

DBP
BUSINESS CONFIDENCE
FOR THE FILIPINO ENTREPRENEUR



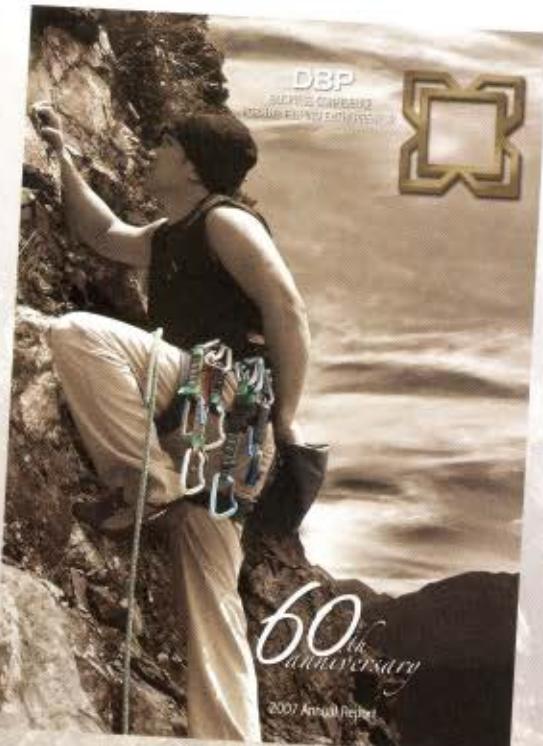
60th
anniversary

2007 Annual Report

CONTENTS

01	Cover Story	47	Auditor's Report
02	Financial Highlights	48	Statements of Condition
03	Message of Her Excellency	50	Statements of Income
05	Report to the President	51	Statements of Changes in Equity
10	Vision / Mission Statements	52	Statements of Cash Flows
11	DBP and the Economic Environment	53	Board of Directors
13	2007 Yearend Highlights	55	Management Committee
17	DBP Operational Highlights	57	Senior Bank Officers
33	Success Stories	58	Regional Marketing Centers
41	DBP 60th Anniversary: Giant Steps	61	Products and Services

COVER Story



DBP BUSINESS CONFIDENCE For The Filipino Entrepreneur

His feet feel for minute cracks on the wall where he can plant his weight, right hand tightly gripping a protruding rock, making sure that it is stable enough as he prepares his left hand to clip his rope on to the waiting quick draw. He's done it. He surveys his next moves as he alternately reaches his hands into the chalk bag to dry his already sweaty fingers. He checks on his gears and confidently reaches for another hold. He knows the top is within reach.

Entrepreneurial success, like rock climbing, is a fulfilling yet demanding pursuit where success lies not just in one's ability but in the strategic planning of every move in every situation, and in the knowledge that when something goes wrong, there's always support that allows you to go on.

Aware of the importance of small and medium-sized enterprises to the growth of the economy, the Development Bank of the Philippines has, for decades, become an assuring presence to the Filipino entrepreneur as it diligently provides financial and technical assistance to enterprises across all industries. This has resulted to many success stories unfolding and so many more about to happen.

DBP knows that as long as entrepreneurs remain confident that success is within reach, the nation is confident that progress also is.

FINANCIAL Highlights

Other Financial Information (In Million Pesos)

Past Five-year Data

	2007	2006*	2005	2004	2003**
a. Gross Income	16,626	17,982	16,220	14,030	13,549
b. Net Income	2,707	2,829	3,217	2,445	1,949
c. Loans	128,626	137,827	120,628	82,775	81,328
d. Deposits	70,602	71,089	50,753	36,438	37,404
e. Borrowings	118,737	118,304	129,970	141,530	85,615
f. Resources	243,181	244,874	212,957	206,155	148,755
g. Capital Funds	33,168	33,024	25,550	22,481	19,241

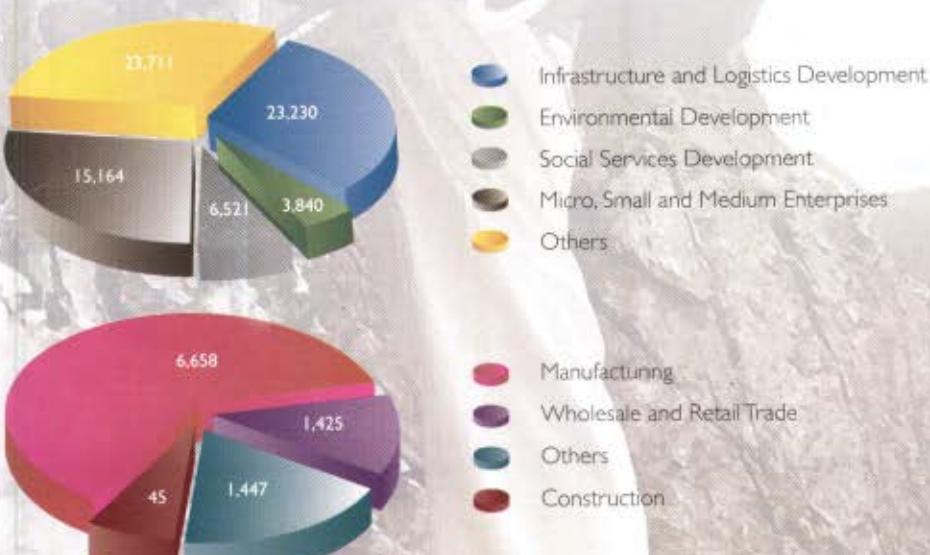
* As restated

** Parent only

LOAN PORTFOLIO BY PRIORITY AREA (In Million Pesos)

Type of Loans	
Developmental	
• Infrastructure and Logistics Development	23,230
• Environmental Development	3,840
• Social Services Development	6,521
• Micro, Small and Medium Enterprises	15,164
• Others	
Construction	2,125
Manufacturing	4,498
Wholesale and Retail Trade	4,026
Other Industries	13,062
Total - Development	72,466
Commercial Loans	
• Construction	45
• Manufacturing	6,658
• Wholesale and Retail Trade	1,425
• Others	1,447
Total - Commercial	9,575
GRAND TOTAL	82,041

Bankwide Loan Portfolio – Exclusive of IBCL, TAS, UDSCL



MESSAGE of Her Excellency





MALACAÑAN PALACE
MANILA

Congratulations to the **Development Bank of the Philippines** for another year of accomplishments!

Our strong economic performance in 2007, the strongest in 31 years, with the industrial, service and agricultural sectors all posting substantial growth, would not have been possible without the solid commitment of the DBP to advance the priority thrusts of the administration.

In 2007, the government conceived a "social payback" plan that aimed to improve the socio-economic conditions of the people through greater assistance in infrastructure, public health, and education. It is heartening to see that DBP continues to align its major strategies with our national objectives through its sustainable logistics initiatives and support for micro and small entrepreneurs, social services, and environmental protection.

I, therefore, wish to encourage the officers and staff of the DBP to remain dynamic and dedicated to the performance of your banking services. Your work is your unique and significant contribution towards our aspirations for sustained growth despite the threat of economic slowdown in some of our major trading partners.

I look forward to your invaluable contribution in building a truly prosperous and Strong Republic.

MANILA • April 2008

Gloria Arroyo
GLORIA MACAPAGAL-ARROYO

Report to the President



Patricia A. Sto. Tomas
Chairman

Reynaldo G. David
President & CEO



Dear Madame President:

We are pleased to present the 2007 Annual Report of the Development Bank of the Philippines which highlights a milestone in the Bank's storied history – its 60th anniversary in the service of the nation and the Filipino people. The Report imparts a narrative of success, not only for DBP that has evolved as the unrivaled premier development institution of the country, but also for our clients who have grown with us through the challenges and opportunities of a globalizing economy.

During its diamond year, DBP gained headway in the pursuit of development programs that firmly support the key priority thrusts of your administration. Buoyed by the country's strong economic fundamentals, robust growth in all major sectors, healthy fiscal performance and continued investor confidence, the Bank and its clientele flourished in an environment conducive to development initiatives and business expansion.

FINANCING DEVELOPMENT

In 2007, the Bank continued to track its development directions along the following priority areas: Infrastructure and Logistics; Micro, Small and Medium Enterprises; Social Services; and Environmental Development. Of the P82.04 billion total loan portfolio, 60% or P48.76 billion was channeled to these sectors. Total exposure to *Infrastructure and Logistics* represented the biggest chunk with P23.23 billion while loans to *MSMEs* aggregated P15.16 billion. Outstanding loans to the *Social Services* sector amounted to P6.52 billion and financing for *Environmental Development* was posted at P3.84 billion.

The Bank likewise vigorously supported other development initiatives with total loans of P23.71 billion, wherein the manufacturing sector topped the list with P4.5 billion in funding support; followed by wholesale and retail trade, P4 billion; and the construction industry, P2.13 billion.

The volume of commercial loans registered at P9.57 billion, comprising 12% of total portfolio.

Infrastructure and Logistics

The Bank's flagship project to interconnect the archipelago, the Sustainable Logistics Development Program (SLDP), liberalized credit support to the Road Roll-on Roll-off Terminal System (RRTS),

particularly the establishment of missionary routes. Interest rate was reduced to 7% p.a.; loan value on acquired vessels was raised to 75%; equity requirement was lowered to 10%; and vessel classification provisions were eased. These adjustments were aimed at activating the missionary routes that would open up the island economies to bigger markets.

The incentives for missionary routes generated a number of applications from operators particularly in Central Philippines. A total amount of P2.26 billion was released to 11 SLDP and shipping projects in 2007.

The Bank's financing support for the RRTS and the shipping industry will be further enhanced with DBP's acquisition of NDC Maritime Leasing Corporation. Financial leasing very well complements the traditional lending facilities already available to qualified operators of the RRTS.

Micro, Small and Medium Enterprises (MSMEs)

The Bank initiated a new and effective mode of assistance to this challenging sector through the One-Town One-Product (OTOP) Program. DBP teamed up with the Department of

REPORT to the President

Trade and Industry (DTI) in promoting entrepreneurial endeavors, especially in the countryside, through the program.

Officially launched in December, the P2 billion OTOP credit facility for local government units, overseas Filipino workers (OFWs), and MSMEs created instantaneous demand. By year-end, loan approvals amounted to P18 million and pipeline projects located in the National Capital Region (NCR), Iloilo, Zamboanga del Sur, Leyte, Davao del Sur, and Lanao del Norte totaled P68.1 million in fund requirements. The first awardee was a Rizal-based handicraft enterprise with a loan release of P1.6 million while 24 DTI provincial offices referred an additional 219 projects aggregating P197.7 million.

The Bank conceptualized and implemented another new project, the *RORO Truckers Financing*, designed to contribute to the country's agribusiness growth through enhanced storage and distribution capabilities. This program provided employment for OFWs serving as drivers in Roro-accredited truck service providers.

DBP also served as one of the major funding partners of the *Puhunang Pangnegosyo para sa Kawani ng Gobyerno* program of the national government which aimed to provide collateral-free livelihood loans to government employees. Under this program launched by your Excellency, the Bank will provide wholesale loans to government employee cooperatives and associations as retail institutions.

The Bank's factoring facility continued to promote the Big Brother-Small Enterprise Program through the purchase of Supplier-SME receivables from accredited Corporate Buyers/Big Brothers. SMEs in the manufacturing, construction, wholesale and retail trade, transport, and communication industries were assisted, among others.

Total loan releases to MSMEs amounted to P9.32 billion in 2007, of which 74% was channeled to the countryside and the remaining 26% to NCR. These generated 147,485 new jobs with 106,431 absorbed by SMEs and 41,054 by micro-enterprises.

Environmental Development Program

As a champion of sustainable economic development, DBP

has embarked on numerous projects for power and renewable energy, solid and hazardous waste management, water supply and sanitation, and pollution prevention and abatement. Total releases to these endeavors amounted to P2.43 billion.

Unique to DBP is its forest program that already totals 25 existing projects consisting of 5,946 hectares of upland and coastal areas. The program supports and encourages the forestation of open and denuded areas through the planting of high value fruit trees and other useful plant species.

In 2007, the Bank launched its reforestation project in Tarlac, a 275-hectare plantation wherein five micro-enterprises have been tasked to manage the plantations, thus giving job opportunities to upland farmers and residents of two municipalities. Also during the year, the Bank signed a Memorandum of Agreement with the provincial government of Marinduque for the reforestation of identified sites involving watershed rehabilitation, fruit tree forest development and coastal rehabilitation.

Social Services Development Programs

The year was marked with new initiatives towards a better quality of life for our stakeholders – the Filipino people. To reinforce its poverty alleviation initiatives, the Bank conceptualized the *DBP Endowment for Education Program (DEEP)*, a non-credit college scholarship program for poor but deserving high school graduates. Its "pay-forward scheme" enlists the scholars to contribute to a fund after graduation, thus creating a virtuous cycle that will allow other students to avail of the same benefits. Additionally, DBP will pay the tuition of the scholars' entire four-year course, and will also provide their schools with funds to undertake improvements in facilities, faculty, and curriculum.

Another new program launched during the year was the *Sustainable Health Care Investment Program (SHCIP)* that addresses the Millennium Development Goals of the health sector. It aims to favorably impact on the availability, accessibility, and affordability of health infrastructure and services in the country.



The Bank also created the Sustainable Mariculture Investment Program (SMIP) to enhance the management of municipal marine resources. The program is designed to persuade fisher folks to adopt sustainable practices, thereby preserving the rich marine resources of the country. Amidst dwindling returns from capture fishing, mariculture parks are envisioned to meet the spiraling food demand in the country. Complementary to this, the provision of infrastructure in mariculture parks is expected to attract more investors to the business and its broad scope of related activities.

Other Key Sectors

In its developmental endeavors, DBP likewise financed other key sectors with a total outstanding exposure of P23.71 billion. Of this, the manufacturing sector was allocated P4.5 billion; wholesale and retail trade, P4 billion; real estate, P8 billion; and other industries, P7.2 billion.

COMMERCIAL LENDING

DBP continued assisting big corporate clients and major players in the country's pursuit of industrial progress. The Bank's lending to commercial enterprises reached an outstanding amount of P9.58 billion during the year, of which the manufacturing industry got the bulk share of P6.66 billion.

FINANCIAL VIABILITY

The Group's net income for the year positioned at P2.71 billion, lower than the restated previous year's P2.83 billion. Non-consolidated return on equity was 8.07% and return on assets stood at 1.11%.

Gross income reached P16.63 billion, with P6.91 billion or 42% driven by lending operations and P8.99 billion or 54% attributable to treasury operations and foreign exchange profit. Said income is lower compared to the P17.98 billion achieved the year before.

Net income before provision for impairment losses and taxes reached P3.90 billion or 17% lower than the 2006 figure. Operating expenses of P5.65 billion for this year was higher by P306 million compared

to the P5.35 billion incurred in the previous year.

Resources as of year-end stood at P243.18 billion, lower than the P244.87 billion of the previous year. Gross loan portfolio of P128.63 billion decreased by P9.20 billion from the P137.83 billion recorded a year ago. Said reduction was on account of the unwinding of Unquoted Debt Securities Classified as Loans and matured placements in the Bangko Sentral ng Pilipinas' reversed repurchased securities and interbank loans.

Non-performing loans (NPLs) rose by P577 million or 19% higher from P3.01 billion in 2006 to P3.58 billion in 2007. Consequently, NPL ratio increased by 61 basis points from 2.09% in 2006 to 2.7% this year.

Liquid assets rose by 11% or P13.60 billion resulting in P136.44 billion, backed by higher placements on government securities and credit linked notes (CLN). Total deposits of P70.60 billion tapered off by P487 million against last year's level of P71.09 billion, of which 78% was supplied by government deposits and 22% sourced from the private sector.

Total borrowings of P118.74 billion as of year-end 2007 increased by P433 million from the P118.30 billion registered last year. Of said borrowings, 61% was sourced from ODA funders, with the remaining 39% from non-ODAs.

Capital-to-Risk Assets Ratio (Basel II framework) posted at 22.05% -- significantly lower by 595 basis points against 2006, the resultant effect of the implementation of Adjusted Risk-Based Capital Adequacy Ratio covering Combined Credit Risk, Market Risk, and Operational Risk (Basel II) effective September 2007 as set out in the Bangko Sentral ng Pilipinas Circular No. 538.

OTHER INITIATIVES

Remittance Center

The year saw the Bank fast tracking its novel undertakings towards enhancing the welfare of OFWs and their beneficiaries. Through our remittance products and services, OFWs were

REPORT to the President

provided with concrete assistance in starting their own entrepreneurial ventures. These initiatives are in furtherance of government's reintegration program for their permanent settlement in the country.

In quick response to the need to address the declining value of the peso and their hard-earned earnings, the Bank introduced hedging facilities for OFWs, namely: Peso Insurance which provides protection to an appreciating peso and an upside to OFWs in case the peso depreciates against the U.S. dollar; and the Peso Protect which assures OFWs that upon maturity date of their forward contract, their income in U.S. dollars is already fixed and protected from an appreciating peso.

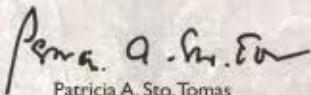
The Bank also introduced a new product package in partnership with Smart Communications, Inc., the DBP Smart OFW i-Negosyo program, wherein OFWs are granted loans at concessional interest rates to establish a mini-internet cafe and earn from e-loading services. Anticipating the sector's need for more livelihood financing, the Bank prepared other livelihood-related financing programs to be launched in 2008, for which a P1 billion budget has been allocated.

Corporate Governance

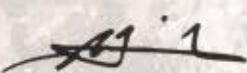
The efforts of the Board of Directors to uphold the principles and best practices of good governance were recognized once again this year by the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) which conferred its Outstanding Corporate Governance award to DBP.

The impact of good governance is evident in the sound management and stable performance of the Bank, as DBP continues to uphold the highest standards of productivity, competence, and service in the fulfillment of its development mandate.

Madame President, the past 60 years of DBP narrate a history of catalytic and relevant development strategies, programs, and projects. We assure you that these will serve as a springboard for future synergies and growth that will help in the attainment of a better quality of life for the Filipino people.



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

The Philippine economy expanded in 2007 consistent with predictions of "close to 7%" growth if the government reined in debt and attracted more investments. Positive economic indicators in 2007 included: increased public infrastructure spending; growing private sector participation in telecommunication, banking and finance; the effective counterbalancing of the El Niño phenomenon's effect on rice production through importation; and the influx of discriminating investors who gave more weight on long-term investment prospects vis-à-vis short-term election noise.

The Development Bank of the Philippines benefited from this positive economic environment - where a stronger peso and lower interest rates enabled the country to cut debt service payments. A large volume of remittances, a resilient agricultural sector, strong consumer demand, and better industrial performance despite weaker exports likewise contributed to DBP's financial performance in 2007. In tandem with DBP, the commercial banking sector likewise benefited from the country's remarkable 7.3% economic performance in 2007, albeit at a lower growth rate of 5% for both resources and deposits.

On an annual basis, the financial ratios of the commercial banking system reflected a slight decline in liquidity and capital ratios. Liquidity ratio dropped to 66% in 2007 from 71% in 2006 as capital ratio dipped further to 24% from 28%. NPL ratios, however, improved to 5% from 6% even as the capital adequacy ratio stood strong at 16%, way above the 10% requirement of the Bangko Sentral ng Pilipinas and the BIS' 8% standard. Adjustments in these requirements reflected the banking system's response to the demands of the new international accounting standards and Basel 2.

In the investment scene, Moody's Investors Service upgraded the country's "stable" credit rating outlook to "positive", prompted by progress in stabilizing public sector finances and the easing of government's dependence on external financing. However, it kept the country's debt rating at four notches below investment grade, while Standard & Poor's and Fitch Ratings gave a grade three notches and two notches below, respectively.

Following this upgrade in the country's credit score, Moody's raised its outlook for the foreign currency deposit and debt ratings of eight, out of nine Philippine banks it monitored in 2007. The favorable economic environment in 2007 likewise saw an uptick in the banks' lending activities, albeit at a slow pace, as well as favorable market response to banks' unloading of soured assets and capital build-up activities.

Moody's assigned a bank financial strength rating of D to DBP which translates into a baseline credit assessment of Ba2. This rating derives from the Bank's relatively sound financial fundamentals and its modest,



but improving risk management controls. Relative to its ratings outlook, DBP's long-term foreign currency deposit rating was recently raised to positive from stable. Fitch Ratings, on the other hand, assigned a stable outlook on DBP's ratings given its sturdy balance sheet and the considerable likelihood of government support.

In 2008, national growth will likely moderate as the country faces three major challenges – the growing risks of a US recession, the rapid rise of the peso, and the escalating price of oil in the world market. To counter the impact of a US slowdown, the government has bared that heavy pump priming will be a strategy. To ease the impact of oil prices, the government has implemented a mechanism allowing a one-percentage point reduction in oil tariffs. It is also looking at providing VAT refunds for small power consumers and accelerating 'open access' and retail competition in the electric power industry.

Potential significant turbulence in US financial markets expected from tighter financial conditions resulting from the emerging sub-prime credit crisis, could lead to higher market volatility and risk aversion in the local financial markets. Given the steady flow of remittances, however, consumption growth is expected to remain strong. This could offset the negative impact of a slowdown in exports due to the sluggish US economy.

Though 2007's exceptional growth may be hard to replicate, the growth drivers of 2008 – mining, tourism, business process outsourcing, OFW remittances, construction, education – are expected to help

support and fuel the national economy. Developments in the global environment may be the biggest hurdle for the Philippine economy in 2008, but it is still possible to mitigate their adverse impacts by stimulating the domestic economy and offering targeted programs for the poor while keeping inflation in check.

As the country's premier development financial institution, DBP has positioned itself to take on a more dynamic and pivotal role in the making of a Strong Republic. Its significant gains in 2007 have made the Bank both financially stronger and better-equipped to take on the development challenges of year 2008.

