

Statements of Condition

December 31, 2003 and 2002
(In thousand pesos)

	2003	2002
Resources		
Cash and other cash items (Notes 2, 3 and 4)	P 1,028,541	P 794,888
Due from Bangko Sentral ng Pilipinas (Notes 2, 3 and 5)	1,988,273	1,745,604
Due from other banks (Notes 2, 3 and 6)	1,098,542	1,121,324
Interbank loans receivable (Notes 2, 3 and 7)	7,344,491	4,661,366
Trading account securities (Notes 2 and 8)	1,799,621	1,251,083
Available for sale securities (Notes 2 and 9)	31,982,381	35,423,278
Underwritten equity securities purchased (Notes 2 and 10)	469,502	470,115
Investment in bonds and other debt instruments	22,629,573	24,220,320
Less: Allowance for probable losses	875,898	796,923
Investment in bonds and other debt instruments - net (Notes 2, 11 and 13)	21,753,675	23,423,397
Loans - gross	74,983,057	71,707,737
Less: Allowance for probable losses	6,789,033	5,591,772
Loans - net (Notes 2, 12 and 13)	68,194,024	66,115,965
Bank premises, furniture, fixtures and equipment	2,235,397	2,073,942
Less: Accumulated depreciation	1,302,539	1,210,140
Bank premises, furniture, fixtures and equipment, net (Notes 2 and 14)	932,858	863,802
Equity investments - gross	765,045	760,950
Less: Allowance for probable losses	33,594	44,094
Equity investments - net (Notes 2, 13 and 15)	731,451	716,856
Real and other properties owned or acquired	4,450,667	3,800,372
Less: Allowance for probable losses	263,200	232,403
Real and other properties owned or acquired - net (Notes 2, 13 and 16)	4,187,467	3,567,969
Other assets - gross	7,473,083	8,687,895
Less: Allowance for probable losses	229,384	200,923
Other assets - net (Notes 13 and 17)	7,243,699	8,486,972
Total resources	P 148,754,525	P 148,642,619

Statements of Condition

December 31, 2003 and 2002
(In thousand pesos)

	2003		2002	
Liabilities and capital funds				
Liabilities				
Current maturities of long-term borrowings (Note 18)	P	7,629,038	P	12,381,405
Deposits liabilities: (Note 19)				
Demand		13,338,669		12,685,090
Savings		16,806,880		14,830,736
Time		7,258,064		6,661,382
		37,403,613		34,177,208
Bills and bonds payable (Notes 2 and 18)		77,985,960		75,429,369
Due to Bangko Sentral ng Pilipinas		60,258		58,486
Due to other banks (Note 20)		34,422		17,542
Manager's checks and demand drafts outstanding		469,225		541,263
Accrued taxes, interests and expenses (Note 21)		2,596,410		2,507,416
Deferred credits and other liabilities (Note 22)		3,334,702		4,424,827
Total liabilities		129,513,628		129,537,516
Capital funds				
Common stock, P100 par value (Authorized - 350 million shares, issued and outstanding - 125 million shares)		12,500,000		12,500,000
Surplus		4,034,750		3,500,529
Surplus reserves		240,185		236,651
Net unrealized gain/(losses) on securities (Note 2)		330,809		834,806
Appraisal increment on property (Note 2)		186,321		186,321
Undivided profits		1,948,832		1,846,796
Total capital funds		19,240,897		19,105,103
Total liabilities and capital funds	P	148,754,525	P	148,642,619
Contingent accounts (Note 25)				
Foreign: Medium and long-term	\$	768,173	\$	719,594
Domestic: Medium and long-term	P	98,625	P	375,480
Total peso equivalent 1/	P	42,798,304	P	38,696,756
Trust funds (Note 26)	P	18,801,366	P	15,787,733
1/ Conversion rates				
		P55.5860 - US\$1.00		P53.2540 - US\$1.00
		P 69.9939 - EUR1.00		P55.8847 - EUR1.00
		P 0.5193 - JPY1.00		P 0.4487 - JPY 1.00

See accompanying Notes to Financial Statements.

Statements of Income

For the years ended December 31, 2003 and 2002
(In thousand pesos, except earnings per share)

	2003	2002
Interest income (Note 2)		
On loans	P 5,493,549	P 6,072,079
On investments and trading account securities	5,189,550	5,711,568
On interbank loans	430,304	358,834
On deposits with banks	48,503	48,264
	11,161,906	12,190,745
Interest expense (Note 2)		
On bills payable and other borrowings	4,358,287	4,594,195
On deposits	974,338	951,809
	5,332,625	5,546,004
Net interest income	5,829,281	6,644,741
Other income		
Dividends - equity investments (Note 2)	2,960	4,468
Service charges, fees and commissions	201,703	220,276
Profits from investments and securities trading (Note 2)	1,037,925	1,156,748
Foreign exchange profit (Note 2)	307,307	188,482
Miscellaneous	837,426	744,429
	2,387,321	2,314,403
Other expenses		
Compensation and fringe benefits (Notes 2 and 24)	2,329,753	2,677,974
Taxes and licenses	514,568	534,070
Occupancy expenses	30,219	29,750
Other operating expenses	1,480,193	1,138,675
	4,354,733	4,380,469
Net income before provision for loan losses	3,861,869	4,578,675
Provision for loan losses (Notes 2 and 13)	1,872,697	2,624,715
Net income before income tax	1,989,172	1,953,960
Provision for income tax (Note 23)		
Corporate tax	0	65,323
Final tax	40,340	41,841
	40,340	107,164
Net income for the year	P 1,948,832	P 1,846,796
Earnings per share	P 15.59	P 14.77

See accompanying Notes to Financial Statements.

