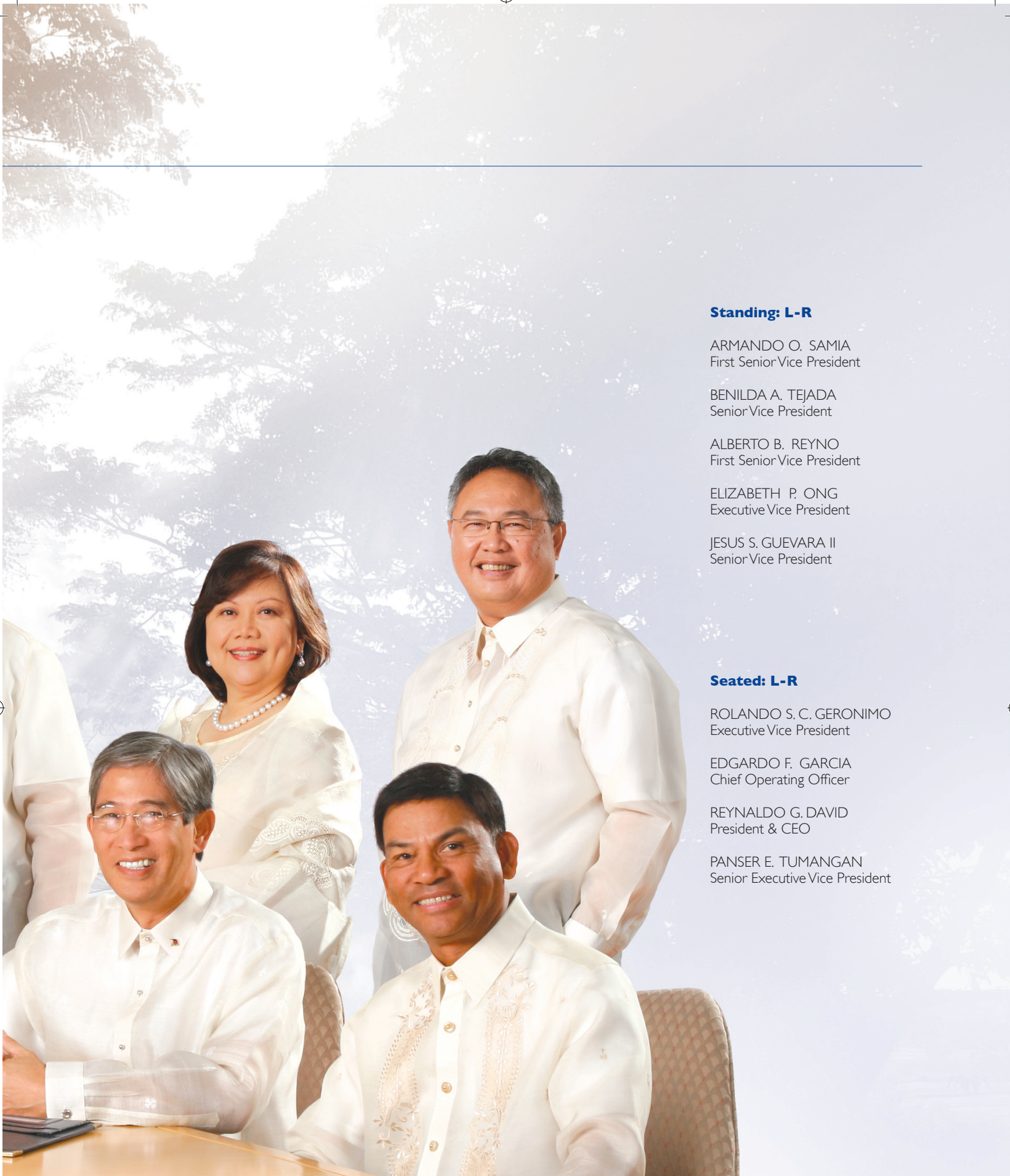
VITALIANO N. NAÑAGAS II
Chairman

JOSE MA. A. RUFINO
Director

ALEXANDER R. MAGNO
Director

MANAGEMENT COMMITTEE





Standing: L-R

ARMANDO O. SAMIA
First Senior Vice President

BENILDA A. TEJADA
Senior Vice President

ALBERTO B. REYNO
First Senior Vice President

ELIZABETH P. ONG
Executive Vice President

JESUS S. GUEVARA II
Senior Vice President

Seated: L-R

ROLANDO S. C. GERONIMO
Executive Vice President

EDGARDO F. GARCIA
Chief Operating Officer

REYNALDO G. DAVID
President & CEO

PANSER E. TUMANGAN
Senior Executive Vice President

SENIOR BANK OFFICERS

PRESIDENT & CEO

Reynaldo G. David - starting September 20, 2004

Simon R. Paterno - until August 31, 2004

SENIOR EXECUTIVE VICE PRESIDENT

Edgardo F. Garcia
Chief Operating Officer

Panser E. Tumangan
Wholesale Banking Sector

Victor G. Villar - until December 31, 2004
Corporate Banking Sector

EXECUTIVE VICE PRESIDENT

Carlos R. Cruz - until December 2004
Office of the Legal Counsel

Rolando S. C. Geronimo
Branch Banking Sector

Vivencio M. Macapagal - until December 31, 2004
Operations Sector

Elizabeth P. Ong
Development Banking Sector

FIRST SENIOR VICE PRESIDENT

Armando O. Samia
Investment Banking

Alberto B. Reyno
Office of the President & CEO

Elsa A. Guevarra
Accounting

SENIOR VICE PRESIDENT

Renato A. Castillo
Asset Management

Ma. Luisa D. Catanghal
Transaction Processing

Corazon D. Conde
Wholesale Banking II

Ambrosio P. De Leon
Office of the President & CEO

Cecilia M. Dimagiba
Wholesale Banking III

Marietto A. Enecio
Program Management II

Juliana N. Gamilla
Branch Banking Sector

Jesus S. Guevara II
Branch Banking Sector

Filipinas I. Jallorina
Internal Audit

Illuminada C. Limjoco - until December 31, 2004
Treasury

Jesus D. Macalincag
Development Banking Sector

Cynthia B. Macaraeg
Corporate Banking I

Rosalina DI. P. Magat
Comptrollers Office

Herminia R. Mendoza
International Banking

B. Brillo L. Reynes
Strategic Planning & Research

Valentina R. Ricasio
Wholesale Banking I

Romeo D. Roderos
Office of the Chairman

Nelly Y. Rosario
Credit Policy Supervision

Dolores A. Santiago
Strategic Planning and Research

Benilda A. Tejada
Office of the Legal Counsel

Don D. Villamayor
Office of the Legal Counsel

FIRST VICE PRESIDENT

Manuel S. Banayad
Trust Services

Antolina G. Butalid
Program Lending III