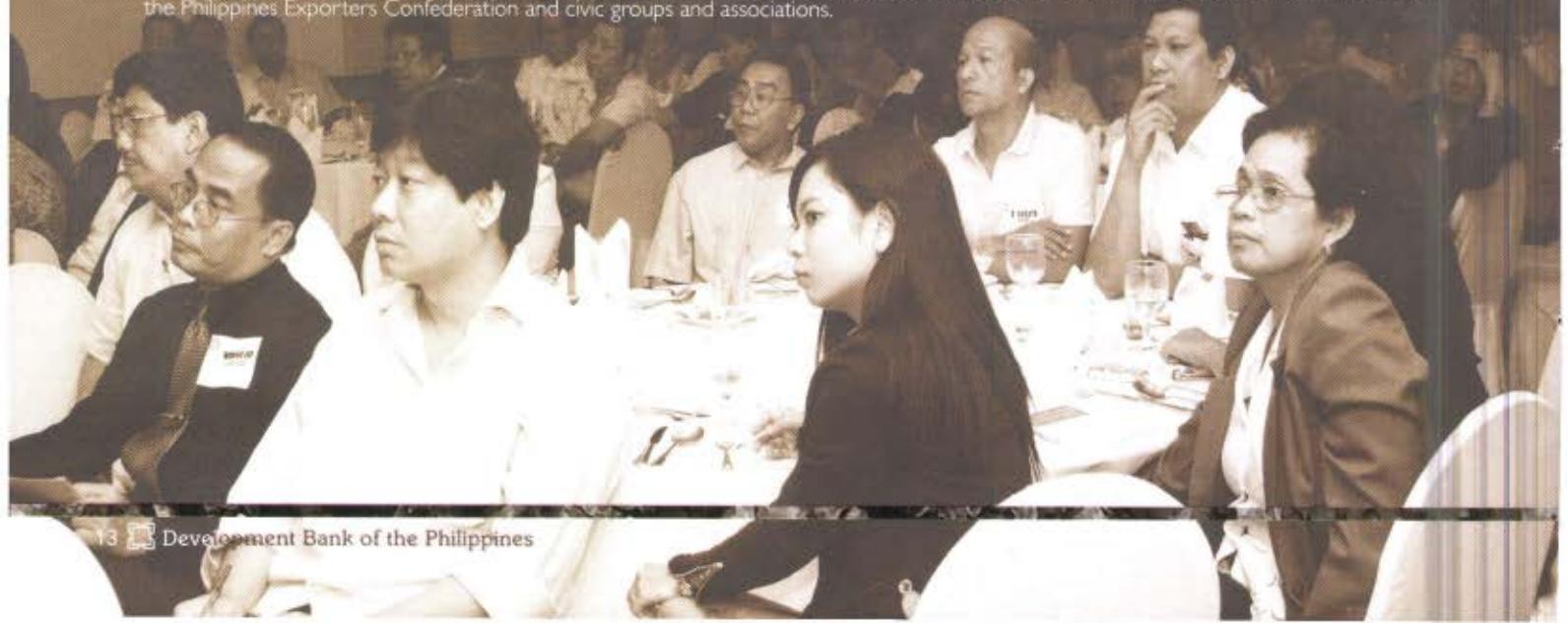
2007 Yearend Highlights



Amidst positive developments in 2007, DBP continued to be the steady hand that supported various initiatives that aimed to enhance the economic climate in the country in consonance with the priority thrusts of the national government.

DBP's noteworthy achievements during the past year include:

DBP was the first bank in the country to offer a hedging program in response to the national government's call for creative measures to ease the impact of the peso appreciation on the earnings of exporters and overseas Filipino workers (OFWs). To further promote and encourage exporters to avail themselves of the benefits of the DBP hedging program, the Bank conducted road shows for members of the Philippines Exporters Confederation and civic groups and associations.





- The Bank was conferred the Outstanding Corporate Governance award by the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) on May 10, 2007 in recognition of its sound governance practices and policies.

The ADFIAP award is the second recognition that the Bank received for its corporate governance program. It is also a testament to DBP's continuing effort towards fostering a culture of excellence, ethics and compliance within the institution.

- DBP and ING Bank served as financial advisors for the privatization of geothermal power producer PNOC Energy Development Corporation (PNOC-EDC), which was won by a partnership led by the Lopez-controlled First Gen. Corporation at a bid offer of P58.5 billion during a public auction.

The move is deemed as a major thrust to generate private sector investments in the country's energy program, which aims to double power generation capacities from indigenous resources such as geothermal, hydro, solar, wind, and biomass by 2014.

- To complement the national government's super regions program, DBP restructured its branch network into five super region management offices: North Luzon Agribusiness Quadrangle, Luzon Urban Beltway, Central Philippines I, Central Philippines II, and Mindanao.

The reorganization entailed some operational adjustments in certain areas, as the Bank looked to efficiently address the development priorities of each super region.

- In an effort to generate more investments for priority programs in the Visayas and Mindanao, the Bank held road shows in seven key cities: Cebu, Davao, Bacolod, Iloilo, Dumaguete, General

Santos, and Zamboanga. During these road shows, DBP's priority programs were presented to a diverse audience consisting of top business leaders, local officials, and key clients.

- DBP approved a P1.5-billion participation in a syndicated term loan facility amounting to P4-billion for the Bases Conversion and Development Authority to partly finance the construction of the Subic-Clark-Tarlac Expressway Project. The project is a key component of the Ten-Point Agenda of President Gloria Macapagal-Arroyo's administration that aims to connect the Subic Freeport Zone in Bataan, the Clark Ecozone in Pampanga and Tarlac City through a 93.7-km., four-lane divided toll road. Once completed, the project will link the container port in Subic, Zambales to Diosdado Macapagal International Airport in Clark, Pampanga thus, helping make the country a major trans-shipment hub in Asia with world-class facilities for the manufacture, storage, and movement of goods, data and services.
- The Bank stepped up efforts to promote environmental protection through its Cleaner Public Transport Financing Program that aims to help the public transport sector comply with the Clean Air Act. Through the allocation of P1-billion to the program for wholesale lending to eligible borrower-conduits, DBP aimed to uplift the health conditions of public transport workers, commuters, and residents of metropolitan areas.
- The Bank partnered with leading wireless services provider Smart Communications, Inc. (SMART) for a program that will provide OFWs reintegration and entrepreneurship opportunities in the country. Called the "DBP-SMART OFW I-net Negosyo" program, the project will provide a Smart Bro Computer Station easy loan package to set up a mini-Internet cafe under a P1-billion DBP financing.





DBP released a P1.6 million loan to Rizal-based CD Handicrafts, Inc. under its P2-billion financing facility being undertaken in cooperation with the Department of Trade and Industry for the One Town, One Product (OTOP) program.

The DBP-OTOP Credit Facility for local government units, overseas Filipino workers, and micro, small and medium enterprises supports the national government's thrust of promoting entrepreneurship particularly in the countryside. DBP's partnership with the DTI for the OTOP program aims to promote entrepreneurial endeavors in the regions through the use of locally available raw materials and inherent human resources and in the process, spur more economic activity and job opportunities in the provinces.



- The Bank launched its 25th DBP Forest project located in Marinduque. The project covers a 500-hectare area involving watershed rehabilitation, fruit tree forest development, and coastal rehabilitation. The biggest in terms of land area, this DBP Forest project is also the largest single proposal that the Bank received from any local government unit.

- DBP and German development bank KfW signed a \$50-million loan agreement for the Sustainable Health Care Investment Program (SHCIP) that aims to further encourage private sector investments in the country's health care system.



The SHCIP focuses on the establishment of primary health care facilities, mainly medical clinics, in areas where there are high incidences of morbidity and mortality.

- As a corporate social responsibility (CSR) initiative, the DBP Endowment for Education Program (DEEP) was launched to provide financial assistance to qualified and deserving high school students who wish to pursue college studies. For its initial run, DEEP is assisting qualified scholars who will take up Nursing in selected partner schools.



- DBP was tapped as lead underwriter and issue manager for the P2-billion bond issue of the Philippine Ports Authority that financed the country's port modernization program. Proceeds of the flotation will be used for the modernization of six priority ports including the newly-constructed wharf in Cagayan de Oro, the Sasa Wharf port expansion, Iloilo Container Port Complex, and a wharf in Ozamiz Oriental. Proceeds will also be used for the second phase of a wharf expansion at Zamboanga, and the expansion of the General Santos City port.

- DBP announced the establishment of 20 missionary routes that will complete the 49 road roll on-roll off (RORO) routes under the government's Strong Republic Nautical Highway project. These routes are composed mostly of horizontal connections that complement the existing vertical connections — the Central, Eastern, and Western seaboards.

- DBP granted a P2-billion term loan to the provincial government of Camarines Sur to support the various priority initiatives of the LGU, including tourism and infrastructure development. The term loan facility will enable the Camarines Sur provincial government to fast-track various community development projects as well as tourism projects in Lake Buhi, Mount Isarog, Caramoan Island, and the provincial capitol of Pili.

- DBP offered a P500-million omnibus line facility to assist Mindanao-based farmers interested in shifting to the planting of bananas. The facility aims to improve the living conditions of farmers based in Mindanao, as well as promote banana production in the region especially since the country is projected to register the highest export growth rate of the said fruit crop in the next few years.



Mr. RENE D. DIAZ
DBP President

Archbishop
Diocese of Bacolod

2007 Annual Report
Marinduque

OPERATIONAL Highlights

Consolidated Results of Operations

Net income for the year positioned at P2.71 billion, lower than the restated previous year's P2.83 billion. Non-consolidated return on equity was 8.07% and return on assets stood at 1.11%.

Gross income reached P16.63 billion, with P6.91 billion or 42% driven by lending operations and P8.99 billion or 54% attributable to treasury operations and foreign exchange profit. Said income is lower compared to the P17.98 billion achieved the year before.

Net income before provision for impairment losses and taxes reached P3.90 billion or 17% lower than the 2006 figure. Operating expenses of



P5.65 billion for this year was higher by P306 million compared to the P5.35 billion incurred in the previous year.

Consolidated Financial Condition

Resources as of year-end stood at P243.18 billion, lower than the P244.87 billion of the previous year. Gross loan portfolio of P128.63 billion decreased by P9.20 billion from the P137.83 billion recorded a year ago. Said reduction was on account of the unwinding of Unquoted Debt Securities Classified as Loans and matured placements in the Bangko Sentral ng Pilipinas' reversed repurchased securities and interbank loans.

Non-performing loans (NPLs) rose by P577 million or 19% higher from P3.01 billion in 2006 to P3.58 billion in 2007. Consequently, NPL ratio increased by 61 basis points from 2.09% in 2006 to 2.7% this year.

Liquid assets rose by 11% or P13.60 billion resulting in P136.44 billion, backed by higher placements on government securities and credit linked notes (CLN). Total deposits of P70.60 billion tapered off by P487 million against last year's level of P71.09 billion, of which 78% was supplied by government deposits and 22% sourced from the private sector.

Total borrowings of P118.74 billion as of year-end 2007 increased by P433 million from the P118.30 billion registered last year. Of said borrowings,

61% was sourced from ODA funders, with the remaining 39% from non-ODAs.

Capital-to-Risk Assets Ratio (Basel II framework) posted at 22.05% -- significantly lower by 595 basis points against 2006, the resultant effect of the implementation of Adjusted Risk-Based Capital Adequacy Ratio covering Combined Credit Risk, Market Risk, and Operational Risk (Basel II) effective September 2007 as set out in Bangko Sentral ng Pilipinas Circular No. 538.

SUPPORT FOR PRIORITY AREAS

In 2007, the Bank accelerated its support for the development of the



following priority sectors: Infrastructure & Logistics, Social Services, Environment, and Micro, Small and Medium Enterprises.

Environmental Development Programs

Demonstrative of its commitment to environmental management and conservation, the Bank implemented several financing programs in support of environmental projects, the most in number among the Bank's four priority development thrusts. These involved power, renewable energy, solid and hazardous waste management, water supply and sanitation, and pollution prevention and abatement projects.

Power & Renewable Energy

As of 2007, the US\$ 10 million Rural Power Project (RPP) – Adaptable Program Loan (APL) I had been fully committed and is expected to be fully disbursed by 2008. Releases to nine approved accounts amounted to P340 million for a 76% utilization rate. These accounts were to two mini-hydro projects in Bohol and Romblon with combined capacity of 3.4 megawatts, two conventional power plants in Masbate and Palawan, four power distribution projects for electric cooperatives in Bataan, Agusan del Sur, Batanes and Samar, and a solar power project providing 57 solar home systems in Laguna.



During the year, the Bank completed the Project Evaluation & Endorsement Report of 23 power projects, at an estimated loan amount of P5.6 billion. Of these 23 projects, 14 are renewable energy projects for 63MW capacity with an estimated carbon emission reduction impact of 124,011 tons per annum. These pipeline projects prompted negotiations for US\$40 million additional financing under RPP-APL I.

To address a common barrier encountered by most renewable energy proponents, the Bank set up a Project Preparation Fund (PPF) that provided financing for project studies, detailed engineering design and similar preparatory work at zero interest for a maximum amount of P3 million, on a 50:50 debt/equity sharing, payable in five years.



Pollution Control and Abatement

In support of pollution control efforts, four projects amounting to P135.82 million were approved in 2007. Loan releases as of year-end 2007 reached P1.47 billion covering projects that contributed to air and water pollution management, cleaner production, conservation of resources such as water, energy, raw materials, and the like, and projects that improved occupational health and safety in the workplace.

Climate Change

Management formalized the reactivation of the Climate Change Unit by approving two institutional arrangements that would allow eligible projects to get cash value for their contributions towards the mitigation of global warming. The assistance involves DBP's registration of projects with the Clean Development Mechanism (CDM) through bundling or the Program of Activities (POA). Negotiations for an institutional tie-up with a U.K. company for the processing of carbon credits of a bundle of mini-hydro projects began in 2007. Similarly, registration of POA for future mini-hydropower plant projects was initiated last year. Both approaches consolidate financial rewards from the CDM for the benefit of smaller projects.

Furthermore, the monetization effects of the carbon credits from projects funded by DBP redound to their project owners. While DBP and its funding partners cover the transaction costs, project owners partake of the proceeds which will be applied against the amortization of their loans. Carbon credit proceeds lower the amount paid at regular intervals or shorten the amortization period. Either way, these serve to enhance the viability of the project owners' businesses.

Sustainable Logistics Development Program

DBP's flagship project to interconnect the archipelago – the Sustainable Logistics Development Program (SLDP) – liberalized credit support to



its Road Roll-on Roll-off (RoRo) Terminal System (RRTS) component for missionary routes in 2007. Interest rate was brought down to 7% p.a.; loan value on the acquired vessel was raised up to 75%; equity requirement was lowered to 10%; and the vessel classification provision was eased. These adjustments were implemented to activate the missionary routes that would open island economies to bigger markets.

These incentives for missionary routes generated a number of applications from operators, particularly in Central Philippines. Loan approvals for RoRo vessels in 2007 alone involved five projects in Santander (Cebu) to Sibulan (Negros Oriental), Jagna (Bohol) to Camiguin Island, Cawayan (Masbate) to Daan Bantayan (Cebu), Maasin (Leyte) to Ubay (Bohol), and Guinlungan (Negros Oriental) to Dumanjug (Cebu). Once operational, these nautical highways are expected to accelerate the integration of outlying islands to their regional centers of commerce, trade and travel.

A total amount of P2.26 billion was released to 11 SLDP and shipping projects in 2007, among which were new tankers to comply with the double hull, double bottom requirements that would take effect in April 2008. Funding support to RoRo and shipping projects is expected to gain more headway with the Bank's acquisition of the NDC-Maritime Leasing Corporation (NMLC). Leasing will complement the Bank's

OPERATIONAL Highlights

traditional lending facilities already available to qualified project proponents.

To further encourage investments in the country's Road RoRo Terminal System, the second run of the "Ready, Set, RoRo!" DBP Interisland Race was held from December 11 to December 15, 2007. The event promoted the RRTS as the national government's major transportation and infrastructure program for both business and domestic tourism. The exciting adventure race kicked off in Cagayan de Oro City and took the participating teams to scenic destinations in Ozamis City, Mukas in Lanao del Norte, Dapitan City, Dumaguete City, Bacolod City, Iloilo City, Caticlan in Aklan, Boracay, Roxas in Oriental Mindoro, Calapan City, Batangas and Manila. The event further reinforced the vital role of the RRTS in efficiently facilitating inter-island travel through the use of the nautical highways.

Additionally, with the Pag-IBIG Fund's intensified marketing activities and push for availment of its individual housing loan programs, private developers soon realized that catering to socialized housing activities for Pag-IBIG Fund take-out could be fast-tracked through the DPUCSP.

The greater involvement of local government units, banks and private contractors is key to the successful implementation of the DPUCSP. These developments augur well for the stronger performance of socialized housing activities in the country.

Sustainable Health Care Investment Program

The Sustainable Health Care Investment Program (SHCIP) addresses the



Social Services Development Programs

Contrary to a perception that the strong growth momentum of the Philippine economy in the past few years had not achieved the expected "trickle down effect," DBP approved three programs in 2007 under the priority development area of social services. These new financing programs were designed to respond directly to the need to enhance the quality of life and well-being of the underprivileged in Philippine society. These programs are ready to go on stream in 2008.

Socialized Housing

The Development of Poor Urban Communities Sector Project (DPUCSP), a facility from the Asian Development Bank, was mobilized to respond to the housing needs of the informal sector in cities outside Metro Manila.

In 2007, DBP succeeded in sufficiently deepening its institutional linkages to brighten the prospects of the DPUCSP. At the outset, the Monetary Board of the Bangko Sentral ng Pilipinas (BSP) approved the DBP Housing Microfinance Loan Product Manual. With this approval, BSP effectively formalized credit support by the banking system for housing in the informal sector. This move would open up more active participation in the DPUCSP by microfinance banks.



Millennium Development Goals of the health sector. It aims to impact on the availability, accessibility and affordability of health infrastructure and services in the country. It focuses attention on the provision of primary health care, the erstwhile role of rural health units and public health services of local government units.

SHCIP responds to a welter of needs in the health sector, from the adequacy of primary facilities and availability of health personnel, to the affordability of medical services and medicines. Its primary focus, however, is the restoration of family and community clinics in countryside areas to pursue disease prevention and wellness. Additionally, clinics serve as "gatekeepers" so that only those patients that require the attention of specialists need seek higher level of medical attention and hospital services. It is in this context that SHCIP addresses the need to provide continuing funding support for the upgrade of hospitals since they are the apex of an effective health care referral system.

An investment area that SHCIP hopes to encourage and promote involves business solution companies that cater to the health sector – encompassing possible outsourcing areas in hospital and health service provision such as hospital management, computerization, various management services, common facilities and the like. With this broadened scope of health care facilities and services that SHCIP is poised to support, the program hopes to encourage more health services entrepreneurs, including doctors, nurses and midwives among them.



Moreover, the setting up of the SHCIP advisory committee that includes, among others, the Department of Health (DOH), Department of Interior and Local Government (DILG), Philippine Health Insurance Corporation (PhilHealth), Municipal Development Fund Office (MDFO) and DBP is expected to result in a more effective rationalization of the health sector.

Sustainable Mariculture Investment Program

Improved management of municipal marine resources is sought to be addressed by the Bank's Sustainable Mariculture Investment Program (SMIP). It is designed to encourage fisherfolk to change their practices towards preserving the rich marine resources of the country. With dwindling returns from capture fishing, the response to the country's



growing food demand lies in mariculture parks.

The provision of infrastructure in mariculture parks is expected to invite investors to plough money into this business and a broad scope of related activities. A mooring system and floaters in well-delineated zones in municipal waters constitute necessary preparations for grow-out activities. With these in place, investors are encouraged to participate in this endeavor and install nets, broadcast the fish fries and operate grow-out cages. These operations require support and ancillary services such as hatcheries for the fries, feeds, nets, cold storage and transportation.

For greater effectiveness, SMIP needs to catalyze the greater involvement of the various players and stakeholders in the mariculture park business. Among them are municipal governments which have jurisdiction over the marine resources, the grow-out investors and the myriad small enterprises that provide vital support services. These include the suppliers of fries, nets and feeds to the more capital intensive businesses like cold storage and transport. The more important challenge, however, is how the local fisherfolk can be granted access to the business opportunities offered by mariculture parks.

Support for Micro, Small and Medium Enterprises

The Bank more vigorously pursued efforts to assist micro, small and medium enterprises (MSMEs) through an array of programs catering to the entrepreneurial poor. Total loan releases to the sector amounted to P9.32 billion, of which 74% was channeled to the countryside and the remaining 26% to the National Capital Region. These generated 147,485 new jobs with 106,431 absorbed by SMEs and 41,054 by micro-enterprises. As of year-end, outstanding loans to the MSME sector amounted to P15.16 billion.

Factoring Facility



Under its Factoring facility, the Bank promoted the Big Brother-Small Enterprise Program through the purchase of Suppliers-SME receivables from accredited Corporate Buyers/Big Brothers. SMEs in the manufacturing, construction, wholesale and retail trade, transport and communication industries, among others, were assisted in the total amount of P3.15 million.

One-Town One-Product (OTOP) Program

The OTOP P2.0 billion credit facility for local government units, overseas Filipino workers and micro, small and medium enterprises (MSMEs) was officially launched in December 2007 to encourage the growth of entrepreneurs, particularly in the countryside. Demand was instantaneous as loan approvals reached P18 million by year-end in favor of a food processing company in Cavite. Six pipeline projects in the National Capital Region, Iloilo, Zamboanga del Sur, Leyte, Davao del Sur and Lanao del Norte also totaled P68.1 million in fund requirements. Rizal-based CD Handicrafts, Inc. was the first awardee with a loan release of P1.6 million. An additional 219 projects aggregating P197.7 million were referred by 24 provincial offices from the Department of Trade and Industry (DTI).

DBP teamed up with DTI for this program that aims to promote entrepreneurial endeavors in the regions through the use of locally available raw materials and inherent human

OPERATIONAL Highlights

resources. The local chief executives of each city and municipality take the lead in identifying, developing and promoting a specific product or service which has a competitive advantage.

The OTOP program models a creative and effective way of reaching out to the countryside to assist MSMEs in increasing productivity, creating jobs and raising incomes, thereby enhancing the welfare and quality of life of people in the regions and provinces.

RORO Truckers Financing

The RORO Truckers Financing program seeks to contribute to the growth of the country's agribusiness sector through enhanced storage and



distribution capabilities.

The program specifically targets fast-tracking the growth of the meat, crops, poultry and fishery sub-sectors through reduced logistics cost from farm to ports and to the final markets and the decreased post-harvest quantity and quality loss in the supply chain segment. The program strengthens linkages with agricultural producers and distribution chains and targets a higher income for farmers through faster turnover of sales arising from timely delivery and improved quality.

In support of OFW employment, DBP approved total loans of P199.3 million for four RORO-accredited truck service providers employing former OFWs as drivers.

Government Livelihood Program

DBP was one of the major funding partners of the "Puhunang Pangnegosyo para sa Kawani ng Gobyerno" program of the national government that aims to provide collateral-free livelihood loans to government employees.

The Bank, along with People's Credit Financing Corporation, Land Bank of the Philippines, Quedan Corporation, National Livelihood Support Fund, and Small Business Guarantee Finance Corporation, will provide wholesale loans to government employee cooperatives and associations as retail

institutions. Launched by President Gloria Macapagal-Arroyo, the lending facility encourages all government employees to become micro-entrepreneurs. Livelihood loans from a minimum of P5,000 to a maximum of P150,000 may be availed of by government employees from this new credit window.

OTHER INITIATIVES

Remittance Center

Recognizing that remittances can substantially contribute to national development, DBP enlarged its global reach to tap the growing OFW market. In 2007, the Bank offered competitive remittance products and services aimed at encouraging OFWs, their beneficiaries and dependents to start small- or medium-sized



entrepreneurial ventures to augment family incomes. These initiatives complement the national government's reintegration program for OFWs that aims to prepare the latter for their eventual return to the country.

