Notes To Financial Statements

Development Bank of the Philippines

2006 Annual Report

Notes to Financial Statements

Note 1 – General Information

The Development Bank of the Philippines (hereafter referred to as "Parent Company") 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, the Parent Company's Charter was revised under Executive Order No. 81 enabling them to achieve a more efficient and effective use of its resources. Under the new Charter, the Parent Company 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 Parent Company's orientation is that of a predominantly wholesale bank with a significant retail presence. As such, the Parent Company 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 Parent Company is also indulged in other activities including investments in government and private financial instruments.

The Bangko Sentral ng Pilipinas (BSP), in its letter dated December 20, 1995, granted the Parent Company the permit to operate as an expanded commercial bank (EKB). The Parent Company 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 Parent Company 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 Parent Company and its subsidiaries referred to as the Group are engaged in development banking, financing, management services and computer services.

Its principal place of business is at Sen. Gil J. Puyat Avenue corner Makati Avenue, Makati City.

As of December 31, 2006, the Group had 3,515 employees (2005 – 3,879) and operated a total of 77 branches nationwide.

Note 2 - Summary of Significant Accounting Policies

a. Basis of Financial Statement Preparation

The Group's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the Philippines as set forth in the Philippine Financial Reporting Standards/Philippine Accounting Standards (PFRS/PAS). These financial statements are prepared on the historical cost basis modified by the fair value measurement of financial assets on trading and available for sale securities, certain derivative instruments and real and other properties owned. The accompanying financial statements of the Parent Company reflect the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU).

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

Changes in Accounting Policies

The Group has yet to adopt PFRS 7, Financial Instruments – Disclosures. The required disclosures on financial instruments as revised and provided by this standard will be included in the Group's financial statements when the standard is adopted in 2007.

b. Consolidation

Subsidiaries are consolidated when control is transferred to the Group and cease to be consolidated from the date on which the control is transferred out of the Group.

Under PAS 27, Consolidated Financial Statements and Accounting for Investments in Subsidiaries, the financial statements of the investee company have to be consolidated to the financial statements of the investor even if the shareholding of an enterprise is below 50% but the investor has evidence of control.

The Group's financial statements reflect the consolidated accounts of the Parent Company and the following wholly-owned subsidiaries incorporated in the Philippines:

Subsidiary	Effective Percentage of Ownership
DBP Data Center, Incorporated	100%
DBP Management Corporation	100%

All significant inter-company balances and transactions have been eliminated in consolidation. The consolidated financial statements of the Group are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the bank. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Investments in subsidiaries reflected in the Parent Company's financial statements are accounted for using the cost method.

c. **Foreign currency translation**

1) Functional and presentation currency

Items included in the financial statements of the parent's investee company are measured using the currency of the primary economic environment in which the subsidiary operates (the functional currency). The consolidated financial statements are presented in Philippine pesos, which is the parent's functional and presentation currency.

2) Transactions and balances

Foreign currency monetary items are accounted for in accordance with the provisions of PAS 21 "Effects of Changes in Foreign Exchange Rates" and are revalued monthly using the Philippine Dealing System (PDS) Peso/US dollar closing rate and the New York US dollar/third currencies closing rates as prescribed under BSP Circular 494 dated September 20, 2005. Actual foreign currency transactions are booked based on prevailing PDS as of transaction date. Foreign exchange differences arising from the above are charged to operations.

For outstanding foreign borrowings wherein the foreign exchange risk is assumed by the National Government, the resulting foreign exchange revaluation is booked under Accounts Receivable – National Government Foreign Exchange Differential, in case of a loss, and credited to operations under Foreign Exchange Profit/(Loss), in case of a gain, in compliance with PAS 21.

Past due loans are now being revalued using the above rates and the foreign exchange difference booked under profit or loss.

d. **Cash and cash equivalents**

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.

e. **Due from other banks**

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 (DepEd) 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.

f. **Financial assets**

Consistent with PAS 39, Financial instruments - recognition and measurement, the Group's financial assets or financial liabilities are recognized initially at fair value. Subsequent to initial recognition, we continue to measure at fair value except for loans and receivables and held-to-maturity investments, which are measured at cost or amortized cost using the effective interest rate method. The effective interest rate shall refer to the rate that exactly discounts the estimated future cash receipts through the expected life of the security or when appropriate, a shorter period to the net carrying amount of the security. However, interest calculated using the effective interest rate method is recognized in the income statement when the entity's right to receive payment is established. Financial liabilities are measured at cost or amortized cost, except for derivatives, which are measured at fair value.

Available-for-sale financial assets and financial assets at fair value through profit or loss are carried at fair values. Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in equity, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in equity should be recognized in profit or loss.

This standard also covers the accounting for derivative instruments. This also expanded the definition of derivative instruments to include derivatives (derivative-like-provisions) embedded in non-derivative contracts. Every derivative instrument is recorded in the statement of condition as either an asset or liability measured at its fair value. Derivatives that are not hedges are adjusted to fair value through income. If the derivative is designated and qualifies as a hedge, depending on the nature of the hedge, changes in the fair value of the derivative are either offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings, or recognized in capital funds until the hedged item is recognized in income. The embedded derivative is being separated from the host contract and accounted for as a derivative considering the economic and risks of the host contract and booked as Available for Sale (AFS) Securities and Held for Trading (HFT) Securities/Derivatives at Fair Value Through Profit or Loss (DFVPL) for the host instrument and the embedded derivative, respectively.

The Group classifies its financial assets under the following categories:

Financial assets at fair value through profit or loss (FVTPL)

A financial asset is classified under this category where acquired principally for the purpose of selling in the near term or generating a profit from short-term fluctuations in price or dealer's margin. In other words, these are trading debt and equity securities that are purchased with the intent of selling them in the near term. These are normally classified as current assets. Derivatives are also categorized as held for trading unless they are designated as hedges. FVTPL are carried at fair or market value. Gains or losses arising from change in fair value or market revaluation are credited or charged to operations.

Financial assets available-for-sale (AFS)

Available for sale investments are those purchased and held indefinitely, which may be sold in response to liquidity needs or changes in interest rates, exchange rates or equity prices. These securities may be classified as current or non-current depending on whether they are intended to be held within one (1) year or for more than one (1) year. AFS are carried at fair or market value. Unrealized gains or losses on market valuation or change in fair value are reported as a separate component of stockholder's equity.

Sale and repurchase agreements

Securities sold subject to repurchase agreements (repos) are reclassified in the financial statement as pledged/repurchased assets when the transferee has the right by contract or custom to sell or repledge the collateral.

Financial assets held-to-maturity (HTM)

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the management has the positive intention and ability to hold to maturity. If the Group decides to sell or reclass more than an insignificant amount of held-to-maturity assets before maturity, the entire category would be tainted and reclassified as available-for-sale. Securities falling under this category are normally classified as non-current investments. HTM are carried at amortized cost. Gains or losses on amortization or on sales are credited or charged to operations.

g. Loans and receivables

Loans and receivables are non-derivative financial assets that are created by providing money directly to a debtor with fixed and determinable payment that are not quoted in an active market, other than:

1. those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;

2. those that the entity upon initial recognition designates as available for sale; or

3. those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

They are carried in the books at its amortised cost or the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

In determining the effective interest rate, the estimated future cash flows considers all contractual terms of the financial instrument but shall not consider future credit losses. The Group collects front-end fees and other charges (i.e. commitment fees and service charges) that are not considered transaction costs in calculating the effective rate. These fees and other charges are recognized immediately as income of the Group upon collection except for front-end fees which are being amortized for a period of one year. Only forest funds collected as front-end fees are being booked directly as income.

Past due accounts are automatically carried on non-accrual basis. Interest income on such accounts is recognized only upon collection.

h. Unquoted debt securities classified as loans (UDSCL)

These are unquoted debt securities with fixed or determinable payments and fixed maturity. Unquoted debt securities classified as loans shall be measured upon initial recognition at their fair value plus transaction costs that are directly attributable to the acquisition of these securities. After initial recognition, a bank shall measure these securities at their amortized cost using the effective interest method.

i. Impairment of assets

A financial asset or a group of financial assets is impaired and impairment losses (the amounts by which the carrying amounts of loan, i.e., Outstanding Principal Balance (OPB) less Allowance for Impairment Losses exceed their recoverable values) are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably measured/estimated.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and its recoverable value. Recoverable amount is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement.

In the case of real and other properties acquired (ROPA), bank premises, furniture, fixtures and equipment, and other assets, impairment loss is the difference between the carrying amount and the fair value less costs to sell in case carrying amount is higher. The loss is recognized in the income statement and an allowance account is set up to reduce the carrying amount of the asset.

j. **Bank premises, furniture, fixtures and equipment**

Bank premises, furniture, fixtures and equipment (including leasehold improvements) are stated at cost, less accumulated depreciation and amortization, and any impairment in value. Depreciation is computed based on a straight-line method over the estimated useful lives of the related assets as follows:

Building	15 - 50 years
Furniture and Equipment	3 - 10 years

Impairment is recognized when there is a substantial evidence of decline in the value of the bank premises, furniture, fixtures and equipment.

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 that are no longer needed or uneconomical to maintain are disposed of in accordance with existing guidelines on disposal. Property Disposal Committees were created for this purpose. The cost and the related accumulated depreciation and amortization of the disposed asset are removed from the accounts and any resulting gain or loss is credited or charged to current operations.

In September 1992, the Parent Company's Norham property in Baguio was stated at appraised value as determined by an independent appraiser. The net increase in appraised value was credited to Appraisal Increment on Property shown under Stockholder's Equity. In compliance with the new PAS, said appraisal increment was recognized as part of the deemed cost of the property and reversed to Surplus. Subsequent additions are stated at cost.

k. **Equity investment in subsidiaries**

Investment in subsidiary represents investment in equity securities for which the Parent Company owns 50% or more voting stocks and has control over the investee. These investments are carried at cost.

l. **Equity investment in associates**

Investment in associates represents investment in equity securities for which the Parent Company owns 20% to 50% of voting stock and has significant influence over the investee. These investments are carried at cost.

m. **Non-current assets held for sale (NCAHFS)**

Non-current assets held for sale are real and other properties acquired by the Parent Company in settlement of loans through foreclosure or dation in payment which are principally held for sale rather than through continuing use. They are available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such assets and its sale are highly probable.

In compliance with PFRS 5, NCAHFS are carried in the books at the lower of its carrying amount and fair value less costs to sell. They are not subject to depreciation.

n. **Leases**

The leases entered into by the Parent Company are primarily operating leases. The total payments made under operating leases are recognized as an expense on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

o. **Intangible assets**

Intangible assets represent cost of software licenses and system development and maintenance. Intangible assets are measured at cost and amortized based on a straight line method with an expected useful life as follows:

Computer Software Licenses	2 - 5 years
System Development and Maintenance	3 - 10 years

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

p. **Employee benefits**

Retirement benefits of the Parent Company'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. However, in view of the Early Retirement Incentive Program (ERIP) IV, which is geared at ensuring the vitality of the Bank for the next ten years through infusion of new blood, cost savings in its personnel budget and creation of new opportunities for career advancement in the Bank, retirement incentive is paid availees and invitees upon effectivity of their separation from the Bank. The Parent Company 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.

In compliance with applicable laws, the Parent Company established a provident fund for the benefit of its employees. Contributions made to the fund based on a predetermined rate are charged to operations.

q. Deferred Income Tax

Deferred income tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences, including asset revaluations. Deferred income tax assets are the amounts of income taxes recoverable in future periods which are recognized for all deductible temporary differences, the carryforward of unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of and unused NOLCO can be utilized and unused tax credits.

Taxable temporary differences are temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled. Deductible temporary differences are temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.

Deferred tax liabilities are not provided for non-taxable temporary differences associated with investments in domestic subsidiaries, associates and interest in joint ventures.

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

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

r. Borrowing costs

Borrowing costs represent interests and other pertinent financial charges and costs incurred in connection with the availments of domestic and foreign borrowings. In compliance with PAS 23, that prescribes the accounting treatment for borrowing costs, such costs are generally recognized and accrued as an expense in the period in which they are incurred.

s. Government grants (WB-RPP Grant)

Global Environmental Facility Grant Trust Fund Agreement dated December 8, 2003 under Grant No. TF052188-PH amounting to US$9 M was signed between the International Bank for Reconstruction and Development (World Bank) and the Republic of the Philippines (ROP). The grant is intended to support activities for the efficient implementation of the World Bank – Rural Power Project (WB – RPP) with Development Bank of the Philippines and Department of Energy as executing agencies.

Out of the US$9 M grant, US$900,000 has been allocated to DBP through a Memorandum of Agreement (MOA) among Department of Finance (DOF), Department of Energy (DOE) and DBP to implement activities to reduce market barriers to the commercialization of renewable energy technologies. The agreement became effective on May 16, 2004 and shall be closed on December 31, 2009.

In compliance with PAS 20, Accounting for Government Grants and Disclosure of Government Assistance, the grant was recorded as deferred credits and recognized as income on the period the related costs were booked for proper matching of income and expense. As of December 31, 2006, total receipt of funds from the grant aggregated US$232 thousand with peso equivalent of P12.27 M.

t. Interest and other income and expense

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

Note 3 – Significant Accounting Judgements and Estimates

The following are the critical judgements and key assumptions that have a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year:

a. Impairment losses of loans and receivables
The Group reviews its loan portfolios to assess impairment at least annually or as the need arises. In determining whether an impairment loss should be recorded in the statement of income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows which includes observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

b. Fair value of derivatives
The fair values of financial instruments that are not quoted in active markets are determined by using valuation methods. Where valuation methods are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. To the extent practical, valuation methods use only observable data. Changes in assumptions about these factors could affect reported fair values of financial instruments.

c. Impairment of AFS investments
The Group determines that AFS equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

d. HTM Investments
The Group follows the guidelines of PAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances – for example, selling of more than an insignificant amount close to maturity – it will be required to reclassify the entire portfolio as AFS. The investments would therefore be measured at fair value and not amortized cost.

e. Impairment of non-current assets held for sale / bank premises, furniture, fixtures and equipment / other assets
Assets are reviewed and tested whenever there is indication of impairment at least annually. For the purpose of impairment test, assets may be grouped at the lowest levels or a cash generating unit defined as the smallest identifiable group of assets that generates cash inflows from other assets or groups of assets.

f. Present value of retirement obligation

The present value of incentives accruing to officers and employees who responded to the Parent Company's offer for early retirement up to the year 2008 amounted to P1.10 billion. PAS 19 provides that benefits which fall due for more than twelve months after the balance sheet date be rediscounted using average market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of statement of condition dates.

Accrued retirement incentives of the Parent Company for 2006 amounted to P420 million (2005 – P610 million).

Note 4 – Fair Values of Financial Assets and Liabilities

The methods and assumptions used by the Group in estimating the fair value of the financial instruments are:

Debt securities – Fair values are generally based upon quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

Equity securities – Fair values are based on quoted prices published in markets.

Loans – Fair values are estimated using the discounted cash flow methodology, using the Group's current incremental lending rates for similar types of loans. Loans and advances are net of provisions for impairment.

Short-term investments – Carrying amounts approximate fair values.

Other – Quoted market prices are not readily available for these assets. They are not reported at fair value and are not significant in relation to the Group's total portfolio of securities.

Cash and cash equivalents – Carrying amounts approximate fair values.

Derivative instruments – Fair values are estimated based on quoted market prices provided by independent parties or accepted valuation models.

Note 5 – Management of Risks Related to Financial Instruments

The Parent Company has established risk management systems to address the risks inherent to its activities which include, among others, credit, market, liquidity, foreign currency, and interest rate risks. A key element of the Parent Company's mission is to make the effective management of risk a core competence to ensure that the Parent Company retains its long- term competitiveness by maintaining an appropriate balance between risk and return.

Strategic decisions in relation to risk management are made by the Committee on Risk Management (CRM). The Risk Management Department, which serves as the operating unit of the CRM, is responsible for the development, implementation, maintenance, improvement, and communication of a consistent high-level risk management policy, as well as the review and monitoring of risk limits and risk concentrations. It acts as an independent unit for establishing the operating policies and guidelines for risk management, while each business and supporting unit has the primary responsibility of managing the specific risks applicable to their own respective areas.

Credit Risk

A system of limit has been established to manage credit risk. The Parent Company has taken a conservative approach by setting an internal Single Borrower's Limit (SBL) below the limit prescribed by the BSP. In addition, on top of the recognition of direct exposures, credit risks on forward contracts are recognized accordingly and charged against counterparty lines.

Credit exposures are constantly monitored and a credit evaluation process is undergone to assess the credit-worthiness of each counterparty. The result of the credit evaluation is used as basis in adjusting (increase/decrease) credit lines periodically.

As an added approach to efficiently manage credit exposures, collateral and netting agreements are executed with counterparties whenever possible.

Market Risk

The Parent Company's exposure to market risk (the risk of loss from adverse changes in the financial markets) originates primarily from its risk-taking activities on fixed income and foreign exchange trading.

The Value-at-Risk (VaR) methodology was adopted to determine the maximum loss potential of the Parent Company's trading positions under normal conditions based on statistical estimates. In calculating VaR, the Parent Company uses a 99% confidence level at 1-day holding period. Likewise, stress testing is performed to determine potential losses under extreme events based on defined scenarios.

Table below shows the Parent Company's VaR for the year 2006: (In thousands)

Trading Positions	Average	High	Low
Fixed income	P 106,052	P 192,907	P 31,791
Foreign Exchange	P 966	P 6,106	P 11

Further, trading parameters were established to define the Parent Company's risk tolerance. Position Limits, Stop-Loss Limits, VaR Limits and Transaction Limits are some of the mechanisms used to operationally manage market risks which were set in accordance with a defined risk-return framework.

Liquidity Risk

As one of only two conduits of Official Development Assistance (ODA) funding in the Philippines, the Parent Company is less susceptible to funding constraints given the long-term nature of the ODA funds. A substantial portion of the Parent Company's liability is attributed to ODA Funds. Nevertheless, the Parent Company applies a prudent approach in managing funding requirements. Limits on duration and Maximum Cumulative Outflow (MCO) are strictly observed to manage Asset-Liability maturity gaps. Also, situations that may lead to liquidity constraints are covered by a Contingency Funding Plan.

The asset-liability gap position of the Group and the Parent Company as of December 31, 2006 and 2005 are as follows: (In thousands)

GROUP 2006

	Up to 3 months	Over 3-6 months	Over 6 months -1 year	Over 1-5 years	Over 5 years	Total
Assets						
Cash and other cash items	766,466	0	0	0	0	766,466
Due from BSP	8,309,386	350,000	0	0	0	8,659,386
Due from other banks	4,990,230	0	0	100,000	0	5,090,230
Loans – net	74,129,535	8,994,475	8,429,158	40,890,086	3,349,421	135,792,675
Investment securities	2,499,138	591,555	7,751,898	39,999,079	3,601,374	54,443,044
Other assets	18,269,551	922,859	643,360	9,987,998	7,119,402	36,943,170
Total Assets	108,964,306	10,858,889	16,824,416	90,977,163	14,070,197	241,694,971
Liabilities						
Due to BSP	0	154,300	0	0	0	154,300
Due to other banks	5,175	0	0	0	0	5,175
Deposits	64,806,589	3,932,895	2,243,813	105,619	0	71,088,916
Borrowings	13,721,384	5,552,935	5,908,255	23,194,613	69,927,068	118,304,255
Other liabilities	10,179,349	507,538	275,280	1,205,828	4,487,627	16,655,622
Total Liabilities	88,712,497	10,147,668	8,427,348	24,506,060	74,414,695	206,208,268
Asset-liability gap	20,251,809	711,221	8,397,068	66,471,103	(60,344,498)	35,486,703

GROUP 2005

	Up to 3 months	Over 3-6 months	Over 6 months -1 year	Over 1-5 years	Over 5 years	Total
Assets						
Cash and other cash items	694,137	0	0	0	0	694,137
Due from BSP	3,266,702	0	0	0	0	3,266,702
Due from other banks	7,800,222	0	0	100,000	0	7,900,222
Loans – net	50,849,664	8,650,822	7,644,169	37,559,448	8,295,150	112,999,253
Investment securities	6,681,592	1,837,853	3,153,471	39,792,920	165,901	51,631,737
Other assets	25,009,747	669,633	1,942,248	478,916	9,268,520	37,369,064
Total Assets	94,302,064	11,158,308	12,739,888	77,931,284	17,729,571	213,861,115
Liabilities						
Due to BSP	0	0	0	70,000	0	70,000
Due to other banks	33,681	0	0	0	0	33,681
Deposits	46,265,892	2,407,683	1,602,583	476,717	0	50,752,875
Borrowings	13,048,216	7,519,829	5,265,837	20,269,501	83,866,805	129,970,188
Other liabilities	5,677,094	473,533	199,606	131,705	414,855	6,896,793
Total Liabilities	65,024,883	10,401,045	7,068,026	20,947,923	84,281,660	187,723,537
Asset-liability gap	29,277,181	757,263	5,671,862	56,983,361	(66,552,089)	26,137,578

PARENT 2006

	Up to 3 months	Over 3-6 months	Over 6 months -1 year	Over 1-5 years	Over 5 years	Total
Assets						
Cash and other cash items	766,436	0	0	0	0	766,436
Due from BSP	8,309,386	350,000	0	0	0	8,659,386
Due from other banks	4,985,555	0	0	100,000	0	5,085,555
Loans – net	74,129,535	8,994,575	8,429,058	40,890,086	3,349,421	135,792,675
Investment securities	2,487,777	591,555	7,726,868	39,999,079	3,601,374	54,406,653
Other assets	18,298,721	866,206	642,813	9,965,787	7,119,402	36,892,929
Total Assets	108,977,410	10,802,336	16,798,739	90,954,952	14,070,197	241,603,634
Liabilities						
Due to BSP	0	154,300	0	0	0	154,300
Due to other banks	5,175	0	0	0	0	5,175
Deposits	64,808,386	3,932,895	2,243,813	105,619	0	71,090,713
Borrowings	13,718,787	5,552,935	5,908,255	23,194,613	69,927,068	118,301,658
Other liabilities	10,203,515	470,649	275,280	1,194,875	4,487,627	16,631,946
Total Liabilities	88,735,863	10,110,779	8,427,348	24,495,107	74,414,695	206,183,792
Asset-liability gap	20,241,547	691,557	8,371,391	66,459,845	(60,344,498)	35,419,842

PARENT 2005

	Up to 3 months	Over 3-6 months	Over 6 months -1 year	Over 1-5 years	Over 5 years	Total
Assets						
Cash and other cash items	694,106	0	0	0	0	694,106
Due from BSP	3,266,702	0	0	0	0	3,266,702
Due from other banks	7,795,153	0	0	100,000	0	7,895,153
Loans – net	50,849,664	8,650,822	7,644,169	37,559,448	8,295,150	112,999,253
Investment securities	6,656,375	1,837,853	3,153,471	39,792,920	165,901	51,606,520
Other assets	24,975,954	669,633	1,942,248	478,916	9,268,520	37,335,271
Total Assets	94,237,954	11,158,308	12,739,888	77,931,284	17,729,571	213,797,005
Liabilities						
Due to BSP	0	0	0	70,000	0	70,000
Due to other banks	33,681	0	0	0	0	33,681
Deposits	46,287,623	2,407,683	1,602,583	476,717	0	50,774,606
Borrowings	13,043,907	7,519,829	5,265,837	20,269,501	83,866,805	129,965,879
Other liabilities	5,658,847	473,533	199,606	131,705	414,855	6,878,546
Total Liabilities	65,024,058	10,401,045	7,068,026	20,947,923	84,281,660	187,722,712
Asset-liability gap	29,213,896	757,263	5,671,862	56,983,361	(66,552,089)	26,074,293

Foreign Currency Risk

The Parent Company maintains its foreign currency exposure by implementing internal limits and strict adherence to existing regulations. Proprietary trading is fairly moderate with exposures restricted to major currencies and limits are set based on historical performance and defined risk-return framework.