Statements of Changes in Capital Funds

For the years ended December 31, 2003 and 2002
(In thousand pesos, except per share amounts)

	Common Stock		Surplus	Surplus Reserves/ Others	Undivided Profits	Total
	Shares	Amount				
Balance, December 31, 2001	125,000,000	P12,500,000	P2,427,075	P644,178	P1,836,705	P17,407,958
Net income for the year					1,846,796	1,846,796
Cash dividends - 2001 P6.05 per share			(755,659)			(755,659)
Prior years' adjustments			(1,108)			(1,108)
Net unrealized gains/losses on securities				557,116		557,116
Surplus reserve set up			(6,484)	6,484		0
Reserve set-up - contingencies				50,000		50,000
Transfers to surplus			1,836,705		(1,836,705)	0
Balance, December 31, 2002	125,000,000	12,500,000	3,500,529	1,257,778	1,846,796	19,105,103
Net income for the year					1,948,832	1,948,832
Cash dividends - 2002 P8.01 per share			(1,001,143)			(1,001,143)
Prior years' adjustments			(307,898)			(307,898)
Net unrealized gains/losses on securities				(503,997)		(503,997)
Surplus reserve set up			(3,534)	3,534		0
Transfers to surplus			1,846,796		(1,846,796)	0
Balance, December 31, 2003	125,000,000	P12,500,000	P4,034,750	P757,315	P1,948,832	P19,240,897

See accompanying Notes to Financial Statements.

Statements of Cash Flows

For the years ended December 31, 2003 and 2002
(In thousand pesos)

	Dec. 31, 2003	Dec. 31, 2002
Cash flows from operating activities:		
Net income before tax	P 1,989,172	P 1,953,960
Add/(less): Non-cash operations:		
Provision for probable loan and other losses	1,872,697	2,624,715
Depreciation/amortization	138,039	111,401
Loss on acquisition of acquired assets	14,908	16,654
Share in net income on equity investment	(7,295)	(6,018)
Profit and loss - misc. income from excess reserves	(635)	38
Other income and expenses	(72,515)	(48,645)
Gain from sale of acquired assets	(221,504)	(158,429)
Operating income before changes in operating assets	3,712,867	4,493,676
(Increase)/Decrease in operating assets:		
Interbank loans receivable	16,133	95,560
Trading account securities	(548,538)	2,891,846
Available for sale securities	2,949,944	(9,753,009)
Underwritten equity securities purchased	441	-
Loans	(3,868,846)	5,706,696
Other assets	(10,204,621)	(14,469,761)
Increase/(Decrease) in operating liabilities:		
Deposit liabilities	3,226,405	6,109,137
Due to Bangko Sentral ng Pilipinas	1,772	(18,292)
Due to other banks	16,880	(9,996)
Manager's checks and demand drafts outstanding	(71,235)	(15,813)
Accrued taxes, interests and expenses	6,732,005	7,011,227
Deferred credits and other liabilities	(1,388,919)	1,940,214
Cash generated from operations	574,288	3,981,485
Interest and dividend received	11,375,651	12,515,463
Interest paid	(5,302,980)	(5,863,842)
Income taxes paid	(1,380,371)	(1,610,633)
Net cash provided by/(used in) operating activities	5,266,588	9,022,473

Statements of Cash Flows

For the years ended December 31, 2003 and 2002
(In thousand pesos)

	Dec. 31, 2003	Dec. 31, 2002
Cash flows from investing activities:		
(Increase)/Decrease in inv. in bonds and oth. debt inst.	1,590,747	(5,115,478)
Acquisition of bank premises, furniture, fixtures and equipt.	(254,379)	(127,366)
Disposal of bank premises, furniture, fixtures and equipt.	92,924	111,860
Increase in equity investments	(7,300)	-
Increase in real and other properties owned and acquired	(338,863)	(491,869)
Net cash provided by/(used in) investing activities	1,083,129	(5,622,853)
Cash flows from financing activities:		
Increase/(Decrease) in borrowings	(2,195,776)	385,762
Cash dividends paid	(1,001,143)	(755,659)
Net cash provided by/(used in) financing activities	(3,196,919)	(369,897)
Net increase/(decrease) for the year	3,152,798	3,029,723
Cash and cash equivalents beg. balance, January 1	8,056,912	5,027,189
Cash and cash equivalents as of December 31, 2003 (Notes 2, 3, 4, 5, 6 and 7)	P 11,209,710	P 8,056,912

See accompanying Notes to Financial Statements.

Notes to Financial Statements

As of and for the years ended December 31, 2003 and 2002

Note 1 - Operations

The Development Bank of the Philippines (hereafter referred to as "DBP") was created by Republic Act No. 85 for the primary purpose of providing principally medium and long-term credit facilities for the rehabilitation, development and expansion of agriculture, industry, export development and government sector for the broadening and diversification of the national economy and to promote the establishment of private development banks in provinces and cities. On December 3, 1986, DBP's Charter was revised under Executive Order No. 81 enabling DBP to achieve a more efficient and effective use of its resources. Under the new Charter, DBP shall primarily provide banking services principally to cater to the medium and long-term financing needs of agricultural and industrial enterprises particularly in the countryside with emphasis on small and medium-scale industries. The DBP's orientation is that of a predominantly wholesale bank with a significant retail presence. As such, DBP provides financial assistance to participating financial institutions for on-lending to investment enterprises and also direct to borrowers as may be required by its catalytic role in the economy.