The DBP Remittance Center has provided overseas Filipino workers with a secure, fast, efficient and reliable means of remitting their hard-earned money to their beneficiaries in the Philippines through the DBP Electronic Cash (E.C.) Remit Program. The program adopts a combination of electronic-based and traditional business models including virtual payments and credit/debit card facilities.

DBP also deepened its global footprint with the inauguration of the Remittance Center HK, Ltd. on September 1, 2006. The satellite office opened DBP's doors to an estimated 120,000 OFWs in Hong Kong and neighboring cities specifically Macau and the Shenzhen area.

Since a remittance business primarily requires an efficient collection system overseas and a quick and secure delivery system through subsidiaries, correspondent banks and remittance companies operating in various OFW destinations, DBP established a network of 45 tie-up arrangements with overseas remittance companies in various countries and partnered with rural banks, non-bank business establishments and reputable pawnshops.

Towards the end of the year, the Bank offered the i-Net Negosyo program in partnership with Smart Communications. Through the program, OFWs may be granted loans of up to P45,000 at very low interest rates. The loan package includes internet connection, a desktop computer and a mobile phone to enable the OFW families to establish mini-internet cafés and also earn from e-loading services.

In 2007, DBP likewise introduced two retail hedging facilities – Peso Insurance and Peso Protect. These innovative products constituted the Bank's concrete response to the national government's call to address the clamor of OFWs for assistance amidst the declining value of their hard earned earnings, particularly those denominated in U.S. dollars or currencies pegged to the U.S. dollar.



Peso Insurance provides an upside for OFWs in case of further peso depreciation against the U.S. dollar. On the other hand, Peso Protect assures OFWs that upon maturity date of their forward contract, their income in U.S. dollars is already fixed and protected from an appreciating peso.

The Bank continued to hold briefings at the Overseas Workers Welfare Administration (OWWA), Philippine Overseas Employment Administration, manning agencies, employment companies, non-government organizations, and other groups and associations to disseminate information on its products and services directed at OFWs.

DBP likewise sought the approval of the Bangko Sentral ng Pilipinas, the Department of Finance and the Office of the President of the Republic of the Philippines for the establishment of five additional subsidiaries to cover other regions and broaden its global reach, and to support its tie-ups/respondents and agents servicing OFWs.

Moreover, the Bank packaged more livelihood-related financing programs for OFWs and their dependents to be launched in 2008, setting aside a budget of P1 billion for this purpose.

Fund Sourcing

Over the years, DBP has promoted the global competitiveness of priority

sectors and subsectors and contributed to sustainable development through its pivotal role in foreign funds sourcing and establishment of robust lending programs.

The Bank has scored significant milestones in its pursuit of broadening the reserve base for ODA funds that would lend financial support to investments, particularly in environment, infrastructure and logistics, social services and enterprise development. These investment areas are supported by DBP's principal funders, namely the Japan Bank for International Cooperation (JBIC), Asian Development Bank (ADB), World Bank (WB), European Investment Bank (EIB), Nordic Investment Bank (NIB), Swedish International Development Agency (SIDA) and the German government-owned development bank, Kreditanstalt



für Wiederaufbau (KfW). Total ODA funds available for the year amounted to over P45.70 billion.

A major accomplishment in 2007 was the conclusion of the Sustainable Health Care Investment Program (SHCIP), a P2.28 billion facility conferred by KfW Bankengruppe. The program, aligned with the Medium-Term Philippine Development Plan for 2004-2010 as well as the Millennium Development Goals, intends to shore up investments in health-related education, medicine production, and research and development.

A number of loan facilities were under negotiation in 2007 for projected availability in 2008. These include the Industry Support Loan Project and Environmental Development Project from JBIC and the US\$40 million Additional Financing Loan of the Rural Power Project APL I from WB.

Corporate and Investment Banking

The Bank's marketing sector continued to strengthen its loan portfolio and to improve revenue streams, resulting in a net income of P2.31 billion or a 122% realization rate vis-a-vis the P1.89 billion target for year 2007. This is notably 15% higher than last year's net income of P2.01 billion. With a clear focus on the Bank's priority areas, loan approvals increased

OPERATIONAL Highlights

by 98% to P36.03 billion. Total approvals reached P41.48 billion while loan releases totaled P81.65 billion, a realization rate of 171% against the P47.86 billion target. Among the priority areas, the environmental sector registered the highest increase of 99% followed by infrastructure and logistics with a growth rate of 88%.

Landmark deals in 2007 included the securitization of Stradcom Corporation's future receivables from the Land Transportation Office that marked the first successful securitization deal under the Securitization Act of 2004. DBP was also selected as a financial advisor to the Philippine National Oil Company for the full privatization of PNOC Energy Development Corp (PNOC-EDC). The sale of the 60% equity interest in PNOC-EDC to the winning bidder generated P58.5 billion for the



government, a deal considered the second biggest privatization transaction in the country to date.

DBP also arranged and extended a P1.4 billion term loan facility to Star Infrastructure Development Corp. to partially finance the construction of Stage II Phase I of the Southern Tagalog Arterial Road (STAR) toll way. Further, the Bank lead arranged the US\$380 million credit facility for the SN Aboitiz Magat Hydro Electric Power Plant acquisition and rehabilitation. The deal heralded one of the most successful privatization projects of the government as mandated by the Electric Power Industry Reform Act (EPIRA). Furthermore, DBP provided a US\$90 million Standby Letter of Credit to DMCI-MPICWater Co. Inc. to partially finance the acquisition of the 83.97% equity interest in Maynilad Water Services, Inc.

During the year, the Bank was underwriter and bondholder for P250 million in Stradcom Corporation's P1.6 billion Special Purpose Trust LTO-IT Asset-Backed Bonds Issue. DBP also served as underwriter for Filinvest Development Corp. and Filinvest Land Inc.'s P2.75 billion Corporate Notes Issue. It was also joint lead issue manager and underwriter for the P2.0 billion HDMF Pag-IBIG Housing Bonds, proceeds of which will make funds available for housing loans of around 4,000 Pag-IBIG members. DBP was likewise lead issue manager and underwriter for the P2.0 billion Philippine Ports Authority Corporate Notes that provided funding for the modernization, expansion and development of Philippine ports in

line with the updated 2006-2010 Medium Term Public Investment Program.

Moreover, DBP acted as selling agent for the issuance of the Republic of the Philippines August 2007 Retail Treasury Bonds (RTBs). The issue had maturities of three years and five years, and carried coupon rates of 6.88% and 7.13%, respectively. RTBs form part of the national government's savings mobilization program, making government securities available to small investors.

Financial Institutions

The Bank's wholesale lending program for participating financial institutions (PFIs) faced unrelenting challenges wrought by market conditions that created high liquidity in the banking system. With its activities subdued



in 2007, a new long-term financing package for large wholesale lending partners was conceptualized to further promote the Bank's presence in the countryside.

In 2007, wholesale loan approvals reached P4.2 billion of which P3.6 billion were released during the year. In accordance with the Bank's countryside development mandate, barely 3% of the funds were channeled to the National Capital Region. The bulk was dispersed to various regions, particularly Region 6 which cornered 40% of total releases. Industries strongly assisted were transportation, storage and communications, petroleum and coal, and microfinance enterprises.

Wholesale banking-microfinance registered a 73% increase in loan releases to P803.41 million, attained in partnership with 39 conduit banks and non-banks.

Treasury Operations

The Bank's Treasury office achieved remarkable net gains of almost P4 billion from fixed-income securities operations, income on Trading Account Securities loans and Unquoted Debt Securities Classified as Loans and profit from the sale/redemption of investments.

DBP's Treasury office also secured approval from the Bangko Sentral ng Pilipinas for the Exporter's Hedging Facility through outright USD/PhP



Forwards, Peso Non-Deliverable Forwards and Peso Currency Options. The facility aims to help exporters hedge their US Dollar inflows against the strengthening of the Philippine Peso. Two products were offered under this facility – FX Insurance and Forward FX Rate Protection. Total outstanding transactions amounted to US\$5.61 million with 21 accounts. DBP's OFW Hedging Facilities – through the USD/PhP Non-Deliverable Forwards (NDFs), USD/PhP Currency Options and USD/PhP Outright Forwards – were made available for OFWs who intended to hedge their foreign exchange risks. The Bank will ensure that the NDF and currency options are appropriate and suitable to the OFWs' hedging needs. The facility was approved by the Bangko Sentral ng Pilipinas on December 12, 2007.



The Reverse Repurchase Agreement was likewise launched, a product not subject to reserve requirement and documentary stamp tax, and which provided yield enhancement to the Bank.

Trust Services

Trust operations posted a 16% increase in portfolio to reach P22.55 billion from last year's level of P19.37 billion. Investment Management Accounts (IMA) increased by about P4.40 billion as a result of intensified marketing efforts, especially for corporate accounts. IMA accounted for 77% of total trust portfolio while 22.6% is attributed to Trust and other Fiduciary Accounts (TOFA).

Gross revenues for 2007 registered an increase of 11% from P101.4 million in 2006 to P112.5 million.

Apart from more active marketing of IMAs and TOFAs, the Bank's Trust office successfully put into place a new trust system which automated a significant number of processes. The new trust system substantially improved turn around time and enabled the timely generation of accurate reports consistent with new financial reporting standards for regulators and clients.

New accounts during the year involved such services as escrow agent, trustee for Mortgage Trust Indenture for a P4 billion loan of a Bank client and as the Special Purpose Trust in the P1.6 billion LTO-IT Asset Backed Bonds.

Asset Management

The Bank's asset management office focused its efforts on the closing activities of the Bulk Sale 1 of Non Performing Assets – NPLs and ROPAs. DBP's NPA portfolio of P9.64 billion – comprised of P5.73 billion NPL and P3.73 billion ROPA – was sold to Lehman Brothers Asian Investments, Limited under the October 16, 2006 Asset Sale Purchase Agreement (ASPA). As of December 31, 2007, closing



of all NPL accounts sold under Bulk Sale 1 has been 100% implemented. The Bank's asset management office has also implemented the closing of ROPA Pool 2, 3 and 5 with gross book value of P911 million or 9.63% of the total ROPA sold under Bulk Sale 1.

The Bank's asset management office also disposed of 25 acquired assets with booked value of P36.95 million through public bidding, negotiated sale, cash and compromise settlement in 2007.

Proposed portfolio up for bulk sale under a second sealed-bid public auction slated next year will cover an estimated P1.87 billion of the Bank's recorded NPAs. Approximately P1.37 billion in NPLs involving 171 accounts is being considered, alongside some P0.50 billion in ROPAs representing 466 and 1,796 borrowers and property accounts, respectively.

Branch Operations

Cognizant of its role to catalyze development in the countryside, the Bank realigned its branch operations to complement the government's super regions strategy. Super Region Management Offices (SRMOs) were established to vigorously promote the Bank's products, particularly loan programs for multifarious projects identified in these regions.

OPERATIONAL Highlights

By end-December, the outstanding portfolio of the branches expanded by 6.5% to P28.88 billion over the same period last year. The past due rate remained at a single digit level despite a slight increase of 0.95% from 4.12% to 5.07%.

Loan releases amounting to P11 billion were widely dispersed among the SRMOs. Developmental loans accounted for 87% of total releases, of which the infrastructure and logistics and social services sectors comprised 62% while availments of MSMEs reached 13% or P1.5 billion. Commercial loans, meanwhile, comprised 13%. These were channeled mostly to the construction sector that took up 40%, with the rest of the amount shared by manufacturing, trading and other businesses.



The branches actively pursued marketing activities in the SRMOs including various investment fora in coordination with other government agencies, marketing blitzes and major project visits to Bank clients.

Several roadshows were conducted by President David in the key cities of Cebu, Zamboanga, General Santos, Davao, Cagayan de Oro, Iloilo, Bacolod and Dumaguete wherein high priority projects aggregating P5.48 billion in loan requirements were identified.

SRMO – North Luzon Agribusiness Quadrangle

A P99-million term loan facility was granted to Isabela La Suerte Ricemill, a pioneer project that introduced a new revenue stream to farmers in the area through the sale of rice husk ash and carbon credits specifically under the Clean Development Mechanism (CDM) program. The SRMO also provided credit assistance to the Municipality of Malasiqui for the construction of the two-storey Bagsakan Building to provide additional stalls to vendors.

The Bank also extended assistance amounting to P475 million out of the P553 million funding requirement of the province of Ilocos Norte for various tourism infrastructure in Laoag City. The project included a three-storey 100-room hotel, a 600-capacity convention center, and a

dormitory which can house up to 300 convention participants.

Northwestern University, Inc. also benefited from a P100 million loan that financed the construction of two school buildings and the acquisition of school equipment.

SRMO – Luzon Urban Beltway

The SRMO-Luzon Urban Beltway financed P580 million out of the total P1.1 billion project cost for the construction of the distillery plant and working requirements of Balayan Distillery, Inc., a company that encourages the use of local indigenous materials in its operations. The financing would help the economy by reducing dependence on



importation of food grade alcohol used in the manufacture of various food and beverage products.

For the shipping industry, a P227-million loan funded the expansion program of Montenegro Shipping Lines, Inc. Under the SLDP, the RMC-Metro Manila extended a P160-million term loan to Oceanic Container Liner, Inc. for the modernization of its cargo shipping operations.

A P100-million term loan facility was granted to Peninsula Electric Cooperative, Inc. for the upgrading of its distribution facilities that would translate into more efficient power distribution. Furthermore, the Province of Bulacan was granted a term loan of P87 million to finance the construction of the Bulacan Cancer Center.

SRMO - Central Philippines /

SRMO-Central Philippines extended a P137-million, 15-year term loan facility to Calapan Waterworks Corporation for the improvement, rehabilitation and expansion of its existing water distribution system. The project aims to provide Calapan and its neighboring towns with better, safer and cleaner potable water supply.

Also, the Municipality of Lian, Batangas was granted a P39-million loan to finance the construction of a new public market. The project is expected



to lead to enhanced production of agricultural commodities which would translate to better livelihood opportunities.

The Province of Camarines Sur was likewise granted a P2-billion omnibus credit facility to finance various priority projects under the Caramoan and Capitol Complex Tourism Development Program. The initiative is envisioned to make the province a major ecotourism destination and attraction in the country.

SRMO - Central Philippines II

A P112-million term loan was granted to the Province of Negros Occidental to complete the construction of the Teresita I. Jalandoni Provincial Hospital.



The project would increase the number of hospital beds and enable its reclassification from a primary to a tertiary facility.

The municipalities of Oton and San Miguel, Iloilo were granted term loan facilities of P15 million and P14 million, respectively, to finance the construction of their public market projects.

As part of its commitment to environmental protection, the Bank extended a P90-million loan to Iloilo City for the acquisition of heavy equipment for solid waste management and improvement of its existing Materials Recovery Facility with the construction of a disposal site. A P4-million term loan, meanwhile, was extended to the Municipality of Belison, Antique for the rehabilitation and construction of school buildings and facilities in the area.

SRMO - Mindanao

A substantial P650-million credit facility was granted to Rio Verde Water Consortium to finance its bulk water project. The company provides reliable and sustainable supply of potable water to Cagayan de Oro City Water District, which services the City of Cagayan de Oro and other neighboring municipalities of Misamis Oriental.

The Davao Corrugated Carton Corporation was also granted an aggregate loan of P210 million to be utilized for its import transactions, capital

expenditures and working capital requirements. The company provides a very important logistical support to the banana growing industry of Mindanao.

In support of the government's food security program, a P150-million loan facility was extended to Mega Fishing Corporation for the working capital requirements of its canning production. A P122-million term loan facility was likewise granted to Alsons Aquaculture Corporation to finance the acquisition of various modern machinery and equipment for its fishing operations.



Information Technology

Various information technology projects that were completed and implemented during the year would impact significantly on the Bank's operations. The New Integrated Deposit Servicing System (NIDSS) was rolled out to enable the Bank to offer new products such as Internet Banking facility and Mobile Banking.

Implementation of the Anti-Money Laundering Detection System was also launched in compliance with BSP Circular No. 495 that requires all banks/financial institutions to provide an Electronic Anti Money Laundering System. After the completion of the Customer Information System (CIS) on Deposits, the CIS on Loans or Customer Liability Module was initiated to enable access to and monitoring of all customer-related transactions.

The Retail Loan System 3.0 was undertaken as an offshoot of refinements in the Branch Banking Sector's organizational structure, particularly the centralization of booking and servicing of loans. This system provides Regional Marketing Centers (RMCs) and all its account officers access to their accounts.

The development of Electronic Requisition, Procurement, Inventory Control and Accounting System (eRPICAS) was

OPERATIONAL Highlights

also completed with ongoing User Acceptance Testing. This fully integrated web-based system was designed to manage the Bank's procurement activities from requisition to supplier payment and booking.

Other initiatives include the creation of Security and Information Management System (SiMS) to automate most processes in the operations of the STA-Guarding, Transport Services and Transport Maintenance Divisions, Investigation Division & Inspection and Acquired Assets Custody Division, the Enhancement of GL/SL Data Entry System and Home Development Mutual Fund (HDMF) Bonds System Version 2.0. The Bank is likewise implementing the refined Information System Strategic Plan (ISSP) designed to integrate the core banking systems through the acquisition of a Risk Management System, Loans Management System



and Financial Management System.

Human Resource Management

DBP embarked on major human resource initiatives in 2007 to address the need to maximize institutional effectiveness through the continuing refinement of the organization structure. A revised organization structure for the branches was also adopted in 2007 with the completion of the review and slotting of incumbents in the Office of the Head – Branch Banking Sector, the five Super Region Management Offices, five Branch Operations Assistance Teams, 15 Regional Marketing Centers and 77 Branches.

Consistent with the principle of total human development, the Bank continued to provide opportunities for the professional growth of its employees through a generic development program. There were 87 participants to the Management Development Program; 36 for senior management level and 51 for middle management level. A total of 129 in-house programs categorized as technical, managerial and supervisory, employee effectiveness and specialized programs were attended by 4,529 employees.

As a supplemental learning vehicle, 486 employees attended external lectures and conferences. A total of 34 training programs were also

attended by 43 employees, two of which were short-term scholarship programs fully sponsored by the Bank.

In addition, 24 new scholars were selected to benefit under the DBP Scholarship Program. Implemented through the Bank's Provident Fund, the Program also produced two Cum Laude and one Magna Cum Laude out of the total 17 scholar-graduates for year 2007.

An expanded benefits program was implemented to include a health care system with curative and preventive programs, and promotion of good health to personnel considered high risk because of unhealthy lifestyles.

The Bank's HRM likewise processed a total of 1,414 recommendations



and various personnel transactions as follows: regularization of personnel – 56; promotions/personnel movements – 120; hiring and upgrading of project-based contractual employees in the Head Office and Branches – 51; hiring of rank and file and officers – 4; conduct of pre-employment examinations in the Head Office and Branches for 406 applicants and 777 MAP applicants.

HRM also processed the approved applications of 150 officers and employees who availed themselves of the benefits offered under the Early Retirement Incentive Program IV (ERIP IV) 2nd tranche effective from January to December 2007.

Corporate Governance

The DBP continued to uphold the principles and best practices of corporate governance at all levels – from the Board of Directors, Committees and Management to the staff level.

DBP's efforts in this area earned recognition once more when the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) conferred on the Bank the Outstanding Corporate Governance award.

DBP has remained firmly committed to the highest standards of productivity, competence, and service to the institution, its clients and the country.



The impact of good governance has been seen in the lower cost of capital, lower cost of debt, a sounder asset base, a more disciplined and focused management, higher income, and good reputation and image.

Consistent with good governance practices, DBP continued to faithfully adhere to applicable local regulations and global corporate governance advocacies. During the year, the Bank's Governance Committee Charter and Corporate Governance Manual and Audit and Compliance Committee Charters were revised to comply with BSP requirements. Included in the revisions were the following provisions (1) for the Board of Directors composition, with emphasis on its membership to the DBP Board by way of appointment by the President of the Philippines; (2) designation of two independent directors among the three Board members sitting in the

the Bank's internal controls, including financial, operational and compliance controls and risk management, at least on an annual basis.

Under its assigned duties and responsibilities, the Risk Management Committee was tasked to identify and evaluate risk exposures; to assess the probability of each risk becoming reality; and to estimate possible effect and cost. The three major risks identified and defined in the development of the Bank's risk management strategies are: credit, market and liquidity and operational risks.

In line with the Bank's thrust to continuously improve its Corporate Governance, the reporting line of the Bank's Committees has been



Governance and Audit & Compliance Committees; and (3) enjoining the Board members to prioritize DBP Board and its committee meetings in the event of competing time commitments faced by members serving in multiple boards. Rotation of the Board committee chairmanship and membership has also been provided for on a regular basis for purposes of enrichment and best practices.

To implement the Peer Rating System for the Bank's Board of Directors, the authority of the Governance Committee was expanded to cover the conduct of assessment of the BOD's performance in terms of competence, candor, attendance, preparedness and participation in Bank activities. Corporate Governance Self-Assessment Scorecard and Peer Assessment were officially adopted for directors who have rendered at least six months service. The Self-Assessment and the Peer Assessment's consolidated results showed that the Board obtained an adjectival rating of STRONG which meant that the members of the Board demonstrated excellent level of skills, ability and performance during the assessment period.

The Bank's Audit and Compliance Committee was granted authority to investigate any matter within its terms of reference, full access to and cooperation by Management and full discretion to invite any director or executive officer to attend its meetings and adequate resources to enable it to effectively discharge its functions. The Audit and Compliance Committee was likewise authorized to ensure the conduct of review of



modified such that all minutes of the Committee meetings, namely, the Audit and Compliance Committee (ACC), Human Resource Committee (HR Committee), Trust Committee (TC) and Development Advocacy Committee (DAC) should be cours ed through the Governance Committee (GC) first before these will be elevated to the Board for notation.

Also, the functions of the MSME Committee were incorporated in the DAC to give more focus on the development initiatives for the MSME sector. On the other hand, all matters to be discussed by the Committee on Risk Management (CRM) shall be elevated directly to the Board of Directors for approval.

The Board of Directors, consisting of nine members all appointed by the President of the Republic of the Philippines, nominated among themselves two independent directors who were confirmed by the BSP Monetary Board. In 2007, the Board held 47 meetings and acted on a total of 115 credit transactions, 444 miscellaneous matters and two disposal of acquired assets.

The Committee on Risk Management 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

OPERATIONAL Highlights

of the Credit Committee, and the heads of Internal Audit, Risk Management, Treasury, Chief Legal Counsel or representative and Compliance Officer or representative as Ex-Officio members. CRM held 11 meetings in 2007 and acted on 45 risk management matters including 17 policy recommendations, and 28 matters presented for notation.

The Governance Committee includes three members of the Board, with the President, all other Directors, the Chief Operating Officer and the Chief Legal Counsel or representative as Ex-Officio members. It held six meetings in 2007 and acted on matters related to corporate governance including the aforementioned implementation of the Bank's Self-Assessment and Peer Assessment for the Board of Directors.