BSP caps the excess foreign currency holdings of banks equivalent to 2.5% of unimpaired capital or USD 5 million, whichever is lower. Also, banks are required to fully cover foreign currency liabilities with foreign currency assets held in the FCDU account.

The table summarizes the Parent Company's exposure to foreign exchange risk as of December 31, 2006. Included in the table are the Parent Company's assets and liabilities at carrying amounts, categorized by currency: (In thousand pesos)

	USD	Others	Total
Resources			
Due from other banks	4,357,125	551,111	4,908,236
Interbank loans receivables	2,753,851		2,753,851
Financial assets at fair value through profit and loss	17,653,480		17,653,480
Financial assets available for sale	11,137,227		11,137,227
Financial assets held to maturity	11,251,463		11,251,463
Loans and receivables	7,041,363	358	7,041,721
Non-current assets held for sale	4,435		4,435
Other resources	3,373,741		3,373,741
Total Resources	57,572,685	551,469	58,124,154
Liabilities			
Deposit liabilities	15,170,517	656,218	15,826,735
Bills payable	21,205,125	162,531	21,367,656
Accrued taxes, interests and expenses	918,831	205,132	1,123,963
Deferred credits and other liabilities	333,906	74,585	408,491
Total liabilities	37,628,379	1,098,466	38,726,845
Net exposure	19,944,306	(546,997)	19,397,309
Total contingent accounts	17,533,195	413,384	17,946,579

Interest Rate Risk

The Parent Company follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates is kept within acceptable levels. Basis risk is generally addressed on a transactional level by matching the benchmark rate or basis for repricing of a particular asset with that of the equivalent source of fund at the onset of the transaction. In addition, sensitivity analysis is regularly performed to efficiently manage risk on earnings. Whenever appropriate, the Parent Company hedges portion of its interest rate risk by entering into single-currency interest rate swap agreements.

Note 6 – Cash and cash equivalents

This account at December 31 consists of: (In thousands)

	Group		Parent	
	2006	2005	2006	2005
Cash and other cash items	P 766,466	P 694,137	P 766,436	P 694,106
Due from Bangko Sentral ng Pilipinas	8,659,386	3,266,702	8,659,386	3,266,702
Due from other banks	5,090,230	7,900,222	5,085,555	7,895,153
Interbank loans receivable	2,721,165	13,445,532	2,721,165	13,445,532
Securities purchased under agreement to resell	42,680,000	10,970,000	42,680,000	10,970,000
	P 59,917,247	P 36,276,593	P 59,912,542	P 36,271,493

The undrawn borrowing facilities of the Parent Company that may be available for future operating activities and to settle capital commitments as of December 31, 2006 amounted to P8.15 billion.

Note 7 - Due from Bangko Sentral ng Pilipinas

This account represents the Group's demand and time deposits in local and foreign currencies 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 8 – Interbank loans receivable

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

	Group		Parent	
	2006	2005	2006	2005
Domestic	P 32,686	P 3,900,268	P 32,686	P 3,900,268
Foreign	2,721,165	9,869,532	2,721,165	9,869,532
	P 2,753,851	P 13,769,800	P 2,753,851	P 13,769,800

Interbank loans receivable of the Group carry interest rates at December 31 as follows:

	2006	2005
Peso denominated	-	8.375%
Foreign currency denominated	5.26% - 7.53813%	4.22% - 7.21625%

Note 9 – Financial assets at fair value through profit or loss

This account consists of: (In thousands)

	Group		Parent	
	2006	2005	2006	2005
Credit Linked Notes	P 16,234,567	P 0	P 16,234,567	P 0
Government securities purchased	2,114,466	3,662,733	2,114,466	3,637,733
Equity securities	8,624	9,481	8,624	9,481
	18,357,657	3,672,214	18,357,657	3,647,214
Accrued interest receivable	311,688	39,190	311,688	39,028
	P 18,669,345	P 3,711,404	P 18,669,345	P 3,686,242

The movement in FVTPL is summarized as follows: (In thousands)

	Group	Parent
At December 31, 2005	P 3,711,404	P 3,686,242
Additions	42,356,974	42,336,829
Disposals	(26,559,131)	(26,513,986)
Fair value adjustments	(11,489)	(11,489)
Exchange differences	(1,100,911)	(1,100,911)
	18,396,847	18,396,685
Interest accrual	272,498	272,660
At December 31, 2006	P 18,669,345	P 18,669,345

The FVTPL of the Group carry interest rates at December 31 as follows:

	2006	2005
Peso denominated	5.015% - 14.500%	5.320% - 10.953%
Foreign currency denominated	2.46513% - 10.25%	5.397% - 10.378%

Note 10 – Financial assets available for sale

This account consists of: (In thousands)

	Group		Parent	
	2006	2005	2006	2005
Debt securities:				
Government				
Treasury notes	P 9,735,562	P 16,061,051	P 9,735,562	P 16,061,051
Retail treasury bonds	864,286	2,065,169	864,286	2,065,169
Treasury bills	79,075	94,541	79,075	94,541
Treasury bonds - ROP	2,602,999	1,102,670	2,602,999	1,102,670
	13,281,922	19,323,431	13,281,922	19,323,431
Private				
PLDT	193,657	218,138	193,657	218,138
	13,475,579	19,541,569	13,475,579	19,541,569
Investments/Notes with embedded derivatives	10,611,666	11,139,278	10,611,666	11,139,278
Underwritten Debt Securities Purchased	1,800,000	1,800,000	1,800,000	1,800,000
Equity securities:				
Government	205,000	205,000	205,000	205,000
Private	326,023	721,563	325,926	721,508
	531,023	926,563	530,926	926,508
	26,418,268	33,407,410	26,418,171	33,407,355
Accrued interest receivable	504,054	900,409	504,054	900,409
	26,922,322	34,307,819	26,922,225	34,307,764
Allowance for impairment	(2,541,271)	(622,448)	(2,541,271)	(622,448)
	P 24,381,051	P 33,685,371	P 24,380,954	P 33,685,316

The Parent Company's AFS is carried at inclusive/net of accumulated unrealized gain/(loss) of P1,023 million and P384 million as of December 31, 2006 and 2005, respectively.

The movement in AFS is summarized as follows: (In thousands)

	Group	Parent
At December 31, 2005	P 33,685,371	P 33,685,316
Additions	62,713,618	62,713,618
Disposals	(69,612,942)	(69,612,942)
Fair value adjustments	822,593	822,551
Exchange differences	(912,410)	(912,410)
	26,696,230	26,696,133
Interest accrual	(396,356)	(396,356)
Provision for impairment	(1,918,823)	(1,918,823)
At December 31, 2006	P 24,381,051	P 24,380,954

The AFS of the Group carry interest rates at December 31 as follows:

	2006	2005
Peso denominated	5.125% - 17.50%	5.200% - 11.814%
Foreign currency denominated	5.65% - 10.625%	4.743% - 10.270%

Note 11 – Financial assets held to maturity

This account consists of debt securities at amortized cost: (In thousands)

	Group		Parent	
	2006	2005	2006	2005
Domestic				
Government				
Treasury notes	P 2,438,082	P 2,186,667	P 2,438,082	P 2,186,667
Treasury bills	2,423,353	4,804,365	2,387,488	4,804,365
Land Bank bonds	115,484	141,019	115,484	141,019
IRA Monetization Program bonds	227,372	415,833	227,372	415,833
Bases Conversion Development Authority	1,000,000	1,000,000	1,000,000	1,000,000
Others	140,000	144,959	140,000	144,959
	6,344,291	8,692,843	6,308,426	8,692,843
Private	0	66,217	0	66,217
	6,344,291	8,759,060	6,308,426	8,759,060
Foreign	4,816,203	5,255,409	4,816,203	5,255,409
	11,160,494	14,014,469	11,124,629	14,014,469
Accrued interest receivable	232,154	220,493	231,725	220,493
	P 11,392,648	P 14,234,962	P 11,356,354	P 14,234,962

Government securities amounting to P247 million have been deposited with BSP since December 31, 2003 as security for trust duties.

The movement in HTM is summarized as follows: (In thousands)

	Group	Parent
At December 31, 2005	P14,234,962	P14,234,962
Additions	10,887,177	10,814,905
Maturities	(13,177,124)	(13,141,194)
Fair value adjustments	173,232	173,709
Exchange differences	(737,260)	(737,260)
	11,380,987	11,345,122
Interest accrual	11,661	11,232
At December 31, 2006	P11,392,648	P11,356,354

The HTM of the Group carry interest rates at December 31 as follows:

	2006	2005
Peso denominated	4.85% - 12.00%	3.702% - 15.625%
Foreign currency denominated	6.7088% - 9.50%	4.770% - 10.751%

Note 12 – Loans and receivables

a. This account consists of: (In thousands)

	Group		Parent	
	2006	2005	2006	2005
Loans and discounts	P 77,678,044	P 85,392,027	P 77,678,044	P 85,392,027
Unquoted debt securities classified as loan (UDSCL)	14,712,831	9,893,500	14,712,831	9,893,500
Bills purchased	2,310	2,355	2,310	2,355
	92,393,185	95,287,882	92,393,185	95,287,882
Accounts receivable (AR) – advances on loans	7,986	35,696	7,986	35,696
Sales contract receivables (SCR)	217,823	201,504	217,823	201,504
	92,618,994	95,525,082	92,618,994	95,525,082
Accrued interest receivable	927,760	1,007,703	927,760	1,007,703
	93,546,754	96,532,785	93,546,754	96,532,785
Unearned discount/income	(106,214)	(170,026)	(106,214)	(170,026)
Allowance for impairment	(3,081,716)	(8,103,306)	(3,081,716)	(8,103,306)
	P 90,358,824	P 88,259,453	P 90,358,824	P 88,259,453

		2006		2005
Non-Performing Loans (NPL)	P	3,056,130	P	8,949,740
NPLs with 100% reserves	P	125,377	P	648,579
NPL Rates		2.12%		6.94%

Above NPL rates are way below industry average of 5.70% for CY 2006 and 8.20% for CY 2005, based on BSP figures.

Wholesale lending portfolio represents 31% as of December 31, 2006 and 41% as of 2005 of the Parent Company's total loan portfolio.

The highest exposure is to the financial intermediation amounting to P27.49 billion or 30% of the total loan portfolio. The next highest exposure is the P14.71 billion for unquoted debt securities classified as loans representing 16% of the total loan portfolio. This is followed by financial assistance to manufacturing sector amounting to P13.92 billion or 15% of the total loan portfolio for the year. Other exposures are distributed widely among BSP classified industries.

b. Classification of loans as to security exclusive of AR - advances on loans, SCR and AIR is as follows: (In thousands)

	2006			2005		
Secured:						
Retail	P 35,978,948		85%	P 38,699,643		87%
Wholesale *	6,571,577		15%	5,871,508		13%
	P 42,550,525	46%	100%	P 44,571,151	47%	100%
Unsecured:						
Retail	27,593,943		55%	17,663,782		35%
Wholesale *	22,248,717		45%	33,052,949		65%
	P 49,842,660	54%	100%	P 50,716,731	53%	100%
	P 92,393,185	100%		P 95,287,882	100%	

These loans pertain to the conduit lending granted to 41 accredited financial institutions for various developmental projects with longer gestation periods payable at determinable amounts and fixed maturity dates. The risks associated to the loans are secured by a Deed of Assignment of the mortgaged collaterals executed by all the participating financial institutions.

* 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. The changes in the Allowance for Impairment on loans are as follows: (In thousands)

	Group		Parent	
	2006	2005	2006	2005
Balance, January 1	P 8,103,306	P 7,645,222	P 8,103,306	P 7,645,222
Provision for impairment	1,023,156	822,335	1,023,156	822,335
Reserve charges due to				
Write-offs/writedowns	(14,901)	(2,432)	(14,901)	(2,432)
Foreclosure	(90,690)	(77,618)	(90,690)	(77,618)
Revaluation of accounts	(27,214)	(36,889)	(27,214)	(36,889)
Sale of assets	(4,033,985)	0	(4,033,985)	0
Reallocation to other assets	(1,871,033)	(231,070)	(1,871,033)	(231,070)
Other adjustments	(6,923)	(16,242)	(6,923)	(16,242)
Balance, December 31	P 3,081,716	P 8,103,306	P 3,081,716	P 8,103,306

Note 13 - Bank premises (including leasehold improvements), furniture, fixtures and equipment

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

	Group		Parent	
	2006	2005	2006	2005
Land	P 320,067	P 321,050	P 320,067	P 321,050
Building	581,168	565,990	576,161	561,045
Office equipment, furniture and fixtures	1,179,238	1,104,953	1,150,615	1,077,598
Transportation equipment	515,434	350,364	514,605	349,694
	2,595,907	2,342,357	2,561,448	2,309,387
Accumulated depreciation	(1,408,888)	(1,379,152)	(1,395,237)	(1,368,933)
Allowance for impairment	(340)	(340)	(340)	(340)
	(1,409,228)	(1,379,492)	(1,395,577)	(1,369,273)
Total	P 1,186,679	P 962,865	P 1,165,871	P 940,114

Broken down as follows:

Group

	Land	Building	Leasehold Improvement	Computer Equipment	Office Machine, Furniture and Fixtures	Transportation Equipment	Total
At December 31, 2005							
Cost	321,050	542,846	23,144	511,732	593,221	350,364	2,342,357
Accumulated depreciation	0	(250,333)	0	(336,257)	(484,954)	(307,608)	(1,379,152)
Allowance for impairment	0	(340)	0	0	0	0	(340)
Net book amount	**321,050**	**292,173**	**23,144**	**175,475**	**108,267**	**42,756**	**962,865**
Year ended December 2006							
Opening net book amount	321,050	292,173	23,144	175,475	108,267	42,756	962,865
Additions	0	8,756	12,899	132,183	61,342	189,985	405,165
Disposals	(450)	0	0	(45,694)	(52,478)	(22,931)	(121,553)
Impairment loss	0	0	0	0	0	0	0
Depreciation	0	(16,481)	0	(59,022)	20,873	(15,568)	(70,198)
Amortization	0	0	(4,431)	0	0	0	(4,431)
Adjustments – cost	(533)	(2,046)	0	65,722	(86,790)	(1,984)	(25,631)
Adjustments - accumulated depreciation	0	(858)	0	(58,596)	86,079	13,837	40,462
Closing net book amount	**320,067**	**281,544**	**31,612**	**210,068**	**137,293**	**206,095**	**1,186,679**
At December 31, 2006							
Cost	320,067	549,556	31,612	663,943	515,295	515,434	2,595,907
Accumulated depreciation	0	(267,672)	0	(453,875)	(378,002)	(309,339)	(1,408,888)
Allowance for impairment	0	(340)	0	0	0	0	(340)
Net book amount	**320,067**	**281,544**	**31,612**	**210,068**	**137,293**	**206,095**	**1,186,679**

Parent

	Land	Building	Leasehold Improvement	Computer Equipment	Office Machine, Furniture and Fixtures	Transportation Equipment	Total
At December 31, 2005							
Cost	321,050	542,846	18,199	489,634	587,964	349,694	2,309,387
Accumulated depreciation	0	(250,333)	0	(327,686)	(483,876)	(307,038)	(1,368,933)
Allowance for impairment	0	(340)	0	0	0	0	(340)
Net book amount	**321,050**	**292,173**	**18,199**	**161,948**	**104,088**	**42,656**	**940,114**
Year ended December 2006							
Opening net book amount	321,050	292,173	18,199	161,948	104,088	42,656	940,114
Additions	0	8,756	12,609	129,562	61,224	189,826	401,977
Disposals	(450)	0	0	(45,694)	(52,478)	(22,931)	(121,553)
Impairment loss	0	0	0	0	0	0	0
Depreciation	0	(16,481)	0	(56,436)	21,588	(15,437)	(66,766)
Amortization	0	0	(4,204)	0	0	0	(4,204)
Adjustments - cost	(533)	(2,046)	0	67,098	(86,694)	(1,984)	(24,159)
Adjustments - accumulated depreciation	0	(858)	0	(58,596)	86,079	13,837	40,462
Closing net book amount	**320,067**	**281,544**	**26,604**	**197,882**	**133,807**	**205,967**	**1,165,871**
At December 31, 2006							
Cost	320,067	549,556	26,604	640,600	510,016	514,605	2,561,448
Accumulated depreciation	0	(267,672)	0	(442,718)	(376,209)	(308,638)	(1,395,237)
Allowance for impairment	0	(340)	0	0	0	0	(340)
Net book amount	**320,067**	**281,544**	**26,604**	**197,882**	**133,807**	**205,967**	**1,165,871**

The P340 thousand allowance for impairment pertains to DBP'S Norham property in Baguio.

Note 14 – Equity investment in subsidiaries

This account consists of: (In thousands)

	Group 2006	Group 2005	Parent 2006	Parent 2005
Investments in subsidiaries				
Acquisition cost:				
DBP Data Center, Incorporated	P 0	P 0	P 1,250	P 1,250
DBP Management Corporation	0	0	37,500	37,500
DBP RC HK Ltd.	12,901	0	0	0
	P 12,901	P 0	P 38,750	P 38,750

Note 15 – Equity investment in associates

This account consists of: (In thousands)

	Group 2006	Group 2005	Parent 2006	Parent 2005
DBP Service Corporation	P 856	P 856	P 856	P 856
LGU Guarantee Corporation	105,690	105,690	105,690	105,690
Odyssey Capital Ventures	10,938	10,938	10,938	10,938
DBP Daiwa Securities	45,675	45,675	45,675	45,675
	P 163,159	P 163,159	P 163,159	P 163,159
Allowance for impairment	(41,760)	(41,760)	(41,760)	(41,760)
	P 121,399	P 121,399	P 121,399	P 121,399

Note 16 – Equity investment in joint venture

At a special meeting held on December 20, 1995, the Board of Directors of DBP Management Corporation (MC) approved the following:

- The designation of the DBP MC as nominee/assignee of the Parent Company with respect to the latter's performance of part or all of its obligations and exercise of part or all of its rights in the Shareholder's Agreement to be entered into by and among the DBP, Daiwa Securities Co. Ltd. (DAIWA) and Pan Malayan Management and Investment Corporation (PMMIC);
- The appropriation of the sum of P16 M representing DBP-MC's investment as nominee/assignee in the Company to be organized by DBP, Daiwa and PMMIC pursuant to the Shareholder's Agreement.

This account consists of: (In thousands)

	Group 2006	Group 2005	Parent 2006	Parent 2005
Daiwa Securities Co., Ltd	P 16,000	P 16,000	P 0	P 0

Note 17 - Other assets

This account consists of: (In thousands)

	Group 2006	Group 2005	Parent 2006	Parent 2005
Accounts receivable	P 12,876,863	P 3,832,543	P 12,843,277	P 3,805,259
Deferred income tax	3,514,606	2,979,417	3,514,606	2,979,417
Amortization fund – Trust Services Department	1,049,475	1,254,482	1,049,475	1,254,482
Misc. assets - Gratuity plan fund	610,062	0	610,062	0
Misc. assets - Unrealized market gain	487,041	0	487,041	0
Inter-office float items	113,482	497,529	113,482	497,529
Prepaid expenses	452,666	479,190	452,119	478,470
Misc. assets – Heritage Park	412,757	421,921	408,584	417,747
Deferred charges	107,243	126,165	107,243	126,165
Miscellaneous assets – Intangibles *	111,254	98,779	111,254	98,779
Dividends and interest receivable	53,539	55,689	53,539	55,689
Real estate owned	1,021	1,034	1,021	1,034
Miscellaneous	408,110	551,603	406,708	549,563
	20,198,119	10,298,352	20,158,411	10,264,134
Allowance for impairment	(107,748)	(167,642)	(107,322)	(167,216)
	P 20,090,371	P 10,130,710	P 20,051,089	P 10,096,918

* Net of accumulated amortization amounting to P95.91 million for 2006.

On October 10, 2006, the Parent Company successfully completed the sealed-bid public auction of non-performing accounts (NPAs) consisting of SPV-eligible NPAs under the Special Purpose Vehicle Act of 2002 or RA 9182 and non-SPV eligible NPAs. The gross value of the assets sold had a total outstanding principal balance of P9.34 billion (Loans, P5.75 billion; Non-current assets held for sale, P3.02 billion; Available for sale securities, P0.39 billion; and Trust assets, P0.18 billion) that were extended to 2,792 borrowers.

The transaction was designed to be an outright cash sale of the asset portfolio with 20% of the bid price payable within five (5) days from bid date net of the P104 million bid deposit, and the balance payable upon closing.

Loss on sale of NPAs was charged against the related specific provisions and to current operations under miscellaneous income.

Note 18 – Deferred Income Tax

Components of the deferred tax assets and liabilities are as follows: (In thousands)

	2006	2005
Deferred tax assets on:		
Allowance for impairment	P 1,510,270	P 2,642,894
Net operating loss carry over (NOLCO)	1,331,005	0
Gratuity pay	360,464	213,522
Trading gain/(loss) revaluation	68,595	(146,371)
Unrealized foreign exchange gain/(loss) – net	55,073	58,756
Others	189,199	210,616
Total deferred tax assets (Note 17)	3,514,606	2,979,417
Deferred tax liability on:		
Unrealized foreign exchange gains (Note 21)	1,438,910	317,867
Net deferred tax assets	P 2,075,696	P 2,661,550

Note 19 – Bills payable

The Group and Parent Company's bills payable consists of the following: (In thousands)

	Group		Parent	
	2006	2005	2006	2005
Domestic	P 8,855,617	P 4,098,976	P 8,853,020	P 4,094,667
Foreign:				
- with FX risk cover	88,080,981	97,718,967	88,080,981	97,718,967
- without FX risk cover	21,367,657	28,152,245	21,367,657	28,152,245
	109,448,638	125,871,212	109,448,638	125,871,212
	P 118,304,255	P 129,970,188	P 118,301,658	P 129,965,879
Maturities:				
Within one year	P 36,878,812	P 38,898,052	P 36,876,215	P 38,896,341
Beyond one year	81,425,443	91,072,136	81,425,443	91,069,538
	P 118,304,255	P 129,970,188	P 118,301,658	P 129,965,879

Borrowings in foreign currency without foreign exchange risk cover (FXRC) by the National Government (NG) are lent in the same currency except for the Nordic Development Fund (NDF). Accordingly, foreign exchange risk is assumed by the borrower. Others are invested in the same currency.

The 2006 year-end balances of all foreign borrowings were revalued using the month-end PDS rate in accordance with PAS 21.

The year-end revaluation of outstanding foreign borrowings wherein the foreign exchange risk is assumed by the NG were booked under Accounts Receivable – NG Foreign Exchange Differential in case of a loss, and under Foreign Exchange Profit, in case of a gain.

Borrowings in foreign currency without FXRC by the NG amounting to P2.002 billion are invested as follows:

1. IBRD-PLDT - $19.84 million or P972.75 million
   Invested in US Dollar with Trust under the Amortization Fund. Payment of principal and interest due to Funder comes from the Amortization Fund.
2. IBRD – MERALCO - $17.68 million or P866.87 million
   Invested in the same currency.
3. NDF 3M – EUR 2.51 million or P162.53 million
   Lent in Peso. The foreign exchange risk is assumed by the Bank.