The Bangko Sentral ng Pilipinas (BSP), in its letter dated December 20, 1995, granted DBP the permit to operate as an expanded commercial bank (EKB). DBP commenced operation as an EKB on February 7, 1996.

Republic Act No. 8523, otherwise known as an "Act Strengthening the Development Bank of the Philippines," amending EO No. 81 was signed into law by President Fidel V. Ramos on February 4, 1998. R.A. No. 8523 increased the authorized capital stock of the DBP from P5 billion to P35 billion, created the position of President or Vice Chairman of the Board of Directors who shall act as the Chief Executive Officer of the Bank and exempted the DBP from the coverage of the Salary Standardization Law.

The Bank's registered office is located at Sen. Gil Puyat Avenue corner Makati Avenue, Makati City.

Personnel complement of the Bank as of December 31, 2003 totaled 3,435 distributed as follows:

	HO	Branch	Total
Regular	1,144	1,298	2,442
Casual	56	59	115
Contractual	263	615	878
	1,463	1,972	3,435

For effective management, the branch network is divided into 15 Regional Management Offices (RMOs) with respective Heads supervising a total of 77 member Branches nationwide.

Note 2 - Summary of Significant Accounting Policies

The Bank's accounting policies and procedures are in accordance with generally accepted accounting principles and general practice of the banking industry consistent with applicable Generally Accepted Accounting Principles (GAAP), Statements of Financial Accounting Standards (SFAS), as updated, and the requirements of BSP, PDIC and other government regulatory agencies.

The more significant accounting policies and practice of the Bank are summarized below for better appreciation of the financial statements.

- a. For purposes of reporting cash flows, cash and cash equivalents consist of cash and other cash items on hand, bank deposits, short-term interbank loans receivable, highly liquid investments that are readily convertible to cash and which are subject to insignificant risk of changes in value.
- b. Due from Other Banks include balances of funds on deposit with other foreign and local banks to meet not only reserve requirements but also to cover operational requirements especially in areas not covered by BSP clearing offices. This includes requirements for encashment of checks issued by the Department of Education, Culture and Sports (DECS) against their DBP accounts for the payroll of its public school teachers and other disbursements of the Department of Budget and Management (DBM) under the Modified Disbursement Scheme (MDS) of the Bureau of Treasury.
- c. Trading Account Securities (TAS) are carried at market value in accordance with BSP Circular 161, series of 1998. Gains or losses on market revaluation are credited or charged to operations.
- d. Available for Sale Securities (ASS) and Underwriting Accounts (UA) - Equity Securities are carried at market values in accordance with BSP Circular 201, series of 1999. Unrealized gains or losses on market valuation is reported as a separate component of Stockholder's Equity.
- e. Underwritten Equity Security Purchased represents underwritten equity securities purchased and held principally with the intention of selling them within a defined short-term period.
- f. Investment in Bonds and Other Debt Instruments (IBODI) are carried at cost (adjusted for accretion of discounts and amortization of premiums). Gains or losses on sales are credited or charged to operations.
- g. Loans are valued at the outstanding balance at which they are to be collected. This amount is reduced by an estimated allowance for loan losses necessary to state the carrying amount of loans at net realizable value.

Past due accounts are automatically carried on non-accrual basis. Interest Income on such accounts is recognized only upon collection.
- h. Allowance for Probable Losses is established to absorb estimated losses associated with loans, acquired assets and other risk assets. Such Allowance is determined through management's periodic account by account review and assessment of risks involved, prevailing economic conditions and the regulatory guidelines set by BSP under Circular No. 247 - 2000.
- i. Bank premises, furniture, fixtures and equipment (including leasehold improvements) are stated at cost. Depreciation is computed on a straight-line method over the estimated useful life of the related assets. The cost of leasehold improvements is amortized over the term of the lease or the estimated useful life of the improvements whichever is shorter. Minor expenditures for replacement, maintenance and repairs are expensed as incurred. Major renovations and betterments that will extend the life of the asset are capitalized.

Properties no longer economical to maintain are disposed in accordance with existing requirements on disposal particularly as regards publication, public bidding and negotiated sale. Property

Disposal Committees with the Heads of Branches and the PSM in HO as Chairman have been created for the purpose.

In September 1992, Norham and Zapote properties in Baguio and Makati, respectively, were stated at appraised values as determined by an Independent Appraiser. The net increase in appraised value was credited to Appraisal Increment on Property shown under Stockholder's Equity. Subsequent additions are stated at cost.

j. Investments in capital stock of subsidiaries owned more than 50% is accounted for using the equity method of accounting. The cost of investment is increased or decreased by the Bank's equity in net earnings or losses of the investee since date of acquisition. Other equity investments are carried at cost.

k. Valuation of ROPOA is consistent with BSP Cir. 306 s. 2002 which requires that:

"x x x. The property acquired by the bank in settlement of loans THROUGH FORECLOSURE OR DATION IN PAYMENT shall be recorded at the balance of the loan (principal plus booked accrued interest receivable for time loans, or principal less unamortized income for bills discounted) or bid/purchase price, whichever is lower. Provided, that where the booked amount of the ROPOA exceeds the appraised value of the acquired property, an allowance for probable losses equivalent to the excess of the amount booked over the appraised value shall be set up."

Maintenance and other carrying expenses subsequent to the foreclosure or acquisition of such property are taken up as Expenses. Realized gain or loss on sale thereof is charged to operations.

l. Foreign currency-denominated accounts (monetary assets and liabilities) are translated/converted into Philippine Peso using the Philippine Dealing System Weighted Average Rate (PDSWAR) as of Balance Sheet date. Actual foreign currency transactions are booked based on prevailing PDS rates as of transaction date. Foreign Exchange Gains or Losses arising from accounts without Foreign Exchange Risk Cover (FXRC) of the National Government (NG) are charged to operations.