The Audit and Compliance Committee (ACC) and the Human Resource Committee (HR Committee) have the same number of members as the Governance Committee. The ACC held eight meetings, noted regular and special reports presented to the Committee, and approved, among others, the Revised Internal Audit Manual and the Revised Internal Audit Charter. Likewise, the HR Committee held ten meetings and acted on eight matters related to employee benefits and 23 human resource related matters.

The Trust Committee consists of three members of the Board, with the President and the Head of Trust Services as regular members. The Ex-Officio members include the Chairman, all other directors, the Chief Operating Officer, the head of Treasury and Chief Legal Counsel or representative. The Committee held 25 meetings and acted on 69 matters related to Trust operations.

The Development Advocacy Committee (DAC) is composed of three members of the Board as regular members with the Chairman, President, all other Directors, the Chief Operating Officer, head of Microfinance Center, representative of SME Department and the Chief Legal Counsel or representative as Ex-Officio members. DAC held six meetings, acted on two matters and likewise noted 11 matters presented.

Risk Management

The main objective of Risk Management is to provide a sound enterprise-wide risk management system that effectively assesses the magnitude of risk exposures in all aspects of the Bank's operations. Having identified risk management as a critical component in ensuring sustainable development, the Bank's Board of Directors (BOD) takes the lead in promoting a culture of risk-awareness, setting the institution's level of risk tolerance and determines business opportunities from a risk-return perspective.

The Risk Management process revolves around the qualitative and quantitative analysis of the Bank's level of market and credit risk exposure.



sensitivity to interest rate changes, liquidity position and vulnerability to operational losses. The acceptability of risk exposures are evaluated relative to the Bank's financial condition.

Among others, the Bank adopted industry-accepted methodologies in measuring risks and the application of Value-at-Risk (VaR) methodology. Risk exposure calculation in the areas of market risk, liquidity risk and structural interest rate risk are determined using self-developed processing and risk exposure calculation tools/spreadsheets.

To further strengthen the market and liquidity risk management framework, the Bank embarked on a major initiative by engaging the service of ABN AMRO Bank, N.V. through its Global Risk Advisory Services (RAS) group, for technical support with the objective of aligning the market risk management processes with global best-practices. Further, the recommendations were intended to assist DBP to go beyond the Standard Approach towards the greater degree of market risk exposure calculation and reporting required under the more advanced Basel approaches.

ABN AMRO RAS also assisted the Bank in its selection process for a Treasury Trading System. The group evaluated the Bank's selection criteria and provided recommendation for the Bank to achieve its objective.



The structural interest rate risk management framework was enhanced to include a multi-level analysis of the Bank's sensitivity to interest rate movements on both earnings and capital which includes the Interest Rate Gap (IRG), the Earnings-at-Risk (EaR), Net Interest Income (NII) and the Net Interest Margin (NIM) on a regular basis.

The liquidity risk management framework uses the maximum cumulative outflow methodology which was further enhanced to include a more granular timing perspective, from 4 to 32 time bands, of the Bank's cash flow. DBP focused on streamlining the data retrieval process resulting to an increased frequency of reporting for timely information. Relevant liquidity ratios are presently calculated and included in the liquidity risk reports. In addition, a comprehensive Contingency Funding Plan (CFP)

In preparation for the Internal Ratings Based (IRB) approach under the Basel II framework, a review of the Bank's Internal Credit Risk Rating System (ICRRS) was conducted to check acceptability and appropriateness. The Default Data Monitoring process was also enhanced and implemented in all marketing units to serve as the groundwork in the computation of significant credit factors such as Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) also for the IRB approach.

The Bank manages operational risk by identifying, assessing, monitoring, controlling and mitigating the risk, rectifying operational risk events, and implementing any additional procedures required for compliance with local regulatory requirements. All Bank units are mandated to



was crafted to provide an effective process of handling a liquidity crisis and to maintain constant readiness for implementing the plan which involves senior management and key Bank officers. The CFP details the trigger events and corresponding action plans, key persons involved and flow of communication, among others.

Various simulations and analytics were incorporated in the reporting process to further support the BOD's oversight functions. The reporting process now includes statistical estimates and simulations designed to project the potential impact of certain events in the Bank's financial condition.

The required annual review of Board-approved limits was also completed. Risk tolerance on trading and investment activities was redefined to align with the Bank's over-all business objectives and ability to absorb market shocks.

The Bank has taken a more active role in the implementation of the new capital adequacy framework. To ensure proper delegation of responsibilities to concerned units, the Roles and Responsibilities in the preparation of the Basel II CAR report and the Risk Weighting Guidelines were issued. Technical assistance was also provided to various business and operating units on rules interpretation, accuracy of reporting and simulations.



manage operational risk by implementing clear and defined processes, delineating responsibilities and business continuity plan.

The Bank's Operational Loss Monitoring Module was enhanced by changing the reporting frequency from quarterly to monthly thereby improving the timeliness of reporting.

The year was marked with several initiatives undertaken by the Bank to move towards a more advanced methodology of capturing and assessing loss events, and operational risk capital charging. At the initial stage, a bankwide mapping of gross income into the BSP-approved business lines was initiated.

With the objective of institutionalizing the risk identification and assessment of Bank's products, activities, processes and systems, the review of several product manuals was completed. Inherent risks were identified and adequately assessed in order to control/mitigate potential risks and determine the appropriate level of training, controls, and testing necessary for effective mitigation.

With the increasing need to strengthen the Bank's risk awareness, lectures and briefings on risk management practices, capital adequacy framework and quantitative-related topics were conducted across the institution.

OPERATIONAL Highlights

Lastly, a comprehensive policy framework was put in place which has been confirmed by the Bank's third-party reviewer, ABN AMRO RAS, as a living and enforced document.

The Global Compact

As one of the signatories of the United Nations Global Compact, DBP has strictly adhered to its core values in the areas of (1) human rights, (2) labor standards, (3) environment and (4) anti-corruption. The Bank remains firmly supportive of the ten principles espoused by the Global Compact and keeps abreast of developments and various undertakings.

The Bank has sustained its efforts towards concretizing the tripod of



success towards the pursuit of its mission statement: ethical and value-based-leadership of personnel, good management and continuous welfare promotion for employees.

With a diverse range of responsive personnel services, special focus was given on enhancing the quality of lives and implementing responsive human resource development strategies to enhance the productivity of personnel, thus further enabling them to contribute significantly towards the Bank's mandate of national development.

Aware of the importance of maintaining a climate of mutual trust and cooperation between employees and management as a requirement towards effectively achieving organizational objectives, the 2007 Collective Negotiation Agreement (CNA) between Management and the DBP Employees Union (DBPEU) was signed on June 8, 2007. It was ratified by the members of the Collective Negotiation Unit and the DBP Board of Directors in June and July 2007, respectively.

In addition to a strong human resource development program, the DBP earned recognition for its sustainable development programs. The Bank's Environmental Management System continued to be operational and in 2007, easily hurdled the 2nd surveillance audit that confirmed its sustained compliance with the requirements of ISO 14001 standards.

DBP has likewise influenced its clients to invest in environmental projects to address the adverse environmental impacts of their business activities, and monitored the environmental performance of its various funded projects to ensure compliance with the environmental regulatory requirements. In 2007, DBP released a total of P2.43 billion in loans for environmental projects.

The DBP Forest program is a unique undertaking that supports and encourages the forestation of open and denuded areas through the planting of high value fruit trees and other useful plant species. It is a multi-sectoral environmental initiative that also seeks to protect coastal areas and conserve soil and water in the uplands while improving spawning grounds for terrestrial and marine aquatic life. In the long run, it also aims



to help develop downstream industries in the countryside. The program has 25 existing forest projects consisting of 5,946 hectares of upland and coastal areas.

In 2007, the Bank launched its 24th reforestation project in Tarlac, a 275-hectare plantation expected to heighten the Bank's environmental protection efforts as well as generate economic opportunities in the province. Five micro-enterprises will manage the plantations, giving job opportunities to upland farmers and residents of two municipalities.

During the year, the Bank signed a Memorandum of Agreement with the provincial government of Marinduque for the reforestation of identified sites in the area. The DBP Forest in Marinduque, its 25th project, will be implemented in three modules involving watershed rehabilitation, fruit tree forest development and coastal rehabilitation. Reforestation and agro-forestry activities will be undertaken for the development and rehabilitation of a 240-hectare watershed spanning identified barangays in the municipalities of Sta. Cruz and Torrijos. A 160-hectare agro-forest plantation will also be established in the provincial capital of Boac, with at least 250 families targeted to benefit from livelihood opportunities to be generated.

In compliance with the global drive against money laundering, the Bank pursued the development of an electronic money laundering transaction



monitoring and/or detection system. The system would provide the Bank with a central repository of customer information for all Bank's customers that can be linked to the Bank's various core system servers for comprehensive processing and monitoring of covered and suspicious transactions, transactions under watch list and other relevant reports that will support investigation, if any. The Money Laundering Detection system offered by SAS Institute (Philippines), Inc. was implemented in 2007. It was also audited and declared generally compliant by the BSP.

To address the requirements under the Implementing Rules and Regulations of the Anti-Money Laundering Act (AMLA) to provide all responsible Bank officers and employees with efficient and effective training and continuing education programs, 12 series of AMLA briefings/seminars for



both the head office and its branches were conducted.

The Office of the Legal Counsel also continued to refine its portal that provided effective awareness on the relevant opinions, circulars, rulings or memoranda from the BSP, the Department of Justice (DOJ) and other government agencies affecting the Bank and its operations. The soft launching of the OLC Portal was held among the lawyers of the Regional Management Offices (RMOs) and branches during the Anti-Money Laundering Seminar from December 13-14. Region-wide launching will be held in 2008 upon the completion of intranet access of all the Bank's regional offices.

The Bank also observed the guidelines governing the acceptance of valid identification cards for all financial transactions made through banks and the filing of suspicious transaction reports (STRs) with the Anti-Money Laundering Committee (AMLC) for transactions involving fraudulent or suspicious checks under BSP Circular No. 564 and Circular Letter No. 10. Regarding the guidelines on the submission of Crimes and Losses report to BSP using the revised format under BSP Circular No. 587, uniform compliance and implementation by concerned Bank units and branches was effected. Existing policies and procedures under the Bank's Manual of Operating Procedures were likewise reviewed for necessary amendments.

The Bank also attended the round table discussion on the implication to the banking industry of Republic Act No. 9372 or the Human Security

Act of 2007. Enacted for the purpose of securing the Philippines and protecting the people from acts of terrorism, this law specifically provides for the classification and contents of the Court Order authorizing the examination of bank deposits, accounts and records.

Corporate Social Responsibility

The Bank reinforced its corporate citizenship thrust in 2007 with the launching of the DBP Endowment for Education Program (DEEP), a non-credit program to be implemented starting academic year 2008-2009.

DEEP offers poor but deserving high school graduates the opportunity



to pursue higher education as a means to break the vicious cycle of poverty confronting their families.

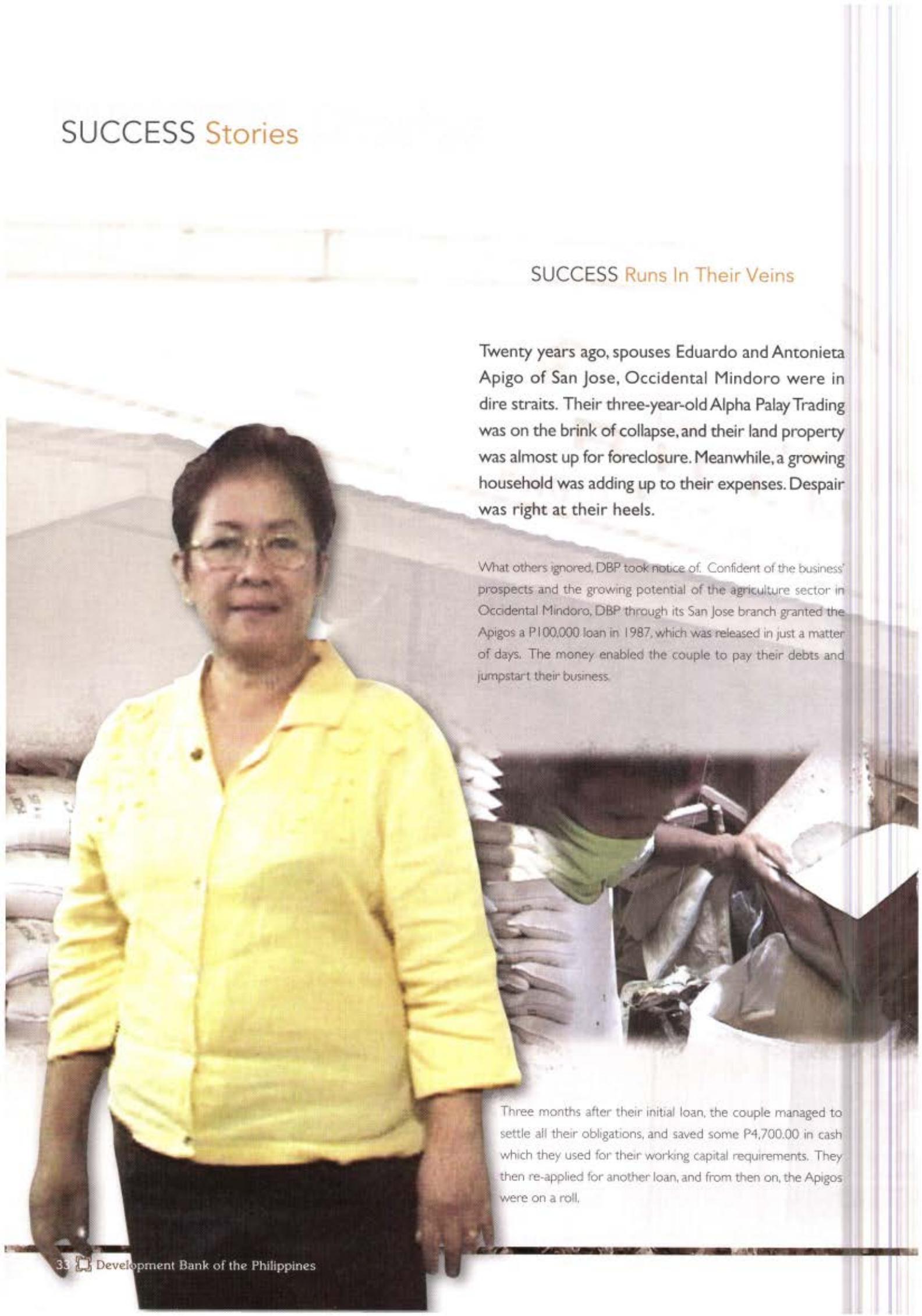
A key feature of the DEEP program is its "pay it forward" scheme. Instead of paying back DBP's financial support, beneficiaries will pay forward or contribute to a fund that will allow others to access the same opportunity.

DEEP aims to enroll around 150 nursing students from all over the country in selected partner schools with outstanding performance record. The partner school benefits from an endowment portion wherein DBP pre-pays the tuition for the entire four-year course. While this is a variant of a pre-need scheme, it provides the school with funds to undertake investments to improve its facilities, faculty and curriculum.

Corporate social responsibility initiatives were also conducted by the Bank through separate outreach projects in typhoon-ravaged Bicol region specifically in Iriga, Camarines Sur. The Bank conducted a relief mission for typhoon and mudslide victims in Daraga, Albay and assisted Daraga National High School in the repair of its school buildings that were badly damaged by the typhoons. During the year, a donation drive was also coordinated for the benefit of 1,356 families left homeless by a four-hour fire that razed Mandaue City.

SUCCESS Stories

SUCCESS Runs In Their Veins



Twenty years ago, spouses Eduardo and Antonieta Apigo of San Jose, Occidental Mindoro were in dire straits. Their three-year-old Alpha Palay Trading was on the brink of collapse, and their land property was almost up for foreclosure. Meanwhile, a growing household was adding up to their expenses. Despair was right at their heels.

What others ignored, DBP took notice of. Confident of the business' prospects and the growing potential of the agriculture sector in Occidental Mindoro, DBP through its San Jose branch granted the Apigos a P100,000 loan in 1987, which was released in just a matter of days. The money enabled the couple to pay their debts and jumpstart their business.

Three months after their initial loan, the couple managed to settle all their obligations, and saved some P4,700.00 in cash which they used for their working capital requirements. They then re-applied for another loan, and from then on, the Apigos were on a roll.

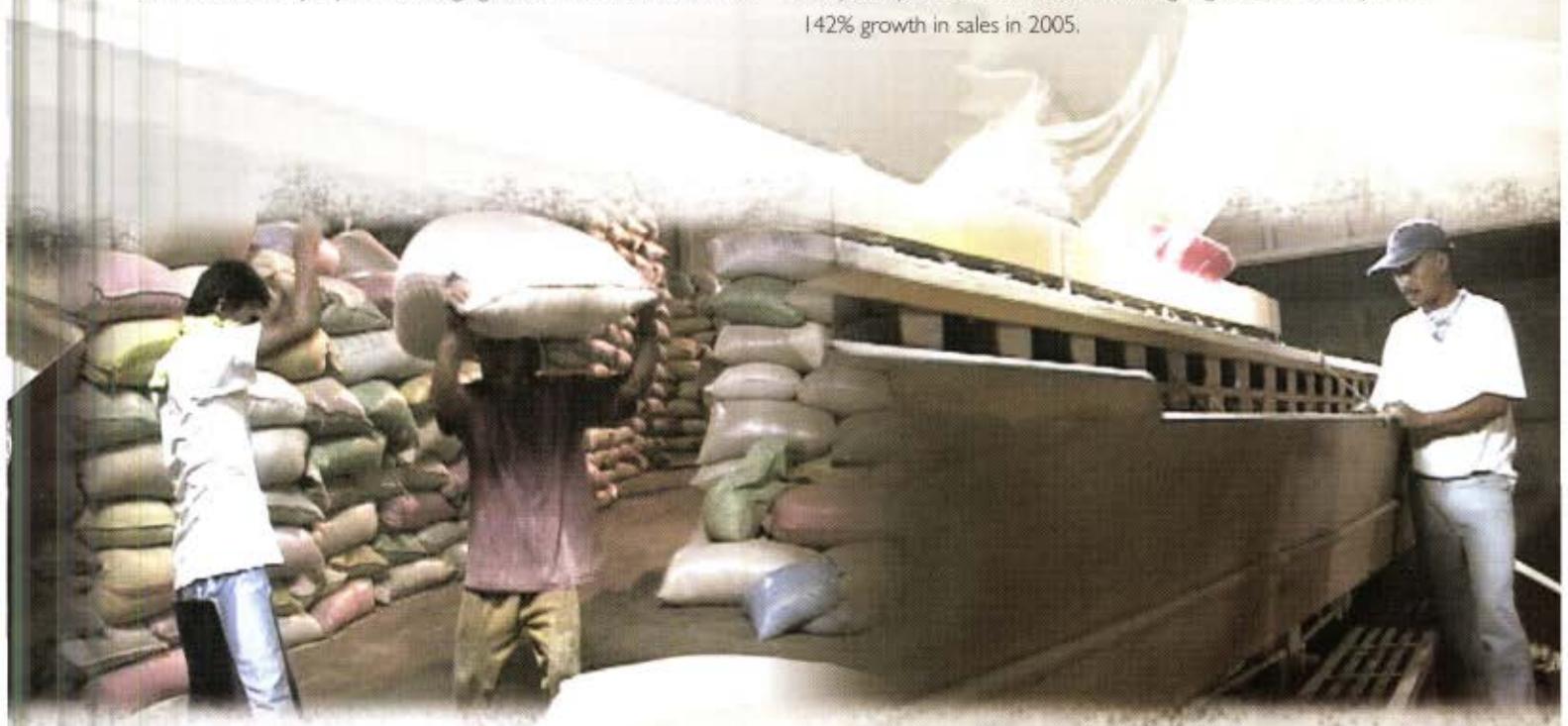
Clients started pouring in, and Alpha Palay Trading became a byword among farmers, *palay* traders, and consumers. Business picked up so much that by 1991, the Apigos had built a warehouse with a storage capacity of 1,800 cavans. Four years later, with P400,000.00 in financial assistance from DBP, the couple put up another warehouse with a storage capacity of 9,000 cavans and a concrete solar drier. In 1997, sales picked up even further, pushing Alpha Palay Trading to become the biggest rice miller and trader in the province. In 2003, the Apigos built another three-storey building for its office space and warehouse requirements.

The Apigos also remained modest and thrifty — values which they zealously imparted to their children. To teach their kids how to invest wisely, the Apigos gave some of their land properties to their children as gifts for finishing their college education — a gift their daughter, Diana, utilized to jumpstart a fledgling career as a businesswoman.

craft shops began sprouting like mushrooms in San Jose, they shifted gears by starting another business which would be their ticket to entrepreneurial success.

In August 2001, the couple set up Alpha 2 General Merchandising, which sold organic and chemical fertilizers procured from local suppliers in Occidental Mindoro and Batangas City. Using her parents' college graduation gift wisely, Diana converted this land into a storage site for their commodities. Soon, the Tayags approached DBP for assistance, and in 2002, they received working capital assistance to boost their business operations.

With DBP's help, business steadily flourished, posting a respectable six per cent growth rate in sales in 2003 and 2004. Soon the Tayags expanded into rice trading, and by supplying rice in Batangas and the Visayas, Alpha 2 General Merchandising registered an exceptional 142% growth in sales in 2005.



Diana Apigo was barely out of her teens when she married Mateo Tayag III, but at the outset, the young couple exuded signs of being entrepreneurial-minded just like their parents.

The Tayags first ventured into business by putting up a metal craft shop. They also briefly engaged in forwarding services. When metal

Like their parents, the Tayags are grateful for a steady relationship with DBP. Diana says her parents' satisfactory experience with the state-owned bank was enough reason for them to partner with DBP. "From the start, we didn't entertain any second thoughts about banking with them. My parents speak highly of DBP. Their service has been exceptional. They make themselves available every time."

ENERGIZING Bataan's March to Development

Many residents of Bataan have benefited from stable monthly electricity charges as a result of a comprehensive rehabilitation and upgrade program of the Peninsula Electric Cooperative (Penelco).

Penelco, Bataan's sole power distributor, availed of P100 million in funding from DBP in 2006 to implement a rehabilitation project involving the construction of power substations, addition of transmission lines, and improvement of distribution lines. The project was also aimed at dropping the system power loss of the cooperative, and thereby cutting down electricity rates of consumers. It was also projected to benefit an additional 4,221 households from the municipalities of Samal, Hermosa, Pilar, Orion, Bagac and Morong.

Two years later, more and more families in Bataan are benefiting from the expansion and upgrade program of Penelco, which is also one of the most-awarded electric cooperatives in the country.