Other information about bills payable as of December 31, 2006, are as follows:

	Bills Payable	
	Wholesale	Retail
a. Maturities		
Maximum		
Domestic	12 years	25 years
Foreign	40 years	40 years
Average		
Domestic	5 years	9 years
Foreign	23 years	28 years
b. Average rate (interest rate to funders)		
Domestic	4.83%	5.88%
Foreign	2.06%	2.02%
c. Balance (In thousand pesos)		
Maximum month-end balance	73,206,567	38,523,031
Average monthly balance	68,014,187	35,468,272

Note 20 - Deposit liabilities

Deposits maturing within the year amounted to P69,483,838 thousand and P69,485,636 thousand for the Group and Parent Company, respectively.

Note 21 - Deferred credits and other liabilities

This account consists of: (In thousands)

	Group				Parent			
	2006		2005		2006		2005	
Accounts payable	P	679,386	P	1,194,924	P	679,156	P	1,194,879
Unearned income/deferred credits		357,077		485,302		357,077		485,302
Due to Treasury of the Philippines		24,995		224,236		24,995		224,236
Withholding taxes payable		169,594		170,319		169,594		170,319
Cash letters of credit		143,626		97,806		143,626		97,806
Outstanding acceptances		358		33,291		358		33,291
Deferred tax liability		1,438,910		317,867		1,438,910		317,867
Other miscellaneous liabilities		408,776		343,275		372,427		329,813
	P	3,222,722	P	2,867,020	P	3,186,143	P	2,853,513

Other miscellaneous liabilities include mainly derivative financial liabilities, special funds and domestic bills for clearing.

Note 22 - Unsecured subordinated debt/Other equity instrument - hybrid tier I

To increase and strengthen its capital base, the Parent Company's Board of Directors (BOD) approved on October 26, 2005 and February 15, 2006 the issuance of Lower Tier 2 and Hybrid Tier I (HT1) Capital Securities.

The Parent Company offered to the public in January 2006 unsecured lower tier 2 subordinated notes with a maturity of 10 years and are subject to an optional redemption by the issuer after 5 years. Interest rate was pegged at 9.5% net for individual and tax-exempt institutions. The initial offering generated P2.35 billion.

On September 8, 2006, the Parent Company issued HT1 Capital Securities representing US$130 million, 8.375% non-cumulative step-up callable perpetual securities. These were issued pursuant to a trust deed dated 15 September 2006 between the Parent Company and the Bank of New York (Trustee) with a liquidation preference of US$1,000 per capital security. Proceeds of the issuance were received on September 15, 2006. The Parent Company has received approval in-principle from the Singapore Exchange Securities Trading Limited (SGX-ST) for the listing and quotation of the HT1 Capital Securities on the SGX-ST in a minimum board lot size of US$200,000. Further, the HT1 Capital Securities are governed by the English law except on certain conditions and clause 7 in the Trust Deed which are governed by the Philippine law. The BSP has approved up to US$130 million issuance of the HT1 Capital Securities which are eligible to qualify as Tier 1 capital of the Parent Company subject to the limitation based on BSP Circular No. 503 issued on December 22, 2005.

Basic features of the HT1 Capital Securities follow:

- Interest at 8.375% per annum payable semi-annually in arrear from 15 September 2006 to 15 September 2016 (The First Optional Redemption Date), and thereafter at a rate, reset and payable quarterly in arrear, of 4.878% per annum above the then prevailing London interbank offered rate for three-month U.S. dollar deposits. The BOD of the Parent Company may, in its absolute discretion, elect not to make any payment in whole or in part if it has not paid or declared a dividend on its Common Shares in the preceding financial year or determines that no dividend is to be paid on its Common Shares in the current financial year.
- Interest payable on 15 March and 15 September in each year, commencing on 15 March 2007 (in respect of the period from (and including) 15 September 2006 to (but excluding) 15 September 2016 and (subject to adjustment for days which are not business days) on 15 March, 15 June, 15 September and 15 December in each year thereafter.
- Redemption at the option of the Parent Company (but not the holders) under optional redemption, tax event call, and regulatory event call, subject to the limitation as discussed in the offering circular.
- Rights and claims of the holders are subordinated to the claims of senior creditors. In the event of the dissolution or winding-up of the Parent Company, holders will, subject to certain limitations and applicable law, be entitled to receive the liquidation distribution which is equivalent to the liquidation preference plus accrued interest.

The securities are not deposits of the Parent Company and are not guaranteed or insured by the Parent Company or any party related to the Parent Company or the Philippine Deposit Insurance Corporation and these may not be used as collateral for any loan made by the Parent Company or any of its subsidiaries or affiliates.

The Parent Company or any of its subsidiaries may not at any time purchase HT1 Capital Securities except as permitted under optional redemption, tax event call, and regulatory event call as described in the terms of issuance.

The HT1 Capital Securities are sold to non-U.S. persons outside the United States pursuant to Regulation S under the U.S. Securities Act of 1933, as amended, and are represented by a Global Certificate registered in the name of a nominee of, and deposited with, a common depositary for Euroclear and Clearstream.

Note 23 – Surplus reserves

This account consists of: (In thousands)

	Group		Parent	
	2006	2005	2006	2005
Reserve for trust business	P 92,757	P 90,812	P 92,757	P 90,812
Reserve for contingencies	85,199	85,199	85,199	85,199
Other surplus reserves				
Loans – Japan Exim Special Facility	4,937	4,937	4,937	4,937
Fund – Japan Training & Technical Assistance	66,027	66,027	66,027	66,027
Expense – Japan Exim Special Facility	46	46	46	46
Appropriated General Reserves Fund for the proposed increase in capitalization - DBP MC	20,000	20,000	0	0
	91,010	91,010	71,010	71,010
	P 268,966	P 267,021	P 248,966	P 247,021

In accordance with BSP regulations, reserves for trust business represents accumulated appropriation of surplus computed based on 10% of the yearly net income realized by the Parent Company from its trust operations as follows: (In thousand pesos)

	Annual Trust Net Income	10% Share in Net Income	Balance
Beginning CY 2005			90,812
Add: 10% Net Income			
CY 2006	19,448	1,945	92,757

Reserves for contingencies include P50.0 million set aside per Board Resolution No. 0578 dated October 12, 2001 to cover possible losses the Parent Company may incur for any unfavorable court decision on all lawsuits where the Parent Company is involved. It also includes P35.2 million set aside for possible losses on defalcation by and other unlawful acts of the Parent Company's personnel or third parties.

Note 24 – Miscellaneous income

The Group's miscellaneous income substantially represents profit/(loss) from assets sold, additional interest and penalty charges and recovery from charged-off assets.

Note 25 – Other operating expenses

The Group's other operating expenses comprise significantly of management and other professional fees, security, clerical, messengerial and janitorial expenses, depreciation and amortization expenses, insurance expense, litigation/acquired assets expense and power, light and water expenses.

Note 26 – Taxes and licenses/provision for income tax

Under Philippine tax laws, the Group is subject to percentage and other taxes (presented as Taxes and Licenses in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax or GRT and documentary stamp taxes.

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

The regular corporate income tax rate increased from 32% to 35% effective November 1, 2005. This is in pursuant to BIR Revenue Regulations No. 16-2005 dated September 1, 2005, implementing RA 9337 dated May 24, 2005, otherwise known as the New Expanded VAT. Statutory income reflected in 2005 below is pro-rated to 32% for 10 months and 35% for 2 months.

Interest allowed as a deductible expense is reduced by an amount equivalent to 42% of interest income subjected to final tax (in 2005, pro-rated at 38% for 10 months and 42% for 2 months). The regulations also provide for minimum corporate income tax (MCIT) of 2% on modified gross income and allow a NOLCO. The MCIT and NOLCO may be applied against the Group's income tax liability and taxable income respectively, over a three-year period from the year of inception.

Provision for income tax consists of: (In thousands)

	Group		Parent	
	2006	2005	2006	2005
Current				
Final taxes	P 74,345	P 103,463	P 74,345	P 103,463
RCIT	1,063	316	0	0
MCIT	63,065	29,517	63,065	29,517
Tax Deficiency	67,136		67,136	
	205,609	133,296	204,546	132,980
Deferred (Note 18)	585,854	(24,588)	585,854	(24,588)
	P 791,463	P 108,708	P 790,400	P 108,392

A reconciliation between the provision for corporate income tax at statutory tax rate and the actual provision for corporate income tax as of December 31 of the Parent Company is as follows: (In thousands except for rates)

	2006		2005	
	Amount	Rate (%)	Amount	Rate (%)
Statutory income tax	P 1,903,179	35.00	P 1,270,991	32.50
Effect on items not subject to statutory tax rate:				
Income subjected to lower tax rates	(713,059)	(13.11)	(824,749)	(21.09)
Tax-exempt income	(2,359,529)	(43.39)	(1,150,878)	(29.43)
Non-deductible expenses	1,568,998	28.85	987,465	25.25
Others	390,811	7.19	(174,437)	(4.46)
Tax benefits	P 790,400	14.54	P 108,392	2.77

The details of the Parent Company's NOLCO and MCIT are as follows: (In thousands)

Inception Year	Amount	Used/Expired	Balance	Expiry Year
NOLCO				
2003	P 791,582	P 791,582*	P 0	2006
2004	24,286	0	24,286	2007
2006	4,033,349	0	4,033,349	2009
	P 4,849,217	P 791,582	P 4,057,635	
MCIT				
2005	P 29,516	P 0	P 29,516	2008
2006	63,066	0	63,066	2009
	P 92,582	P 0	P 92,582	

* NOLCO claimed as deduction in CY 2005 amounted to P534,947 thousand while the remaining P256,635 thousand already expired ending its reglamentary period of three (3) years in 2006.

Prior years' tax assessments for income tax and two industry issues amounting to P413 million were settled by the Parent Company at year-end and charged against current operations.

Note 27 – Related party transactions

In the ordinary course of business, the Parent Company has loan, deposits and other transactions with its related parties and with certain directors, officers and related interests (DOSRI).

Under existing policies of the Parent Company, these loans are made substantially on the same terms as loans granted to other individuals and businesses of comparable risks. The General Banking Act and BSP regulations limit the amount of the loans granted by a Parent Company to a single borrower to 25% of capital funds. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of the deposit and book value of their investment in the Parent Company. In the aggregate, loans to DOSRI generally should not exceed the total capital funds or 15% of the total loan portfolio of the Parent Company, whichever is lower. Total outstanding DOSRI loans and guarantees amounted to P17,305 million and P15,070 million or 13.85% and 13.51% of total loan portfolio as of December 31, 2006 and 2005, respectively.

The remuneration of directors and members of key management are estimated as follows: (In millions)

	Group		Parent	
	2006	2005	2006	2005
a) Short-term employee benefits	P 66.76	P 52.22	P 61.16	P 46.62
b) Post employment benefits	49.01	54.59	48.70	54.28
	P 115.77	P 106.81	P 109.86	P 100.90

Note 28 - Commitments and contingent liabilities

In the normal course of the Group's operations, there are various lawsuits filed against the Group, outstanding commitments and contingent liabilities, such as guarantees, commitments to extend credit, forward exchange contracts, interest rate swaps and similar arrangements which are not reflected in the accompanying financial statements. No material losses are anticipated as a result of these transactions.

The Parent Company's aggregate contigent liabilities are as follows: (In thousands)

	2006	2005
Transferred to national government (NG)	P 29,459,945	P 33,054,373
Letters of credits and other contingent liabilities	33,780,484	25,459,639
	P 63,240,429	P 58,514,012

Contingent liabilities transferred to NG is in accordance with Proclamation No. 50 dated December 8, 1986. Since then, NG provides funding for maturing amortizations thereon.

Note 29 - Trust funds

The Parent Company is authorized under its charter to perform trust and fiduciary activities thru the Trust Services Department. Trust Funds are managed, accounted and reported individually in accordance with regulatory policies and investment agreements with Trustors. Trust resources as of December 31, 2006 amounted to P19.37 billion from 2005's year-end balance of P17.19 billion. These are off-books transactions and therefore not included in the Parent Company's financial statements.

Income realized from trust operations amounted to P19.45 million, net of operating expenses of P52.48 million and Gross Receipts Tax of P5 million, which was remitted to the Parent Company and included in its financial statements.

Note 30 - Foreign currency deposit unit

The Parent Company has been authorized by BSP to operate an Expanded Foreign Currency Deposit Unit (EFCDU) since August 1995.

Income derived under the expanded foreign currency deposit system from foreign currency transactions with non-residents, offshore banking units in the Philippines, local commercial banks including branches of foreign banks that may be authorized by the BSP to transact business with foreign currency deposit units and other depository banks under the expanded foreign currency deposit system shall be exempted from all taxes. However, interest income from foreign currency loans granted to residents shall be subject to a final tax of ten percent (10%), pursuant to Republic Act No. 9294 (approved by President Gloria M. Arroyo on April 28, 2004).

Note 31 – Reclassifications

The following accounts in CY 2005 were restated to be comparable with CY 2006 figures: (In thousands)

	From	To	Amount
BSP Securities	Interbank loans receivable	Securities purchased under agreement to resell	P 10,970,000
NPC Bonds	HTM	Loans - UDSCL	9,429,518
Underwritten Debt Securities Purchased	Loans – UDSP	AFS	1,821,581
NFA Bonds	AFS	Loans and receivables	1,407,501
Bases Conversion Development Authority	Loans – UDSP	HTM	1,023,954
HDMF Pag – ibig Bonds	AFS	Loans - UDSCL	729,446
Sales Contract Receivable	Other assets	Loans and receivables	198,522
AR – Advances on Loans	Other assets	Loans and receivables	30,445

Note 32 - Other information

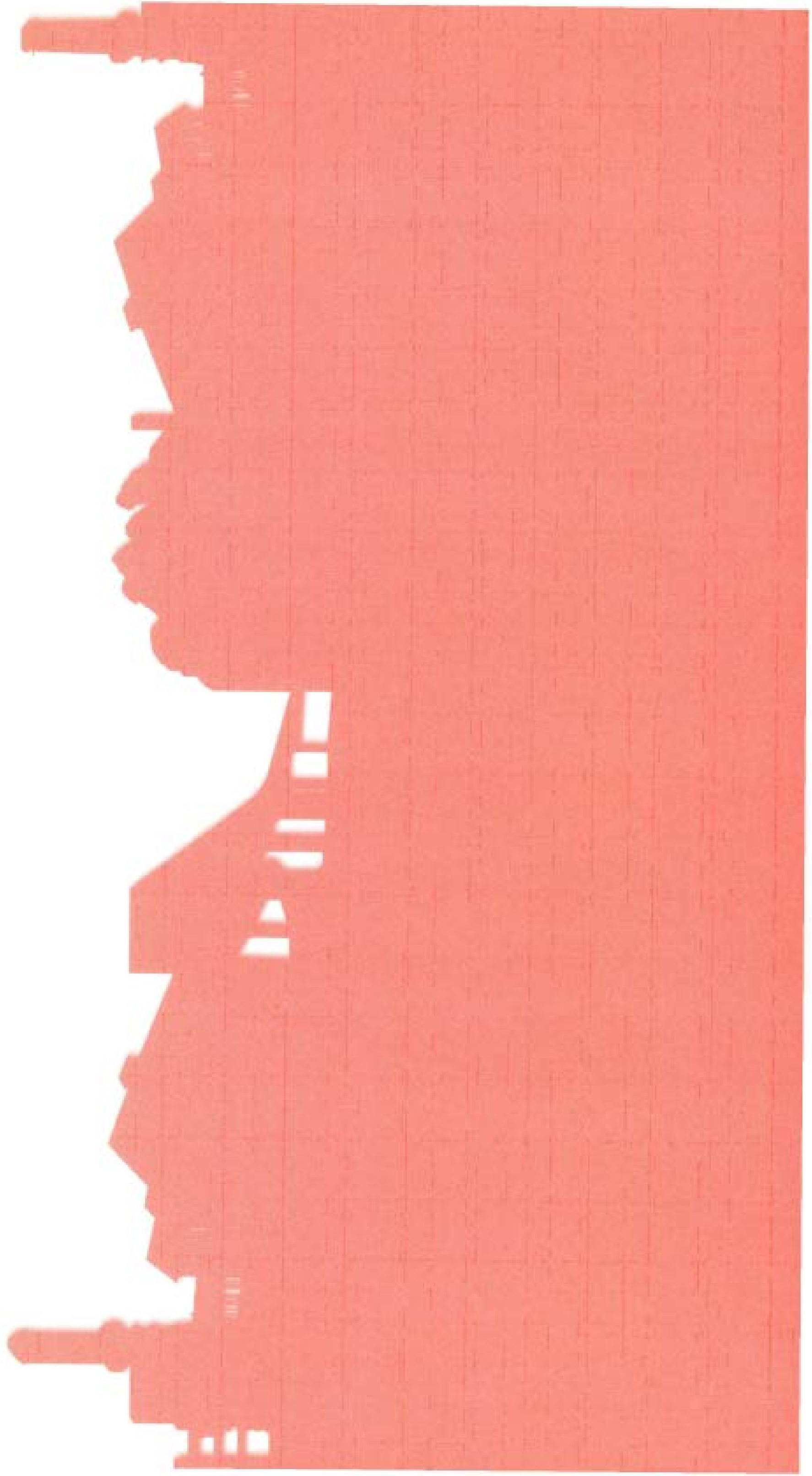
	2006	2005
Key financial indicators of the Parent Company		
Return on average equity	17.24%	17.48%
Return on average assets	2.03%	2.09%
Net interest margin	3.46%	3.80%
Capital to risk assets ratio	28.00%	19.73%
Efficiency ratio	41.08%	50.83%
Salaries & personnel expenses / operating expenses	54.37%	58.51%

Note 33 – Dividends declared

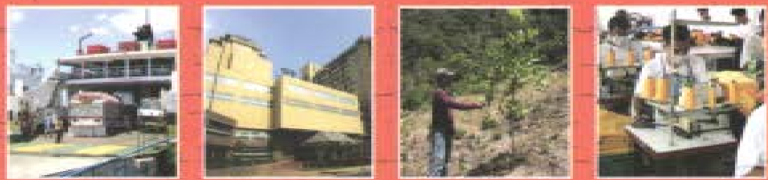
Per Board Resolution Nos. 0082 and 0190 dated March 07, 2007 and June 6, 2007, the Board approved the declaration of cash dividend to the National Government amounting to P100 million and P900 million, respectively, covering CY 2006 net earnings.

Note 34 – Approval of financial statements

The financial statements of the DBP Group have been approved for issuance by the Board of Directors on May 16, 2007.



The Cornerstone of Development



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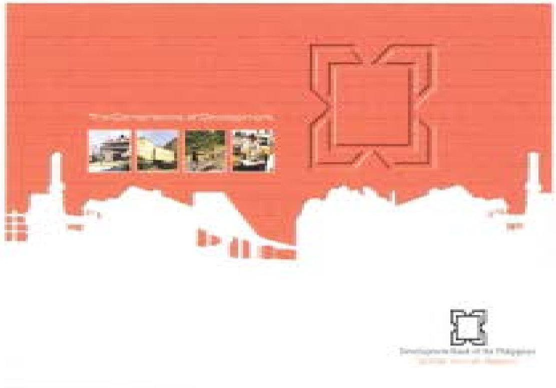
The Cornerstone of Development



The Development Bank of the Philippines (DBP) believes that a great nation requires a strong foundation. With clear leadership from the Government, the institution has embarked on a multi-faceted development approach highlighted by concrete performances in the fields of business empowerment, logistics modernization, environment preservation and protection, and social services enhancement.

These four key areas are showcased through the use of the die-cut technique. The contrast between the white silhouettes of the completed projects against the actual images peering through the windows captures the transformation of boardroom goals into tangible reality. The placement of the images on the bottom of the cover signifies that the future of the nation rests on such initiatives.

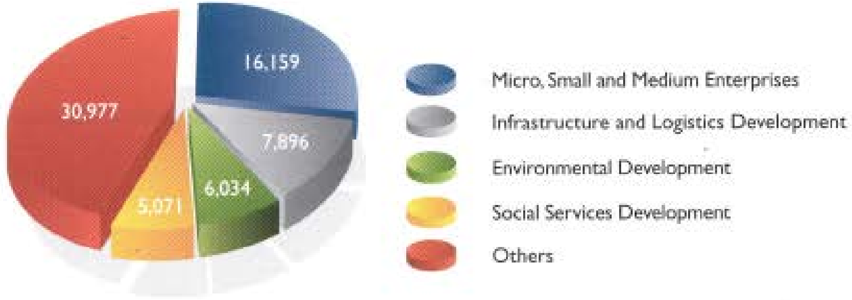
Financial Highlights (In Million Pesos)

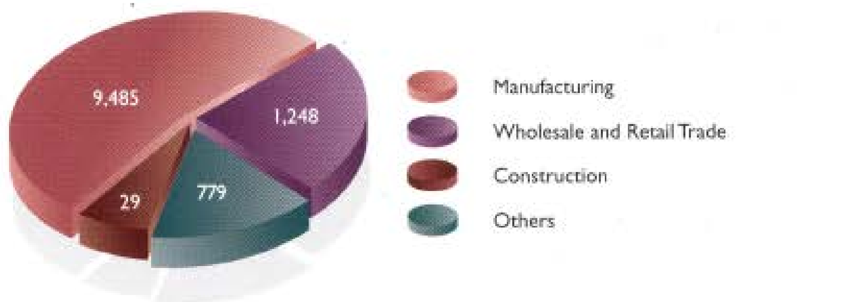
	2006*	2005*	2004*	2003	2002
Gross Income	21,177	17,124	14,030	13,549	14,505
Net Income	4,651	3,804	2,445	1,949	1,847
Total Loans	138,053	120,265	85,033	82,328	76,369
Total Deposits	71,089	50,753	36,438	37,404	34,177
Total Borrowings	118,304	129,970	141,530	85,615	87,811
Total Resources	241,695	213,861	206,155	148,755	148,643
Total Capital Funds	35,487	26,138	22,481	19,241	19,105

* Group

LOAN PORTFOLIO BY PRIORITY AREA (In Million Pesos)

Type of Loans	Amount
Developmental	
• Infrastructure and Logistics Development	7,896
• Environmental Development	6,034
• Social Services Development	5,071
• Micro, Small and Medium Enterprises	16,159
• Others	
Construction	522
Manufacturing	2,684
Wholesale and Retail Trade	2,856
Others	24,915
Total-Developmental	66,137
Commercial Loans	
• Construction	29
• Manufacturing	9,485
• Wholesale and Retail Trade	1,248
• Others	779
Total-Commercial	11,541
GRAND TOTAL	77,678*





* Excludes Interbank Loans & Trading Account Securities of P45.434 billion, Unquoted Debt Securities Classified as Loans of P14.713 billlion and Other Receivables of P0.228 billion.

Message of Her Excellency

Gloria Macapagal - Arroyo
President
Republic of the Philippines

MALACAÑAN PALACE
MANILA

MESSAGE

Congratulations to the officers and staff of the **Development Bank of the Phillippines** for coming up with your 2006 DBP Annual Report, a summary of the DBP's accomplishments in service to the Filipino people.

The DBP has been at the forefront of financing development for the past 59 years. It has provided banking services principally to cater to the medium- to long-term needs of agricultural and industrial enterprises with emphasis on small- and medium-scale industries. The DBP's efforts through its four priority programs, namely infrastructure and logistics, social services, micro, small & medium enterprises (MSMEs) and environmental development, have sped up countryside development.

The DBP has succeeded in extending assistance to various areas in the country while sustaining its viable and profitable operations. The net income it posted in 2006 was record-breaking and the highest ever in its history. Its contribution to the national government in terms of cash dividends added to the coffers of the national government.

Our national agenda is designed to move our country towards greater political stability, economic prosperity, and peace and order. We are focused on bringing the benefits of a strong economy to every Filipino even as we put in place the massive infrastructure needed to attract more investments, create more jobs and beat poverty. As an active arm of government, I ask you to join me in our efforts to achieve a 7 to 8 percent growth rate in the next three years. I am confident that we can do it.