Denis Gary B. Ditching
Compliance Monitoring Office

Ma. Corazon R. Gamallo
Risk Management

Jose L. Gonzaga, Jr.
AMO - Mindanao

Evelyn D. Guerrero
Investment Banking

Emmanuel A. Lopez
Systems and Methods

Clarito L. Magsino
Systems & Methods

Eduardo T. Mendoza
Property & Security Management

Eufemia C. Mendoza
Program Management I

Belen G. Olano
Corporate Banking II

Ma. Theresa L. Quirino
Treasury

Wilfredo L. Teodoro
Factoring

Angelita S. Villarosa
AMO - Southern Luzon

VICE PRESIDENT

Estrella R. Aclan
Human Resource Management

Dynah T. Avila
Fund Management

Joel Pablo Q. Buñag
Asset Management

Cresciana R. Bundoc
AMO - Northern Luzon

Edgardo F. Cruz
Human Resource Management

Jaime F. Fernandez
Branch Banking Sector

Leonora A. Fernandez
Corporate Affairs

Elizabeth C. Florentino
Branch Banking Sector

Mariano S. Guerrero, Jr.
Office of the Legal Counsel

Estrella E. Icasiano
Investment Banking

Myrna L. Kho
Wholesale Banking - VISMIN

Ma. Teresita S. Liwanag
Program Lending I

Timoteo P. Olarte
Branch Banking Sector

Lutgarda B. Peralta - starting March 25, 2004
Office of the Corporate Secretary

Orlando B. Pineda
Office of the Chairman

Myra C. Reinoso
Asset Management

Rolando S. Rojas
Central Clearing and ATM Operations

Amelia S. San Juan
Investment Banking

Carmelo P. Supe
AMO - Visayas

Bonifacio A. Tamayo, Jr.
Branch Banking Sector

Nelson N. Tandoc
Credit Policy Supervision

• LOANS AND CREDIT FACILITIES

Eligible Borrowers

Single proprietorships, registered partnerships, cooperatives, associations, private corporations, private financial institutions, local government units, non-government organizations.

Acceptable Collaterals

Generally acceptable collaterals for loans are registered first mortgage on titled real estate properties, buildings, machinery and equipment and other mortgageable assets which are already owned by the applicant or to be acquired partly or fully with proceeds of the loan applied for. Hold-out on savings and time deposits as well as government security placements are also considered as acceptable collaterals.

In some cases, the Bank also accepts the guarantees of the following as part of collaterals: Quedan and Rural Credit Guarantee Corporation (QUEDANCOR), Small Business Guarantee and Finance Corporation (SBGFC), Philippine Export-Import Credit Agency (PHILEXIM), and Home Guaranty Corporation (HGC).