Bank Liabilities with FXRC of NG are no longer revalued effective November 2001. They are carried in the books at historical cost (BSP Circular dated November 14, 2001).

m. Retirement benefits of the Bank's staff are covered by laws applicable to all government employees. Gratuities are paid by DBP for staff employed prior to June 1, 1977. Those employed thereafter shall be paid directly by the Government Service Insurance System. The Bank pays through a funded non-contributory gratuity plan consisting of actuarially determined normal annual service costs plus amortization of past service liability over a ten-year period which are charged to operations.

n. In compliance with applicable laws, the Bank established a Provident Fund for the benefit of its employees. Contributions made to the Fund based on a predetermined rate are charged to operations.

o. Interest income and expenses are recognized on accrual basis on all loans except for those which are adversely classified consistent with the guidelines of the Bangko Sentral ng Pilipinas (BSP).

Note 3 - Cash and Cash Equivalents

Cash and cash equivalents represent cash and all cash item on hand, bank account balances and Interbank Loans Receivable which are being held for 3 months or less as of year end as follows: (In thousands)

	2003	2002
Cash and Other Cash Items	P 1,028,541	P 794,888
Due from Bangko Sentral ng Pilipinas	1,988,273	1,745,604
Due from Other Banks	1,098,542	1,121,324
Interbank Loans Receivable	7,094,354	4,395,096
Total Cash and Cash Equivalents	P 11,209,710	P 8,056,912

Note 4 - Cash and Other Cash Items

This account consists of: (In thousands)

Cash on Hand	P 834,504	P 752,549
Checks and Other Cash Items	194,037	42,339
Total Cash and Other Cash Items	P 1,028,541	P 794,888

Note 5 - Due from Bangko Sentral ng Pilipinas

This account represents DBP's peso demand and time deposits in local and foreign currency maintained with BSP to meet reserve requirements and to serve as clearing account for interbank claims consistent with BSP guidelines. DBP, as a government financial institution (GFI), maintains BSP as its major depository.

Note 6 - Due from Other Banks

This account consists of: (In thousands)

Domestic			
Land Bank of the Phil.	P 224,092	P 82,611	
Citibank, PDDTS	143,421	349,497	
Phil. Clearing House Corp.	116,338	41,756	
Others	82,972	124,512	
	566,823	598,376	
Foreign			
JP Morgan Chase	185,003	0	
Cedel Luxembourg	111,976	87,237	
ABN AMRO	64,879	32,867	
Citibank	62,452	364,923	
Others	107,409	37,921	
	531,719	522,948	
Total Due from Other Banks	P 1,098,542	P 1,121,324	

Note 7 - Interbank Loans Receivable

This account consists of loans and placements granted to the following banks: (In thousands)

Domestic	P 6,297,137	P 2,917,000
Foreign	1,047,354	1,744,366
Total Interbank Loans Receivable	P 7,344,491	P 4,661,366

Note 8 - Trading Account Securities

This account consists of: (In thousands)

Government Securities Purchased	P 1,789,098	P 1,237,459
Equity	10,523	13,624
Total Trading Account Securities	P 1,799,621	P 1,251,083

Note 9 – Available for Sale Securities

This account consists of: (In thousands)

	2003	2002
Government Securities:		
Treasury Notes	P 23,210,993	P 31,650,431
Retail Treasury Bonds	7,044,487	2,344,732
Small Denominated Treasury Bonds	889,333	917,532
Treasury Bonds (ROP)	780,853	510,583
	31,925,666	35,423,278
Private Securities:		
PLDT	56,715	0
Total Available for Sale Securities	P 31,982,381	P 35,423,278

Note 10 – Underwritten Equity Securities Purchased

This account consists of: (In thousands)

Heritage Park	P 469,502	P 470,115
----------------------	------------------	------------------

Note 11 – Investment in Bonds and Other Debt Instruments

This account consists of: (In thousands)

Marketable Securities	P 9,136,481	P 11,004,096
Long-Term Bonds/Securities	13,493,092	13,216,224
	22,629,573	24,220,320
Allowance for Probable Losses	(875,898)	(796,923)
Net Investment in Bonds and Other Debt Instruments	P 21,753,675	P 23,423,397

Government securities amounting to P225 million and P234 million as of December 31, 2003 and 2002, respectively, are deposited with BSP as security for trust duties.

Note 12 – Loans

a. This account consists of: (In thousands)

Loans and Discounts	P 73,977,392	P 70,392,393
Trading Account Securities-Loans	0	157,950
Underwritten Debt Securities		
Purchased	1,000,000	1,000,000
Bills Purchased	5,665	157,394
	74,983,057	71,707,737
Allowance for Probable Losses	(6,789,033)	(5,591,772)
Net Loans	P 68,194,024	P 66,115,965

Unearned Discount of P122.92 million was presented as deferred credits instead of reduction from the outstanding loan balance, in consistent with the BSP's Manual of Accounts.

Current Portion	P 19,316,325	P 19,452,938
Past Due Loans:		
Amount	P 9,321,405	P 9,252,757
Rate	11.32%	12.12%
Non-Performing Loans:		
Amount	P 9,399,468	P 9,486,553
Rate	10.84%	11.32%

Above Past Due rates are way below industry average of 15.77% and 17.12% for CY 2003 and 2002, respectively, based on BSP figures.

Wholesale Lending Portfolio represents 52% and 53% of DBP's total loan portfolio as of December 31, 2003 and 2002, respectively.