Penelco general manager Engineer Loreto Marcelino says they are the only cooperative in the country that has a power substation in every municipality. Penelco power substations have become familiar sights in Bataan, serving as



landmarks in the 11 municipalities and lone city of the province. Before their expansion project, Penelco lacked substations in three municipalities -- Hermosa, Samal, and Pilar, making these towns prone to power outages. Engr. Marcelino explains that having one substation per town and city eliminates the risk of widespread power failures. The present system also allows each substation to absorb additional loads in times when adjacent substations have glitches. Thus, in case substation A malfunctions, Penelco can get additional electricity from substations B and C.

Moreover, Penelco's operational set-up is a display of efficiency, as each town is considered one area office headed by an area engineer and served by dedicated substations. Each area office also renders autonomous operations in terms of meter reading, collection, and consumer service, ensuring more systematic and practical operations.

DBP's funding also covered the replacement of overloaded transformers prone to overheating which had resulted in frequent brownouts. The loan also financed the construction of 10 kilometers of 69 KV transmission lines to connect the new power substations to existing TRANSCO sub-transmission lines, a move that further enabled the cooperative to reduce losses. For good measure, the assistance upgraded Penelco's distribution system to increase its capacity and in turn, accommodate more consumers.

More efficient payment collection, meanwhile, enables Penelco to

The expansion and upgrade project also enabled the cooperative to further cut down on its systems power loss, something Penelco has been focusing on in the past two decades. Penelco has drastically cut down its systems power loss from a high of 46% in 1988 to a respectable 9.2%, which is way below the 14% mark set by the National Electrification Administration (NEA). The agency hopes to slash these percentages into single digits by 2010 to further reduce electricity charges in the country.

Engr. Marcelino notes that every 1% reduced from their system power loss translates to a reduction of 10 centavos per kilowatt hour. Penelco has now cut down its system power loss to 9.2%, meaning they have reduced rates by at least 30 centavos per kilowatt hour since implementing the expansion and upgrade program.

Improvements however are still aplenty. In the future, Penelco hopes



avail itself of 3% automatic prompt payment discounts from the National Power Corporation, which translates to around P3 million in savings per month. Half of this amount is given back to its consumers through reduction of rates of at least 99 centavos per kilowatt hour. The other P1.5 million is saved and used for the rehabilitation and extension of lines, which also helps further reduce systems losses.

to work with DBP for proposed projects such as the introduction of on-line billing, acquisition of transmission lines from Transco, and the installation of more advanced equipment.

But in the meantime, Bataan residents will have to be content with Penelco's most recent rehabilitation project that is the envy of most electric cooperatives, and most important, a major reason behind the delivery of reliable and cheap electricity in the province.

SUCCESS Stories

NURTURING the Smallest of Dreams

DBP's microfinance program provides credit and technical assistance to microfinance institutions (MFIs) and practitioners in the country. It reaches out to micro-entrepreneurs in unserved areas, particularly those in the poorest municipalities. Acting as advocates of development, DBP's officers and personnel reach out to micro-entrepreneurs in far-flung areas to encourage them to form cooperatives and associations.

Among the microfinance institutions that have benefited from their partnership with DBP are the Rural Bank of Mabitac, Inc. of Laguna and First Macro Bank of Pateros.

Rural Bank of Mabitac

The Rural Bank of Mabitac, Inc. was established in 1973 and initially served residents of Mabitac and its neighboring towns. In 1988, it opened its first branch in Sinaloan, the commercial center of eastern Laguna, which was then followed by branches in the towns of Calamba, Cabuyao, Los Baños, Paete and the town of Infanta in Quezon province. It ventured into microfinance in 2002, sparked mainly by the demand to support the growing number of micro-entrepreneurs in Infanta, Quezon, and soon after in their other branches.

One of their clients, Jennilyn Antonio of Sta. Rosa, Laguna, has greatly turned around her fortunes, thanks to the financial support given by the rural bank. Jennilyn was an ordinary employee whose earnings were barely enough to support a growing household. But an extraordinary drive to provide for her family was more than enough reason for her to flourish in the competitive world of business.



Prior to establishing the fast-rising local brand Ehje's Peanut Butter, Jennilyn was a typical mother who had trouble making both ends meet. The snowballing household bills were tough, but what bothered Jennilyn more was the difficulty of sending her children to school.

Anyone made of weaker stuff would have cringed under pressure, but Jennilyn wasn't about to give up. Jennilyn started peddling various food items at work to help augment her income and support her children's education. Manufacture of one of the world's most popular sandwich spread, however, proved to be heaven-sent.

Jennilyn started making peanut butter in 2002 after taking notice of the popularity of the spread in their area. Her product's beginnings were rather humble: she brought a kilo of peanuts to a local market, and had them ground and mixed with sugar and salt.

She then began peddling a new product at work -- peanut butter packed in small containers. Weeks later, Jennilyn found herself talking to bakery owners in hopes of getting her peanut butter sold at their shelves. One bakery consented, and soon after, more bakeshops and stores followed suit, buoyed by increasing demand for Jennilyn's sweet produce.

With increasing orders from bakeries and supermarkets, Jennilyn decided to resign from work and focus on a promising business. She attended seminars to upgrade her knowledge about peanut butter-making and stumbled upon the Sta. Rosa, Laguna branch of the Rural Bank of Maribacan, Inc. where she availed of a microfinance loan of P30,000.

Ehje's Peanut Butter continued its robust growth in the following years, with the Rural Bank of Maribacan, Inc., providing the working capital requirements for the purchase of vital equipment such as grinders and mixers. Sales increased steadily by at least 30% every year. Operations hit a high when the Antonios were asked by two leading Manila-based bakeries to provide the peanut butter items sold in their branches nationwide.

From their earnings, the Antonios have renovated their house into a manufacturing site where some nine employees work. They have

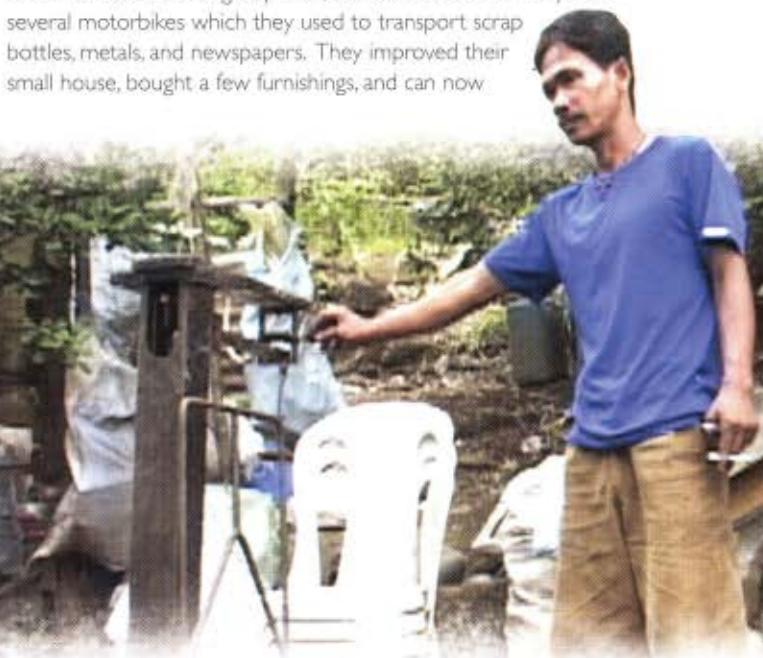
First Macro Bank now has nine branches located in various points of Metro Manila, Rizal, and Cavite, catering to the needs of micro-entrepreneurs, farmers, fishermen, among others.

Through First Macro Bank's assistance, Ernesto Sarmiento of Morong, Rizal is experiencing better days.

Ernesto and wife Lolita operate a small but profitable junkshop located at the outskirts of Barangay San Guillermo in Morong, Rizal. The venture started four years ago when Ernesto, with only P300 in capital and equipped with a humble pushcart, bought and sold scrap materials in the area. From that amount, he was able to earn a good enough sum of P700 for a whole day's work, which was almost double his earnings as a mechanic.

Lured by the prospects of higher pay, Ernesto eventually left his day job and concentrated on the business. Thanks to a Spartan-like lifestyle, the Sarmientos slowly made significant strides in their endeavor. Soon, people in their community were approaching them for income-earning opportunities. Ernesto would give them working capital to purchase scrap materials from various sources, which they, in turn, sold to him.

By the time First Macro Bank granted them an initial loan of P5,000 under its microfinance group loan, the Sarmientos had acquired several motorbikes which they used to transport scrap bottles, metals, and newspapers. They improved their small house, bought a few furnishings, and can now



purchased a service vehicle, and more significantly, they continue to send their four children to good schools.

First Macro Bank

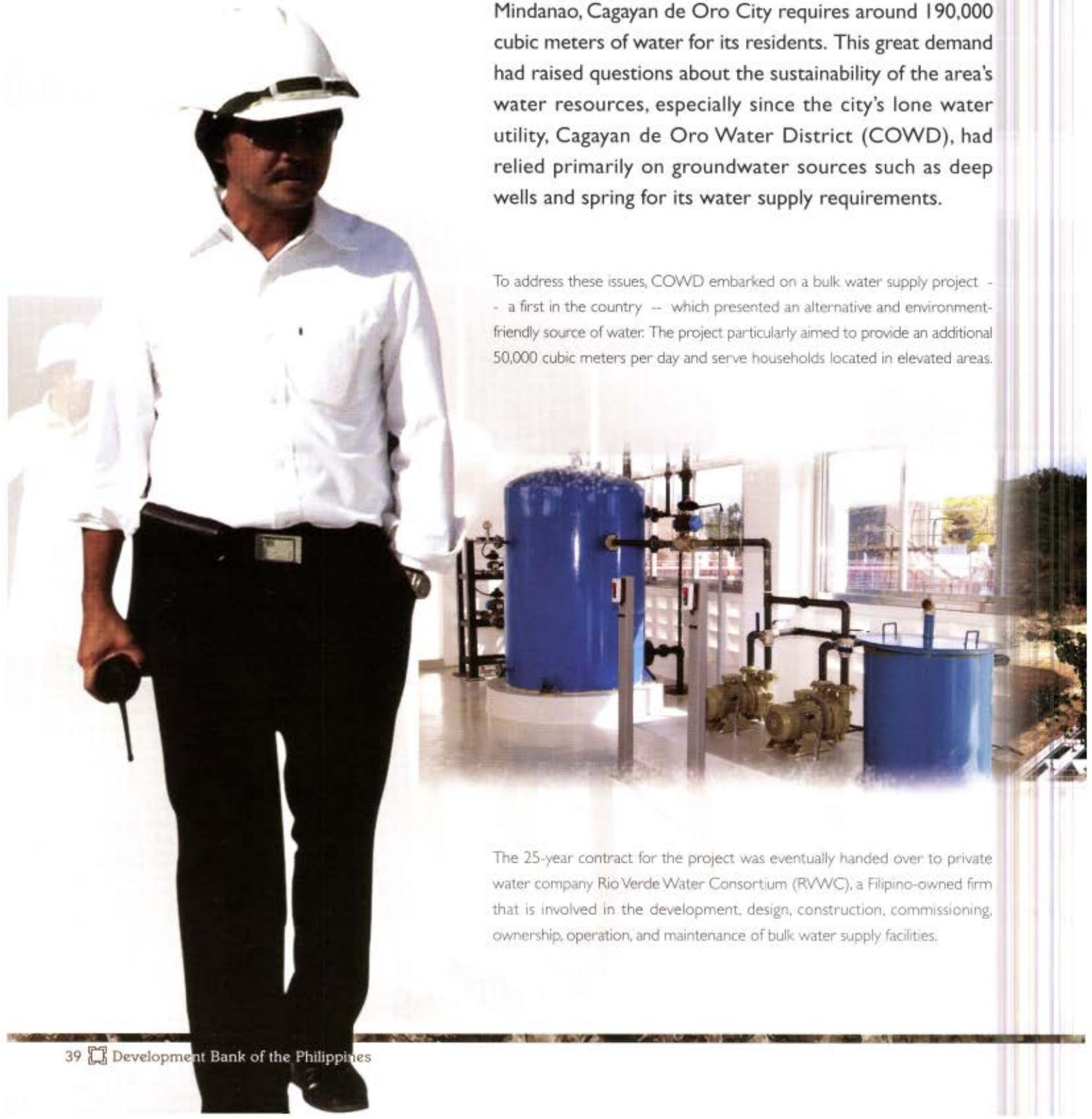
First Macro Bank started operations in 1960 as the Rural Bank of Pateros, one of the first banks to serve residents of the small municipality. In the 1990s, the bank reached out to neighboring towns by putting up its first branch in Angono, Rizal and changed its name to First Macro Bank to underscore its commitment to countryside development.

afford providing a good education for their two daughters.

Their most recent loan from First Macro Bank worth P58,000 has enabled them to maximize the potentials of their enterprise. Their business now operates on a daily working capital of P20,000 and employs about a dozen workers. On a typical day, the Sarmientos earn around P2,000 -- not bad for a former mechanic who used to subsist on minimum wage.

SUCCESS Stories

In CAGAYAN de Oro, Water Comes in Abundance



Being one of the most populous and progressive in Mindanao, Cagayan de Oro City requires around 190,000 cubic meters of water for its residents. This great demand had raised questions about the sustainability of the area's water resources, especially since the city's lone water utility, Cagayan de Oro Water District (COWD), had relied primarily on groundwater sources such as deep wells and spring for its water supply requirements.

To address these issues, COWD embarked on a bulk water supply project - - a first in the country -- which presented an alternative and environment-friendly source of water. The project particularly aimed to provide an additional 50,000 cubic meters per day and serve households located in elevated areas.

The 25-year contract for the project was eventually handed over to private water company Rio Verde Water Consortium (RVWC), a Filipino-owned firm that is involved in the development, design, construction, commissioning, ownership, operation, and maintenance of bulk water supply facilities.

In 2006, RVWC received a P500 million loan from DBP to build and operate infrastructure facilities for the bulk water supply project. It was the first time that the Bank financed a bulk water facility, and came at a time when the institution put greater focus on supporting more projects that provided adequate and potable water supply.

RVWC committed to produce at least 50,000 cubic meters per day in 2007, and to double that figure to 100,000 cubic meters by the end of 2010, and further to 150,000 cubic meters in 2015. The firm sources and treats water from the Bubunawan River, which is classified as "A" by the Department of Environment and Natural Resources for its good quality and volume of water.

RVWC chairman Jose Alvarez says the project is environment-friendly since it only uses a minimal percentage of water from Bubunawan River. The bulk water project uses state-of-the-art abstraction, filtration, and treatment processes to ensure the safety of the water. After extracting and treating raw water, RVWC delivers the potable water to a designated off-take point. COWD then

benefited from the bulk water project. Water pressure has increased significantly, reaching far-flung areas in the city. Among the earliest beneficiaries of the project were 700 households in the hinterland community of Barangay Lumbia.

COWD likewise reported that the bulk water project has increased water supply pressure, particularly in the western portion of its service area. Increase of water pressure picked up by more than 100% particularly during peak periods.

The bulk water project is also a huge investment in itself. Based on data from the Bureau of Investments, the Philippine Information Agency reported that the project is the largest investment in Northern Mindanao with a value of P1.2 billion, or 28% of total investments in Mindanao for 2006.

The uninterrupted water service has also made the area a more attractive investment site for local and foreign companies. This development augurs well for the ongoing real estate boom in



draws the water from said point, storing it at various reservoirs before distributing it to concessionaires.

Since the project commenced operations, Cagayan de Oro City residents have enjoyed 24-hour water service. Barangays which had previously not been reached by the services of COWD have also

Cagayan de Oro City, where a number of high-end subdivisions have been constructed.

Giant Steps

The Development Bank of the Philippines has come a long way since its beginnings as the Rehabilitation Finance Corporation (RFC) in 1947. For over six decades, DBP has provided the necessary funding essential for the growth of strategic sectors. As a prime partner of the government in the implementation of various development initiatives, DBP stands tall and proud for its significant contributions in nation-building.

Rising From The Ashes

1950

With reconstruction largely over, industrial loans become the top lending priority, with RFC lending P28 million in new industrial loans, and P18.45 million in agricultural loans. To boost export earnings, RFC finances the local abaca industry, which enjoys a virtual monopoly in the US and world market.

1957

Marking its first decade of operations, RFC focuses on smaller loans to small agricultural and industrial projects. After 10 years, RFC is cited for spurring the growth of the local industry, after lending a total of P300 million for the development of Philippine manufacturing, or nearly a third of all its lending capital.

1958

The RFC initiates a policy of supervised credit -- helping the people to whom it lends. This foreshadows DBP's future role of direct participation in development programs. The RFC also establishes a special financing plan for cacao.

1958

Republic Act No. 2081 converts the RFC into the Development Bank of the Philippines (DBP). Its goals are to support the country's industrial development and spur the change from an agricultural to a more industrialized

RFC Now Officially Development Bank

economy and to contribute to the formation of capital needed to advance further development through the establishment of private development banks.

GOVERNMENT
OF THE
PHILIPPINES

Helping Industrialize A Nation

1960

DBP sets up a P50-million agricultural program to provide loans not greater than P2,000 to small farmers, and small foreshore and river fishermen. To support its drive for more rural and private development banks, DBP creates the Department of Development and Rural Banks.

1963

Congress increases DBP capitalization to P2 billion and borrowing capacity to ten times its paid-in capital and surplus. Industries continue to receive the lion's share of DBP funds, with loans directed to high priority industries such as steel mills and chemical plants, especially fertilizer plants and cement factories.

1966

Aiming to establish a broad and prosperous securities market in the Philippines, DBP debuts as an investment bank through the DBP Progress Bonds. Meanwhile, the Bank departs from a collateral-based consciousness in loan appraisals and focuses on project viability as principal basis for financial assistance.

1967

Efforts are redirected to support increased food production, with agricultural lending increasing by more than 80% from the previous year. Highest priority goes to rice and corn production. Meanwhile, President Ferdinand Marcos instructs DBP to construct a 120-hectare Greater Manila Terminal Food Market in Fort Bonifacio.

1968

DBP develops new financing plans for the purchase of irrigation units in light of a long drought. The hotel industry gets strong support, with eleven first-class hotels receiving direct loans.

1969

With a new head office building at the corner of Buendia Avenue Extension and Makati Avenue, DBP continues to flourish. The Bank now has 26 branches and 28 agencies. Its contribution to nation-building is also noteworthy that by the turn of the new decade, DBP-financed projects contribute 90% of the nation's cement output, 94% of its textile-weaving output, 88% of its steel-rolling capacity, and 70% of all of its pulp-mill capacity.

Providing for Society's Basic Needs

1971

DBP shifts focus towards countryside development in response to an economic slowdown. Aiming to increase the productivity of farmers, DBP encourages the production of export crops, and creates employment opportunities in the rural areas.

1973

DBP's capitalization is increased from P2 billion to P3 billion. The Bank continues to plow funds into agriculture with P109.5 million in new loans, doubling its agricultural lending from the previous years. DBP also undertakes active financing for the "Masagana 99" and "Palayan ng Bayan" programs.

1974

DBP supports the development of new industries, new sources of energy, and new technologies in light of the oil crisis. Efforts are also redirected to actively promote tourism, with P991 million in loans released for tourism-related projects, including 14 new hotels in Metro Manila as well as the Philippine International Convention Center.

1977

DBP, with the help of the National Housing Authority, initiates a relending program to develop small businesses and improve housing conditions in the Tondo Foreshore and Dagat-Dagatan areas, and later on, in other areas in the cities of Davao, Cebu, and Cagayan de Oro.

1978

DBP launches its "Study Now, Pay Later" program which prioritizes courses and technical disciplines considered crucial to national development, such as agriculture, engineering, economics, chemistry, and mathematics. It also initiates, along with the World Bank, a Tree Farming program for more effective ecosystems management.

Resilience Amidst Adversity**1980**

Responding to the Second Oil Shock, the DBP offers financial packages for the improvement of coal mines as an alternative energy source. It also steps up support to the transport sector by financing the Metro Manila Transit Corporation's air-conditioned "Love Bus."

1986

DBP implements an extensive Rehabilitation Plan that outlines, among others, the transfer of its non-performing assets to the national government and organizational downsizing. A new corporate culture of excellence anchored on integrity, competence, teamwork, and professionalism is introduced.

1987

DBP begins its financial recovery as net earnings reach P783 million, out of an operating income of P1.77 billion. Most of the goals of its three-year Rehabilitation Plan are completed by year end. The World Bank declares DBP's implementation of its Rehabilitation Plan as "outstanding."

1988

DBP opens a third lending window, called Window III, funded from 30 percent of the Bank's earnings from the previous years, to finance projects that have significant socio-economic impact. Lending focus shifts from agriculture to industry, with 70% of new loans going to industrial and public utility sectors.

1989

DBP begins its transition into a predominantly wholesale bank with a significant retail presence. Through its Wholesale Banking program, the Bank helps fill in the gap in the supply of term credit to medium and large enterprises, and becomes a major conduit of Official Development Assistance funds and industrial sector credit programs.

Nurturing a Nation Of Entrepreneurs**1990**

In response to devastation caused by calamities, DBP establishes the P500-million National Rehabilitation Fund to support rebuilding efforts in stricken areas. The Bank launches the Cebu bonds, signaling its entry into the medium and long-term domestic capital market.

1991

DBP is named second soundest bank and third best performing bank in the world by internationally-respected The Banker magazine; and "Employer of the Year" by the Personnel Management Association of the Philippines.

1992

Net income hits P1.5 billion, or 29% higher than the previous year. DBP continues to be a catalyst of progress as branches extend loans to high-impact projects including power generation and cotton-financing in Mindanao, irrigation systems in Luzon and Visayas, and cattle-breeding in Bicol.

1993

A successful US\$175-million Eurobond flotation re-introduces DBP to the international voluntary capital market. Proceeds of the flotation finance the Private Sector Infrastructure Development Fund, support industries established in growth zones, and finance the newly-launched export-import banking operations of the Bank.

The Bank launches the Omnibus Financing Program for New Entrepreneurs which focuses on the development of emerging Filipino entrepreneurs. The program supports entrepreneurs engaged in new or start-up projects which have been in operation for not more than three years.

1994

DBP participates in 12 initial public offerings, including acting as co-lead manager in the landmark privatization of the Philippine National Oil Company's holdings in Petron Corporation. The Petron IPO, then the biggest in Philippine capital market history, generates some 500,000 investors.

A retail facility for the country's Domestic Shipping Modernization program opens. The program extends financial assistance to enterprises engaged in shipping and related activities such as ship repair and cargo and port management to promote the efficiency, reliability, safety, affordability, and over-all quality of the domestic shipping industry.

1995

DBP attains universal bank status, thus broadening its sphere of operations to fulfill its development mandate more capably. It intensifies support for projects that reinforce the Filipino entrepreneurial spirit and capability such as the *Expanded Boundary Hulog* program, and *Damayan sa Pamumuhunon*, as well as the rehabilitation of Ipil, Zamboanga which is burned to the ground by Muslim terrorists.

1997

On its 50th anniversary, DBP turns over to President Fidel V. Ramos a P1-billion dividend check, one of the biggest contributions given by any government-owned-or-controlled corporation to the national government.