Congratulations once again and more power to the DBP Family! Mabuhay!

Gloria Arroyo
GLORIA MACAPAGAL-ARROYO

MANILA • April 2007

Report to the President

Patricia A. Sto. Tomas
Chairman

Dear Madame President:

The Development Bank of the Philippines presents its 2006 Annual Report with a great sense of pride for having played a key role in providing the wherewithal and support impetus for our country's much-awaited economic take-off.

Focused and committed to our mandate, DBP's development side kicked into higher gear in year 2006. We widened the scope and deepened the scale of our development undertakings. We tailored our programs to make us more relevant in the national government's blueprint to energize five super regions, thus creating more opportunities and development for our people.

At the same time, we experienced robust growth in our financials. We are proud to have posted strong financial gains despite volatile market conditions during the last two years.

DEVELOPMENT MISSION

As one of the main development financial institutions of the national government, DBP has aligned its overall business strategy with the policies and priority programs of the national government. We strongly support the administration's imperative to help alleviate and eradicate the poverty that still afflicts a majority of the Filipino people.

The Bank remains focused on the roadmap provided by the government towards building and sustaining a strong and responsive republic. The key elements of our development strategy hinges on financing the following strategic areas: Infrastructure and Logistics (projects in retail and wholesale trade, transport, and communication); Social Services (projects in health care, education, and community development); Environment (projects in water systems, new and renewable energy, solid waste management, and pollution control facilities); Micro, Small and Medium Enterprises; and Commercial Lending (industrial projects). Our programs are geared towards enhancing employment and drawing on the competitive advantage of the super regions.

DBP has extended its arm to reach far-flung areas of the country, especially those unserved by financial institutions. We have partnered with local government units, banks, non-banks, schools and universities to sustain the country's improving economy.

FINANCING DEVELOPMENT

To accomplish its task of financing development, the Bank's loan portfolio continued to be skewed towards developmental loans. Our exposure as of year-end reached P77.68 billion, with 85% or P66.14 billion channeled directly to priority areas for development. Micro, small and medium enterprises (MSMEs) had a loan coverage of P16.2 billion; Infrastructure and Logistics, P7.9 billion; Environmental Protection, P6 billion; and Social Services, P5 billion.

We supported other key sectors with P6 billion for manufacturing, construction, and wholesale and retail trade. In addition, we financed various industries such as real estate, tourism and agriculture with a total amount of P25 billion.

On the other hand, the Bank's commercial lending activities reached P11.5 billion during the year, generating employment and raising more tax revenues for the government.

Micro, Small and Medium Enterprises

Our assistance to MSMEs was reinvigorated in year 2006 through the creation of the Microfinance Resource Center which extended credit and technical assistance to microfinance institutions. Window III, a lending window of the Bank in the 1990s for projects with high social development impact, was revived under the MFC. Furthermore, the Small and Medium Enterprise department was also created to focus and step up assistance provided to the sector. In 2006, loan releases to MSMEs totaled P5.81 billion.

The Bank's Factoring facility continued to assist qualified SME suppliers of large corporations with their working capital requirements through the purchase of their receivables. We also fast-tracked the establishment of business assistance centers (BACs) under the Sustainable Partnership for Energizing Entrepreneurship Development (SPEED) program, achieving a total of 13 BACs operational by year-end. These BACs served as one-stop shops offering support services such as business counseling, e-services, project development, marketing, and financial advisory to SMEs. On top of these Bank initiatives, we remained fully supportive of the government's SME Unified Lending Opportunities for National Growth or SULONG program with total loan releases of P11 billion.

Infrastructure and Logistics

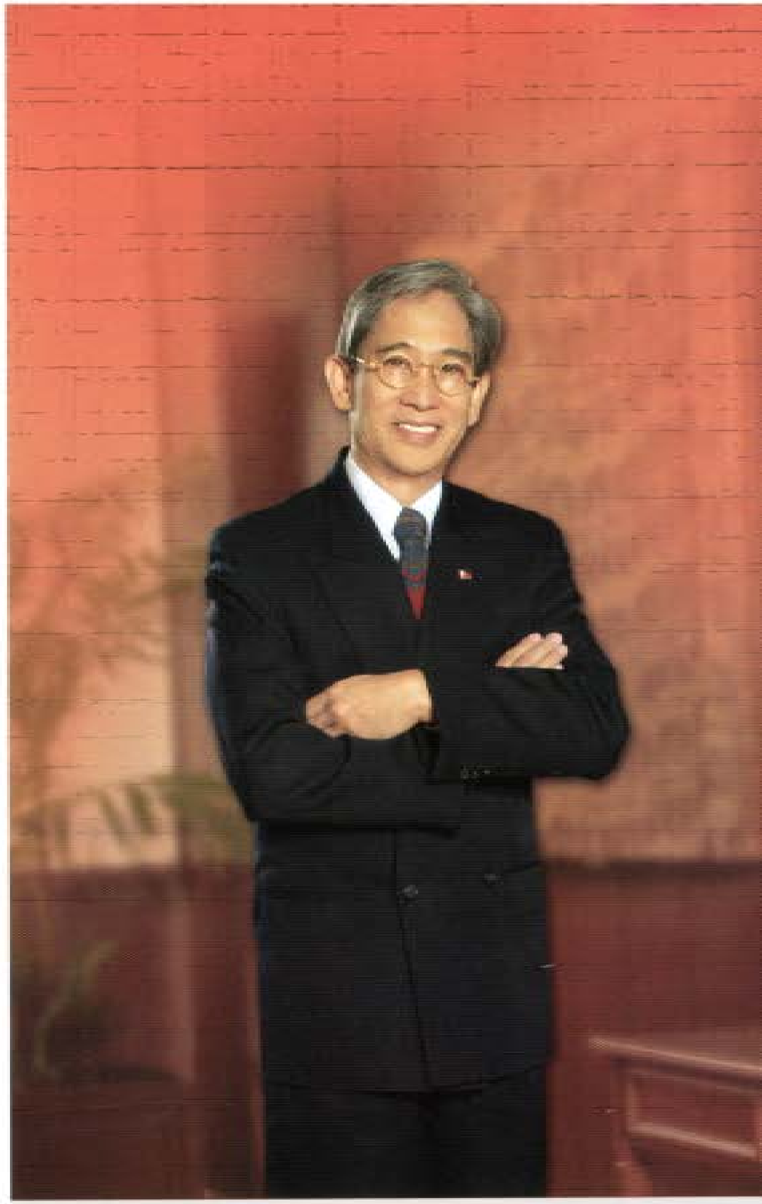
The Bank's support for infrastructure and logistics projects was enhanced through its Sustainable Logistics Development Program (SLDP). A total of 152 projects involving P4.7 billion have been approved since program implementation. Program components are the Road Roll-on Roll-off (RoRo) Terminal System with funding of P2.1 billion; the Grains Highway with funding of P1.1 billion; and the Cold Chain with funding of P1.5 billion.

Since initiation, the program has succeeded in bringing down the cost of goods, and in improving the storage, handling, and transport of basic commodities. The adoption of the SLDP as the government's flagship project dubbed the Strong Republic Nautical Highway underscores its relevance to the administration's development agenda. Total exposure of the Bank to this sector has already reached P7.9 billion, with loans released for the year amounting to P6.64 billion.

To promote the SLDP, the very first "Ready, Set, Roro! DBP Interisland Race" was conducted in 2006 to promote to the general public the benefits of the RoRo system to boost tourism and trade via the nautical highways.

Environmental Protection

Spearheading sustainable development, we supported environmental protection and conservation projects with credit assistance of P6 billion as of year-end. Various projects in new and renewable energy, water treatment, alternative fuel, rural



Reynaldo G. David
President & CEO

power, solid and hazardous waste management, and pollution control were granted P2.7 billion in loan releases during the year.

In a decisive response to government's call to encourage reforestation efforts, we contributed our share to stem environmental degradation through the DBP Forest program. Launched in 2005, the program now has 25 project sites countrywide covering almost 6,000 hectares, with a total approved amount of P112.94 million.

Notably, the DBP Forest program was conferred the Environmental Development Award by the Association of Development Financing Institutions in Asia and the Pacific in recognition of its significant contribution to the protection of coastal areas, the conservation of upland soil and water, the cultivation of terrestrial and aquatic life, and the development of downstream industries in the countryside.

Having gained renown as the first Philippine bank to be awarded ISO 14001 certification in 2001, DBP was reissued the said certification after the conduct of an upgrade audit by the Anglo-Japanese-American (AJA) Registrars, Inc. during the year. The certification was issued for the Bank's successful establishment and implementation of an Environmental Management System. The recognition covers its banking, lending, and investment activities.

Social Services

Working closely with local governments and the private sector, we supported investments in the areas of health care, education, housing, community development, and eco-tourism. In year 2006, our outstanding loan exposure for social services development projects reached P5.07 billion allocated as follows: education with P1.12 billion, health care with P944.5 million, and local government units (LGU) loans and other community development services with P3 billion.

These significant projects were also pursued in strategic partnership with foreign funding agencies. At year-end, new loan releases for these high impact projects reached as much as P11.34 billion.

In pursuit of our thrust to bring development particularly to the countryside, our branches provided assistance to various new projects of LGUs with loan approvals reaching a total P12.54 billion as of December 2006. These projects comprise a wide array of developmental initiatives ranging from the establishment of IT parks and tourism development; the construction of public markets, municipal halls and convention centers; the building of waterworks and sewerage systems; schools and other school facilities; and hospitals and other medical facilities.

Other Key Sectors

As a development institution tasked to catalyze continuing growth, we financed other critical economic activities aggregating P16.95 billion during the year. Loan releases to the manufacturing sector reached P5.82 billion; wholesale and retail trade, P1.71 billion; real estate, P1.27 billion; and various other industries, P8.14 billion.

COMMERCIAL LENDING

DBP likewise continued to aggressively pursue commercial lending operations in 2006, posting an outstanding portfolio of P11.5 billion by year-end.

Solid assistance to corporate clients spurs economic growth and stability, in addition to a significant and favorable impact on the viable and sustainable operations of small and medium enterprises through the "big brother – small brother" relationship and its ancillary activities. Our commercial lending activities likewise empower the Bank to pursue its development mandate with its inherent risks.

Single-minded in our pursuit of this endeavor, we released new commercial loans totaling P77.72 billion in 2006, of which the bulk or P72.79 billion was channeled to the manufacturing sector. Focused primarily on giving assistance to the top 150 corporations in the country, we likewise supported industrial projects in the telecommunications, fertilizer importation, oil company importation, automotive, power generation, and food and beverage sector.

FINANCIAL VIABILITY

Even as we resolutely supported the development of the economy via credit intermediation channelled to a wide range of areas, we marked a milestone in 2006 with the attainment of a P4.65 billion net income, the highest ever achieved in DBP's banking history. This is 22% higher than the P3.8 billion restated net income in 2005, and surpasses the P3.6 billlion net income target for the year.

The Bank's above average profitability was driven by increased earnings from high-yielding treasury investments, revenues from our retail lending operations and the foreign exchange gains on the revaluation of certain foreign borrowings. We further reined-in operational expenses to P5.36 billion, 7% higher than the P5.03 billion recorded the previous year.

We likewise embarked on the huge reduction of our past due level from P8.29 billion to P2.98 billion through the bulk sale of non-performing assets under the special purpose vehicle. The Bank's over-all past due rate vastly improved to 2.16% from 6.89% last year.

Our past due coverage ratio reached 103.72% in December 2006, much higher than the industry average of 82.7%.

The Bank's total resources reached P241.70 billion and net loans stood at P134.97 billion by year-end. Total deposits hit P71.09 billion, a record 40% increase over last year's level of P50.75 billion. Total capital stood at P35.49 billion, posting a significant 36% growth and achieving a capital adequacy ratio of 28%. This again exceeds the industry average of 16% and affirms DBP's stature as one of the country's best capitalized banks.

As a government financial institution that has maintained profitable operations, we have remitted dividend payments to the national treasury totaling P23.74 billion. This is comprised of P13.74 billion in cash dividends and P10 billion in stock dividends. For 2006 alone, our dividend payments to the national government reached P1 billion -- a concrete manifestation of our support for the national development agenda.

OTHER INITIATIVES

Capital Build-up

Another milestone in year 2006 was the successful issuance of capital notes to expand DBP's capital base. The public offering of Tier 2 subordinated notes in January marked the first time a government financial institution issued capital notes. This venture aimed to finance our new development initiatives particularly the overseas remittance business, OFW loan program, and microfinance operations.

In September, we issued Tier 1 capital securities, the first international deal of the Bank, and one of the biggest order books for a non-sovereign offshore offering. More than 12 times oversubscribed, this raised US$130 million in fresh Tier 1 capital for the Bank. We embarked on the bond offering to enhance the Bank's capital adequacy ratio, in anticipation of the Basel 2 accord. Proceeds were earmarked for strategic sectors such as infrastructure and energy, and other development projects.

While the success of this issue is certainly a victory for DBP and a testament to our impressive credit story and track record as a vital partner of the national government, we view this as a much bigger triumph for the country. The improving market environment coupled by the fact that we are 100% owned by the Philippine government enabled us to earn such a good deal.

Remittance Center

Another highlight of year 2006 was the establishment of our Remittance Center, and the launching of the DBP Electronic Cash (EC) Remittance program for overseas Filipino workers (OFWs). The program offers several options through which OFWs can remit their hard-earned money to beneficiaries: the EC Card, EC Door-to-Door, EC-Pick-up, EC Bank-to-Bank Credit, and EC Credit to Account.

We also opened the DBP Remittance Center Hong Kong Ltd., our first overseas remittance subsidiary, thereafter to be followed by centers in selected strategic locations in the Asia Pacific, North America, and Europe. We will continue to expand our global reach, and to offer efficient, convenient, and secure remittance services to the OFW sector.

Corporate Governance

The Bank's developmental and financial gains were duly capped with a corporate governance award from the Institute of Corporate Directors. DBP scored highest among 31 government-owned-and-controlled corporations (GOCCs) in the corporate governance scorecard (CGS). This is the first run of the CGS for GOCCs in the Philippines and in the world.

As a government institution fully vested with the public interest, we recognize the need to be on top of efforts at corporate governance reforms. This latest citation for DBP recognizes the way in which we aim to conduct ourselves in our relations with the government, our sole shareholder, and our relations with our various stakeholders. Good governance is a necessary ingredient for sustainable progress. Our experience has shown that good governance boosts business stability, viability, and in turn spews out quality earnings.

With our wholesale banking facility, DBP is in a unique and strong position to advance good governance in the business community. As a catalyst of development in the countryside, DBP can likewise influence municipalities, cities, and provinces to observe the discipline of higher standards of public service. Given its strong partnership with banks, corporations and local government units, DBP is privileged to be tasked by the Institute of Corporate Directors to take the lead in advancing good corporate and institutional governance practices in the country.

Indeed, 2006 was a banner year for DBP as it fulfilled its development aspirations while simultaneously building on its financial gains. The Bank remains ever ready and poised towards providing the financial tailwind for the stronger delivery of services to priority areas and to underserved markets especially in the countryside.

Madame President, a year before our 60th anniversary, and having worked steadfastly amidst the challenges of a growing economy, we have unfailingly shown that we continue to have the spirit, the brawn, and the heart for true development.

Patricia A. Sto. Tomas
Chairman

Reynaldo G. David
President & CEO

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 risk and returns.

DBP and the Economic Environment

DBP operated in an almost predictable economic environment in 2006. As expected, a rebound did occur in the agriculture and export sectors pushing GDP growth to 5.4%, close to the low-end 5.5% target of the government. Despite the EVAT and volatile oil prices, consumption remained as the main driver on the demand side fueled by remittances. Also, the low interest rate environment, coupled with the on-going government pump priming activities, further boosted the expenditure sector. On the supply side, services remained the major contributor, led by business process outsourcing (BPO), information technology and IT-enabled services, telecommunication, and finance. A rejuvenated agricultural sector ensued despite the onslaught of strong typhoons toward the last quarter while industry languished with the lackluster performance of the mining sector.

Performance-wise, commercial banks rode on the country's improved economic fundamentals. In fact, it even surpassed the 5.4% GDP rate as its major indicators (assets, loans, deposits, and capital) all registered growth levels ranging from 9% to 17%.

On an annual basis, the financial ratios of the system reflected a slight increase in liquidity and capital ratios. Liquidity ratio was reported at 71% in 2006 from 69% in 2005 as capital ratio rose to 28% from 26%. NPL ratios improved to 6% from 9% as the capital adequacy ratio stood strong at 16% even as the banking system gradually meets the demands of the new international accounting standards and Basel 2.

In the investment scene, the country obtained from Standard and Poor's Rating Services a BB minus rating, three notches below investment grade. Moody's Investors Service assigned a foreign currency rating of B1, two notches below investment grade while Fitch Ratings maintained a BB rating on Philippine credit at two notches below investment grade. All three debt watchers have given the Philippines a "stable" outlook.

In banking, Moody's Investors Service revised the outlook of the debt and deposit ratings of DBP and 10 other Philippine banks to stable from negative.

For DBP foreign currency long-term deposit rating of B1 and local currency long term deposit rating of Ba2, the outlook was revised to stable while DBP's foreign currency non- prime short-term deposit rating and bank financial strength rating of D remained at stable outlook.

Meantime, Fitch Ratings assigned a rating of BB- to DBP's planned hybrid issue of up to $130 million. Fitch also assigned the lender a long-term local currency issuer default rating (IDR) of BB+, a long-term foreign currency IDR of BB and a national rating of AA+(phl). The outlook for all the ratings is stable.

On the other hand, Standard and Poor's (S&P) Rating Services assigned the same issuance of B+ credit rating. This is three notches below the issuer credit rating of BB+ long-term local currency rating, which accounts for the optional and mandatory conditions under which DBP can omit interest payments, as well as speculative-grade status of the issuer.

Nevertheless, expectations of higher economic growth rates are evident despite 2007 being an election year. Forecasts or estimates of Philippine GDP growth range from a low of 4.7% to a high of 6.7%. The positive factors cited by economists are declining inflation and interest rates, lower oil prices, strong foreign direct investments, higher international reserves, narrower fiscal deficit, strong exports, higher remittances, sustained surge in services, and revived construction sector. The major downside can be the May elections, weak manufacturing output, sluggish imports, persistent political conflict, poor investment growth brought about by red tape, graft and corruption, and the capture of regulatory power by the country's economic elite.

The Philippine economy is clearly taking a breather, for beneath the headline numbers, structural shifts are gripping the economy: fixed investment continues to contract as the composition of output is shifting from industry to services. The expansion of services and relative decline of industry represents a long-term trend in the Philippines. This shift may pose a threat to growth prospects in the long-term unless the relative growth rates of the industry and service sectors are matched with appropriate structural adjustments in the economy.

The growing contribution of services, among the three major sectors of the economy, is evident--volume and value-wise. This share is expected to grow further as the country banks on its potential in the global BPO industry.

While exports were a significant growth driver, an expected slowdown in the US economy this year on the back of declining housing activity, weighs on Asian export growth, with the Philippines being one of the hardest hit due to the high content of cyclically-sensitive electronics in overall exports. The peso appreciation will also affect the competitiveness of Philippine exports.

The economy, however, would find continued support from private consumption fuelled by rising remittances from Filipino workers abroad.

As the country's premier financial institution, DBP has positioned itself for a more dynamic and heightened participation in the making of a Strong Republic. The significant gains it attained in 2006 have made the Bank financially stronger. It can now look forward to a more challenging role in the year 2007.

IMAGES 2006 in Retrospect: An Eventful Year for DBP

DBP ended 2006 with another solid performance, achieving record-level accomplishments not only in its financial operations but more importantly in delivering its mandate as the country's premier development financial institution. The Bank launched more aggressive pro-poor projects particularly in the countryside, introduced new products, strengthened specific areas of operations, and forayed into new ventures in the global and domestic markets. These achievements certainly reinforced DBP's momentum to achieve more in the years ahead.

DBP made a successful debut in the international capital markets with its US$130 million hybrid tier 1 issue recording 12 times oversubscription from investors in Singapore, Hong Kong and London. The issue raised one of the biggest order books seen in recent years for a non-sovereign issue out of the Philippines.

In support of large and strategic industries, the Bank granted a P633-million term loan to Splash Corporation to finance the working capital requirements of the largest Filipino-owned skin care company.

DBP scored highest among 31 government-owned and controlled corporations in the Corporate Governance Scorecard (CGS) of the Institute of Corporate Directors (ICD). The CGS covers five major concerns of corporate governance in state-owned enterprises (SOEs), namely: ensuring an effective legal and regulatory framework, the State acting as an Owner, relations with stakeholders, transparency and disclosure, and the responsibilities of the boards of SOEs.

The DBP Electronic Cash Remittance (EC Remit) Program was launched to provide OFWs with a secure, safe, fast, easy, efficient, and reliable means to remit their hard-earned money to their designated beneficiaries in the Philippines. The Bank also opened its first overseas remittance subsidiary, the DBP Remittance Center Hong Kong Ltd., to serve the remittance requirements of OFWs in the former British Colony.

As part of efforts to promote trade and tourism through the use of the Road Roll-on Roll-off (RORO) Terminal System, DBP launched the "Ready, Set, RORO!" Interisland Race. The race saw ten teams competing in a series of challenges in eight areas along the western nautical highway.

The Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) conferred the Environmental Development Award on the DBP Forest Program. Chosen from 28 ADFIAP finalists, the program was particularly recognized for its significant contribution in the protection of coastal areas, conservation of soil and water in the uplands, improvement of spawning grounds for terrestrial and marine aquatic life, as well as its contribution to the development of downstream industries in the countryside.

Chairman Patricia A. Sto. Tomas became the first lady chairman of DBP, succeeding former Chairman Antonino L. Alindogan, Jr. Alindogan had earlier replaced Chairman Vitaliano N. Nañagas II who returned to the private sector after a four-year stint with DBP.

DBP granted a P1.25-billion term loan to Metropolitan Cebu Water District (MCWD) for the provision of adequate, safe, potable, and affordable water, as well as an effective sewerage system for Metro Cebu.

To sustain its relevance as champion of micro-entrepreneurs, DBP created the Microfinance Resource Center to provide sustainable and profitable services to microfinance institutions (MFIs) and practitioners in order to enhance their competitiveness and efficiency.

DBP and the Philippine National Bank jointly extended a term loan amounting to P984.8 million to Metro Iloilo Water District (MIWD) to partially finance the rehabilitation, expansion and improvement of its water supply system.

A P500-million clean revolving credit line was extended to the People's Credit and Finance Corporation (PCFC) – the main government agency involved in the delivery of microfinance services exclusively for the entrepreneurial poor – for its various livelihood, housing and micro-enterprise projects.

The Bank approved a P600-million term-loan facility under its Sustainable Logistics Development Program/Domestic Shipping Modernization Program II to Transoil Corporation of the Petrolift Group of Companies for the acquisition of a brand new, double-hull oil/chemical tanker. The project is in anticipation of the implementation of the International Marine Organization's new Marine Pollution regulation requiring international black cargo tankers worldwide to be double-hulled and double-bottomed by 2008.

DBP and four other private banks signed a P3.5-billion omnibus loan agreement with UEM-MARA Philippines Corporation to partially finance the construction of segment 4 of the Manila-Cavite Toll Expressway project.

The seven-kilometer, four-lane toll road project will extend the existing Coastal Road and provide the public with a safe and more convenient expressway for the efficient travel of goods and motorists from Manila to Cavite.

DBP acted as issue manager and underwriter of Filinvest Development Corporation's P1- billion five-year corporate notes issue. Note proceeds shall be utilized for FDC's general corporate funding purposes and developmental projects.