The highest exposure is to the Financial Intermediation amounting to P36 billion or 48% of the total loan portfolio. The next highest exposure is the P8 billion for Real Estate, Renting and Business Administration Sector representing 11% of the total loan portfolio. This is followed by financial assistance to the Manufacturing Sector amounting to P6 billion or 8% of the total loan portfolio for the year. Other exposures are distributed widely among BSP classified industries.

b. Classification of loans as to security is as follows: (In thousands)

	2003		2002	
Secured:				
Retail	P29,652,811	86%	P28,073,628	85%
Wholesale *	5,000,000	14%	5,000,000	15%
	<u>34,652,811</u>	<u>46%</u>	<u>33,073,628</u>	<u>46%</u>
Unsecured:				
Retail	5,977,402	15%	5,607,875	15%
Wholesale *	34,352,844	85%	33,026,234	85%
	<u>40,330,246</u>	<u>54%</u>	<u>38,634,109</u>	<u>54%</u>
Total	P74,983,057	100%	P71,707,737	100%

* Participating financial institutions (PFIs) of the Wholesale Banking Sector (WBS) pass through rigid accreditation criteria. Once accredited, said PFIs can avail themselves of credit facilities generally on a clean line basis. However, the investment enterprises (IEs), beneficiaries of the loan facilities from the PFIs, are required to assign their collaterals to DBP.

c. DOSRI accounts for Individual Housing Program (IHP) and Educational Support Program (ESP) represent 0.67% and 0.002% of total loan portfolio for CY 2003 and CY 2002, respectively, distributed as follows: (In thousands)

	2003		2002	
	Amount	% to Total	Amount	% to Total
Secured*	P500,696	99.96%	P 876	76.77%
Unsecured	204	0.04%	265	23.23%
Total	P500,900	100.00%	P1,141	100.00%

* The increase in DOSRI accounts was due to the loan granted to SBGFC amounting to P500 million. PF-MVLPP, financial assistance to officers under an approved fringe benefits and BSP approved plan amounting to P250 million is included in the DOSRI Report being submitted to BSP on a weekly basis.

All DOSRI accounts in CY 2003 and CY 2002 are on current status.

Note 13 – Allowance for Probable Losses

The changes in the Allowance for Probable Losses were as follows: (In thousands)

	2003	2002
Balance, January 1	P 6,866,115	P 4,594,144
Provisions during the year	1,872,697	2,624,715
Write-offs/Writedowns	(428,936)	(116,513)
Other transactions		
Reserve Charges due to		
Foreclosure	(102,930)	(194,629)
Reserve Transfer to Surplus -		
Reserve for Contingencies	0	(50,000)
Others	(15,837)	8,398
Balance, December 31	P 8,191,109	P 6,866,115

These are distributed among the following:

	2003	2002
Investment in Bonds	P 875,898	P 796,923
Loans	6,789,033	5,591,772
Equity Investments	33,594	44,094
Real & Other Properties Owned	263,200	232,403
Other Resources	229,384	200,923
	P 8,191,109	P 6,866,115

General Reserves is P2.48 billion. Excess Reserves of P1.82 billion is intended for additional provision for losses that may be required by the marketing units for specific loans, ROPOA, investments and other related accounts and those that maybe suggested by BSP and/or COA.

Note 14 - Bank Premises (Including Leasehold Improvements), Furniture, Fixtures and Equipment

This account represents the book value of the following bank assets: (In thousands)

	2003	2002
Land	P 285,023	P 284,767
Building	542,038	520,654
Office Equipment, Furniture and Fixtures	1,084,042	963,895
Transportation Equipment	324,294	304,626
	2,235,397	2,073,942
Accumulated Depreciation	(1,302,539)	(1,210,140)
	P 932,858	P 863,802

Broken down as follows:

	Land	Building	Office Equipment, Furniture & Fixtures	Transportation Equipment	Total
Useful Life	21 years	5 years	5 years		
Depreciation Rate Used	8%	19%	22%		
Balance, Beginning	284,767	520,654	963,895	304,626	2,073,942
Add: Purchases	1,034	29,641	192,852	30,852	254,379
Sub-total	285,801	550,295	1,156,747	335,478	2,328,321
Less: Disposals	778	8,257	72,705	11,184	92,924
Balance, End	285,023	542,038	1,084,042	324,294	2,235,397
Less: Accumulated Depreciation	0	215,393	788,648	298,498	1,302,539
Net Book Value	285,023	326,645	295,394	25,796	932,858
Depreciation/Amortization charged during the year					127,282

Note 15 - Equity Investments

This account consists of: (In thousands)

Investments carried at:

	2003	2002
At Equity: (Wholly owned)		
Data Center Incorporated	P 21,640	P 16,544
Management Corporation	34,768	32,568
	56,408	49,112
At Cost	708,637	711,838
Total Investments	765,045	760,950
Allowance for Probable Losses	(33,594)	(44,094)
Net Equity Investments	P 731,451	P 716,856

Note 16 - Real and Other Property Owned or Acquired (ROPOA)

This account consists of: (In thousands)

	2003	2002
Acquired Assets	P 4,242,352	P 3,662,727
Sales Contract Receivable	205,899	135,131
Real Estate Owned	2,416	2,514
	4,450,667	3,800,372
Allowance for Probable Losses	(263,200)	(232,403)
	P 4,187,467	P 3,567,969

Note 17 - Other Assets

This account consists of: (In thousands)