DBP undertakes the 20 billion Asian Yen Bond flotation, the first of its kind in the region. Proceeds of the bond are used for re-lending to the Home Development Mutual Fund to augment the financing of its socialized housing programs.

1998

President Fidel V. Ramos signs Republic Act 8523 amending the 1986 DBP Charter. Among the major provisions incorporated in the new DBP Charter are the increase of its authorized capital stock from P5-billion to P35-billion, and the creation of the position of President & CEO.

1999

DBP focuses on projects that uplift the state of marginalized Filipinos, particularly on water, housing, and entrepreneurship. The Bank launches the LGU-Urban Water and Sanitation project, and commits P6 billion for the housing sector.

Sustaining the Gains

2000

The Bank steps up support to strategic sectors particularly in health care by acting as joint lead arranger for a P1.36-billion loan to Medical City, and participating in a P600-million syndicated loan to Asian Hospital and Medical Center. It also supports the housing sector through the DBP Housing Loan Program for Local Government Units, and the energy sector through a loan for the upgrading of the services of the Manila Electric Cooperative.

2003

DBP becomes the first Philippine bank to be ISO 14001-certified by SGS Switzerland SA for its successful establishment and implementation of an Environmental Management System.

2002

DBP launches the Sustainable Logistics Development Program, an investment financing facility for a comprehensive transport and related infrastructure and support services system. The program aims to improve the country's infrastructure for the efficient movement of commodities through the introduction of a modern storage, handling, and transport system under proper quality control management.

2003

DBP is named 6th Best Employer in a study conducted by Hewitt and Associates, the Management Association of the Philippines, and Businessworld for its financial, social, and moral security founded upon trust between management and employees, as well as due to the integrity of its corporate leaders.

Respected international research publication The Asian Banker ranks DBP as the strongest bank in the Philippines for its financial and operational parameters, asset quality, and improvements in profits and assets from previous years.

2005

DBP signs a P600-million syndicated term loan agreement to finance the Leyte-Cebu Interconnection Upgrading Project, a major power initiative aimed at sustaining the stability of electricity supply in the Visayas.

The Bank launches the DBP Forest Program that supports and encourages the forestation of open and denuded areas through the planting of high-value fruit trees and other useful plant species. The Bank offers unsecured lower tier 2 subordinated notes of up to P10-billion to strengthen its capital base in view of an improving investor appetite, marking the first time a government financial institution issues capital notes.

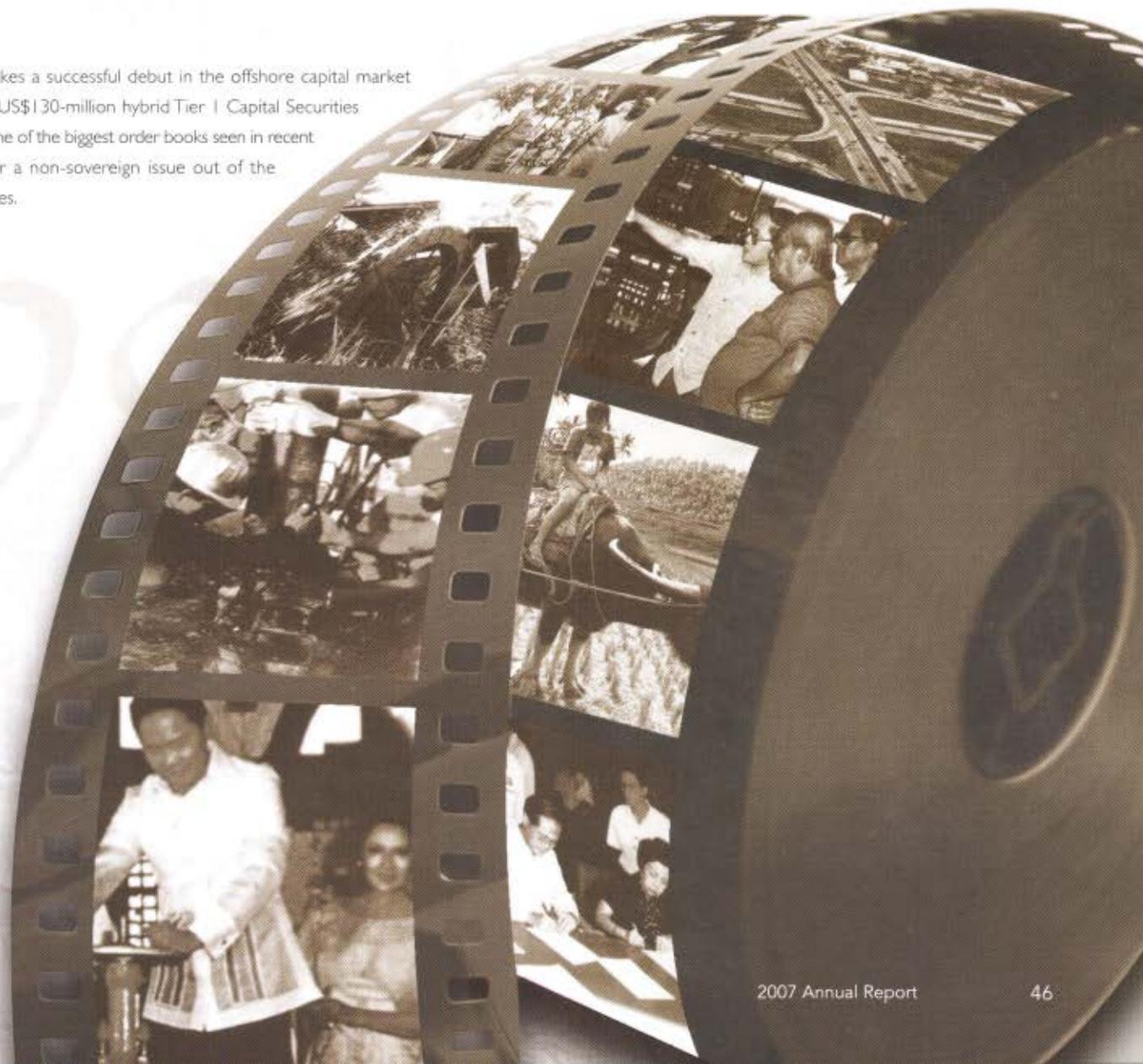
2006

DBP makes a successful debut in the offshore capital market with its US\$130-million hybrid Tier 1 Capital Securities raising one of the biggest order books seen in recent years for a non-sovereign issue out of the Philippines.

The Bank intensifies support to micro-entrepreneurs with the creation of its Microfinance Resource Center, an integrated vertical organization tasked to provide sustainable and profitable services to microfinance institutions and practitioners in order to enhance their competitiveness and efficiency.

DBP scores highest among 31 government-owned-and-controlled corporations in the Corporate Governance Scorecard of the Institute of Corporate Directors.

DBP launches its Electronic Cash Remittance (EC Remit) Program which provides OFWs with a secure, safe, fast, easy, efficient, and reliable means to remit their hard-earned money to their designated beneficiaries in the Philippines through a combination of electronic-based and traditional remittance services.





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 consolidated statement of condition of **Development Bank of the Philippines** and its subsidiaries referred to as "the Group" as of December 31, 2007 and the related consolidated 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.

As disclosed in Notes 2, 10, and 24 to the financial statements, the Bangko Sentral ng Pilipinas (BSP) under its Monetary Board (MB) Resolution No. 1063 dated August 14, 2008 required that the National Government foreign exchange cover on foreign currency borrowings of the Parent Company from multilateral agencies for relending to specific sectors, be treated as a derivative financial instrument. To comply with this treatment, the Parent Company, retroactive to the Philippine Financial Reporting Standards (PFRS) transition year 2005, revalued its borrowings in accordance with PAS 21 which resulted in foreign exchange profit of P19.54 billion, and determined the fair value of the derivatives using a standard option valuation methodology which resulted in unrealized loss from mark-to-market of P9.60 billion. The resultant residual gains of P9.94 billion were closed to miscellaneous liabilities instead of reflecting it in the profit and loss account. However, as discussed in No. I of the Comments and Observations (Part II) of this audit report, the recognition of P9.94 billion as miscellaneous liabilities is contrary to Philippine Accounting Standards (PAS) 21, PAS 39 and the Framework for the Preparation and Presentation of Financial Statements.

In our opinion, except for the effects on the financial statements of the matters discussed in the preceding paragraph, the accompanying consolidated financial statements referred to above, present fairly, in all material respects, the financial position of **the Group** as of December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with applicable generally accepted state accounting principles in the Philippines.

As disclosed in Note 25 to the financial statements, Hybrid Tier 1 (HT1) issued in 2006 amounting to P5.37 billion is classified by the Parent Company as stockholders equity-other equity instrument, in accordance with BSP Circular No. 503 dated December 22, 2005. On the other hand, as discussed in No. II of Part II of this Report, the conditions, under paragraph 16(b) of PAS 32, before a financial instrument can be classified as equity instrument, can not be met because the securities are not convertible into common shares of the issuer at anytime as the Bank's charter allows common shares to be subscribed only by the National Government.

FOR THE COMMISSION ON AUDIT:

RODULFO J. ARIESGA
Director IV
Cluster Director

November 28, 2008

STATEMENTS of Condition

As of December 31, 2007

(With comparative figures for 2006, as restated)

(In thousands of pesos)

	Notes	Group		Parent	
		2007	2006	2007	2006
RESOURCES					
Cash and other cash items	2,4,5,6,7	P 820,504	P 768,674	P 819,972	P 766,436
Due from Bangko Sentral ng Pilipinas	2,4,5,6,7,8	P 11,279,211	P 8,659,386	P 11,279,211	P 8,659,386
Due from other banks	2,4,5,6,7	P 8,126,918	P 5,107,211	P 8,080,488	P 5,085,555
Interbank loans receivable	2,4,5,6,7,9	P 1,572,768	P 2,753,851	P 1,572,768	P 2,753,851
Securities purchased under agreement to resell	2,4,5,6,7	P 39,415,000	P 42,680,000	P 39,415,000	P 42,680,000
Financial assets at fair value through profit or loss	2,3,4,5,6,10,36	P 29,778,729	P 36,749,150	P 29,778,729	P 36,749,150
Financial assets available for sale - net	2,3,4,5,6,11,20,36	P 45,438,378	P 24,397,051	P 45,422,289	P 24,380,954
Financial assets held to maturity - net	2,3,4,5,6,12	P 5,243,914	P 11,392,648	P 5,243,914	P 11,356,355
Loans and receivables - net	2,3,4,5,6,13,20,30	P 84,899,933	P 90,358,824	P 84,899,933	P 90,358,824
Bank premises, furniture, fixtures and equipment - net	2,3,6,14,20	P 1,167,768	P 1,185,701	P 1,150,950	P 1,165,871
Investment property	2,6,15,20,35	P 411,688	P 412,757	P 407,515	P 408,584
Equity investment in subsidiaries - net	2,4,6,16	P 0	P 0	P 38,750	P 38,750
Equity investment in associates - net	2,4,6,17,20	P 221,046	P 153,596	P 163,158	P 121,399
Equity investment in joint venture	2,4,6,18	P 4,000	P 0	P 4,000	P 0
Non-current assets held for sale - net	2,3,6,20	P 196,156	P 578,014	P 196,156	P 578,014
Other assets - net	2,3,4,5,6,19,20,21,35	P 14,604,894	P 19,677,368	P 14,566,390	P 19,642,506
Total resources		P 243,180,907	P 244,874,231	P 243,039,223	P 244,745,635
LIABILITIES AND CAPITAL FUNDS					
Liabilities					
Deposits liabilities:	5,6,23				
Demand		P 19,508,984	P 18,877,699	P 19,510,327	P 18,879,266
Savings		P 35,955,267	P 36,039,164	P 35,958,309	P 36,039,394
Time		P 15,137,931	P 16,172,053	P 15,137,931	P 16,172,053
		P 70,602,182	P 71,088,916	P 70,606,567	P 71,090,713
Bills payable	2,5,6,22	P 118,736,655	P 118,304,255	P 118,736,655	P 118,301,657
Due to Bangko Sentral ng Pilipinas		P 89,965	P 154,300	P 89,965	P 154,300
Due to other banks		P 375	P 5,175	P 375	P 5,175
Manager's checks and demand drafts outstanding		P 272,191	P 7,249,216	P 272,191	P 7,249,216
Accrued taxes, interests and expenses	2,3,5,6	P 3,697,751	P 3,673,829	P 3,711,549	P 3,686,732
Unsecured subordinated debt	6,25	P 2,350,000	P 2,350,000	P 2,350,000	P 2,350,000
Deferred credits and other liabilities	2,4,5,6,21,24	P 14,263,392	P 9,024,417	P 14,240,968	P 9,000,405
Total liabilities		P 210,012,511	P 211,850,108	P 210,008,270	P 211,838,198

	Notes	2007	2006	Group	Parent
		2007	2006	2007	2006
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	2,25	5,366,400	6,373,900	5,366,400	6,373,900
Surplus	2,26	11,318,167	10,029,807	11,232,112	9,956,100
Surplus reserves	26	272,651	268,966	252,651	248,966
Net unrealized gains/(losses) on securities	2	1,005,650	1,023,110	1,005,938	1,023,392
Unrealized translation gain/(loss)	2	(1,715)	(646)	0	0
Undivided profits		2,707,243	2,828,986	2,673,852	2,805,079
 Total capital funds		 33,168,396	 33,024,123	 33,030,953	 32,907,437
 Total liabilities and capital funds		 P 243,180,907	 P 244,874,231	 P 243,039,223	 P 244,745,635
 Contingent accounts					
Foreign: Medium and long-term	31	\$ 2,620,541	\$ 2,765,513	\$ 2,620,541	\$ 2,765,513
Domestic Medium and long-term		P 589,233	P 15,833,904	P 589,233	P 15,833,904
Total peso equivalent 1/		P 108,765,166	P 151,427,025	P 108,765,166	P 151,427,025
 Trust funds	32	 P 22,551,590	 P 19,368,466	 P 22,551,590	 P 19,368,466
 1/ Conversion rates		 P41.2800 - US\$ P49.0300 - US\$ P60.4311 - EUR P64.7149 - EUR P 0.3711 - JPY P 0.4120 - JPY			

See accompanying Notes to Financial Statements.

STATEMENTS of Income

For the year ended December 31, 2007
 (With comparative figures for 2006, as restated)
 (In thousands of pesos, except per share amounts)

	Notes	Group		Parent					
		2007	2006	2007	2006				
Interest income on:	2								
Loans and receivables	P	6,194,783	P	7,805,090	P	6,194,783	P	7,805,090	
Financial assets - debt and equity securities		4,364,364		3,982,298		4,363,969		3,980,141	
Interbank loans receivable/Securities purchased under agreement to resell		2,481,171		2,611,897		2,481,171		2,611,897	
Deposits with banks		550,074		234,352		548,836		234,337	
		13,590,392		14,633,637		13,588,759		14,631,465	
Interest expense on:	2								
Bills payable and other borrowings		4,899,094		5,673,373		4,898,835		5,672,520	
Deposits		2,186,316		2,283,416		2,186,339		2,283,655	
		7,085,410		7,956,789		7,085,174		7,956,175	
Net interest income before provision for impairment		6,504,982		6,676,848		6,503,585		6,675,290	
Provision for impairment:	2, 3, 5, 11, 13, 14, 19, 20, 36	1,314,717		2,178,845		1,314,717		2,178,845	
Net interest income after provision for impairment		5,190,265		4,498,003		5,188,868		4,496,445	
Other income									
Profits from investment and securities trading	2	(6,137,512)		(1,328,826)		(6,137,512)		(1,328,826)	
Foreign exchange profit/(loss)	2	7,732,730		3,421,054		7,729,054		3,420,740	
Service charges, fees and commissions	2	715,546		369,006		713,484		367,369	
Dividends - equity investments		13,210		1,324		15,582		5,683	
Miscellaneous	2,27	712,053		885,319		656,809		822,973	
		3,036,027		3,347,877		2,977,417		3,287,939	
Other expenses									
Compensation and fringe benefits	2, 3, 30	3,346,920		2,978,313		3,253,700		2,887,193	
Taxes and licenses	2,29	504,403		931,932		504,367		931,876	
Occupancy expenses	2	48,918		48,912		40,663		38,122	
Other operating expenses	2,28	1,750,826		1,386,181		1,825,773		1,452,756	
		5,651,067		5,345,338		5,624,503		5,309,947	
Net income before income tax		2,575,225		2,500,542		2,541,782		2,474,437	
Provision for income tax	2,29	(132,018)		(328,444)		(132,070)		(330,642)	
Net income for the year		P	2,707,243	P	2,828,986	P	2,673,852	P	2,805,079
Earnings per share		P	21.66	P	22.63	P	21.39	P	22.44

See accompanying Notes to Financial Statements.

STATEMENTS of Changes in Equity

For the year ended December 31, 2007

(With comparative figures for 2006, as restated)

(In thousands of pesos, except per share amounts)

	Notes	Group						Parent					
		Common Stock	Other Equity Instrument-Hybrid Tier I	Surplus Reserves/ Others	Undivided Profits	Total	Common Stock	Other Equity Instrument-Hybrid Tier I	Surplus Reserves/ Others	Undivided Profits	Total		
Balance, December 31, 2005	2	125,000,000 P 12,500,000 P 0 P 9,152,536 P 680,930 P 3,213,787 P 25,547,253	125,000,000 P 12,500,000 P 0 P 9,110,689 P 661,253 P 3,212,026 P 25,483,968										
Other equity instrument - hybrid tier I	25	6,373,900				6,373,900		6,373,900					6,373,900
Related expenses in the issuance of hybrid tier I	2			(79,905)		(79,905)							(79,905)
Net income for the year	2				2,828,986	2,828,986							2,805,079
Cash dividends - 2005 P12.85 per share				(1,606,013)		(1,606,013)							(1,606,013)
Additional dividends - 2004 and 2003				(690,000)		(690,000)							(690,000)
Prior years' adjustments				41,347		41,347							11,248
Net unrealized gains on securities	2			609,201		609,201							609,160
Net unrealized translation gain or (loss)	2			(646)		(646)							
Surplus reserve set up	26			(1,945)	1,945	0							0
Transfers to surplus				3,213,787	(3,213,787)	0							0
Balance, December 31, 2006		125,000,000 P 12,500,000 P 6,373,900 P 10,029,807 P 1,291,430 P 2,828,986 P 33,024,123	125,000,000 P 12,500,000 P 6,373,900 P 9,956,100 P 1,272,358 P 2,805,079 P 32,907,437										
Revaluation of other equity instruments- hybrid tier I	25			(1,007,500)		(1,007,500)							(1,007,500)
Coupon payment of hybrid tier I				(528,026)		(528,026)							(528,026)
Net income for the year					2,707,243	2,707,243							2,673,852
Cash dividends - 2006 P8 per share				(1,000,000)		(1,000,000)							(1,000,000)
Prior years' adjustments				(8,916)		(8,916)							2,643
Net unrealized gains/(losses) on securities	2			(17,459)		(17,459)							(17,453)
Net unrealized translation gain or (loss)	2			(1,069)		(1,069)							
Over set up of reserve for trust business				557	(557)	0							0
Surplus reserve set up	26			(4,241)	4,241	0							0
Transfers to surplus				2,828,986	(2,828,986)	0							0
Balance, December 31, 2007		125,000,000 P 12,500,000 P 5,366,400 P 11,318,167 P 1,276,586 P 2,707,243 P 33,168,396	125,000,000 P 12,500,000 P 5,366,400 P 11,232,112 P 1,258,589 P 2,673,852 P 33,030,953										

See accompanying Notes to Financial Statements.