The Bank signed a P500-million loan agreement with the Rio Verde Water Consortium, Inc. for the first phase of the Cagayan de Oro Water District's bulk water supply project. The said initiative is the first bulk water supply project to be funded by the DBP.

DBP granted a P475-million term loan to the provincial government of Ilocos Norte to finance the construction of the Ilocos Norte Hotel and Convention Center that will provide first-class accommodations to tourists and investors in the province.

DBP and the Land Bank of the Philippines successfully issued P9.8-billion worth of investment certificates under the Monetization of IRA Collectibles for Local Empowerment (MIRACLE) program. This is out of the P14.3-billion worth of outstanding Internal Revenue Allotment receivables from the national government.

DBP extended a P400-million term loan to the provincial government of Camarines Sur for the construction of new school buildings, barangay health centers, mini-hospital in the provincial capitol, and farm-to-market roads in various districts in the province. The Bank also tapped a P195-million term loan to the provincial government of Masbate to finance the construction of road networks and bridges.

DBP Operational Highlights

DBP showed an unprecedented performance in 2006, posting a net income of P4.65 billion, the highest ever attained in its almost 60-year history. It geared up its operations and successfully implemented three major initiatives, namely: a) establishment of the Remittance Center; b) issuance of the Hybrid Tier I capital notes; and c) bulk sale of NPAs through the SPV.

These key undertakings laid the foundation for a stronger asset base and core capital which would enable the Bank to be more competitive and to keep pace with the requirements of Basel II and the International Accounting Standards. This is an indication that the Bank, the cornerstone of the country's development, is strategically poised to undertake more aggressive development activities that will support its priority thrusts and at the same time sustain its institutional viability.

SUPPORT FOR PRIORITY AREAS

DBP remained consistent with its overall business strategy hinged on financing the following priority areas: infrastructure and logistics, environment, social services; and micro, small and medium enterprises.

Infrastructure and Logistics

Under its infrastructure and logistics development thrusts, the Bank channels funds to support projects that enhance trade and investments through the Sustainable Logistics Development Program. As of year-end, total outstanding loans to this sector reached P7.90 billion.

Sustainable Logistics Development Program (SLDP)

The SLDP, which was launched in consonance with the National Government's Strong Republic Nautical Highway (SRNH) project, aims to improve the country's basic infrastructures to bring down the cost of goods and the efficient movement of basic commodities through the introduction of modern storage facilities, handling and transport system. Since the inception of the program in 2003, 152 projects have been approved involving P4.7 billion for the three components of the program namely: Road RoRo Terminal System (RRTS) - P2.1 billion with 14 projects; Grains Highway – P1.1 billion with 99 projects; and Cold Chain – P1.5 billion with 39 projects. As of year-end, there were 42 projects in the pipeline amounting to P1.13 billion and 48 prospective projects amounting to P2.73 billion.

The RRTS projects included the modernization, upgrading and acquisition of vessels, port development and acquisition of port equipment while projects under the grains highway consisted of processing centers with mechanical shelling, drying and storing in bulk, bulk trucking, terminal facilities and bulk carriers. Cold chain projects included processing and marketing centers, aggregating centers, reefer transport equipment and vehicles, ice plants and other cold storage facilities.

Total releases during the year for infrastructure and logistics projects reached P6.64 billion. Notable projects included the P3.5 billion omnibus loan agreement with UEM-MARA Philippines Corporation which will partially finance the construction of segment 4 of the Manila-Cavite Toll Expressway Project, a 7-kilometer, four-lane toll road that will extend the existing Coastal Road from Zapote, Alabang to Kawit, Cavite. It will provide the public with a safe and more convenient expressway for the efficient travel of goods and motorists from Manila to Cavite.

Another project is the P600 million term loan facility to Transoil Corporation of the Petrolift Group of Companies for the acquisition of a brand new, double-hull oil-chemical tanker in anticipation of the implementation of the International Marine Organization's new Marine Pollution regulation. This new regulation requires all international black cargo tankers to be double-hulled and double-bottomed by 2008.

Beyond project financing, the Bank also ventured to further support the government's major transportation and infrastructure program by holding the first "Ready, Set, RORO!" DBP Interisland Race. The race was launched to promote public awareness and use of the country's RRTS to help recoup existing and generate more investments in the sector. Side by side with this goal, the Bank also endeavored to promote interisland trade and domestic tourism by showing that the routes are developed, ships are safe and equipped with the necessary facilities, and travel via the RORO is both cheap and convenient. The race had ten teams competing in various challenges in eight destinations along the western nautical highway.

Environmental Development Program

DBP provides financing as well as technical assistance to projects that are environmentally sound. It supported various environmental development projects with a total loan assistance as of year-end amounting to P6.03 billion. These projects included water treatment, new and renewable energy, alternative fuel, rural power projects, solid and hazardous waste management, pollution control, occupational safety and the establishment of environmental management system and certification under ISO 14001.

Rural Power Project

The Bank's Rural Power Project-Adaptable Loan Program I of US$10 million was fully committed during the year with total approvals reaching P583.41 million for 13 accounts with releases amounting to P217.03 million. A 5-day capacity building seminar on renewable energy technologies such as solar, hydro, wind and biomass was conducted to strengthen the technical expertise of 25 participants from the Head Office and Branches. Several foreign trainings on renewable energy technologies were also attended by officers of the Bank.

Solid Waste Management

Under the Kreditanstalt fur Wiederaufbau (KfW) Credit Line for Solid Waste Management, 12 projects were approved amounting to P634.41 million of which P290.1 million was released. These projects included construction of sanitary landfill, material recovery facility and purchase of collection and transport equipment and heavy equipment for the construction and operation of sanitary landfill. As of end-2006, projects under evaluation and prospective accounts totaled P2.2 billion.

Air Pollution and Control

The KfW – Industrial Pollution Control Loan Project - Phase II has ten approved projects amounting to P157.41 million. Total releases for the year reached P208.1 million which contributed to the overall utilization of more than 100% of the total credit facility of P601.8 million. As of year-end, total releases to sub-borrowers amounted to P575.5 million equivalent to 96% utilization.

The credit component of the JBIC-Environmental Infrastructure Support Credit Program II was completed in March 2006 with a full drawdown of JPY 20 billion or P9.52 billion. Projects funded under the program contributed to the reduction of air pollution and wastewater, cleaner production, conservation of natural resources and improvement in occupational health and safety of workers.

DBP Forest Program

Launched in 2005 in response to the government's call to step up reforestation efforts, the DBP Forest Program is a pioneering initiative that has made a mark in environmental preservation with its growing nationwide implementation.

Funded by the KfW of Germany with a seed fund of P50 million, the program encourages the reforestation of open and denuded areas of 50 to 500 hectares to prevent soil erosion, conserve water, provide habitat to wildlife, and restore coastal ecology. It is also expected to contribute in the economic growth of the country with its concomitant objectives of preserving livelihood and developing downstream industries in the countryside.

As of year-end, the Bank has undertaken 25 forest development projects amounting to P112.94 million. These forest projects covering a total area of almost 6,000 hectares, are located in Bataan, Bulacan, Cagayan, Sarangani, Davao City, Bukidnon, Palawan, Guimaras, Iloilo, Quezon, Mindoro, Tarlac, Marinduque and Samar. Of this area, a total of 1,000 hectares have been planted with a variety of high value fruit and forest trees.

ISO 14001 Certification

DBP's environmental management system (EMS) was re-certified to be compliant with the ISO 14001 standard based on the result of a surveillance audit conducted in 2006 by AJA Registrars, Inc., an independent certification body. Management review and internal audit procedures primarily account for the strengths of the EMS.

DBP is the first Philippine bank to be ISO 14001-certified in 2002 for its successful establishment and implementation of an EMS, proof of its commitment to environmental protection and sustainable development.

Support for Micro, Small & Medium Enterprises (MSMEs)

As a formidable partner of micro, small and medium enterprises (MSMEs), DBP continues to be a potent force in the establishment of competitive business ventures that would help spur economic development nationwide. The Bank remained focused on this development thrust as total outstanding loans to the sector as of year-end 2006 reached P16.2 billion.

SULONG Program

The SME Unified Lending Opportunities for National Growth (SULONG) Program, launched by President Gloria Macapagal Arroyo in 2003, seeks to further empower SMEs by providing them greater access to short- and long-term credit. As the flagship program of the government's National SME Development Plan, SULONG provides a common framework of assistance that mandates GFIs to simplify and standardize lending procedures and guidelines in order to create a wider, borderless financing system. The program likewise aims to provide greater benefits by lowering the effective cost of borrowing by SMEs under more liberal requirements. Total releases for the year under the program amounted to P11.05 billion with total number of jobs supported nationwide reaching 141,375 using the SULONG Finance Committee formula of 1 job for every P80,000 SME loan.

Microfinance Program

To facilitate the access of microenterprises and the entrepreneurial poor to formal credit and banking services as a strategy for job generation and entrepreneurial growth, the Bank's Microfinance Program was relaunched during the first quarter of the year. Total loans granted to microfinance projects aggregated P323.32 million serving more than 44,000 clients and with total 15,185 jobs supported.

DBP also granted a P500 million clean revolving credit line to the People's Credit and Finance Corporation (PCFC), the main government agency involved in the delivery of microfinance services exclusively for the micro-entrepreneurial poor. The loan will finance the various initiatives of micro-entrepreneurs with P180 million going to livelihood, P270 million to housing, and P50 million to micro-energy projects. Some 100,000 poor families nationwide are expected to benefit from said facility. DBP previously granted a P300 million clean revolving credit line to PCFC in 2005 and a P200 million term loan in 2004.

As of end-2006, PCFC reached out to about 27,000 microentrepreneurs through relending to 71 microfinance institutions while supporting almost 45,000 jobs.

SME Suppliers and Subcontractors Financing Program

The Bank also made available the SME Suppliers and Subcontractors Financing Program (SSFP) with an initial funding of P1 billion. It is an investment financing program that will help entrepreneurs address their business expansion requirements and strengthen the Bank's efforts to support the growth of small and medium enterprises (SMEs) in the country. The program is designed specially for SMEs engaged as subcontractors or suppliers of big local corporations or foreign multinational companies operating in the country. It focused on SMEs which have at least two years of business relationship with their "big brother" local or foreign companies, specially those engaged in agribusiness, electronics and semiconductors, manufacturing, automotive industry and other export-oriented manufacturing activities.

SPEED Program

As part of its integrated approach to enhance the competitiveness of MSMEs, the Bank also continues to extend non-credit assistance in the form of technical support in the areas of marketing, research and development, business diagnosis, and human resource development. It pioneered the Sustainable Partnership for Energizing Entrepreneurship Development (SPEED) program to empower Filipino entrepreneurs or the micro, small and medium enterprise (MSME) sector through more convenient and efficient access to technology, markets, credit and technical assistance. By working with strategic partners and through the establishment of a nationwide institutional mechanism, the program hopes to strengthen the government's delivery system to the MSMEs by bringing together the different services required for the development of the sector under one roof.

The program supports sustainable entrepreneurship development by influencing and directing the flow of credit and other support services to viable and highly developmental projects of MSMEs guided by the Countryside Investment Priority Plan for the key areas in Luzon, Visayas and Mindanao.

The SPEED program involves the establishment of an institutional mechanism to help improve the efficiency and effectiveness of the DBP and its partner institutions in the delivery of credit, technical assistance and other support services to MSMEs. In concrete terms, DBP will partner with government and private institutions such as the Department of Trade and Industry, Private and State Universities and Colleges, Alliance of Philippines Partners in Enterprise Development, Inc., Medium and Small Scale Industries Coordinated Action Program (MASICAP), and the Department of Science and Technology for the establishment of SPEED Business Assistance Centers (BACs) in key areas all over the country.

Business Assistance Centers

The Business Assistance Centers (BACs) function and operate like one-stop shop service centers where micro, small and medium enterprises can get all the necessary information and support services from DBP and its partner institutions so that their project requirements and business concerns can be attended to more expeditiously and cost-effectively. In effect, each BAC will serve as the venue for the consolidation and deployment of the resources and services that each of the SPEED partner institutions will contribute to the program to enable those eligible MSMEs to have a seamless access to the credit facilities and other support services that are made available to them under the SPEED Program. Moreover, the BACs shall assist in the formation and propagation of tie-ups between micro and small enterprises and big anchor companies or consolidators/aggregators through subcontracting or contract growing schemes. These BACs primarily will be established and located in the premises of the partner educational institutions that have volunteered to host and manage the operations of the Centers.

DBP has established 13 BACs, of which 10 are operational as of year-end, namely: 1) Pampanga Agricultural College – San Fernando, Pampanga, 2) Benguet State University – La Trinidad, Benguet, 3) Mariano Marcos State University – Ilocos Sur, 4) Camarines Sur Agricultural College – Pili, Camarines Sur, 5) Aklan State University – Banga, Aklan, 6) Central Philippine University – Jaro, Iloilo City, 7) Foundation University – Dr. Miciano Road, Dumaguete City, 8) Palawan State University – Puerto Princesa City, Palawan, 9) Cebu State College of Science and Technology – Cebu City, and 10) MASICAP Development Foundation – Davao City.

DBP Operational Highlights

Living up to its vision as the Bank that makes life better for every Filipino, DBP has always maintained a clear focus on improving the country's social infrastructure. Towards this end, the Bank supports investments in social services and community development projects towards the delivery of health care, education, power, housing, water, eco-tourism, and other basic services, especially in remote areas. Undertaken in partnership with local government units and the private sector, total loans involving this priority thrust amounted to P5.07 billion as of year-end.

Health Care Projects

The Bank proved to be a reliable partner in the development of the country's health care infrastructure as approved projects for the sector as of year-end amounted to P1.9 billion. Major undertakings during the year included a P104.5-million term loan to the James L. Gordon Memorial Hospital to finance the construction of its new out-patient department and medical arts building. The Bank's assistance is also intended to fund the renovation of the hospital's existing facilities and purchase of new equipment.

DBP also extended a P150-million loan assistance to the Provincial Government of Quezon for the construction of a new provincial hospital, and a P50-million assistance to Sta.Rosa Hospital Systems, Inc. for the construction of a tertiary hospital which will address the health needs of residents in Sta.Rosa, Laguna and nearby areas.

Efforts have also been undertaken for the conceptualization and development of an envisioned Health Protection Program that will cater to low income segment group. Program stakeholders that may be involved in the delivery of health protection benefits for this low income sector have also been identified.

Community Development Projects

Under the ADB-funded Development of Poor Urban Communities Sector Project (DPUCSP), total loan assistance amounted to P966.98 million as of year-end for site development, home improvements and livelihood with total 3,282 jobs supported. These include the P159 million loan to subdivision developers to indirectly finance the housing needs of 695 households and the P54 million releases for relending through the participating Local Government Units and Non-Government Organization to address the various needs of the urban poor in the Metro Manila Urban Beltway, Central Philippines and Mindanao.

MIRACLE Program

In partnership with Land Bank of the Philippines, DBP issued P9.8 billion worth of investment certificates out of the P14.3 billion worth of outstanding IRA receivables from the national government under the Monetization of IRA Collectibles for Local Empowerment (MIRACLE). The program enabled 21,291 participating LGUs to advance their respective shares from the IRA balance. Using the Notices of Payment Schedule (NPS) issued by the Department of Budget and Management, the LGUs were able to convert into cash their IRA receivables at a discounted amount which they may use in undertaking priority projects for their constituents.

OTHER INITIATIVES

Migrant Workers Loan Program (MWLP) and the Remittance Business

The Bank stepped up its support for the OFW sector through the MWLP that will provide loan assistance to migrant Filipino workers and overseas placement agencies. This recognized the important role of the OFWs in the country's economic bloodstream and is in line with DBP's commitment to further its assistance to the ever-growing OFW sector and to uplift the conditions of migrant workers.

A total of P500 million was allocated for wholesale lending to eligible borrower-conduits for relending to OFWs for their pre-departure, multi-purpose, enterprise development and housing loan needs; and P100 million for wholesale lending to overseas placement agencies. Eligible borrowers-conduits for this program are SEC-registered financing companies, financial institutions such as thrift banks, rural banks, microfinance banks, cooperative banks and non-government organizations and cooperatives. As of year-end 2006, total releases under the MWLP totaled P50.64 million benefiting a total of 1,590 beneficiaries.

Along this area, DBP started efforts towards an intensified remittance program with the establishment of its first remittance subsidiary, the DBP Remittance Center Hongkong Ltd. Remittance centers are also set to be established in Italy and the U.S. to serve the remittance requirements of the growing OFW population in these areas.

Electronic Cash Remittance Program

The DBP Electronic Cash Remittance (EC Remit) Program was also launched to provide OFWs with a secure, safe, fast, easy, efficient and reliable means to remit their hard-earned money to their designated beneficiaries in the Philippines. The program combines electronic-based and traditional remittance services which include the following: a) the DBP EC Card, b) DBP EC Door-to-Door, c) DBP EC-Pick-up, d) DBP EC Bank-to-Bank Credit, and e) DBP EC Credit to Account.

The DBP EC Card is a prepaid, multi-purpose and reloadable ATM Card that brings electronic convenience to the OFWs. It provides OFWs the opportunity to send money to their beneficiaries anytime, anywhere. The DBP EC Door-to-Door is the traditional way of sending remittance, with the added benefit of having the credibility and guarantee of DBP. This is being marketed as a safe and risk-free service, with licensed, accredited and reputable couriers delivering cash, right at the beneficiaries' doorstep. On the other hand, the DBP EC Pick-Up offers beneficiaries the option to get their remittance from any DBP Office or branch or accredited outlets most convenient to them.

The DBP EC Credit to Account enables remittances to be credited to the account of the OFW or the beneficiaries with DBP, while the DBP EC Bank-to-Bank Credit allows remittances to be credited to the accounts of beneficiaries with other banks.

Fund Sourcing

DBP is a major conduit of official development assistance (ODA) funds. The Bank mobilized P36 billion of ODA loans to priority sectors as follows: a) SMEs with P15.84 billion from the Japan Bank for International Cooperation (JBIC) Industrial Support Services Expansion Program Phase II and P2.31 billion from the KfW – Credit Line for Micro, Small and Medium Enterprises, b) Environment – P9.52 billion from the JBIC Environmental Infrastructure Support Credit Program Phase II, and c) Infrastructure and Logistics/Domestic Shipping - P8.34 billion from the JBIC Domestic Shipping Modernization Program Phase II.

The Bank pursued efforts to diversify its ODA sources, and tapped loans with new European partners such as the European Investment Bank (EIB) for a Euro 25 million loan, and the Swedish International Development Agency (SIDA) for a US$10 million loan. An additional loan of Euro 5.287 million was concluded for the KfW Credit Line for the small and medium enterprises (SMEs), microfinance institutions (MFIs) and local government units (LGUs).

As of end-December 2006, total funds in place for public and private sector projects amounted to P44.3 billion, consisting of P19.9 billion for SMEs, P6.77 billion for environmental projects, P11.8 billion for industrial projects, P4.5 billion for logistics, and P1.35 billion for social services, particularly for education and housing finance.

Corporate and Investment Banking

The Marketing Head Office Sector (MHS) pursued lending activities to its existing clients and viable projects aligned with the Bank's priority programs. Its marketing efforts were focused on the developmental priority programs resulting in the significant build-up of pipeline projects.

Among its major projects are the following: a) purchase of up to P1 billion for the proposed P12 billion corporate notes issue of Manila Electric Company to refinance existing loan obligation and to fund working capital and capital expenditures; b) participation of up to P500 million in the P2 billion funding activity arranged

by BPI Capital Corporation to partially finance Aboitiz Equity Ventures, Inc. investments in certain power projects and to refinance maturing loan obligations; c) P1.5 billion syndicated term loan to partially finance the construction of the R1 (Manila-Cavite Toll Expressway) extension Segment 4; d) up to P500 million participation in the P1 billion corporate promissory notes for the general funding of the development and construction of Seascapes Resort Town in Cebu and to refinance existing obligation; and e) purchase of underwritten securities of up to P1 billion participation in the P2 billion corporate notes to finance the modernization and expansion of the Philippine Ports Authority's major port projects.

Other projects assisted included the following: a) up to P310 million term loan to partly finance the transmission line component of Philippine National Oil Company-Energy Development Corporation's (PNOC-EDC) Northern Luzon Wind Power Project, substations and interconnection facilities; b) up to P400 million participation in the proposed P1.8 billion syndicated term loan to San Carlos Bioenergy, Inc. to partially finance the development, construction and operation of an integrated ethanol distillery and power cogeneration plant in the San Carlos Agro-Industrial Economic Zone in Negros Occidental; and c) first renewal of P1.0 billion clean omnibus credit line to First Gen Corporation to fund the business development initiatives of the company and its subsidiaries.

Financial Institutions

In 2006, the Bank's Financial Institutions (FI) framework reached a full year cycle. The wholesale banking business experienced a difficult year due to the continuous downtrend in interest rates. The banking system, including the Bank's participating financial institutions (PFIs) were awash with heavy liquidity, thus tempering their dependence on ODA funds.

Trade-related transactions, however, supported the Bank's developmental and commercial activities. At year-end 2006, the volume of trade transactions has grown by 263%, from $30 million to $109 million. This is attributed to initiatives towards improving product knowledge and its sustained support in providing lending solutions with trade components. FI provided the marketing units of the Bank with an end-to-end solution by becoming the trade product champion and the operations/technical support in the implementation of the lending programs with trade components. By pinpointing trade business opportunities in its lending activities, the Bank was able to move appropriately to respond to the needs of its clients whose projects and business reach redound to the countryside. Consequently, this enabled the Bank to continue with its mandate of providing a sustainable financial support to facilitate social development.

Treasury Operation

An average of P11.8 billion deposits was generated through the Bank's treasury operations, including dollar and peso high cost deposits. In the early part of the year, DBP offered the first tranch of its Unsecured Tier 2 Subordinated Notes of up to P10 billion and was able to raise P2.35 billion at a fixed rate of 9.5% per annum. The Bank was the first government financial institution (GFI) and the second Philippine bank to issue Capital notes to the global investment community. This supported the Bank's bid towards expanding the scope and scale of its products and services, generating liquidity and investment revenues in support of developmental programs, increasing the Bank's capital adequacy ratio (CAR), and generating guaranteed funding in case the Official Development Assistance (ODA) funds dry up.

The year also saw DBP making its first successful foray in the international capital markets, its US$130 million Hybrid Tier 1 Capital Notes received overwhelming response, recording 12 times oversubscription from investors in Singapore, Hong Kong and London. Its interest rate, initially pegged at 8.75% p.a. was later reduced to 8.37% per annum. Proceeds of the bond offering will further support DBP's priority initiatives in infrastructure and development and energy, as well as for general corporate purposes.

Trust Operations

The Bank's trust operations posted a 12% increase in its portfolio to reach P19.2 billion from last year's level of P17.2 billion. This consists of Investment Management Accounts (IMA) (64%) and Trust and Other Fiduciary Accounts (TOFA) (36%). Average monthly trust portfolio for the year was computed at P20.25 billion or an average monthly inflow of P890 million in trust portfolio.

Gross trust income of P101.4 million posted an increase of 18% compared to 2005 level of P85.7 million. During the year, the Gintong Sikap Secure Fund (GSSF), a peso denominated Unit Investment Trust Fund was launched which will help generate income and increase the portfolio through intensified marketing of this fund to the branches and other Bank Units. Various trust services were undertaken which included among others: Registry, Paying Agent and Public Trusteeship for PS Bank for the issuance of its P2 billion Tier 2 Capital Notes; Public Trustee for IE Bank for the same purpose; Facility Agent for HDMF for the proposed floating of P2 billion Pag-ibig Bond issuance; and Collateral and Loan Agent for Eagle Cement for the P3 billion syndicated loan.