	2003	2002
Accounts Receivable	P 4,352,058	P 4,556,387
Interest and Dividend Receivable	1,826,530	1,847,313
Prepaid Expenses	397,170	386,685
Inter-Office Float Items	325,670	570,649
Other Deferred Charges	319,464	450,156
Lending - RBU	0	600,155
Miscellaneous	252,191	276,550
	7,473,083	8,687,895
Allowance for Probable Losses	(229,384)	(200,923)
	P 7,243,699	P 8,486,972

Note 18 - Long - term Borrowings

The Bank's long-term borrowings consist of the following: (In thousands)

	2003	2002
Domestic	P 4,010,079	P 3,933,814
Foreign:		
- with FX Risk Cover	72,915,302	78,679,453
- without FX Risk Cover	8,689,617	5,197,507
Total Foreign Borrowings	81,604,919	83,876,960
Total Domestic and Foreign Borrowings	85,614,998	87,810,774
Amount due within one year	(7,629,038)	(12,381,405)
	P 77,985,960	P 75,429,369

Borrowings in foreign currency without foreign exchange cover (FXRC) by NG are lent in the same currency. Accordingly, foreign exchange risk is assumed by the borrower.

Bills Payable as of December 31, 2003 had a maximum maturity of 40 years both for wholesale and retail. Average maturity was 15 years for wholesale and 16 years for retail.

Other information on Bills Payable as of December 31, 2003 were as follows: (In thousand pesos)

	Bills Payable	
	Wholesale	Retail
Maximum month-end balance	66,223,965	22,940,792
Average monthly balance	62,484,431	21,405,098
Average rate (interest rate to funders)	3.88%	5.06%

Note 19 - Deposits Liabilities

Deposits maturing within the year amounted to P35,762,294 thousand.

Note 20 - Due to Other Banks

This account represents claims of the following local banks where there are no Bangko Sentral clearing facilities: (In thousands)

	2003	2002
LBP	P 19,155	P 8,424
RCBC	5,790	(8,221)
Metrobank	4,780	4,794
UCPB	(6,429)	913
Equitable-PCI	2,652	3,640
Others	8,474	7,992
Total Due to Other Banks	P 34,422	P 17,542

Note 21 – Accrued Taxes, Interest and Expenses

This account consists of: (In thousands)

	2003	2002
Interest	P 579,769	P 638,836
Taxes and Licenses	125,750	91,865
Foreign Exchange Risk Cover Fees	615,415	524,998
Monetary Value of Leave Credits	598,083	570,727
Gratuity	433,783	279,472
COA Service	134,853	164,249
PDIC Fees	40,020	34,834
Others	68,737	202,435
Total Accrued Taxes, Interest and Expenses	P2,596,410	P2,507,416

Note 22 - Deferred Credits and Other Liabilities

This account consists of: (In thousands)

Unearned Income/Deferred Credits	P 754,376	P1,154,174
Outstanding Acceptances	8,573	11,844
Other Liabilities		
Accounts Payable	1,918,130	2,085,499
Sundry Credits	277,421	4,740
Withholding Tax Payable	144,746	104,519
Cash Letters of Credit	104,496	21,845
Due to TOP	78,676	216,626
Domestic Bills for Clearing	5,265	187,395
Borrowings - FCDCU/EFCDU	0	600,297
Other Miscellaneous Liabilities	43,019	37,888
	P 3,334,702	P4,424,827

Note 23 - Provision for Income Tax

A reconciliation between the Provision for Income Tax at statutory tax rate and the actual Provision for Income Tax as of December 31: (In thousands)

Statutory income tax at 32%	P 636,535	P 625,267
Effect on items not subject to statutory tax rate:		
Income subjected to lower tax rates	(1,081,710)	(1,234,611)
Tax-exempt income	(368,522)	(241,017)
Non-deductible expenses	704,288	959,003
Others	(143,897)	(43,319)
Actual Income Tax	P 0	P 65,323

Note 24 - Employees Benefit Plans

The Bank's employees benefit plans are covered by laws applicable to all government employees:

a. Provident Fund Contributions

Under R.A. 4537 of June 9, 1965, Provident Fund ("the Fund") was authorized to be set up by government-owned or controlled banking institutions. The Fund is a defined contribution plan made by both the Bank and its officers or employees. The Fund is maintained by the Bank's Provident Fund Department. Upon retirement or resignation, the employee or his heirs will receive from the Fund, payments equivalent to his contributions, his share of the Bank's contribution and the investment earnings thereon.

b. Gratuity Fund Contributions

The Gratuity Fund ("GF") is a Retirement Plan, set up under Board Resolution No. 794 dated February 20, 1980 covering employees

of the Bank as of May 31, 1977 pursuant to R.A. 1616 otherwise known as Retirement Gratuity Law. Employees joining DBP effective June 1, 1977, not covered by the Plan, are instead covered by P.D. 1146 (The Revised Government Service Insurance Act of 1977) as amended by R.A. 8291 (GSIS Act of 1997) and amended further as indicated in the GSIS Memorandum Circular No. 4 series 2002 effective June 24, 1997 and January 1, 2003, respectively.

The GF is a non-contributory defined benefit plan maintained under a Trust Agreement with the Bank's Trust Department. The Bank's contributions to the GF are made based on the rates of contribution determined by periodic independent actuarial valuation of the Fund. The latest actuarial valuation of the GF as at July 1, 1997 was conducted by an independent actuary using the Aggregate Cost Method of valuation.

Note 25 - Commitments and Contingent Liabilities

DBP's contingent liabilities aggregated as follows: (In thousands)

	2003	2002
Transferred to National Government	P39,537,632	P35,647,731
Letters of Credits and Other Contingent Liabilities	3,260,672	3,049,025
Total Contingent Liabilities	P42,798,304	P38,696,756

Transfer of contingent liabilities is in accordance with Proclamation No. 50 dated December 8, 1986. NG provides funding for contingent liabilities transferred thereto.