STATEMENTS of Cash Flows

For the year ended December 31, 2007
 (With comparative figures for 2006, as restated)
 (In thousands of pesos)

	Notes	Group		Parent					
		2007	2006	2007	2006				
Cash flows from operating activities									
Interest income and dividends received	P	13,928,318	P	15,294,170	P	13,929,277	P	15,296,146	
Interest expense paid		(11,313,885)		(8,000,359)		(11,226,185)		(8,087,210)	
Bank commission, service charges and fees received		690,824		383,393		688,762		381,757	
Profit from sale or redemption of investments		1,604,332		1,736,006		1,604,332		1,736,006	
Trading gain/(loss)		(7,571,427)		(2,772,946)		(7,571,427)		(2,772,946)	
Other income received		1,188,137		3,476,054		1,130,287		3,414,040	
General and administrative expenses paid		(5,563,902)		(5,030,468)		(5,542,110)		(4,981,027)	
Changes in operating assets and liabilities:									
(A) Increase (Decrease) in operating assets:									
Interbank loans receivable		32,686		291,582		32,686		291,582	
Financial assets at fair value thru profit or loss		1,874,509		(33,853,847)		1,874,509		(33,878,847)	
Financial assets available for sale		(24,107,786)		6,210,921		(24,107,786)		6,210,922	
Loans and receivables		5,068,216		(2,259,455)		5,068,216		(2,259,455)	
Other assets		15,203,690		(8,087,680)		15,208,901		(8,081,284)	
(B) Increase (Decrease) in operating liabilities:									
Deposit liabilities		2,914,383		21,575,171		2,916,971		21,555,237	
Due to Bangko Sentral ng Pilipinas		(64,335)		84,300		(64,335)		84,300	
Due to other banks		(4,800)		(28,506)		(4,800)		(28,506)	
Manager's checks and demand drafts outstanding		(6,977,024)		6,624,935		(6,977,024)		6,624,935	
Accrued taxes, interest and expenses		60,165		258,457		(27,332)		345,777	
Deferred credits and other liabilities		4,225,999		6,175,585		4,238,969		6,165,205	
Net cash generated from/(used in) operations	P	(8,811,900)	P	2,077,313	P	(8,828,089)	P	2,016,632	
Income/other taxes paid		(1,197,328)		(294,034)		(1,197,276)		(291,836)	
Net cash provided by/(used in) operating activities	P	(10,009,228)	P	1,783,279	P	(10,025,365)	P	1,724,796	
Cash flows from investing activities									
Acquisition of bank premises, furniture, fixtures and equipment	14	P	(186,396)	P	(402,496)	P	(185,331)	P	(401,977)
Disposal/other transactions of bank premises, furniture, fixtures and equipment	14		51,717		60,859		51,775		60,859
Investment Property			1,069		9,163		1,069		
(A) Increase in:									
Financial assets held to maturity		5,556,984		1,989,316		5,520,642		2,025,658	
Equity investment in associates		(25,691)		(10,279)					
Equity investment in joint venture		(4,000)				(4,000)		-	
Non-current assets held for sale		488,358		2,763,930		488,358		2,763,930	
Net cash provided by/(used in) investing activities	P	5,882,041	P	4,410,493	P	5,872,513	P	4,448,470	
Cash flows from financing activities									
Increase (Decrease) in borrowings	P	6,405,152	P	10,807,671	P	6,407,749	P	10,809,383	
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		(1,000,000)		(2,296,013)		(1,000,000)		(2,296,013)	
Net cash provided by/(used in) financing activities	P	5,405,152	P	17,466,071	P	5,407,749	P	17,467,783	
Net increase (decrease) in cash and cash equivalents	P	1,277,965	P	23,659,843	P	1,254,897	P	23,641,049	
Cash and cash equivalents at beginning of year		59,936,436		36,276,593		59,912,542		36,271,493	
Cash and cash equivalents at end of year	2,4,5,6,7	P	61,214,401	P	59,936,436	P	61,167,439	P	59,912,542

See accompanying Notes to Financial Statements

BOARD of Directors

From Left to Right:

Ramon R. Durano IV
Director

Floro F. Oliveros
Director

Reynaldo G. David
President & CEO

Joseph Donato N. Pangilinan
Director

Miguel L. Romero
Director

Franklin Churchill M. Velarde
Director

Rey Magno Teves
Director

Alexander R. Magno
Director

Seated:
Patricia A. Sto. Tomas
Chairman





MANAGEMENT Committee

Standing from Left to Right:

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

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

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

Benedicto Ernesto R. Bitonio, Jr.
Executive Vice President
Chief Development Officer &
Head, Human Resource Management

Gerardo K. Galvey
Vice President
Head, Information Technology

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

Benilda A. Tejada
First Senior Vice President
Chief Legal Counsel

Leonora A. Fernandez
Vice President
Head, Corporate Affairs

Seated from Left to Right:

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

Reynaldo G. David
President &
Chief Executive Officer





SENIOR Bank Officers

PRESIDENT & CEO

Reynaldo G. David
President & CEO

SENIOR EXECUTIVE VICE PRESIDENT

Edgardo F. Garcia
Chief Operating Officer

Rolando S. C. Geronimo
Branch Banking Sector

EXECUTIVE VICE PRESIDENT

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Armando O. Samia
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Chief of Staff, OP/CEO

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Denis Gary Ma. B. Ditching
Compliance Officer

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Email: bacolod@devbankphil.com.ph

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RCM NORTHERN MINDANAO

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Email: malaybalay@devbankphil.com.ph

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DBP IPIL BRANCH

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DBP JOLO 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

Environmental Protection & Natural Resource Development

1. Solid and Hazardous Waste Management.
 - a. Construction of Sanitary Landfills
 - b. Closure and Rehabilitation of Dumpsites
 - c. Solid Waste Storage, Collection, Treatment and Transport Facilities
 - d. Materials Recovery Facilities
 - e. Composting Facilities
 - f. Construction of Transfer Stations
 - g. Waste-to-Energy Projects
 - h. Industrial Waste Recycling, Treatment, Storage and Disposal
 - i. Hazardous Waste Treatment, Storage and Disposal
 - j. Consulting Services for Project Preparation and Implementation
2. Pollution Prevention and Control.
 - a. Pollution Prevention and Reduction Projects
 - b. Occupational Health and Safety Improvements
 - c. Reduction of Raw Material Inputs for Production
 - d. Waste Minimization and Clean Technology in Industrial Processes
 - e. Wastewater and Sewage Treatment Facilities
 - f. Projects that Promote Efficient Management of Natural Resources
3. Water Supply and Sanitation Services.
 - a. New Water Supply Systems
 - b. Bulk Water Supplies
 - c. Rehabilitation and Expansion of Existing Water Supplies
4. New and Renewable Energy Projects.
 - a. Power Generation (hydro, biomass, solar and other renewable energy sources)
 - b. Distribution and Transmission Systems
 - c. Energy Efficiency Projects
 - d. Project Preparation Activities for Power Projects

Infrastructure and Logistics

1. Acquisition of Maritime Vessels
2. Establishment and Development of Shipyards and Dry-docking Facilities
3. Road-RORO Terminal Systems (ramps, terminal facilities, access roads)
4. Climate Controlled Facilities
5. Post-Harvest Facilities
6. Transport Equipment and Facilities
7. Aggregating Centers (e.g. public markets)

Community Services

1. Sustainable Mariculture Investment Program (SMIP)
 - a. Marine Grow-out Facilities
 - b. Hatchery, Nursery and Production of Fingerlings
 - c. Feed Production Facilities
 - d. Live-Fish Carrying Vessels and Reefer Vans
 - e. Marketing Stations
 - f. Fish Processing Facilities and Ice Plants
 - g. Ancillary Businesses and Support Facilities (e.g. net and boat making)
2. Development of Poor Urban Communities Sector Project (DPU CSP)
 - a. Subdivision and other Site Development Projects for Socialized Housing
 - b. Service Plot Acquisition (through MFIs, Coops, NGOs)
 - c. Housing Construction (through MFIs, Coops, NGOs)

- d. Home Improvement (through MFIs, Coops, NGOs)
- e. Transaction Costs to Acquire Security of Tenure (e.g. land titling)
- f. Project Preparation Activities for Socialized Housing Projects

3. Sustainable Health Care Investment Program (SHCIP)
 - a. Primary Health Care Facilities and Medical Clinics
 - b. Construction and Upgrading of Primary Hospitals
 - c. Acquisition of Medical Equipment
 - d. Laboratory, Diagnostic and Common Service Facilities for Health
 - e. Health Care Business Solution Projects (e.g. information technology)
 - f. Hospital Modernization Projects
 - g. Projects that Promote Public-Private Partnerships in Health Care

Other Programs

1. Factoring
2. 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

DEPOSITS PRODUCTS AND CASH SERVICES

1. Deposits
 - a. Current Account
 - Regular
 - Interest - Earning
 - b. Savings Account
 - Regular Savings
 - Special Savings
 - Option Savings
 - Savings Deposit for the Youth
 - Pensioners' Special Savings
 - Teachers' Payroll Savings
 - DOLE-SSS-DBP Maginhawang Manggagawa Savings
 - Treasurer In-Trust-For (ITF) Savings
 - In-Trust-For (ITF) Savings
 - Direct Deposit for US Veteran Pensioners
 - US Dollar Denominated Savings Deposit
 - Third Currency Denominated Savings Deposit
 - DBP Quick ATM Card
 - DBP EC Card Account
 - c. Time Deposit
 - Peso Time Deposit
 - US Dollar Time Deposit – Regular
 - US Dollar MAX Time Deposit
 - Third Currency Time Deposit
 - Special Investors Resident Visa (SIRV)
2. ATM Services
 - a. Cash Withdrawals
 - b. Interbank Fund Transfer
 - c. Bills Payment
 - d. Checkbook/Statement Request
 - e. PIN Change
 - f. Point of Sale (POS) Purchases
3. Fund Transfer / Other Services
 - a. Manager's Check
 - b. Demand Draft
 - c. Foreign Currency Denominated Bank Draft
 - d. Phil. Domestic Dollar Transfer System (PDDTS)
 - e. Society for Worldwide Interbank Financial Telecommunication (SWIFT)
 - f. Domestic Fund Transfer thru Real Time Gross Settlement (RTGS)
 - g. Domestic Fund Transfer thru Electronic Peso Clearing Settlement (EPCS)
 - h. Electronic Fund Transfer Instruction (EFTIS)
 - i. Foreign Currency Exchange Dealership
 - j. Foreign Currency Exchange Remittance
 - k. Agent of Asia United Bank Inward Remittance Service
 - l. DBP Quick Cash Remittance
 - m. Interim Remittance System (IRS)
4. Special/Other Services
 - a. Acceptance of Payments/Remittances for SSS/PhilHealth
 - b. Servicing of Government's Modified Disbursement Scheme (MDS)
 - c. Electronic Tax Filing and Payment System (ETPS)
 - d. NCO Collections for the Bureau of the Treasury
 - e. Authorized Agent Bank of the Bureau of Internal Revenue
 - f. Deposit Pick-Up/Withdrawal Delivery Service
 - g. Acceptance of Payments of PLDT/SMART Subscribers
 - h. Check Warehousing
 - i. Check Cutting System
 - j. Central Posting of Internal Revenue Allotment (CePIRA)
 - k. Debit to One Credit to All Deposit Facility (DOCA)
 - l. Credit to One Debit to All Deposit Facility (CODA)

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. Treasury Bills
 - b. Retail Treasury Bills
 - c. ROP Bonds (Dollar denominated bonds)
- 3. Foreign Exchange Dealership (buying and selling of foreign currency)
- 4. Deposits
 - a. Special Savings Deposits
 - b. Option Savings
 - c. Foreign Currency Deposits
 - d. USDollar-Time Deposit
 - e. TD Max (tied up with ROP maturity)
 - f. Capital Notes
 - g. Hedging Facility

TRUST SERVICES

- 1. Investment Management Account
- 2. Unit Investment Trust Fund - Gintong Sikap Secure Fund
- 3. Traditional Trust Services
 - a. Sinking Fund Management
 - b. DBP - Kabalikat Retirement Plan
 - c. Revocable Trust Account
 - d. Life Insurance Trust
 - e. Mortgage Trust Indenture
 - f. Custodianship
 - g. Escrow Agency
 - h. Stock and Transfer Agency
 - i. Registry and Paying Agency
 - j. Loan Agency
 - k. Debit Service Reserve Agent
 - l. Public Trusteeship
 - m. LGU Bonds Trusteeship

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

- 1. Traditional Products and Services
 - a. DBP E.C. Card
 - b. DBP E.C. Credit to Account
 - c. DBP E.C. Bank-to-Bank Credit
 - d. DBP E.C. Door-to-Door
 - e. DBP E.C. Pick-up
- 2. Other Products and Services
 - a. DBP OFW Hedging Program
 - b. DBP E.C. Club
 - c. Overseas Collection Arrangement for Social Security System (SSS, Pag-ibig Fund*, Phil-Health*, and Selected Insurance and Real Estate Companies, and others*)
 - d. Order Remittance Delivery System in partnership with Xtreme Magic Sing
 - e. Kabayanhan Program
- 3. Financial Assistance Program for OFWs
 - a. Retail/Direct Lending
 - DBP-Smart OFW i-Net Negosyo Program
 - OTOP (One Town, One Product)
 - DBP Livelihood Loan Program for OFWs
 - b. Wholesale Lending (available thru accredited conduits - Rural Banks/Bank-MFIs, NGOs, Cooperatives)
 - Financial Assistance Loans to OFWs
 - Pre-Departure Loan
 - Multi-Purpose Loan
 - Housing Loan
 - Enterprise Development Loan
 - Financial Assistance for Overseas Placement Agencies (OPAs)

* soon to be offered



Development Bank of the Philippines

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Annual Report Committee

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Co-Chairperson	VP Leonora A. Fernandez	Head, CA
Members:	SVP Dolores A. Santiago	Head, AC
	SVP B. Brillo L. Reynes	OIC, PD
	SAVP Irma D. Lara	Chief of Staff, OP
	SM Dolores T. Mojica	CBSP

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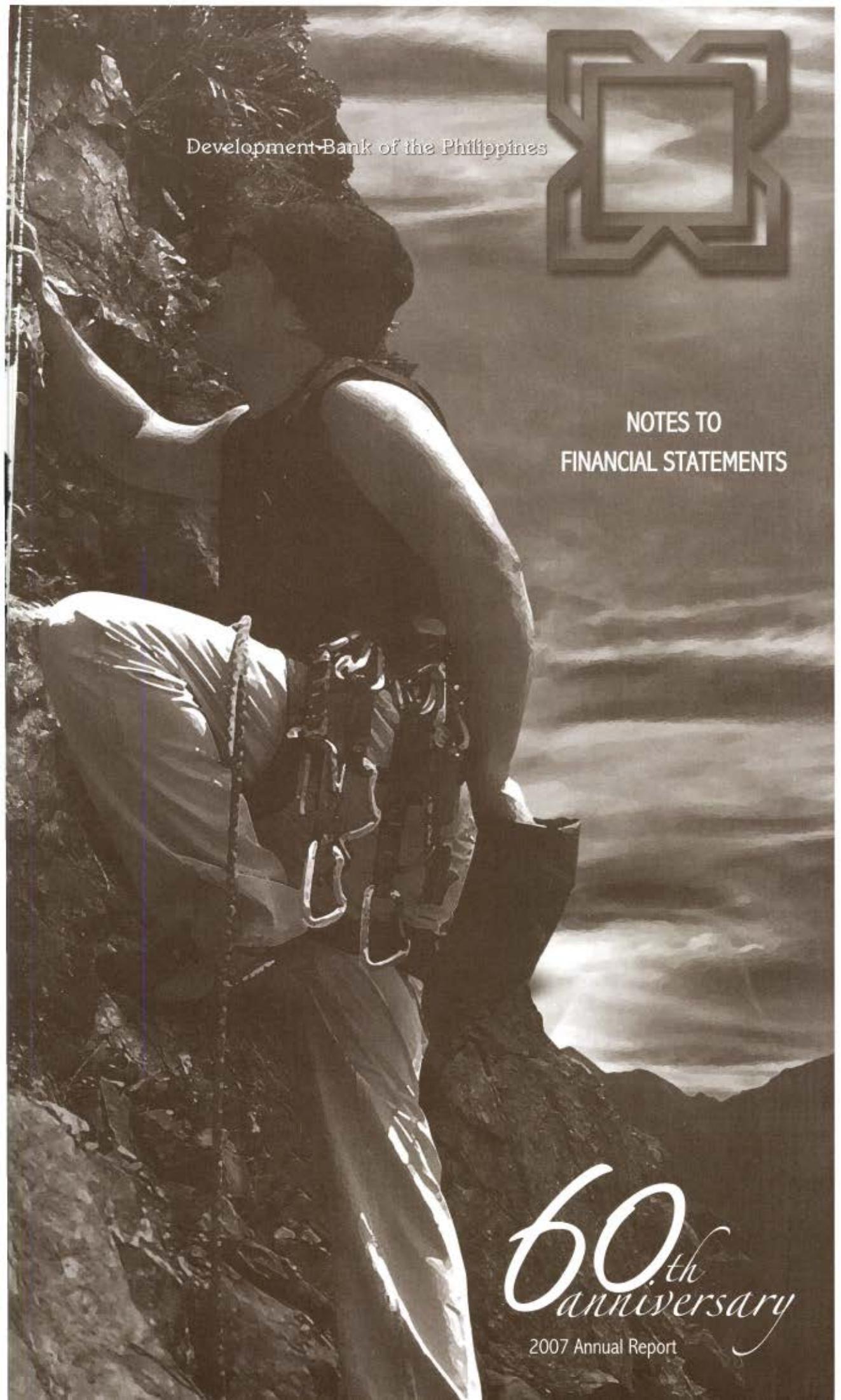
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Development Bank of the Philippines



NOTES TO
FINANCIAL STATEMENTS

60th
anniversary

2007 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 it 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 likewise involved 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 14, 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, computer services and remittance services.

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

As of December 31, 2007, the Group had 3,470 employees (2006 – 3,515) and operated a total of 77 branches nationwide.

Note 2 - Summary of Significant Accounting Policies

Basis of Financial Statement Preparation

These financial statements have been prepared on a historical cost basis modified by the fair value measurement of financial assets on trading and available for sale securities, derivative financial 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 judgment in applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

Statement of Compliance

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 (PFRS).

Changes in Accounting Policy

The accounting policies adopted are consistent with those of the previous year except as follows:

The Monetary Board of the Bangko Sentral ng Pilipinas, under M.B. Resolution No. 1063 dated August 14, 2008, directed the treatment of the NG foreign exchange risk cover on the foreign currency borrowings of the Parent Company from multilateral agencies for relending to specific sectors, as a derivative financial instrument. The foreign exchange cover is a bilateral agreement between the Bank and the NG, through the Department of Finance (DOF). The terms

and conditions, including the foreign exchange risk cover fees, are not subject to any benchmark or publicly quoted prices. Any changes in the terms and conditions specified in the contract shall be mutually agreed by the Bank and DOF and the pretermination of contract will not be subject to any form of pretermination charges or unwinding costs. Currently, the foreign exchange cover is not available to any private entities. To comply with this treatment, the Parent Company, retroactive to the PFRS transition year 2005, revalued its borrowings in accordance with PAS 21 and determined the fair value of the derivatives by the use of standard option valuation methodologies as required under PAS 39. This treatment resulted in the recognition of the following: (in million pesos)

	2007	2006
Foreign exchange profit/(loss)	9,086	10,452
Unrealized gain/(loss) from mark-to-market	(6,403)	(3,199)
Residual gain/(loss)	2,683	7,253

The resultant residual gains were closed to miscellaneous liabilities instead of reflecting it in the profit and loss account.

Retroactive to 2006, Hybrid Tier 1 interest coupon payments are recognized as dividends and deducted from surplus instead of interest expense.

The effect of the adoption of these changes is a reduction in net income by P1,842 million for 2006 and by P590 million for 2005. The Accounts Receivable-NG foreign exchange differential account was correspondingly closed.

Standards and amendments to standards published effective January 1, 2007 and onwards

The Group has adopted the following accounting standards which became effective for annual periods on or after January 1, 2007:

PFRS 7, Financial Instruments: Disclosures. PFRS 7 prescribes new disclosures in the Group's financial statements that enable users to evaluate the significance of financial instruments for its financial position and performance, the nature and extent of risks arising from the financial instruments and how these risks are being managed by the Group. It requires the disclosure of qualitative and quantitative information on exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, and also sensitivity analysis to market risk. It replaced PAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions and those required under PAS 32, Financial Instruments: Disclosure and Presentation.

The new disclosures under PFRS 7 are required to be made for all periods presented. However, the Group availed of the transition relief with respect to the presentation of comparative information for the new risk disclosures about the nature and extent of risks arising from financial instruments and presented only the relevant new disclosures required by PFRS 7 for 2007.

Amendment to PAS 1, Presentation of Financial Statements – Capital Disclosures. The amendment to PAS 1 introduces disclosures about the level of the Bank's capital and how it is being managed. The required new disclosures are reflected in the financial statements where applicable.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries and are prepared for the same reporting period as the Parent Company using consistent accounting policies:

	% of ownership
DBP Data Center, Incorporated	- 100% owned
DBP Management Corporation	- 100% owned
DBP Remittance Center Hong Kong Ltd.	- 100% owned by DBP Management Corp

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

All significant inter-company balances and transactions are 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.

Investments in subsidiaries

Subsidiaries are all entities over which the Group has the power to control the former's financial and operating policies. The Parent Company obtains and exercises control through voting rights.

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.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. 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.

Equity investments reflected in the Parent Company's separate financial statements which represent investments in subsidiaries and associates are accounted for at cost method in accordance with PAS 27. Under the cost method, income from investment is recognized in the statements of income only to the extent that the investor receives distributions from accumulated net income of the investee arising subsequent to the date of acquisition.

Investments in associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates in the consolidated financial statements are accounted for by the equity method of accounting, and are initially recognized at cost.

Investments in joint venture

Equity investment reflected in the Parent Company's separate financial statements which represents investments in joint venture is accounted for under PAS 31. Under this standard, the said investment is a joint venture having the form of a jointly controlled entity. Recognition of interests therein, is accounted for using the equity method under PAS 28.

Foreign currency translation

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.

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 Dealer System (PDS) peso/US dollar closing rate and the New York US dollar/third currencies closing rates as prescribed under BSP Circular 491 dated September 23, 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.

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

Foreign subsidiaries

The operating results and financial position of DBP Reinsurance Center, Hong Kong Limited, a foreign subsidiary of DBP Management Corporation which is measured using the Hong Kong dollars, its foreign currency, is translated to Philippine pesos, the Group's functional currency as follows:

- Assets and liabilities are translated at the closing rate at the date of the statement of condition;
- income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- any resulting exchange differences are recognized as a separate component of Stockholders' Equity. When a foreign operation is sold, such exchange differences are recognized in the statement of income as part of the gain or loss on sale.

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 and overnight clearing receivable and securities purchased under agreements to resell with maturities of less than three months from the date of acquisition.

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.

Financial assets

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date – the date that an asset is delivered to or by the Group. Securities transactions are recognized when cash is received by the Group or advanced to the borrowers.

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 method. The effective interest rate shall refer to the rate that exactly discounts 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 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.

This standard also covers the accounting for derivative instruments, definition of which has been expanded to include derivatives (derivative-like provisions) embedded in non-derivative contracts. Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models. Every derivative instrument is recorded in the statement of condition either as an asset when fair value is positive or liability when fair value is negative.

Derivatives that are not hedges are adjusted to fair value through income. The embedded derivative that fits into the provisions of PAS 39 is being separated from the host contract and accounted for as Derivatives at Fair Value Through Profit or Loss (DFVPL) and forms part of the Financial Assets at Fair Value through Profit or Loss (FVPL) in the balance sheet. The host instrument on the other hand, either falls under Held for Trading (FVTPL) or as a separate item classified as Available for Sale (AFS) Securities.

Currency forwards represent commitments to purchase foreign and domestic currency, including unexecuted spot transactions. Foreign currency futures are contractual obligation to receive or pay a net amount based on changes in currency rates to buy or sell foreign currency on a future date at a specified price, established in an organized financial market. The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the balance sheet but do not necessarily indicate the amounts of future cash flows involved and therefore do not indicate the bank's exposure to credit or price risk. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuation in market rates of foreign exchange rates relative to their terms. The aggregate contractual or matured amount of derivative financial instruments on hand are aggregate contractual or notional amount of derivative financial instruments.

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, available-for-sale securities, held-to-maturity securities, and loans and receivables. Management determines the classification of its investments at initial recognition.

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

A financial asset is classified under this category if acquired principally for the purpose of selling in the near term or generating a profit from short-term fluctuations in price or dealers 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. FVPL 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.

After initial measurement AFS are carried at fair or market value. Unrealized gains or losses on market valuation or change in fair value are reported as separate component of stockholder's equity in the statement of condition.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized as "Profits from investments and trading securities - net" in the income statement. Interest earned on holding AFS investments are reported as interest income.

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. As provided under PAS 39, if the Group decides to sell or reclass more than an insignificant amount of held-to-maturity assets before maturity, or causes other than as a consequence of non recurring isolated event beyond its control that could not be reasonably anticipated, the entire category would be tainted and reclassified as available-for-sale for the current and the next two financial reporting years. Securities falling under this category are normally classified as non-current investments.

After initial measurement HTM are subsequently measured at amortized cost using the effective interest rate method. Gains or losses on amortization or on sales are credited or charged to operations.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments 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 (HFT), 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 AFS.

These are carried in the books at amortized cost or at the amount at which the financial asset 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 uncollectability.

In determining the effective interest rate, the estimated future cash flows consider all contractual terms of the financial instrument but do 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.

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

This account also includes 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.

Impairment of assets

Assets carried at amortized cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

If 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 credit losses. 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 are credited to miscellaneous income 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, however, the carrying amount after the reversal of the impairment loss should not exceed the carrying amount of the loan account had there been no impairment loss recognized. The amount reversed is recognized in the income statement.