Asset Management

The Bank's Asset Management engaged the services of a financial advisor and concentrated its efforts on the bulk sale of non-performing assets (NPLs and ROPAs), single asset sales, restructuring and full settlement negotiations.

The Bank disposed of NPLs with aggregate principal obligation of P4.94 billion, representing 85% of P5.82 billion bankwide NPLs. Several NPLs were disposed of or recovered through single asset sale of P281 million and compromise settlement of P292 million. With these transactions, the number of NPL accounts was reduced from 54 to 13 by year-end.

With respect to bulk sale of acquired assets (AAs), 166 accounts were disposed with booked value of P896 million. This represented 24% of P3.65 billion bankwide AAs. Eighty-eight AAs with booked value of P69.51 million were disposed through public bidding, negotiated sale, cash and compromise settlement.

Branch Operations

In keeping with its mandate to catalyze countryside growth, the Bank continued to harness the strength and strategy reach of its network of Area Management Offices (AMOs) and branches nationwide. Corollary to this, loans released totalling P11.9 billion, of which 86% or P9.9 billion went to developmental loans, while P1.7 billion or 14% went to commercial projects. Of the various projects assisted, half of the amount or P5.8 billion went to AMO Visayas (P3.0 billion) and AMO Mindanao (P2.8 billion). AMO North Luzon and AMO National Capital Region put in one-fifth share at P2.5 billion and P2.2 billion, respectively, while AMO Southern Luzon's share amounted to P1.2 billion.

Significant projects included assistance to local government units (LGUs) in their various programs that have positive and substantial impact on countryside development particularly in the delivery of basic social services. A P400 million term loan was extended to the provincial government of Camarines Sur and a P195 million term loan to the provincial government of Masbate to finance key development projects. This marked the first time that DBP was tapped to fund the development requirements of the province. The credit assistance to Masbate will be used for the construction of road networks and bridges towards the improvement of the infrastructure system of the province . The loan released to Camarines Sur will support the construction of new school buildings, barangay health centers, mini hospital in the Provincial Capitol, and farm-to-market roads in various districts and tourist areas in the province.

A P475 million term loan was also approved for the provincial government of Ilocos Norte to finance the construction of the Ilocos Norte Hotel and Convention Center in Barangay Balacad, Laoag City. This project was initiated as part of the LGU's thrust to take advantage of the province's growing domestic tourism and investment prospects. Annual income of P19.73 million is expected to be generated from the project for channeling to various economic activities in the province. Another project is the P173 million loan to the provincial government of Eastern Samar for the purchase of a fleet of heavy equipment, agricultural machinery, and fishing equipment for the benefit of farmers and fishermen in the province.

Operationalization of the Super Region Team

Taking its cue from the super region program, the Bank has laid the groundwork for the realignment of its branch banking strategy to complement the government's intensified campaign to encourage investments in infrastructure and services that will create jobs and improve living standards across the country. The super region program aims to spur economic growth in the countryside by bolstering the natural advantages of five distinct subeconomic regions of the country. These five super regions are: the Northern Luzon Agribusiness Quadrangle; Luzon Urban Beltway; Central Philippines Super Region; Mindanao Super Region; and the Cyber Corridor.

In consonance with this government economic reform thrust, the Bank has initiated the reorganization of its Branch Banking Sector. Alongside this initiative, a team of account officers is also being created to provide a focused approach to promoting the Bank's products and services, structuring of deals, and providing technical and administrative support to the concerned Area Management Offices and Regional Marketing Centers in identified super regions.

Under the reorganization plan, branches and Northern Luzon offices will assist projects under the Northern Luzon Agri-Business Quadrangle, while Central Luzon and Metro Manila branches will be tapped for development activities in the Metro Luzon Urban Beltway. Visayas and some Southern Luzon branches will be assigned to the Central Philippines Tourism Center, and Mindanao Branches will focus on the Agri-business Center.

Information Technology

After an evaluation and assessment of the 2003 Information System Strategic Plan (ISSP) and all application systems in production, the Bank came up with a Refined ISSP with the objective of rationalizing and integrating the Bank's IT infrastructure. The creation of templates for Risk Management Data Warehouse was completed and the requirements for the development and acquisition of application systems, such as the Integrated Remittance, Treasury and AMLA Electronic Systems and Customer Information File were set-up. Likewise, the Bank's hardware infrastructure and network communication lines were upgraded and existing electronic services such as the BuyPhilippines, GoPhilippines, E-Payment, SPEED and M4SME-RP, were expanded.

Functional and Organizational Refinements

In line with the Bank's priority thrusts, refinements in the Bank's functional and organizational structures were implemented to promote efficiency and operational effectiveness and to determine the manpower complement that will ensure attainment of targets. These include the creation of Small and Medium Enterprise Department (SMED) as the lead unit in the Bank for the development of small and medium enterprises into a dynamic and strategic sector and the Microfinance Resource Center (MFC) as the primary unit to provide sustainable and profitable services to microfinance institutions and practitioners to further enhance their effectiveness and efficiency in the development of micro-enterprise.

SMED shall operationalize effective modes of providing SME financing and ease up the bottlenecks that constrain the flow of funds to the SME sector while MFC is responsible for the overall management of the Bank's microfinance operations which include the provision of credit services and technical assistance to both bank and non-bank microfinance institutions (MFIs).

The Window III operations was revived and integrated into the functions of MFC to further boost the development interventions for the microfinance sector and thus make them viable partners in hastening countryside progress. The Program Evaluation Department (PED) was also created to handle the independent evaluation of development programs of the Bank and thus, improve efficiency and effectiveness in program implementation.

The organization structure of Program Development Departments I and II (PD I & II) were also refined to promote focus, coherence and synergy among the related credit facilities. PD I handles programs related to natural resources development and environmental protection while PD II is responsible for economic and social infrastructure programs.

Continuous refinements in the Marketing Branches Sector are also being undertaken to streamline the organization structure of the branches for greater efficiency and effectiveness.

Lastly, the Training Center was spun off from the Human Resource Management to more effectively address the training requirements of Bank officers and personnel. It reports directly to the Office of the President and CEO.

INSTITUTIONAL VIABILITY

DBP kept its financials strong in 2006 riding high on the encouraging and improved economic fundamentals. Its performance showed a consistently substantial improvement in profitability that underscored the sustained viability of its operations.

Results of the Operations (Consolidated)

Net income for the year soared to P4.65 billion, the highest ever attained in the Group's history. This figure exceeded by 22% the P3.80 billion restated net income last year due to revenue increments two times higher than the combined increases in provisions for impairment and income tax. Non-consolidated return on equity was 17.24% and return on assets was 2.03%.

Gross income reached P21.18 billion or 24% higher compared to the P17.12 billion achieved a year ago, posting gains in both the net interest income and other income. Other income grew significantly by P2.81 billion or 75% to P6.54 billion mainly attributable to foreign exchange profits arising from revaluation of certain foreign borrowings.

Net income before provision for impairment losses and taxes reached P7.62 billion or 58% higher than the 2005 figure. During the year, DBP reserved a total of P2.18 billion, mostly to cover market volatility of investment portfolio and to protect against perceived weaknesses in loans and other assets, all in accordance with, if not improvements over the BSP requirements. Operating expenses of P5.36 billion for this year was higher by P329 million than the P5.03 billion incurred in the previous year, primarily due to the settlement of prior years' tax liabilities.

Financial Condition (Consolidated)

Resources stood at P241.70 billion, rising by P27.83 billion or 13% over the previous year. Loans, net of allowance for impairment losses, grew by 20% or P22.81 billion to P134.97 billion.

Non-performing Loans (NPL) substantially reduced by P5.89 billion or 66% from P8.95 billion in 2005 to P3.06 billion due to the derecognition of non-performing assets (NPAs) covered by the bulk sale of NPAs through Special Purpose Vehicles (SPV). Consequently, NPL ratio improved remarkably by 482 basis points from 6.94% in 2005 to 2.12% this year.

Liquid assets rose by 42% or P29.79 billion to P100.12 billion significantly backed by higher placements on government securities. Total deposits soared by P20.34 billion against previous year's level of P50.75 billion reaching P71.09 billion as of end of 2006, of which 76% was supplied by government deposits and 24% from the private sector.

Total borrowings of P118.30 billion dropped by P11.67 billion from the P129.97 billion in 2005. Fundings from Official Development Assistance (ODA) accounted for the 76% or P89.86 billion and the remaining 24% or P28.44 billion were sourced from Non-ODA funders.

Capital funds went up to P35 billion, mark up by 36% as of year-end 2006, on the strength of DBP's net income performance and issuance of Hybrid Tier 1, thus, the resultant effect on Capital-to-Risk Assets Ratio registering at 28%, which was significantly up by 827 basis points over 2005.

DBP Operational Highlights

DBP SUBSIDIARIES

DBP manages two subsidiaries, namely: the DBP Data Center Inc. (DBP-DCI) and DBP Management Corporation (DBP-MC). DBP-DCI contributes to the Bank's thrust of spurring sustainable growth and development by providing assistance to different government entities in the implementation of their respective IT projects. These include facilitation of supply and delivery of IT equipment, systems development, technical assistance and conduct of training programs. It now serves new customers in government such as the Board of Investments (BOI), Bureau of Internal Revenue (BIR), Insurance Commission (IC) and the Department of Interior and Local Government (DILG) through the Local Government Academy (DILG-LGA). It has likewise been supporting the various IT systems of DBP for almost 24 years all aimed to enhance DBP's service to clients.

The DBP-MC, a wholly owned DBP subsidiary, manages the DBP Remittance Center HK Limited (DBP RC HK, Ltd.), another wholly-owned subsidiary. DBP RC HK, Ltd, which commenced operation in September 2006, is the first overseas remittance center of the Bank in the Asia Pacific Region. It caters to some 150,000 Overseas Filipino Workers (OFWs) in Hong Kong and nearby Macau and provides a secure, fast, efficient and reliable means of remitting their hard-earned money through the DBP Electronic Cash (EC) Remit Program.

To expand its network in extending these services to the OFWs in Hong Kong, DBP has concluded working arrangements initially with Niaga Remittance Centre Ltd., Eastern Eagle Financial Services, Franki Exchange, UAE Exchange Ltd., Global Ventures Services & Remittance Ltd., Calison Remittance Centre Ltd. and Pinoy Express Services Ltd.

DBP aims to establish more subsidiaries and tie-up arrangements with foreign banks and/or reputable remittance companies, to help uplift the well-being of Filipinos whose personal sacrifices have been helping not only their families, but also the country by bringing in much needed foreign exchange.

Primed for the Future

DBP's remarkable financial performance in 2006, buoyed by an improving economy, demonstrated its strength and determination to be at the forefront of countryside development. It has geared up its focus and operations to complement the different pro-poor initiatives of the government. Capitalizing on its achievements, the Bank is at a ready stance to be an agent of positive change in key sectors such as infrastructure and logistics, transportation, power and energy, education, health care and social welfare, and the environment.

For 2007, the Bank is well on the way to dynamic and viable operations. It will intensify efforts to support various development programs and initiatives such as the Sustainable Logistics Development Program (SLDP) and its initiatives for the small and medium entrepreneurs. It will also step up efforts to make new products and services more accessible and responsive to the needs of its clients. Indeed, the Bank is primed to ride on the wave of opportunities, and to take the next giant step to help propel the country towards sustainable development.

Developmental Thrusts

Sustainable Logistics Development Program

As an archipelago with over 7,000 islands, an efficient and modern inter-island transport system is imperative. The Bank's Sustainable Logistics Development Program (SLDP) is an investment financing program for a comprehensive and integrated transport as well as related infrastructure and support services. It offers a cost-effective means of moving people and goods, particularly grain, and perishables including fish, meat, fruits and vegetables. It aims to link businesses and people, promote trade and tourism, lower costs of transport and consequently, prices of goods, generate employment and spur development, especially in the agri-fisheries and SME sectors. Due to its high developmental wide ranging impact, the SLDP has been adopted as a flagship project of the national government, more popularly known as the Strong Republic Nautical Highway.

Since the inception of the program in 2003, 152 projects have been approved involving P4.7 billion for the three components of the program namely: Road Roll-on Roll-off Terminal System (RRTS) - P2.1 billion with 14 projects; Grains Highway – P1.1 billion with 99 projects; and Cold Chain – P1.5 billion with 39 projects. As of year-end, there were 42 projects in the pipeline amounting to P1.13 billion and 48 prospective projects amounting to P2.73 billion.

The RRTS projects include the modernization, upgrading and acquisition of vessels, port development and acquisition of port equipment while projects under grains highway consist of processing centers with mechanical shelling, drying and storing in bulk, bulk trucking, terminal facilities and bulk carriers. The cold chain projects include processing and marketing centers, aggregating centers, reefer transport equipment and vehicles, ice plants and other cold storage facilities.

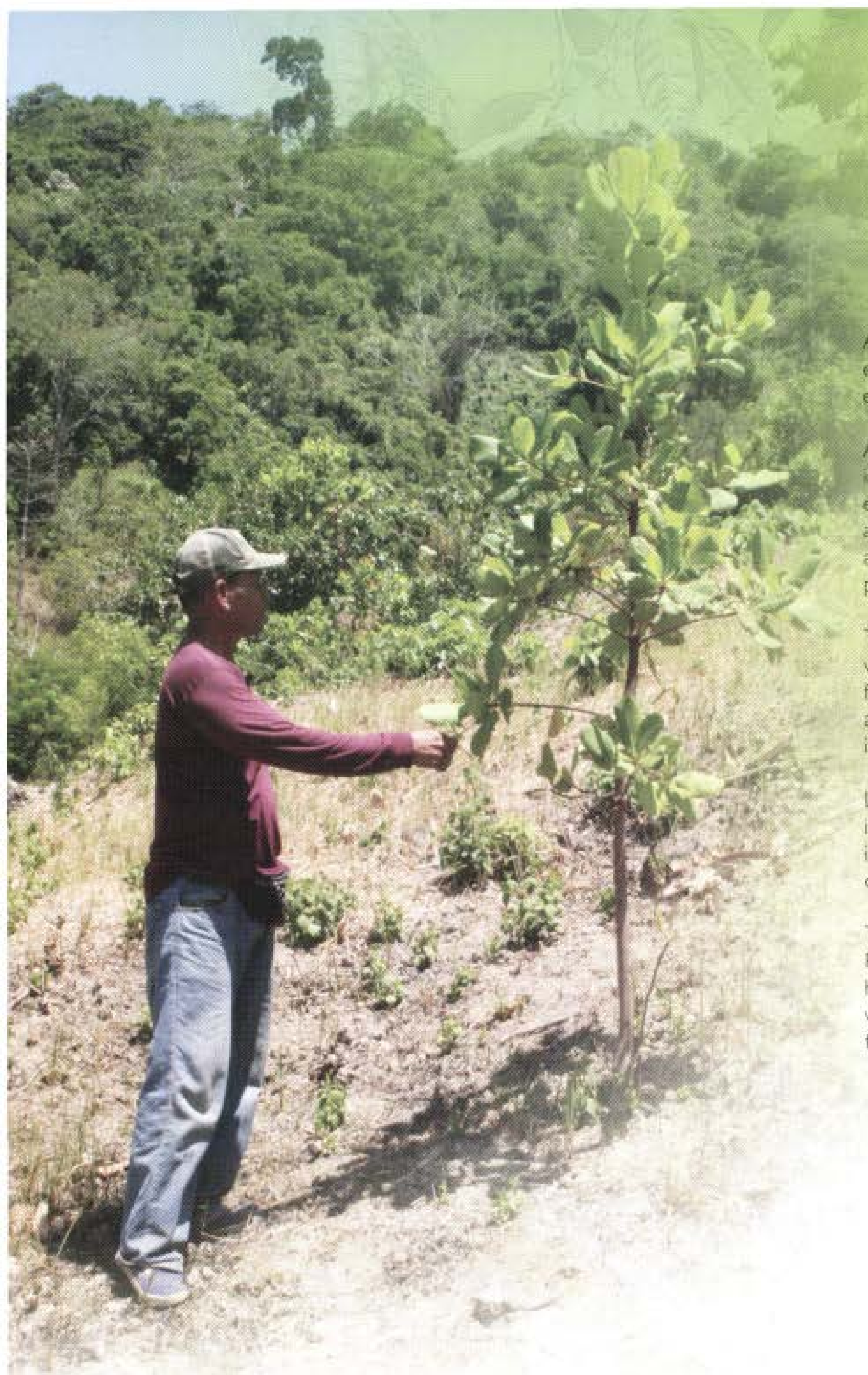
Hybrid Tier I Issue

The DBP offered Tier I hybrid capital notes to the global investment community in September 2006 to boost its capital and thus enable the Bank to continue pursuing its developmental mandate. It was the first issue of its kind from a government financial institution and only the second from a Philippine bank.

Tier I is the equity or core capital that includes the value of common stock and non-cumulative perpetual preferred stock. The Bangko Sentral ng Pilipinas authorized the DBP to market up to US$130 million perpetual notes callable in year 2016. This issuance would help the Bank raise its capital adequacy ratio further to 33% in anticipation of the adoption of the Basel 2 accord.

The Tier I capital securities issued by the Bank turned out to be one of the biggest order books for a non-sovereign issue. Total order book for the Bank's first international deal reached US$1.6 billion, which was 12 times oversubscribed. The deal was originally priced at 8.75% but due to the strong demand, the Bank was able to price it down to 8.375%.

This fresh capital would sustain the development momentum of the Bank and would support the financing of large infrastructure projects and alternative energy programs, among other development endeavors.



The DBP Forest

As the world grapples with the problem of global warming and climate change brought about by environmental degradation, it is now recognized that a responsible and effective stewardship of the environment is requisite to sustainable economic development.

As a long-time advocate of the environment, DBP has integrated environmentally sound practices in its daily banking operations and management systems. But the Bank's environmental advocacy is even more concretely manifested in the DBP Forest Program that aims to protect the coastal areas and to conserve the soil and water in the uplands while improving spawning grounds for terrestrial and marine aquatic life. The program was borne out of the destruction wrought by landslides in the provinces of Quezon and Aurora in December 2004.

The program involves the planting of high value trees and useful plants in denuded forest sites. High value forest trees have included rubber, narra, mahogany, acacia, ilang-ilang, bamboo and rattan, while fruit-bearing trees have consisted of mangosteen, rambutan, pomelo, lychee, lanzones, durian, citrus and pili. At the same time, the program encourages and assists in the development of downstream industries in the countryside.

Launched on April 22, 2005 during the Earth Day celebration, a total of 25 forest projects have been initiated by the Bank of which 18 are upland and 7 are mangrove projects. These were implemented in partnership with local government units, state universities and colleges, private firms and people's organizations.

The forest sites are dispersed countrywide in Bataan, Bulacan, Cagayan, Sarangani, Davao City, Bukidnon, Palawan, Guimaras, Iloilo, Quezon, Mindoro, Tarlac, Marinduque and Samar. The total area covered has reached almost 6,000 hectares, of which more than 1,100 hectares have already been planted with a variety of fruit and forest trees. Funds disbursed have aggregated P10.26 million with balance for release standing at P101.5 million.

DBP Remittance Center (HK) Ltd.: The Maiden Voyage

As part of its development thrust to assist strategic sectors that can spur the country's economic growth, the DBP has identified the Overseas Filipino Workers (OFWs) as one such significant market. Thus was born the Bank's first overseas remittance center, a milestone in DBP's 59-year history as a solid and stable government financial institution.

This first remittance subsidiary expands DBP's global reach and taps the growing OFW market by offering competitive remittance products and services. The Bank also seeks to offer the best remittance rates to encourage OFWs to take advantage of the remittance options available through the banking system.

The DBP Remittance Center HK Ltd., which was inaugurated on September 1, 2006, is now providing the Hong Kong OFWs a secure, fast, efficient and reliable means of remitting their hard-earned money to their beneficiaries in the Philippines through the Bank's Electronic Cash (E.C.) Remittance Program. This program adapts a combination of electronic-based and traditional business models such as those used in virtual payments, credit/debit card facilities, fund transfers/payments through ATMs/banks, non-bank service providers and door-to-door delivery facilities.

Corporate Governance and Risk Management

CORPORATE GOVERNANCE

One of the more notable achievements of DBP is the institutionalization of the principles of good governance in the organization. Today, DBP's Board of Directors, Management, officers, and staff have all committed themselves to the principles and best practices of corporate governance, guided by the Manual of Good Governance in the attainment of corporate goals.

In DBP, compliance with the principles of good corporate governance starts with the Board, which consists of nine members, all of whom are appointed by the President of the Republic of the Philippines. It is the Board's responsibility to foster the long-term success of the Bank and secure its sustained competitiveness in a manner consistent with its fiduciary responsibility, which it shall exercise in the best interest of the Bank, the Filipino people, and other stakeholders. The Board conducts itself with utmost honesty and integrity in the discharge of its duties, functions, and responsibilities.

Adhering to the provisions of Section X141 of the BSP Manual of Regulations of Banks, the Board nominated two independent directors who were confirmed by the BSP Monetary Board. To maintain the quality of bank management and ensure better protection for depositors and the general public, it is Bank procedure to require all newly-appointed officers to submit a verified statement to the BSP attesting that he/she possesses all the qualifications mentioned under BSP Circular No. 513 series of 2006, or the Fit & Proper Rule of the BSP.

To aid its compliance with the principles of corporate governance, DBP set up the following Committees, namely, the Executive Committee (ExCom), Audit and Compliance Committee (AuditCom), Committee on Risk Management (CRM), Human Resource Committee (HRC), Trust Committee (TrustCom) and Governance Committee (GC). In addition, DBP created the Development Advocacy Committee (DAC) and the mSME Committee to further strengthen and enhance the implementation of its development mandate as well as further improve its governance.

The ExCom is a scaled down version of the Board of Directors. It is composed of only five members including the Chairman, the President & CEO and three Directors, with all other Directors, the Chief Operating Officer and Chief Legal Counsel as Ex-Officio members. In 2006, it addressed the Board agenda of matters that were within its delegated authority in four meetings on top of the Board's 42 meetings in 2006. A total of 42 credit transactions were acted upon by the Committee and eight miscellaneous matters consisting, among others, of a delegated authorized credit limit and a human resource policy.

AuditCom, made up of three members of the Board, is the overseer of the activities of the Bank's Internal Audit (IA) and Compliance Monitoring Office (CoM). Sitting as Ex-Officio members are the President & CEO, all other Directors, the Chief Operating Officer, and the Chief Legal Counsel or a representative of the Office of the Legal Counsel. In 2006, the committee held seven meetings, noted regular and special reports presented to the committee, and approved, among others, the Ethical Standard of DBP Internal Auditors and the Internal Audit Proposed Working Set-up and Organizational Structure.

The Committee on Risk Management (CRM) includes three members of the Board with the Chairman, the President & CEO, all other Directors, the Chief Operating Officer, the Chairman of the Audit and Compliance Committee, the Chairman of the Credit Committee (CreCom), and the heads of Internal Audit, Risk Management, Treasury, and the Chief Legal Counsel or representative as Ex-Officio members. The CRM, through the Risk Management Office, is principally responsible for the development and oversight of the Bank's Risk Management Program. Twelve meetings were held by the Committee during the year, and it acted on 42 risk management matters.

The Human Resource Committee (HRC) is comprised of at least three members from the Board, with the President & CEO, all other Directors and the Chief Operating Officer as Ex-Officio members. The Committee is back-staffed by Human Resource Management. In 2006, the Committee held eight meetings and favorably endorsed to the Board 13 matters related to employee benefits, as well as acted on 11 human resource related matters.

TrustCom is composed of, the President & CEO, three members of the Board, and the head of Trust Services with the Chairman, all other Directors, the Chief Operating Officer and Head of Treasury as Ex-Officio members. The Committee held 15 meetings in 2006, and approved/noted 32 matters related to trust operations.