Interest Rate and Other Charges

The rate of interest and other charges for loans and other credit accommodations are generally market-based.

Debt-Equity Requirements

The debt-equity requirements of the Bank would depend on the type of project to be financed taken in conjunction with the Bank's assessment of the risk factors for a particular borrower.

Types of Projects Financed

1. Industrial
 - a. Large manufacturing and non-manufacturing industries
 - b. Small and medium manufacturing and non-manufacturing industries
 - c. Industrial Estate Projects
2. Public Utilities
 - a. Land, air and water transportation
 - b. Telecommunications
 - c. Power generation and distribution
 - d. Water supply and distribution
3. Community development
 - a. Housing
 - b. Hospitals
 - c. Schools
 - d. Infrastructure
 - e. Eco-tourism
4. Agro-industrial
 - a. Post-harvest facility
 - b. Agri-business
5. Focused Lending Programs
 - a. Environmental
 - Pollution control and abatement
 - Waste minimization and recycling
 - Efficient use and/or management of natural resources
 - Occupational health and safety
 - Establishment of Environmental Management System (EMS) and certification under ISO 14000
 - b. Micro-financing
 - c. Lending program for franchises
 - d. Program towards obtaining ISO 9000 certification
 - e. New and renewable energy (NRE) projects
 - f. Technology development and commercialization
 - g. LGU financing program
 - h. Sustainable Logistics Development Program
 - Road/Roro Ferry Network
 - Bulk Grains
 - Cold Chain
6. Other Programs
 - a. Factoring
 - b. Loans against Hold Out on Deposit

• INTERNATIONAL BANKING SERVICES

1. Import/Domestic/Regular/Standby Letter of Credit
2. Import/Export Bill Negotiations under Letter of Credit, Open Account, Document Against Acceptance, Document Against Payment and Direct Remittance
3. Export LC Advising
4. Trust Receipt Financing
5. Collection of Customs Duties
6. Inward Remittance

• INVESTMENT BANKING SERVICES

1. Financial advisory and investment consultancy
2. Financial packaging/instrument design for debt and/or equity requirements
3. Securities underwriting/issue management
4. Arrangement for bond flotation and mergers, acquisitions, divestments, loan syndications, project finance, joint ventures and privatizations
5. Underwriting for debt or equity requirements