Note 26 - Trust Funds

The Bank is authorized under its Charter to offer trust services and administer trust funds through its Trust Services Department. The Bank accepts funds entrusted by clients and as Trustee, undertakes to invest such funds in acceptable securities or other investment outlets. The Bank realized a total income of P92.326 million from its trust operations. Attributed to the dynamism of the Trust Committee, the Trust resources by year-end amounted to about P18.8 billion, hitting a P3 billion increase in trust asset from 2002 year-end balance of P15.79 billion. These are off-books transactions and therefore not included in the financial statements. Consistent with the General Banking Act, government securities with total face value of P225 million are deposited with BSP as security for the Bank's faithful performance of its fiduciary obligation.

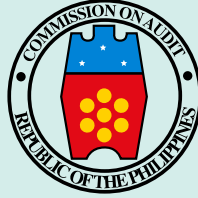
Note 27 - Foreign Currency Deposit Unit

The Bank has been authorized by BSP to operate an Expanded Foreign Currency Deposit Unit (EFCDU) since August 1995. Income earned by EFCDU is exempted from all forms of local taxes, pursuant to the provisions of Section 7 (2) of P.D. 1773, except for all on-shore income following Revenue Regulation Nos. 10-98 dated August 25, 1998 and 14-2002 dated April 10, 2002.

Note 28 - Other Information

Key Financial Indicators

Return on Average Equity	10.24%	9.75%
Return on Average Assets	1.29%	1.24%
Net Interest Margin	4.34%	4.93%
Capital to Risk Assets Ratio	22.20%	23.75%



Republic of the Philippines
Commission on Audit
Commonwealth Avenue, Quezon City, Philippines

The Board of Directors
Development Bank of the Philippines
Sen. Gil J. Puyat Avenue Cor. Makati Avenue
City of Makati

We have audited the accompanying statements of condition of the **Development Bank of the Philippines** as of December 31, 2003, and the related statements of income and expenses, cash flows and changes in capital funds for the year then ended. These financial statements are the responsibility of the Bank's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with laws, Commission on Audit and International Organization of Supreme Audit Institutions standards and applicable generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Bank's Management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **Development Bank of the Philippines** as of December 31, 2003 and the results of its operations and its cash flows and changes in capital funds for the year then ended in accordance with applicable generally accepted accounting principles.

COMMISSION ON AUDIT

By: 
TITO S. NABUA
Cluster Director

March 30, 2004

The Board of Directors



Floro F. Oliveros
Director

Jaime S. de la Rosa
Director

Simon R. Paterno
President & CEO

Danilo A. Songco
Director

Eligio V. Jimenez
Director



Fernando T. Barican
Director

Alexander R. Magno
Director

Vitaliano N. Nañagas II
Chairman

Ricardo G. Nepomuceno
Director

Management Committee





From Left to Right:

COO-SEVP Edgardo F. Garcia, EVP Vivencio M. Macapagal, SEVP Panser E. Tumangan, EVP Rolando S.C. Geronimo
SEVP Victor G. Villar, EVP Carlos R. Cruz, FSVP Alberto B. Reyno, EVP Elizabeth P. Ong, President and CEO Simon R. Paterno

Senior Bank Officers

PRESIDENT & CEO

Simon R. Paterno

SENIOR EXECUTIVE VICE PRESIDENTS

Edgardo F. Garcia
Chief Operating Officer

Panser E. Tumangan
Wholesale Banking Sector

Victor G. Villar
Corporate Banking Sector

EXECUTIVE VICE PRESIDENTS

Carlos R. Cruz
Office of the Legal Counsel

Rolando S.C. Geronimo
Branch Banking Sector

Vivencio M. Macapagal
Operations Sector

Elizabeth P. Ong
Development Banking Sector

FIRST SENIOR VICE PRESIDENTS

Armando O. Samia
Investment Banking

Alberto B. Reyno
Office of the President & CEO

Elsa A. Guevarra
Accounting

SENIOR VICE PRESIDENTS

Renato A. Castillo
Asset Management

Corazon D. Conde
Wholesale Banking II

Ambrosio P. De Leon
Office of the President & CEO

Cecilia M. Dimagiba
Human Resource Management

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
Treasury

Jesus D. Macalincag
Development Banking Sector

Cynthia B. Macaraeg
Corporate Banking I

Rosalina dl. P. Magat
Risk Management Office

Herminia R. Mendoza
International Banking

Valentina R. Ricasio
Wholesale Banking I

B. Brillo L. Reynes
Strategic Planning & Research

Romeo D. Roderos
Office of the Chairman

Nelly Y. Rosario
Credit Policy Supervision

Leopoldo C. Salvador
Corporate Secretary
(up to May 31, 2004)

Dolores A. Santiago
System for Responsibility Accounting

Don D. Villamayor
Office of the Legal Counsel

FIRST VICE PRESIDENTS

Manuel S. Banayad
Trust Services

Antolina G. Butalid
Program Lending III

Ma. Luisa D. Catanghal
Transaction Processing

Denis Gary B. Ditching
Compliance Monitoring Office

Ma. Corazon R. Gamallo
Office of the Chairman

Jose L. Gonzaga, Jr.
RMO - Northern Mindanao

Evelyn D. Guerrero
Investment Banking

Emmanuel A. Lopez
Systems & Methods

Clarito D. Magsino
Systems & Methods

Eufemia C. Mendoza
Program Management I

Ma. Teresa L. Quirino
Treasury

Wilfredo L. Teodoro
Factoring

VICE PRESIDENTS

Estrella R. Aclan
Human Resource Management

Dinah T. Avila
Treasury

Joel Pablo Q. Buñag
Asset Management

Crescenciana R. Bundoc
RMO - Central Luzon

Edgardo F. Cruz
Human Resource Management

Jaime F. Fernandez
RMO - Panay

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

Eduardo T. Mendoza
Property & Security Management

Belen G. Olano
Corporate Banking II

Timoteo P. Olarte
RMO - Eastern Visayas

Lutgarda B. Peralta
Corporate Secretary
(Starting March 25, 2004)