The Governance Committee is composed of at least three members of the Board with the President & CEO, all other Directors, and the Chief Operating Officer as Ex-Officio members. The Committee held nine meetings in 2006, and acted on 18 matters related to corporate governance including the approval-in-principle of the Governance Rating Standard for DBP.

The Development Advocacy Committee is composed of at least three members of the Board with the Chairman, the President & CEO, all other Directors, and the Chief Operating Officer as Ex-Officio members. Three meetings were held by the Committee in 2006. The Committee likewise noted nine matters presented.

The mSME Committee has three members from the Board with the Chairman, the President & CEO, all other Directors, the Chief Operating Officer, the Head of the Microfinance Resource Center, and a representative from the mSME Development Program as Ex-Officio members. The Committee met once during the latter part of the year and noted two matters presented to the Committee.

RISK MANAGEMENT

The year was marked with the Bank undertaking various initiatives to enhance its Risk Management process, policies, and procedures. Best-practice methodologies were adopted to strengthen the Bank's capabilities in identifying and measuring risks both on quantitative and qualitative terms. In line with this, the system of reporting was significantly improved to effectively communicate the activities of risk-taking units, adherence to risk limits, control and policy issues, and capital adequacy. A comprehensive analytical process was also established to provide the Board of Directors with the necessary support in administering their risk management, program development, and oversight functions.

Preparing for Basel II

The Bank has embarked on several projects to ensure the smooth implementation of the new international capital standards. The Basel II Implementation Team, spearheaded by the Chief Operating Officer, and the Integrated System Strategic Plan (ISSP) Task Force were created to facilitate the streamlining of bankwide operations and system integrations. The data and system requirements were comprehensively defined for this purpose.

To determine the immediate effects of the change, the Bank conducted simulations on the Basel II framework implementation. It took into account the staggered recognition of the 100% credit risk weight on Philippine foreign currency sovereign exposures required by the Bangko Sentral ng Pilipinas (BSP). The Bank's capital-raising activities during the year, with the issuance of Unsecured Subordinated Debt qualifying as Lower Tier 2 Capital and the Hybrid Tier 1 Capital Notes, proved to be prudent as these significantly offset the expected negative effects of the Basel II framework implementation.

To further support these initiatives and in line with the continuing efforts of the Bank to develop the technical competence of concerned personnel, the DBP Training Center (TC) implemented training programs on Strategic Imperatives of Risk Management with special focus on Basel II. TC also prioritized training programs mandated by regulatory bodies such as the BSP, Anti-Money Laundering Council (AMLC), Philippine Institute of Certified Public Accountants (PICPA), and the Securities and Exchange Commission (SEC).

Market and Liquidity Risks Management

The Bank utilizes the Value-at-Risk (VaR) methodology to quantify its trading risk exposures. VaR is calculated daily on a per asset class and aggregate level. The Bank's trading portfolio is comprised mainly of linear risks. In calculating VaR, the Bank uses a 99% confidence level at 1-day holding period. In addition, trading parameters were established in accordance with the risk-return framework approved by the Board of Directors through the Committee on Risk Management (CRM). The parameters are reviewed and revised annually.

Information on the Bank's market risk is reported by the Risk Management department to the CRM on a regular basis. The details of the Bank's trading activities, interest rate gaps, foreign currency risk exposures, and results of stress-testing and back-testing are comprehensively discussed.

Maturity mismatch analysis is performed to monitor the Bank's liquidity position. Maximum Cumulative Outflow (MCO) limits across time bands were established to manage liquidity risks. Scenario analysis is also done to determine liquidity stress points and considered accordingly in the Bank's Contingency Funding Plan (CFP).

Credit Risk Management

The Bank is guided by a comprehensive credit policy that promotes a strong credit culture and a stable credit risk management process. Across the institution, all credit proposals are evaluated and recommended for approval, at a minimum, by a basic credit committee. Branch transactions are approved by the Regional Management Centers (RMC) credit committee, while Head Office transactions pass through a department-level credit committee. The Executive Credit Committee (ExCreCom) acts on all credit proposals beyond the authority of the basic credit committees and Sector Heads. Approving authorities and credit limits are clearly defined with the Board of Directors as the highest approving authority in excess of certain limits. In this regard, no officer of the Bank has the single authority to approve a credit proposal regardless of the amount.

The Bank continues to utilize the Internal Credit Risk Rating System (ICRRS) on borrowers, other than the Participating Financial Institutions (PFI), with total resources of more than P15 Million. It consists of four rating classifications, namely: the Borrower Risk Rating (BRR), Facility Risk Factor (FRF), Adjusted Borrower Risk Rating (ABRR), and Composite Risk Rating (CRR). The ICRRS considers, among others, the borrower's financial condition, strength of the industry it belongs, and management capability. The rating result translates into ten rating grades known as the Borrower Risk Rating (BRR). The FRF assesses the quality and quantity of documentation and security supports and other risk influencing factors allowing a more precise calculation of risk. The result influences the BRR, either positively or negatively. ABRR is simply the BRR adjusted based on the result of the FRF. CRR is computed for borrowers with multiple facilities and for group of companies with the amount of accommodation used as the factor for computation. In addition, an independent pre-approval rating review process was implemented to protect the integrity of the ICRRS.

In the case of PFIs, the Bank observes an accreditation process which includes quantitative and qualitative evaluation methodologies.

Furthermore, the Risk Management Department provides an independent credit monitoring and reporting of compliance with existing and internal credit limits to the CRM. Credit policies and procedures are also evaluated by the department prior to implementation.

Operational Risk Management

The primary means to control operational risk is to have an effective system of internal control. Under this guiding principle, clear lines of management responsibility, accountability, and reporting have been duly considered in the approving authorities. Conflicts of interest are avoided by separation of responsibilities and reporting lines between risk control functions (middle office), business lines (front office), and support functions (back office). Operating and product manuals include control processes and procedures. Dual control is observed over all transactions and items of value. Compliance checks, verification and reconciliation of transactions are regularly conducted. The Bank has a Business Disaster Recovery Plan in place, including an automated retrieval system for actual operational loss data requirement.

Operating procedures covering several new and existing products and services are being reviewed by the Risk Management Department. This is to ensure that the risks inherent in the Bank's products and services, activities, processes and systems are identified and assessed in line with the objective of identifying potential risk across business lines and operating units and determining the appropriate level of training, controls and tests necessary.

Preparatory to the development or adoption of an internal model on regulatory capital for operational risk, continuous consolidation of operational loss data was undertaken in accordance with the requirements of Basel II-Standardized and Advanced Measurement Approaches. To determine which of these two approaches will be more advantageous for the Bank in terms of capital efficiency, the policy on internal mapping of the income accounts to the BSP-Basel II-prescribed business lines was approved by the Board of Directors.

The **Global Compact** & DBP's Corporate Social Responsibility

THE GLOBAL COMPACT AND DBP'S CORPORATE SOCIAL RESPONSIBILITY

DBP continues to honor its commitment to the United Nations Global Compact by supporting nine principles of human rights, labor, and environmental sustainability in the conduct of its business practices and policy-making.

In 2006, the Bank's Human Resource Management implemented strategies to enhance the productivity of DBP personnel so that they can contribute more significantly to the Bank's mandate of national development. These included, among others, the creation of the Special Educational Assistance Program for dependents of employees who have shown selfless heroism in the line of duty; awarding of four- to five-year scholarship grants to 24 Bank dependents; improved Provident Fund services and fund management; well-managed health care programs; and training and career development programs. The Bank also implemented the Civil Service Commission-initiated *Mamamayan Muna* Program promoting prompt attention to complaints from the general public. A briefing on policy directions and amended rules and regulations on Collective Negotiation for members was also undertaken to promote better and deeper understanding of the process of collective negotiation.

The Gender and Development (GAD) framework was likewise institutionalized to promote the effective mobilization of women into the development process, as well as to search for new and innovative initiatives. The framework is intended to promote gender-responsive governance, protect and fulfill women's rights, and help transform unequal social/gender relations into creative opportunities equally beneficial to both genders.

In support of the global campaign against money laundering, DBP ensures that its products and services are offered only to persons or corporations engaged in legitimate activities and businesses. The Bank put in place a continuous training program to create awareness and adherence to the requirements of the Anti-Money Laundering Act. Standards and guidelines in determining and managing money laundering risks related to corruption were formally documented in the Bank's Manual on the Protection Against Money Laundering which is posted in the Bank's internet for easy reference. Focus was directed towards the effective implementation of policies and procedures in the Know-Your-Client Policy (KYC), reporting of Covered and Suspicious Transactions to the Anti-Money Laundering Council (AMLC), and record keeping requirements under AMLA. Concerned banking units also put emphasis on enhanced due diligence, transaction monitoring, and appropriate senior management approval and review oversight for Politically Exposed Persons (PEPs) or those entities included in the watchlist of industry regulators.

To help the Bank improve its control measures against money laundering, the DBP Anti-Money Laundering Committee was created. The Committee is composed of the Compliance Officer as Chairman, and the Head of the Litigation Unit of the Office of the Legal Counsel, and the Sector where the transaction took place as members. The Committee is also represented by two legal advisers.

Further, the Bank, through the Office of the Legal Counsel (OLC), consistently safeguarded its image as a graft-free government financial institution by conformance to Civil Service laws, rules and regulations, the provisions of the Anti-Graft and Corrupt Practices Act, and the Code of Conduct and Ethical Standards. The Bank has put in place a system of early detection and prevention of possible irregularities and anomalies. Erring officials and employees are duly investigated and if warranted, prosecuted administratively, without prejudice to his or her possible civil or criminal liability, after observing the basic right to due process of law. In 2006, three administrative cases were resolved, three adverse reports were settled, nine cases were pending for resolution, and a case was left at the fact-finding stage.

Likewise, civil and criminal cases against Bank personnel were filed, including private individuals, in the regular courts and in the Office of the Ombudsman for cases of estafa, falsification of commercial documents and violations of the Anti-Graft and Corrupt Practices Act. Another safeguard institutionalized in the Bank was the formulation of the Implementing Guidelines of the Revised Uniform Rules on Administrative Cases which incorporated offenses under the Anti-Graft and Corrupt Practices Act.

One of the significant contributions to the anti-corruption campaign was the establishment of the Bank's OLC Portal. The facility is an informative and interactive intranet link aimed at providing fast, simple, and comprehensive access to basic legal information on upholding the rule of law in government banking transactions. The portal contains special laws, rules and regulations, including opinions and legal studies, and access to research sites, which provide continuing legal education to DBP's officers and employees. The portal continues to strengthen risk management and good corporate governance in the DBP.

The Bank was also guided by the provisions of the Anti-Graft and Corrupt Practices Act, relevant Constitutional provisions, the DBP and BSP Charters, BSP and other administrative issuances, and Supreme Court jurisprudence in rendering opinions and legal studies and in documenting Bank transactions. The General Terms and Conditions of the Bank's credit facilities and Promissory Notes were revised to incorporate the Borrower's Acknowledgment of Transparency of Transaction in the granting, renewal, and restructuring of loans and other credit accommodations.

The Statement of Assets and Liabilities of directors, officers and employees of the Bank are submitted yearly to Human Resource Management in compliance with the Anti-Graft and Corrupt Practices Act.

DBP also remained active in its corporate citizenship and social responsibility program, conducting the "DBP Oplan Sagip Bicol" campaign for families affected by typhoon Reming in Bicol. It also participated in the "Malacañang To Bicol Mercy Mission," a 200-vehicle relief caravan operations for these typhoon victims.

Republic of the Philippines
COMMISSION ON AUDIT
Corporate Government Sector
Cluster I - Financial A

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

We have audited the accompanying statement of condition of **Development Bank of the Philippines** and its subsidiaries (referred to as "the Group") as of December 31, 2006 and the related statements of income, changes in capital funds and cash flows for the year then ended. These financial statements are the responsibility of Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted state 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 misstatements. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2006 and the results of its operations and its cash flows for the year then ended, in conformity with applicable generally accepted state accounting principles in the Philippines.

FOR THE COMMISION ON AUDIT:

RODULFO J. ARIESGA
Director IV
Cluster Director

September 27, 2007

Statements of Condition

As of December 31, 2006 (With comparative figures for 2005, as restated)
(In thousands of pesos)

	Notes	Group 2006	Group 2005	Parent 2006	Parent 2005
RESOURCES					
Cash and other cash items	2,4,5,6	P 766,466	P 694,137	P 766,436	P 694,106
Due from Bangko Sentral ng Pilipinas	2,4,5,6,7	8,659,386	3,266,702	8,659,386	3,266,702
Due from other banks	2,4,5,6	5,090,230	7,900,222	5,085,555	7,895,153
Interbank loans receivable	2,4,5,6,8,31	2,753,851	13,769,800	2,753,851	13,769,800
Securities purchased under agreement to resell	2,4,5,6,31	42,680,000	10,970,000	42,680,000	10,970,000
Financial assets at fair value through profit or loss	2,3,4,5,9	18,669,345	3,711,404	18,669,345	3,686,242
Financial assets available for sale - net	2,3,4,5,10,31	24,381,051	33,685,371	24,380,954	33,685,316
Financial assets held to maturity - net	2,3,4,5,11,31	11,392,648	14,234,962	11,356,354	14,234,962
Loans and receivables - net	2,3,4,5,12,27,31	90,358,824	88,259,453	90,358,824	88,259,453
Bank premises, furniture, fixtures and equipment - net	2,3,5,13	1,186,679	962,865	1,165,871	940,114
Equity investment in subsidiaries	2,4,5,14	12,901	0	38,750	38,750
Equity investment in associates - net	2,4,5,15	121,399	121,399	121,399	121,399
Equity investment in joint venture	2,4,5,16	16,000	16,000	0	0
Non-current assets held for sale - net	2,3,5,17	578,015	3,951,589	578,015	3,951,589
Accounts receivable-NG foreign exchange differential	2,5,19	14,937,805	22,186,501	14,937,805	22,186,501
Other assets - net	2,3,4,5,17,18,31	20,090,371	10,130,710	20,051,089	10,096,918
Total resources		P 241,694,971	P 213,861,115	P 241,603,634	P 213,797,005
LIABILITIES AND CAPITAL FUNDS					
Liabilities					
Current maturities of long-term borrowings	2,5,19	P 36,878,812	P 38,898,052	P 36,876,215	P 38,896,341
Deposits liabilities:	5,20				
Demand		18,877,699	15,104,719	18,879,266	15,113,490
Savings		36,039,164	25,854,412	36,039,394	25,867,372
Time		16,172,053	9,793,744	16,172,053	9,793,744
		71,088,916	50,752,875	71,090,713	50,774,606
Bills payable	2,5,19	81,425,443	91,072,136	81,425,443	91,069,538
Due to Bangko Sentral ng Pilipinas	5	154,300	70,000	154,300	70,000
Due to other banks	5	5,175	33,681	5,175	33,681
Manager's checks and demand drafts outstanding	5	7,249,215	624,280	7,249,215	624,280
Accrued taxes, interests and expenses	2,3,5,26	3,833,685	3,405,493	3,846,588	3,400,753
Unsecured subordinated debt	5,22	2,350,000	0	2,350,000	0
Deferred credits and other liabilities	2,4,5,18,21	3,222,722	2,867,020	3,186,143	2,853,513
Total liabilities		206,208,268	187,723,537	206,183,792	187,722,712

	Notes	Group 2006	Group 2005	Parent 2006	Parent 2005
Capital Funds					
Common stock, P100 par value (Authorized - 350 million shares, issued and outstanding - 125 million shares)		12,500,000	12,500,000	12,500,000	12,500,000
Other equity instrument - hybrid tier 1	22	6,373,900	0	6,373,900	0
Surplus	33	10,669,938	9,152,536	10,626,330	9,110,689
Surplus reserves	23	268,966	267,021	248,966	247,021
Net unrealized gains/(losses) on securities	2	1,023,110	413,909	1,023,391	414,232
Undivided profits		4,650,789	3,804,112	4,647,255	3,802,351
Total capital funds		35,486,703	26,137,578	35,419,842	26,074,293
Total liabilities and capital funds		P 241,694,971	P 213,861,115	P 241,603,634	P 213,797,005
Contingent accounts	28				
Foreign: Medium and long-term		$ 966,888	$ 864,293	$ 966,888	$ 864,293
Domestic: Medium and long-term		P 15,833,904	P 12,652,907	P 15,833,904	P 12,652,907
Total peso equivalent 1/		P 63,240,429	P 58,514,012	P 63,240,429	P 58,514,012
Trust funds	29	P 19,368,466	P 17,385,847	P 19,368,466	P 17,385,847
1/ Conversion rates		P49.0300 - US$ 1 P64.7149 - EUR 1 P0.4120 - JPY 1	P53.0620 - US$ 1 P62.8785 - EUR 1 P0.4504 - JPY 1		

See accompanying Notes to Financial Statements.

Statements of Income

For the year ended December 31, 2006 (With comparative figures for 2005, as restated)
(In thousands of pesos, except per share amounts)

	Notes	Group 2006	Group 2005	Parent 2006	Parent 2005
Interest income on:	2				
Loans and receivables		P 7,805,090	P 6,464,342	P 7,805,090	P 6,464,342
Financial assets - debt and equity securities		3,982,298	5,529,389	3,980,141	5,528,456
Interbank loans receivable/Securities purchased under agreement to resell		2,611,897	1,292,492	2,611,897	1,292,492
Deposits with banks		234,352	101,868	234,337	101,849
		14,633,637	13,388,091	14,631,465	13,387,139
Interest expense on:	2				
Bills payable and other borrowings		5,915,735	5,734,782	5,914,881	5,734,734
Deposits		2,283,415	1,537,868	2,283,655	1,538,132
		8,199,150	7,272,650	8,198,536	7,272,866
Net interest income before provision for impairment		6,434,487	6,115,441	6,432,929	6,114,273
Provision for impairment	2, 3, 10, 12	2,178,845	910,880	2,178,845	910,880
Net interest income after provision for impairment		4,255,642	5,204,561	4,254,084	5,203,393
Other income					
Profits from investment and securities trading	2	1,869,678	1,850,332	1,869,678	1,850,332
Foreign exchange profit/(loss)	2	3,428,293	796,268	3,428,293	796,268
Service charges, fees and commissions	2	369,005	272,907	367,369	269,892
Dividends - equity investments		5,684	9,138	5,682	9,138
Miscellaneous	2, 24	870,663	807,659	822,973	765,791
		6,543,323	3,736,304	6,493,995	3,691,421
Other expenses					
Compensation and fringe benefits	2, 3, 27	2,977,263	3,000,067	2,887,193	2,915,973
Taxes and licenses	2, 26	931,910	483,895	931,876	482,814
Occupancy expenses	2	48,273	49,490	38,122	42,963
Other operating expenses	2, 25	1,399,267	1,494,593	1,453,233	1,542,321
		5,356,713	5,028,045	5,310,424	4,984,071
Net income before income tax		5,442,252	3,912,820	5,437,655	3,910,743
Provision for income tax	2, 26	791,463	108,708	790,400	108,392
Net income for the year		P 4,650,789	P 3,804,112	P 4,647,255	P 3,802,351
Earnings per share		P 37.21	P 30.43	P 37.18	P 30.42

See accompanying Notes to Financial Statements.

Statements of Changes in Capital Funds

For the year ended December 31, 2006 (With comparative figures for 2005, as restated)
(In thousands of pesos, except per share amounts)

Group

	Notes	Common Stock		Other Equity Instrument-Hybrid Tier I	Surplus	Surplus Reserves/ Others	Undivided Profits	Total
		Shares	Amount					
Balance, December 31, 2004		125,000,000	P 12,500,000	P 0	P 7,709,213	P (173,179)	P 2,445,067	P 22,481,101
Net income for the year							3,804,112	3,804,112
Cash dividends - 2004 P9.08 per share					(1,135,110)			(1,135,110)
Prior years' adjustments					(46,337)			(46,337)
Net unrealized gains on securities	2					1,033,812		1,033,812
Surplus reserve set up	23				(3,133)	3,133		0
Appraisal increment reserves	2				182,836	(182,836)		0
Transfers to surplus					2,445,067		(2,445,067)	0
Balance, December 31, 2005		125,000,000	12,500,000	0	9,152,536	680,930	3,804,112	26,137,578
Other equity instrument - hybrid tier I	22			6,373,900				6,373,900
Net income for the year							4,650,789	4,650,789
Cash dividends - 2005 P12.85 per share					(1,606,013)			(1,606,013)
Additional dividends - 2004 and 2003					(690,000)			(690,000)
Prior years' adjustments					11,248			11,248
Net unrealized gains on securities	2					609,201		609,201
Surplus reserve set up	23				(1,945)	1,945		0
Transfers to surplus					3,804,112		(3,804,112)	0
Balance, December 31, 2006		125,000,000	P 12,500,000	P 6,373,900	P 10,669,938	P 1,292,076	P 4,650,789	P 35,486,703

Parent

	Notes	Common Stock		Other Equity Instrument-Hybrid Tier I	Surplus	Surplus Reserves/ Others	Undivided Profits	Total
		Shares	Amount					
Balance, December 31, 2004		125,000,000	P 12,500,000	P 0	P 7,670,941	P (192,839)	P 2,441,036	P 22,419,138
Net income for the year							3,802,351	3,802,351
Cash dividends - 2004 P9.08 per share					(1,135,110)			(1,135,110)
Prior years' adjustments					(45,881)			(45,881)
Net unrealized gains on securities	2					1,033,795		1,033,795
Surplus reserve set up	23				(3,133)	3,133		0
Appraisal increment reserves	2				182,836	(182,836)		0
Transfers to surplus					2,441,036		(2,441,036)	0
Balance, December 31, 2005		125,000,000	12,500,000	0	9,110,689	661,253	3,802,351	26,074,293
Other equity instrument - hybrid tier I	22			6,373,900				6,373,900
Net income for the year							4,647,255	4,647,255
Cash dividends - 2005 P12.85 per share					(1,606,013)			(1,606,013)
Additional dividends - 2004 and 2003					(690,000)			(690,000)
Prior years' adjustments					11,248			11,248
Net unrealized gains on securities	2					609,159		609,159
Surplus reserve set up	23				(1,945)	1,945		0
Transfers to surplus					3,802,351		(3,802,351)	0
Balance, December 31, 2006		125,000,000	P 12,500,00	P 6,373,900	P 10,626,330	P 1,272,357	P 4,647,255	P 35,419,842

See accompanying Notes to Financial Statements.