• DEPOSIT PRODUCTS AND CASH SERVICES

1. Deposits
 - a. Current Account
 - Regular
 - Interest-Earning
 - b. Savings Account
 - Regular Savings
 - Option Savings
 - Special Savings
 - Dollar Savings
 - Savings Deposit for the Youth
 - Savings Deposit In-Trust-For
 - Pensioners' Special Savings
 - Direct Deposit for US Veteran Pensioners
 - DOLE-SSS-DBP Maginhawang Manggagawa Savings
 - Philhealth-DBP ADA
 - Teachers' Savings
 - Treasurer In-Trust-For (TITF) Savings
 - c. Time Deposit
 - Peso
 - Dollar
 - Special Investors Resident Visa (SIRV)
 - d. ATM Services
2. Fund transfer services
 - a. Manager's check
 - b. Demand draft
 - c. Telegraphic transfer
 - d. Foreign Exchange Dealership
 - e. Agent of First Remit Limited's Inward Remittance Service
 - f. Agent of Global Speed Cash's Inward Remittance Service
3. Special/Other Services
 - a. Acceptance of Payments/Remittances for SSS
 - b. Servicing of the Government's Modified Disbursement Scheme
 - c. Servicing of the Payroll of the Department of Education Teachers
 - d. Acceptance of Collections of the National Collection Officer for Remittance to the Bureau of Treasury
 - e. Authorized Agent Bank of the Bureau of Internal Revenue
 - f. Payroll Servicing
 - g. Deposit Pick-Up/Withdrawal Arrangement
 - h. Servicing of Payments of PLDT Subscribers

• TRUST PRODUCTS AND SERVICES

1. Investment Management Services
 - a. Investment Management Account
 - b. Sinking Fund Management
2. Traditional Trust Services
 - a. DBP Kabalikat Retirement Plan
 - b. Revocable Trust Account
 - c. Life Insurance Trust
 - d. Mortgage Trust Indenture
 - e. Loan Administration
 - f. Custodianship
 - g. Escrow Agency
 - h. Transfer Agency
 - i. Paying Agency
 - j. Loan Agency
 - k. Debt Service Reserve Agent

• TREASURY PRODUCTS AND SERVICES

- a. Interbank borrowing/lending
- b. Government Securities dealership
- c. Forex Securities dealership

AREA MANAGEMENT OFFICES / BRANCHES

NORTHERN LUZON - VP Crescenciana R. Bundoc

North Eastern Luzon
Aparri
Ilagan
Solano
Tabuk
Tuguegarao
North Western Luzon
Baguio
Dagupan
Laoag
San Fernando
Central Luzon
Balanga
Baler
Cabanatuan
San Fernando, Pampanga
Malolos
Subic
Tarlac

VISAYAS AREA - VP Carmelo P. Supe

Central Visayas
Bogo
Cebu
Maasin
Mandaue
Tagbilaran
Eastern Visayas
Borongan
Catarman
Catbalogan
Ormoc
Tacloban
Panay Region
Antique
Iloilo
Jaro *
Kalibo
Roxas
Negros Region
Bacolod
Dumaguete
Kabankalan
San Carlos

* Cash Units

SOUTHERN LUZON - FVP Angelita S. Villarosa

Southern Tagalog
Calapan
Dasmariñas
Lipa
Lucena
Puerto Princesa
San Jose
Sta. Rosa
Bicol Region
Daet
Legaspi
Masbate
Naga
Sorsogon
National Capital Region
Camp Aguinaldo *
Commonwealth
Manila *
Muntinlupa *
Quezon Avenue *
Quezon City-PHC *

MINDANAO AREA - FVP Jose L. Gonzaga, Jr.

Northern Mindanao
Cagayan de Oro
Iligan
Malaybalay
Mambajao *
Ozamis
North Eastern Mindanao
Butuan
Mangagoy *
San Francisco
Surigao
Southern Mindanao
Cotabato
General Santos
Kidapawan
Marbel
Tacurong
South Eastern Mindanao
Davao
Digos
Mati
Tagum
Western Mindanao
Basilan *
Dipolog
Ipil
Jolo *
Pagadian
Zamboanga

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