Orlando B. Pineda
Office of the Chairman

Myra C. Reinoso
Asset Management

Sergio E. Romero
RMO - Central Visayas

Amelia S. San Juan
Investment Banking

Carmelo P. Supe
RMO - Negros

Bonifacio A. Tamayo, Jr.
RMO - Southeastern Mindanao

Nelson N. Tandoc
Credit Policy Supervision

Angelita S. Villarosa
RMO - Southern Tagalog

Products and Services

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 Insurance Guaranty Corporation (HIGC).

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
6. Other Programs
 - a. Factoring
 - b. Loans against Hold Out on Deposit

Services Offered:

• 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)
 - 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 Payments of PLDT Subscribers
 - c. Acceptance of Collections of the National Collection Officer for Remittance to the Bureau of Treasury
 - d. Payroll Servicing
 - e. Servicing of the government's modified disbursement scheme
 - f. Deposit Pick-Up/Withdrawal Arrangement
 - g. Servicing of the Payroll of the Department of Education Teachers
 - h. Authorized Agent Bank of the Bureau of Internal Revenue

• Trust Products and Services

1. Investment Management Services
 - a. Common Trust Funds
 - Gintong Sikap Fund
 - Blue Chip Fund
 - b. Investment Management Account
 - c. 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

Regional Management Offices/Branches

NATIONAL CAPITAL REGION

SAVP Teresita S. Tolentino - Head

- Camp Aguinaldo 2/
- Commonwealth
- Manila 2/
- Muntinlupa 2/
- Quezon Avenue 2/
- Quezon City PHC 2/

NORTHEASTERN LUZON

SAVP Edgardo B. Mejorada - Head

- Aparri
- Ilagan
- Solano
- Tabuk
- Tuguegarao 1/

NORTHWESTERN LUZON

SAVP Alfredo T. Caguioa - Head

- Baguio
- Dagupan 1/
- Laoag
- San Fernando, LU

CENTRAL LUZON

VP Cresenciana R. Bundoc - Head

- Balanga
- Baler
- Cabanatuan
- San Fernando, Pamp * 1/
- Malolos
- Subic
- Tarlac

SOUTHERN TAGALOG

VP Angelita S. Villarosa - Head

- Calapan
- Dasmariñas
- Lipa
- Lucena 1/
- Puerto Princesa
- San Jose
- Sta. Rosa

BICOL

SAVP Jose T. Romero, Jr. - Head

- Daet
- Legaspi 1/
- Masbate
- Naga
- Sorsogon

CENTRAL VISAYAS

VP Sergio E. Romero - Head

- Bogo
- Cebu 1/
- Maasin
- Mandaue
- Tagbilaran

EASTERN VISAYAS

VP Timoteo P. Olarte - Head

- Borongan
- Catarman
- Catbalogan
- Ormoc
- Tacloban 1/

PANAY

VP Jaime F. Fernandez - Head

- Antique 1/
- Iloilo 1/
- Jaro 2/
- Kalibo
- Roxas

NEGROS

VP Carmelo P. Supe - Head

- Bacolod 1/
- Dumaguete
- Kabankalan
- San Carlos 2/

NORTHERN MINDANAO

FVP Jose L. Gonzaga, Jr. - Head

- Cagayan de Oro 1/
- Iligan
- Malaybalay
- Mambajao
- Ozamis

NORTHEASTERN MINDANAO

SAVP Danilo Z. Arceo - Head

- Butuan 1/
- Mangagoy 2/
- San Francisco
- Surigao

SOUTHEASTERN MINDANAO

VP Bonifacio A. Tamayo, Jr. - Head

- Davao 1/
- Digos
- Mati
- Tagum

SOUTHERN MINDANAO

SAVP Rosalier B. Dagondon - Head

- Cotabato
- General Santos 1/
- Kidapawan
- Marbel
- Tacurong

WESTERN MINDANAO

SAVP Celso E. Presa - Head

- Basilan 2/
- Dipolog
- Ipil
- Jolo 2/
- Pagadian
- Zamboanga 1/

AGENCIES

- Odiongan, Romblon
- Virac, Catanduanes

1/ Site of RMOs

2/ Cash units

* Formerly Clark Branch

DBP HEAD Office Address

DBP Building
Sen.Gil Puyat Avenue corner Makati Avenue
Makati City, Philippines

MAILING ADDRESS

P.O. Box 1996-Makati Central Post Office
1200 Makati City

E-MAIL ADDRESS

info@devbankphil.com.ph

WEBSITE ADDRESS

www.devbankphil.com.ph
www.buyphilippines.ph

TELEPHONE NOS.

(632) 818-95-11 to 20

FAX NO.

(632) 818-8089

ISSN 0115-8047

ANNUAL REPORT COMMITTEE:

Chairperson	SVP B. Brillo L. Reynes
Co-chairperson	FSVP Alberto B. Reyno
Members	FSVP Elsa A. Guevarra SAVP Victor M. Arguelles SAVP Corazon T. Mangubat AVP Imelda R. Castañeda Mgr. Dolores T. Mojica