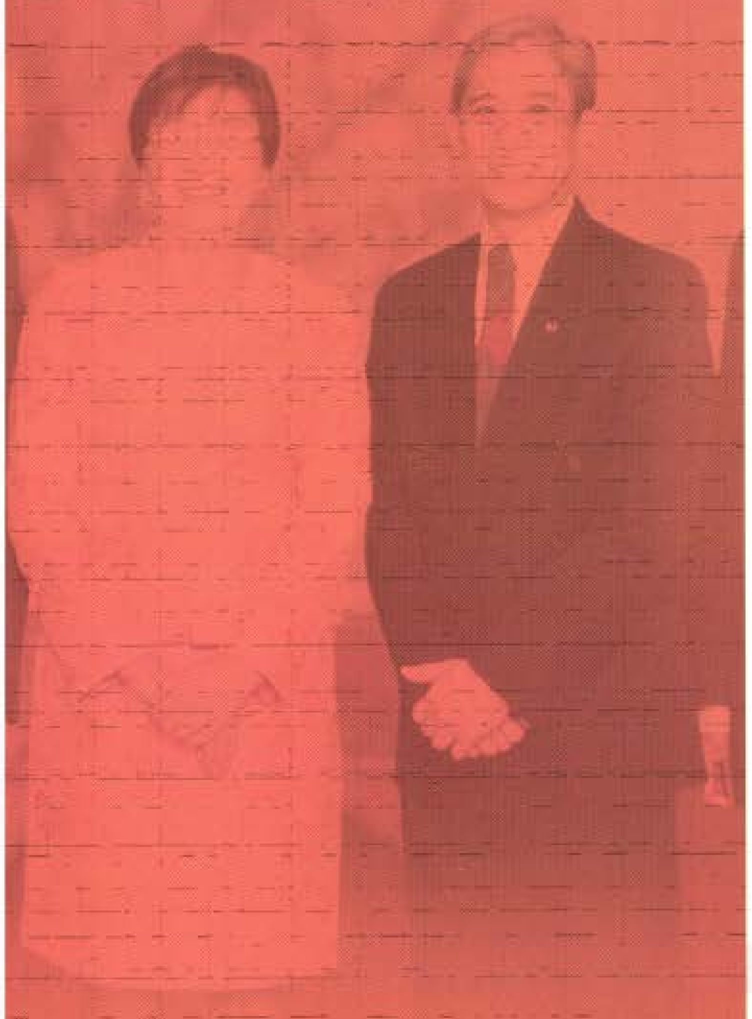
Statements of Cash Flows

For the year ended December 31, 2006 (With comparative figures for 2005, as restated)
(In thousands of pesos)

	Notes	Group 2006	Group 2005	Parent 2006	Parent 2005
Cash flows from operating activities					
Interest income and dividends received		P 15,298,529	P 13,271,074	P 15,296,146	P 13,270,131
Interest expense paid		(7,909,117)	(7,402,574)	(7,908,503)	(7,402,809)
Bank commission, service charges and fees received		383,392	291,659	381,757	288,644
Profit from sale or redemption of investments		1,736,006	819,240	1,736,006	819,240
Trading gain		425,558	1,031,092	425,558	1,031,092
Other income received		263,225	459,166	215,535	417,299
General and administrative expenses paid		(4,718,511)	(3,978,146)	(4,652,811)	(3,941,076)
Changes in operating assets and liabilities:					
(Increase) Decrease in operating assets:					
Interbank loans receivable		291,582	3,078,879	291,582	3,078,879
Financial assets at fair value thru profit or loss		(15,774,041)	(2,575,443)	(15,799,041)	(2,550,443)
Financial assets available for sale		6,180,990	8,519,883	6,180,990	8,517,564
Loans and receivables		(2,541,806)	(20,734,948)	(2,541,806)	(20,734,948)
Other assets		(8,470,296)	(597,136)	(8,464,633)	(560,368)
Increase (Decrease) in operating liabilities:					
Deposit liabilities		21,575,171	14,315,077	21,555,237	14,335,973
Due to Bangko Sentral ng Pilipinas		84,300	10,000	84,300	10,000
Due to other banks		(28,506)	5,240	(28,506)	5,240
Manager's checks and demand drafts outstanding		6,624,935	120,752	6,624,935	120,752
Accrued Taxes, Interest and Expenses		103,915	134,074	98,456	104,241
Deferred credits and other liabilities		(783,402)	245,881	(806,475)	248,831
Net cash generated from/(used in) operations		P 12,741,924	P 7,013,770	P 12,688,727	P 7,058,242
Income /other taxes paid		(1,175,155)	(1,052,746)	(1,174,092)	(1,052,431)
Net cash provided by/(used in) operating activities		P 11,566,769	P 5,961,024	P 11,514,635	P 6,005,811
Cash flows from investing activities					
Acquisition of bank premises, furniture, fixtures and equipment	13	P (405,165)	P (126,070)	P (401,977)	P (105,252)
Disposal/other transactions of bank premises, furniture, fixtures and equipment	13	66,629	35,245	65,015	35,246
(Increase) Decrease in:					
Financial assets held to maturity		1,996,505	9,441,483	2,032,847	9,432,201
Equity investment in subsidiaries		(12,901)			(35,000)
Non-current assets held for sale		3,108,168	657,468	3,108,168	657,468
Net cash provided by/(used in) investing activities		P 4,753,236	P 10,008,126	P 4,804,053	P 9,984,663
Cash flows from financing activities					
Increase (Decrease) in borrowings		P 662,249	P 13,624,918	P 663,961	P 13,620,609
Issuance of hybrid tier 1		6,604,413		6,604,413	
Issuance of unsecured subordinated debt		2,350,000		2,350,000	
Cash dividends paid		(2,296,013)	(1,135,110)	(2,296,013)	(1,135,110)
Net cash provided by/(used in) financing activities		P 7,320,649	P 12,489,808	P 7,322,361	P 12,485,499
Net increase (decrease) in cash and cash equivalents		P 23,640,654	P 28,458,958	P 23,641,049	P 28,475,973
Cash and cash equivalents at beginning of year		36,276,593	7,817,635	36,271,493	7,795,520
Cash and cash equivalents at end of year	2,4,6,7,8	P 59,917,247	P 36,276,593	P 59,912,542	P 36,271,493

See accompanying Notes to Financial Statements.

Board of Directors



From Left to Right

Alexander R. Magno
Director

Ramon R. Durano IV
Director

Joseph Donato N. Pangilinan
Director

William D. Dichoso
Director

Patricia A. Sto. Tomas
Chairman

Reynaldo G. David
President & CEO

Miguel L. Romero
Director

Rey Magno Teves
Director

Floro F. Oliveros
Director

Management Committee

Seated from Left to Right:

Edgardo F. Garcia
Senior Executive Vice President
& Chief Operating Officer

Reynaldo G. David
President & Chief Executive Officer

Standing from Left to Right:

Rolando S.C. Geronimo
Senior Executive Vice President
Head, Operations Sector

Benilda A. Tejada
First Senior Vice President
Chief Legal Counsel

Armando O. Samia
Executive Vice President
Head, Marketing Head Office Sector

Rosalina DL. P. Magat
Secretariat
Senior Vice President
Head, Corplan, Budget &
Special Projects

Jesus S. Guevara II
Executive Vice President
Head, Marketing Branches Sector

Ma. Theresa L. Quirino
Executive Vice President
Head, Treasury

as of March 31, 2007

Executive Offices

OFFICE OF THE PRESIDENT

OFFICE OF THE CHIEF OPERATING OFFICER

Office of the President

Seated from Left to Right

Juliana N. Gamilla
First Senior Vice President
Chief of Staff, OP/CEO and
Head, HR Management

Benilda A. Tejada
First Senior Vice President
Chief Legal Counsel

Standing from Left to Right

Alberto B. Reyno
First Senior Vice President
Head, Trust Services

Rosalina DL. P. Magat
Senior Vice President
Head, Corplan, Budget
& Special Projects

Nelly Y. Rosario
Senior Vice President
Head, Internal Audit

Leonora A. Fernandez
Vice President
Head, Corporate Affairs

Corazon D. Conde
Senior Vice President
Head, Small & Medium Enterprise

Eufemia C. Mendoza
Senior Vice President
Head, Microfinance Resource Center

Lutgarda B. Peralta
Vice President
Corporate Secretary

Jesus D. Macalincag
Senior Vice President
Head, Training Center

Office of the Chief Operating Officer

Seated from Left to Right:

Marissa V. Soriano
Vice President
Head, Fund Sourcing

Marieto A. Enecio
Senior Vice President
Head, Program Development

Standing from Left to Right:

Denis Gary Ma. B. Ditching
First Vice President
Compliance Officer

Gerardo K. Galvey
Vice President
Head, Information Technology

Gloria A. Laroza
Senior Asst. Vice President
OIC, Process Management

Estrella R. Aclan
First Vice President
Head, Credit Review & Policy Supervision

Ananias S. Cornelio III
Senior Asst. Vice President
OIC, Risk Management

Clarito L. Magsino
First Vice President
President, DBP Data Center, Inc.

Financial Markets Sector

From Left to Right

Jaime N. Panganiban
Financial Adviser
Financial Markets

Ma. Teresa M. Jesudason
Senior Vice President,
Head, Financial Institutions

Ma. Theresa L. Quirino
Executive Vice President
Head, Treasury

Articer O. Quebal
Senior Vice President
Head, Remittance Center

Marketing Head Office Sector

Standing from Left to Right

Cynthia B. Macaraeg
First Senior Vice President
Head, Corporate Banking I

Amelia S. San Juan
First Vice President
Head, Investment Banking I

Maribeth A. de Leon
Vice President
Head, Factoring

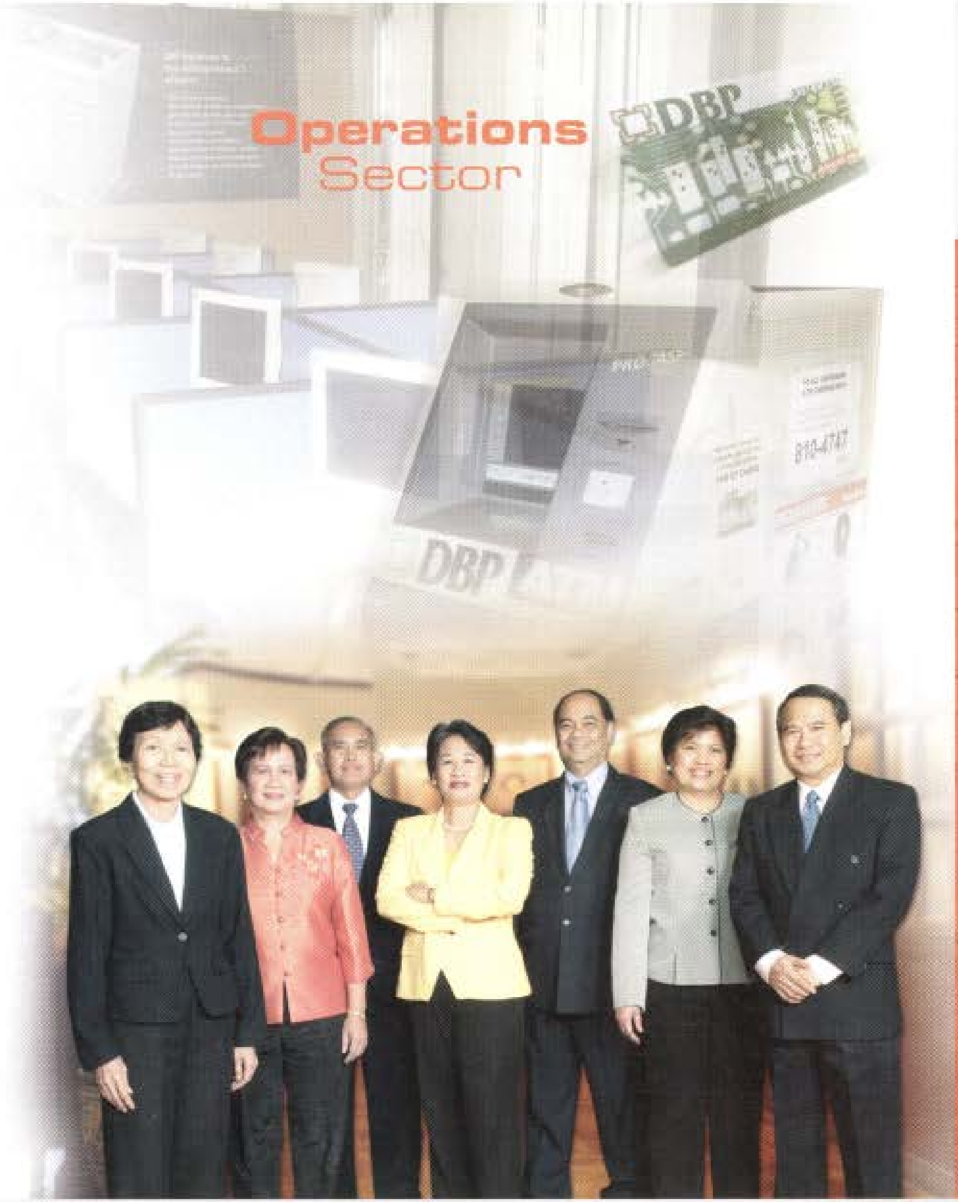
Estrella E. Icasiano
Vice President
Head, Investment Banking II

Belen G. Olano
First Vice President
Head, Corporate Banking II

Evelyn D. Guerrero
First Vice President
Head, Investment Banking III

Marketing Branches Sector

Operations Sector



Seated from Left to Right:

Cresenciana R. Bundoc
Senior Vice President
Asst. Sector Head - BBS

Jose L. Gonzaga, Jr.
Senior Vice President
SRMO - Mindanao

Standing from Left to Right:

Timoteo P. Olarte
Vice President
SRMO - Central Phils. Visayas

Antolina G. Butalid
Senior Vice President
SRMO-Luzon Urban Beltway

Myra C. Reinoso
First Vice President
SRMO - North Luzon
Agri Business Quadrangle

Danilo Z. Arceo
Vice President
SRMO - Central Phils.
Southern Luzon

Standing from Left to Right:

Dolores A. Santiago
Senior Vice President
Head, Accounting

Mercedes A. Quianzon
Vice President
Head, Disbursement &
Securities Management

Hermie R. Esguerra
Senior Asst. Vice President
Acting Head, Credit &
Appraisal Management

Idiosa B. Ursolino
Senior Asst. Vice President
Acting Head, Central Clearing
& ATM Operations

Eduardo T. Mendoza
First Vice President
Head, Property & Security
Management

Ma. Luisa D. Catanghal
Senior Vice President
Head, Transaction Processing

Rolando S. Rojas
Vice President
Head, Cash Management

Senior Bank Officers

PRESIDENT & CEO

Reynaldo G. David
President & CEO

SENIOR EXECUTIVE VICE PRESIDENT

Edgardo F. Garcia
Chief Operating Officer

Rolando S. C. Geronimo
Operations Sector

EXECUTIVE VICE PRESIDENT

Jesus S. Guevara II
Marketing Branches Sector

Ma. Theresa L. Quirino
Treasury

Armando O. Samia
Marketing Head Office Sector

FIRST SENIOR VICE PRESIDENT

Juliana N. Gamilla
Chief of Staff, OP/CEO
and Human Resource Management

Cynthia B. Macaraeg
Corporate Banking I

Alberto B. Reyno
Trust Services

Benilda A. Tejada
Chief Legal Counsel

SENIOR VICE PRESIDENT

Cresenciana R. Bundoc
Marketing Branches Sector

Antolina G. Butalid
SRMO – Luzon Urban Beltway

Ma. Luisa D. Catanghal
Transaction Processing

Corazon D. Conde
Small & Medium Enterprise

Marietto A. Enecio
Program Development

Jose L. Gonzaga, Jr.
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Financial Institutions

Jesus D. Macalincag
Training Center

Rosalina DI. P. Magat
Corplan, Budget & Special Projects

Eufemia C. Mendoza
Microfinance Resource Center

Fe Susan Z. Prado
Marketing Head Office Sector

Articer O. Quebal
Remittance Center

B. Brillo L. Reynes
Small & Medium Enterprise

Valentina R. Ricasio
Financial Institutions

Romeo D. Roderos
Program Evaluation

Nelly Y. Rosario
Internal Audit

Dolores A. Santiago
Accounting

FIRST VICE PRESIDENT

Estrella R. Aclan
Credit Review & Policy
Supervision

Denis Gary Ma. B. Ditching
Compliance Officer

Evelyn D. Guerrero
Investment Banking III

Emmanuel A. Lopez
Asset Management

Clarito L. Magsino
DBP Data Center, Inc.

Eduardo T. Mendoza
Property & Security
Management

Belen G. Olano
Corporate Banking II

Myra C. Reinoso
SRMO – North Luzon
Agri Business Quadrangle

Amelia S. San Juan
Investment Banking I

VICE PRESIDENT

Danilo Z. Arceo
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Asset Management

Maribeth A. De Leon
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Elizabeth C. Florentino
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Gerardo K. Galvey
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Corporate Banking I

Lutgarda P. Peralta
Corporate Secretary

Orlando B. Pineda
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Mercedes A. Quianzon
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Fund Sourcing

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Emma G. Urieta
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Phil. Heart Center for Asia
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Super Region Management Offices / Branches

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DBP COMMONWEALTH BRANCH
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DBP MALOLOS BRANCH
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DBP TUGUEGARAO BRANCH
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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 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

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
      - Special Savings
      - Savings Deposit for the Youth
      - Pensioners' Special Savings
      - DOLE-SSS-DBP Maginhawang Manggagawa Savings
      - Treasurer In-Trust-For (TITF) Savings
      - Option Savings
      - Dollar Savings
      - Savings Deposit In-Trust-For
      - Direct Deposit for US Veteran Pensioners
      - Teachers' Savings
   c. Time Deposit
      - Peso
      - Dollar
      - Special Investors Resident Visa (SIRV)
   d. ATM Services
   e. Electronic Cash (EC) Card

2. Fund transfer services
   a. Manager's Check
   b. Demand draft
   c. Telegraphic transfer
   d. Foreign Exchange Dealership
   e. Foreign Exchange Remittance
   f. Agent of Asia United Bank Inward Remittance Service
   g. Domestic Fund Transfer thru Real Time Gross Settlement (RTGS)
   h. Domestic Fund Transfer thru Electronic Peso Clearing Settlement (EPCS)

3. Special/Other Services
   a. Acceptance of Payments/Remittances for SSS/PhilHealth
   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. ATM Payroll/Remittance Servicing
   g. Deposit Pick-Up/Withdrawal Arrangement
   h. Acceptance of Payments of PLDT Subscribers
   i. Acceptance of Debit Bills Enrollments
   j. Acceptance of Sundry Payments

TRADE PRODUCTS

1. Import
   a. Import Letter of Credit
   b. Domestic Letter of Credit
   c. International Standby Letter of Credit
   d. Domestic Standby Letter of Credit
   e. Collection
      • Document Against Payment
      • Document Against Acceptance

f. Open Account
g. Banker's Acceptance
h. Trust Receipt
i. Shipping Guarantee or Shipside Bond Guarantee for Good Transported at sea or waterways
j. Advance Release for Air Transported Good
k. Outward Remittances – Commercial Trade

2. Export
    a. Export Negotiation under Letter of Credit, Document against Payment (Cash against Documents) or Documents against Acceptance
        - Export Bills Purchase - For Clean Negotiation (Note: assessment is on the standing of the issuing bank
        - Export Bills Purchase – For Discrepant Documents (Note: requires credit evaluation and approval based on the creditworthiness of the client)
        - Export Bills Send for Collection
    b. Bills Discounting
    c. Inward Remittances – Commercial Trade
    d. Export Advance or Export Packing Loan (Note: requires credit evaluation and approval based on the creditworthiness of the client)

TRADE SERVICES

1. Opening bank or Issuing bank
2. Advising
3. Negotiating
4. Confirming
5. Paying
6. Collection of Custom Duties

TREASURY PRODUCTS AND SERVICES

1. Interbank borrowing/lending
2. Government Securities dealership
    a. TBills
    b. RTBs
    c. NFA Bonds
    d. Pag-ibig Bonds
3. Forex Securities dealership
4. Deposits
    a. Special Savings Deposits
    b. Option Savings
    c. Dollar Time Deposits

ELECTRONIC CASH (EC REMIT) REMITTANCE PRODUCTS & SERVICES FOR OFWS

I. Conventional Products and Services
1. DBP E.C Credit to Account
2. DBP E.C. Door to Door
3. DBP E.C. Pick-Up
4. DBP E.C. Bank to Bank Credit

II Other Products and Services

1. DBP-OWWA Family Assistance Program for OFWs
    a. Pre-Departure Loan
    b. Multipurpose loan

2. DBP Financial Assistance for Overseas Filipinos (thru Conduits):
    a. Pre-Departure Loan   c. Housing Loan
    b. Multi-Purpose Loan   d. Enterprise Development Loan

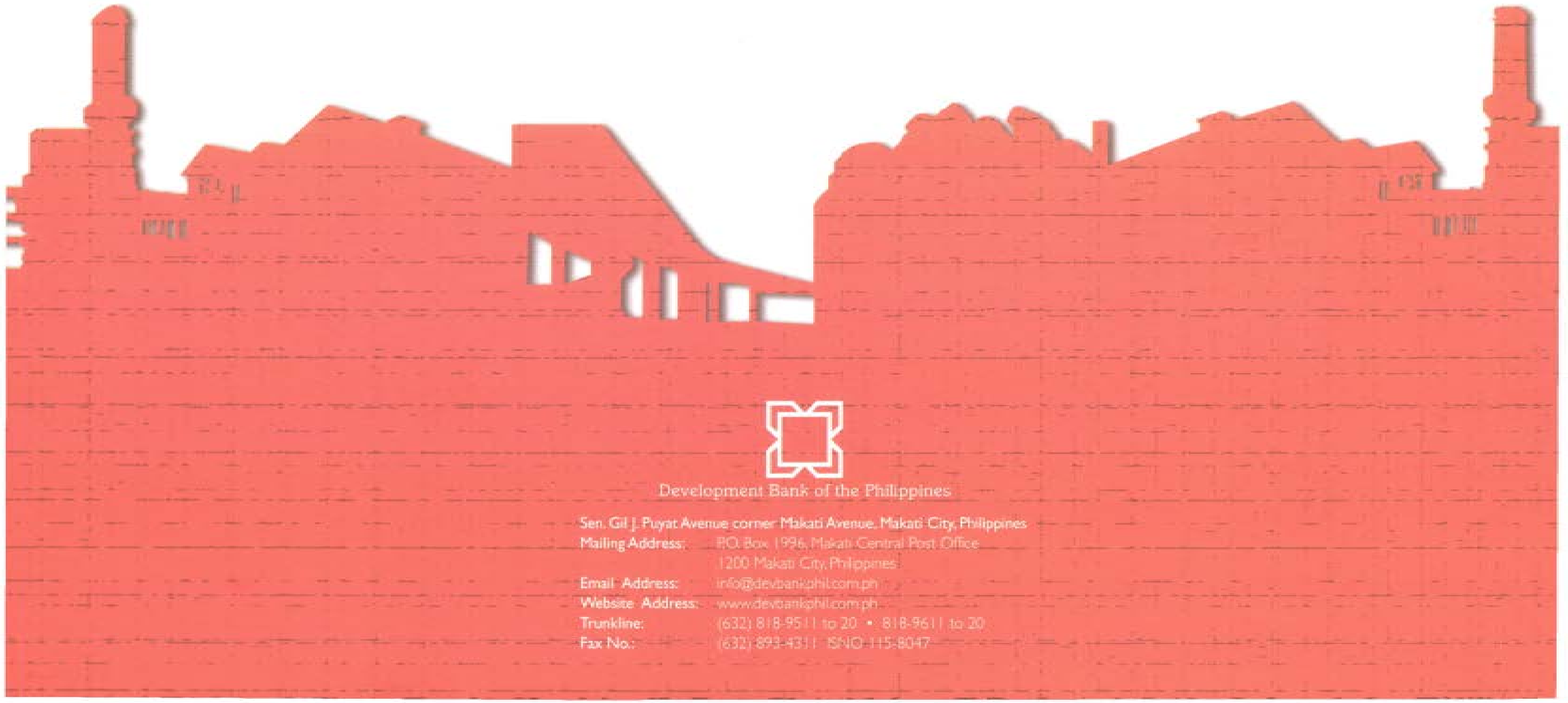
    DBP Financial Assistance thru Financial Institution-Conduit to Overseas Placement Agencies

3. Overseas Collection Arrangement with SSS, Pag-IBIG Fund*, PhilHealth,*
    Selected Insurance Companies and Others*

4. Marketing Promotions with Cebu Pacific, Astra Group (Xtreme Magic Sing) and Savers Mart

5. DBP E.C. Club Membership

* Available soon



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