Assets classified as available-for-sale

A significant or prolonged decline in the fair value of available-for-sale securities below cost is considered in determining whether the securities are impaired. The cumulative loss (difference between the acquisition cost and the current fair value) is removed from stockholder's equity and recognized in the statement of income when the asset is determined to be impaired. If in a subsequent period, the fair value of a debt instrument previously impaired increase and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through the statement of income. Reversal of impairment losses recognized previously on equity instruments is made directly to stockholder's equity.

Non-financial assets

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.

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 and recoverable amount falls below its carrying amount.

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 derecognized using a cost in accordance with existing guidelines. **Property Disposa** 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 or Property shown under Stockholders Equity. In compliance with the new PAS 14, appraisal increment was recognized as part of the deemed cost of the property and reversed to Surplus. Subsequent additions are stated at cost.

Non-current assets held for sale (NCAHFS)

NCAHFS consists of real and other properties acquired (ROPA) through foreclosure of mortgaged properties or due-on-en-paso that the Group intends to sell within one year from the date of classification as held for sale.

Upon acquisition of the mortgaged properties, the initial carrying amount for Real and Other Properties Acquired (ROPA) is computed as the outstanding balance of the car less allowance for impairment plus transaction costs. Under ROPA status, allowance for impairment is set up if the carrying amount exceeds the fair value of the ROPA.

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.

Investment property

Investment property includes land and buildings held for capital appreciation and for rental. This is stated at cost less accumulated depreciation. It is also subject to regular impairment tests. An impairment loss is recognized for the amount by which the property's carrying amount exceeds its recoverable amount, which is the property's fair value less costs to sell and value in use.

Leases

The leases entered into by the Parent Company are primarily operating leases. Operating payments are recognized as expense in the income statement on a straight line basis over the period of the lease.

When the 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.

Intangible assets

Intangible assets (included under Other 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 when incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Parent Company and that will probably generate economic benefits exceeding costs beyond one year are recognized as intangible assets. Direct costs include software development, implementation costs and an appropriate portion of relevant overheads.

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. 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. Those employed after June 1, 1977 shall be paid directly by the Government Service Insurance System. However, in view of the Early Retirement Incentive Program (ERIP), which is geared at ensuring the vitality of the Parent Company 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 Parent Company, retirement incentive is paid to awardees and invitees upon effectiveness of their separation from the Parent Company.

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.

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 realizations. Deferred income tax assets are the amounts of income taxes recoverable in future periods which are recognized for all deductible temporary differences, the carry forward 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, the carry forward of and unused NOLCO, and unused tax credits can be utilized.

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 is recovered or liability is settled.

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. Any such reduction should be subsequently reversed to the extent that it becomes probable that sufficient taxable profit will be available.

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 by the end of the reporting period.

Borrowing costs

Borrowing costs represent interests and other pertinent financial charges and costs incurred in connection with the availing 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.

Government grants (WB-RPP Grant)

Global Environmental Facility Grant Trust Fund Agreement dated December 8, 2003 under Grant No. 1F052188 PH amounting to US\$9 M was signed between the International Bank for Reconstruction and Development (World Bank) and the Republic of the Philippines (DBP). 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\$500,000 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 23, 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, 2007 total receipt of funds from the grant aggregated US\$263 thousand with peso equivalent of P13.68 M.

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 Judgments and Estimates

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

Impairment losses of loans and receivables

The Group reviews its loan portfolios and receivables 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 judgments 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.

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.

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 judgment. In making this judgment, 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 operations, and financing cash flows.

HIM Investments

The Group follows the guidelines of PAS 39 on classifying non-current financial assets with fixed or determinable payments and fixed maturity as **HIM**. This classification requires significant judgment. In making this judgment, 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.

Impairment of non-current assets held for sale / park 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.

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 ₱1.10 billion. PAS 19 provides that benefits which fall due for more than twelve months after the balance sheet date shall 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 2007 amounted to ₱333 million (2006 – ₱420 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 Group has established risk management systems to address the risks inherent to its activities which include, among others, credit, market, liquidity, operational, foreign currency, interest rate and other price risks. A key element of the Group's mission is to make the effective management of risk a core competence to ensure that the Group 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 Office, 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. Market and credit risk management are carried out through policies approved by the CRM / Executive Credit Committee / Board of Directors. In addition, Internal Audit is responsible for independent review of risk assessment measures and procedures and the control environment.

Credit Risk

The Group is naturally exposed to credit risk in line with its regular lending and trading activities with financial institutions, corporations, government units, and small and medium enterprises. The main objective of the credit risk management group is to maintain its credit risk exposure within acceptable levels while performing its developmental mandate.

The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the Group by failing to discharge an obligation. Significant changes in the economy, or in the prospects of a particular industry segment that may represent a concentration in the Group's portfolio, could result in losses that are different from those provided for at the reporting date. Management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in loans and advances and debt securities. There is also credit risk in off-balance sheet financial arrangements. The Risk Management Office works with Committee on Risk Management in managing credit risks, and reports are regularly provided to the Board of Directors. The Credit Review and Policy Supervision Department handles the formulation of the Group's credit policies and the Post-Release Credit Review or newly- approved and implemented loans to provide feedback to Management and/or Marketing Units.

Credit Approval Process

Credit extensions to borrowers are required to meet pre-defined risk acceptance criteria. Various credit rating systems are used in the evaluation of the credit strength, depending on the type of the borrower to capture the risks inherent to each type of business. These rating systems are used for making credit decisions, assessing credit risk of existing and potential borrowers, and for pricing purposes.

All credit facilities are deliberated in the corresponding credit committees (branch / regional / head office) based on the amount of exposure. The Group implements a system of check and balances such that no single person can singly approve a credit facility. Furthermore, independent credit risk reviews are conducted by the Credit Review and Policy Supervision (CRPS) and Internal Audit (IA). Accordingly, the Group is able to maintain single digit and better-than-industry levels of Past Due and Non-Performing Loans for the past several years.

Credit Portfolio Management

Movements in the Group's credit portfolio are closely monitored. Analysis is regularly performed to assess the Group's vulnerability to deteriorating credit environment and portfolio quality.

Loans and advances

In measuring credit risk of loans and advances at a counterparty level, the Group considers three components: (a) the probability of default by the client or counterparty on its contractual obligations, (b) current exposures to the counterparty and its likely future development; and (c) the likely recovery ratio on the defaulted obligations.

The Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. In the Group's rating scale, exposures migrate between classes as the assessment of their probabilities of default changes. The rating tools are reviewed and upgraded as necessary. The Group regularly validates the performance of the rating and their predictive power with regard to default events. Clients of the Group are segmented into the following standard BSP classifications.

- **Unclassified** – these are loans that do not have a greater-than-normal risk and do not possess the characteristics of loans classified below. The borrower has the apparent ability to satisfy his obligations in full and therefore no loss in ultimate collection is anticipated.
- **Loans especially mentioned** – these are loans that have potential weaknesses that deserve Management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase credit risk to the Group.
- **Substandard** – these are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to the institution because of unfavorable record or unsatisfactory characteristics. There exists in such loans that possibility of future loss to the institution unless given closer supervision. These loans must have a well-defined weakness or weaknesses that jeopardize their liquidation. Such well-defined weaknesses may include adverse trends or development of financial, managerial, economic or political nature, or a significant weakness in collateral.
- **Doubtful** – these are loans or portions thereof which have the weaknesses inherent in those classified as "Substandard" with the added characteristics that existing facts, conditions, and values make collection or liquidation in full highly improbable and in which substantial loss is probable.
- **Loss** – these are loans or portions thereof which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value.
- **Unrated** – these are accounts which are not subject to the Group's Internal Credit Risk Rating System (ICRRS), as follows:
 - a) Banks, other financial institutions which shall adopt the Accreditation and Tiering Guidelines;
 - b) Local Government Units (LGUs) in view of the standard collateral requirement of Assignment with Hold-out of a specified portion/amount of the LGU's Internal Revenue Allotment (IRA) in favor of DBP in an amount equivalent to at least two (2) amortizations which shall be maintained while the loan is outstanding; and
 - c) Credit exposures with asset size of P15 million and below.

Debt securities

For debt securities, external ratings such as Standard & Poor's, Moody's and Fitch's ratings or their equivalent are used by the Group for managing credit risk exposures. Investments in these securities are viewed as a way to gain better quality mix and at the same time, maintain a readily available source to meet funding requirements.

Risk limit control and mitigation policies

The Group manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, to industries.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a regular basis and subject to an annual or more frequent review, when considered necessary. Limits on large exposures and credit concentration are approved by the Board of Directors.

Actual exposures against limits are monitored regularly. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

The Group employs a range of policies and practices to mitigate credit risk. Some of these specific control and mitigation measures are outlined below:

a) Collateral

One of the most traditional and common practice in mitigating credit risk is requiring security for loans and advances. The Group implements guidelines on the acceptability of specific classes of collateral for credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over real estate properties and chattels;
- Hold-out on financial instruments such as debt securities, deposits, and equities; and
- Assignment of Internal Revenue Allotments (for LGU loans).

In order to minimize credit loss, the Group seeks additional collateral from the counterparty when impairment indicators are observed for the relevant individual loans and advances.

b) Credit – related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter – term commitments.

Impairment and provisioning policies

As described above, the Group's credit – quality mapping on loans and advances is based on the standard BSP loan classifications and the Internal Credit Risk Rating System adopted by the Group and approved by BSP. In addition, allowance for probable losses as well as impairment provisions are recognized based on BSP classification for the former and on objective evidence of impairment for the latter.

The table below shows the percentage of the Group's loans and receivables and the related allowance for impairment as of December 31, 2007.

	Loans and receivables (%)	Allowance for impairment (%)
Unclassified	93.44	0.00
Loans especially mentioned	0.67	5.00
Substandard	0.99	11.94
Doubtful	0.33	50.00
Loss	1.15	100.00
Unrated	3.42	72.53
	100.00	

Maximum exposure to credit risk before collateral held or other credit enhancements

An analysis of the maximum exposure to credit risk at December 31, 2007, without taking into account any collateral held or other credit enhancements is shown below based on net carrying amounts as presented in the statement of condition. (In thousands)

	Group	Parent
Due from BSP	P 11,279,211	P 11,279,211
Due from other banks	8,126,918	8,080,488
Interbank loans receivable	1,572,768	1,572,768
Securities purchased under agreements to resell	39,415,000	39,415,000
FVTPL	29,778,729	29,778,729
AFS, net	45,438,378	45,422,289
HTM	5,243,914	5,243,914
Loans and receivables, net	84,899,933	84,899,933
Other assets, net	3,690,269	3,663,049
	P 229,445,120	P 229,355,381

Credit quality

The following table shows the credit quality of financial assets as of December 31, 2007 (in thousands)

Group	Loans and receivables	Loans and advances to banks *	Investment securities **	Others ***	Total
Neither past due nor impaired	82,301,644	60,393,897	79,431,778	3,810,240	225,937,559
Past due but not impaired	287,290		2,147,418		287,290
Impaired	5,800,880				7,948,298
	88,389,814	60,393,897	81,579,196	3,810,240	234,173,147
Allowance for impairment and credit losses	(3,489,881)		(1,118,175)	(119,971)	(4,728,027)
	84,899,933	60,393,897	80,461,021	3,690,269	229,445,120

Parent	Loans and receivables	Loans and advances to banks *	Investment securities **	Others ***	Total
Neither past due nor impaired	82,301,644	60,347,467	79,415,689	3,782,654	225,847,454
Past due but not impaired	287,290		2,147,418		287,290
Impaired	5,800,880				7,948,298
	88,389,814	60,347,467	81,563,107	3,782,654	234,083,042
Allowance for impairment and credit losses	(3,489,881)		(1,118,175)	(119,605)	(4,727,661)
	84,899,933	60,347,467	80,444,932	3,663,049	229,355,381

* Comprised of Due from BSP Due from other banks, Interbank loans receivable and Securities purchased under agreement to resell

** Comprised of FVTPL, AFS and HTM

*** Comprised of Accounts receivable, Other receivables and other assets

The table below presents the aging analysis of gross amount of loans and receivables that were past due but not impaired. Collateralized past due loans are not considered impaired when the cash flows that may result from foreclosure of the related collateral are higher than carrying amount of the loans. (In thousands)

	Group	Parent
Past due less than 31 days	P	P
Past due 31 – 60 days	46,207	46,207
Past due 61 – 90 days	40,211	40,211
Over 90 days	50,681	50,681
	150,191	150,191
	P	P
	287,290	287,290
Fair value of collateral	P	P
	1,070,428	1,070,428

Credit quality of foreign currency-denominated investments are classified according to the following credit grades which are based on the below-enumerated range of Standard and Poor's (S&P) equivalent long-term issue ratings:

S & P credit equivalent ratings		
Credit Grades	From	To
High Grade	AAA	BBB-
Standard Grade	BB+	B
Substandard	B-	C
Default	D	

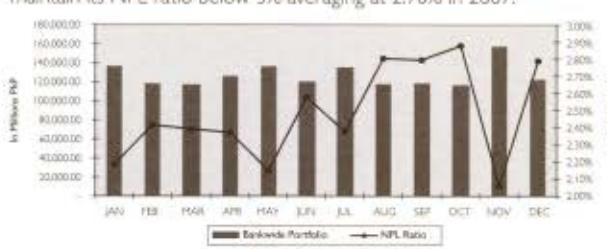
Credit ratings used for exposures to Philippine government and its instrumentalities are the S&P sovereign long-term rating of the Philippines for its foreign currency and local denominated debt which are BB- and BB+ (within standard grade), respectively.

The table below shows the credit quality of financial instruments that are neither past due nor impaired at December 31, 2007 based on the Bank's rating system. (In thousands)

Group	Neither past due nor Impaired			Past due or Impaired	Total
	High Grade	Standard	Substandard		
FVTPL	27,078,817	1,839,230	8,642	852,040	29,778,729
AFS	23,603,370	21,340,279	317,526	1,295,378	46,556,553
HTM	830,833	4,413,081	-	-	5,243,914
	51,513,020	27,592,590	326,168	2,147,418	81,579,196
Allowance for impairment and credit losses					(1,118,175)
					80,461,021

Parent	Neither past due nor Impaired			Past due or Impaired	Total
	High Grade	Standard	Substandard		
FVTPL	27,078,817	1,839,230	8,642	852,040	29,778,729
AFS	23,603,370	21,340,279	301,437	1,295,378	46,556,464
HTM	830,833	4,413,081	-	-	5,243,914
	51,513,020	27,592,590	310,079	2,147,418	81,563,107
Allowance for impairment and credit losses					(1,118,175)
					80,444,932

The graph below shows movement in NPL ratio against the Group's total loan portfolio from January to December. The Group was able to maintain its NPL ratio below 3% averaging at 2.70% in 2007.



Collateral held as security and other credit enhancements

The Parent holds collaterals against loans and receivables from customers in the form of real estate and chattel mortgage, hold-out on deposits, debt and equity securities, assignment of Internal Revenue Allotment of LGUs and ROP guarantees. Estimates of fair value are based on the latest appraisal value of collaterals which is done every year for real estate with improvements, every two years for lots only and every six months for chattels. Generally, no collaterals are held on due from other banks, interbank loans, investments under FVTPL, AFS and HTM except securities held under reverse repurchase agreements.

A summary of the appraised /fair value of collaterals held against loans and receivables as of December 31, 2007 is as follows: (In thousands)

A. Against neither past due nor impaired	
Real estate mortgage	P 61,269,891
Chattel mortgage	4,193,027
Deposits on hold	670,245
Internal revenue allotment (IRA)	1,739,018
Security investments / other collaterals	70,641,572
	138,513,753
B. Against past due but not impaired	
Real estate mortgage	1,070,428
C. Against impaired loans	
Real estate mortgage	6,694,628
Chattel mortgage	19,142
Deposits on hold	47,027
Internal revenue allotment (IRA)	14,503
Security investments / other collaterals	45,340
	6,820,640
	P 146,404,821

Credit Concentration

The Group seeks to spread its risk exposure and prevent excessive exposures to individual counterparties, groups of related counterparties, and groups of counterparties with similar characteristics. Prudent limits have been placed on exposures to single customer / customer groups.

An analysis of concentrations of credit risk at December 31, 2007 based on the carrying amount is shown below: (In thousands)

Group

	Loans and receivables	Loans and advances to banks	Investment securities	Others	Total
Financial intermediation	22,244,611	60,393,897	77,240,066		159,878,574
Electricity, gas and water	14,509,015				14,509,015
Manufacturing	11,206,139		89		11,206,228
Real estate, renting and business administration	9,117,071		3,048,153		12,165,224
Wholesale and retail trade	7,119,017				7,119,017
Transportation, storage and communication	6,435,195		782,795		7,217,990
Public administration	9,278,922		508,093		9,787,015
Education	1,994,823				1,994,823
Health and social work	1,963,263				1,963,263
Community, social & personal services	1,605,781				1,605,781
Construction	1,063,800				1,063,800
Others	1,852,177			3,810,240	5,662,417
Allowance for impairment	88,389,814 (3,489,881)	60,393,897	81,579,196 (1,118,175)	3,810,240 (119,971)	234,173,147 (4,728,027)
	84,899,933	60,393,897	80,461,021	3,660,769	229,445,120

Parent

	Loans and receivables	Loans and advances to banks	Investment securities	Others	Total
Financial intermediation	22,244,611	60,347,467	77,224,066		159,816,144
Electricity, gas and water	14,509,015				14,509,015
Manufacturing	11,206,139				11,206,139
Real estate, renting and business administration	9,117,071		3,048,153		12,165,224
Wholesale and retail trade	7,119,017				7,119,017
Transportation, storage and communication	6,435,195		782,795		7,217,990
Public administration	9,278,922		508,093		9,787,015
Education	1,994,823				1,994,823
Health and social work	1,963,263				1,963,263
Community, social & personal services	1,605,781				1,605,781
Construction	1,063,800				1,063,800
Others	1,852,177			3,782,654	5,634,831
Allowance for impairment	88,389,814 (3,489,881)	60,347,467	81,563,107 (1,118,175)	3,782,654 (119,605)	234,083,042 (4,727,661)
	84,899,933	60,347,467	80,444,932	3,663,049	229,355,381

Market Risk

Market risk arises from movements in interest rates and foreign exchange rates, as well as their corresponding correlations and implied volatilities. The ultimate objective of market risk management group is to measure and control the Group's exposures in market fluctuations to optimize capital utilization according to expected returns and risk class.

A system of market risk limits is strictly implemented. Limits are set based on industry-accepted methodologies and aligned with the Group's risk appetite as defined by the Board of Directors and its ability to absorb market shocks. Market risks are controlled by restricting trading operations to a list of permissible instruments within authorized limits set by the Board of Directors. The market risk group monitors front office trades against the limits on a daily basis.

Approval process and roles of the Board of Directors and Senior Management are clearly defined in the market risk policies. Specific authorities are defined on exposure amounts and limit excesses.

The Group's foreign exchange activities are mostly related to hedging the mismatch between the assets and liabilities and service client requirements. The Group's foreign exchange exposure is managed conservatively within the Net Open Position limits allowed by the Bangko Sentral ng Pilipinas (BSP). The Group's foreign exchange exposures arising from its ODA funding are mostly covered by the National Government.

The Value-at-Risk

The Value-at-Risk ("VaR") methodology is the primary market risk measure for the Parent Company's trading activities. The group estimates VaR using the parametric approach at 99% confidence interval. To complement the VaR calculation, stress testing and scenario analysis are performed on both individual portfolios and on the consolidated positions to examine the Parent Company's vulnerability to plausible extreme losses due to market shocks. Daily VaR is calculated mainly for risk measurement and not yet used in determining market risk capital requirement as the Parent Company currently adopts the Standardized Approach under the Basel II framework.

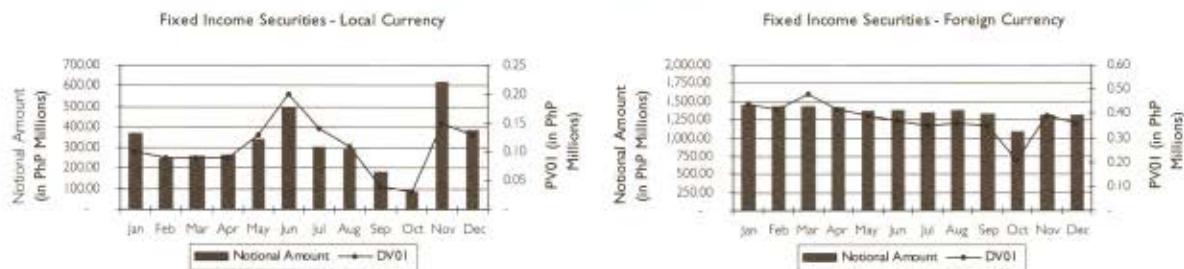
The table below provides a summary of Parent Company's VaR profile, by risk class for 2007:

(in PhP Millions)	2007				2006 Year end
	Year end	Avg	Min	Max	
Fixed Income Trading	10.94	12.73	6.01	20.45	14.05
Foreign Exchange Trading	8.90	9.66	1.39	21.21	0.30

The Parent Company's VaR for Fixed Income Trading by year-end of 2007 was relatively lower than the previous year-end as position taking activities scaled down towards the end of the year. Foreign Exchange activities related to managing asset and liability mismatch caused the VaR to significantly rise in 2007 as compared with the previous year.

Sensitivity Analysis

Interest rate sensitive positions in the trading book is measured using a single rate duration based calculation of interest rate risk. The graph below shows movement in Present Value (PV)01 against the Parent Company's fixed income securities from January to December 2007.



Liquidity Risk

The Parent Company as a special purpose domestic bank focused on development lending remains to have a relatively liquid profile. In its development lending, the Parent Company sources funding largely from foreign governments and supranational development banks and agencies in the form of Overseas Development Assistance facilities, which it on-lends to domestic development projects in the countryside.

Liquidity Profile

	DBP Ratios	Industry Ratio
Liquidity Cover Ratio	71%	35%
Stable Funding vs. Non-Liquid Assets	58%	20%
Liquid Assets vs. Short Term Liabilities	92%	34%
Liquid Assets Ratio	70%	26%

Contingency Funding

The Parent Company has in place Board approved policies in many of the key areas of liquidity risk management and structural interest rate risk management. The policies put forth a clear governance structure in the Parent Company's Board of Directors and its Senior Management committees, and clear delineation of responsibilities in the areas of monitoring, controlling and reporting risk. The Parent Company's Contingency Funding Plan (CFP) contains a well thought out senior level action plan with clear delegation of actions and responsibilities, and it lists the resources at Parent Company's disposal for generating additional liquidity in a time of stress or crisis.

Foreign Currency Risk

The Group 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 Group's allowable open FX position (either overbought or oversold) to 20% of the unimpaired capital or US\$ 50 million whichever is lower. Also, the Group is required to fully cover foreign currency liabilities with foreign currency assets held in the FCDU books.

The table summarizes the Parent Company's exposure to foreign exchange risk as of December 31, 2007. Included in the table are the Parent Company's assets and liabilities at carrying amounts, categorized by currency: (In thousand pesos)

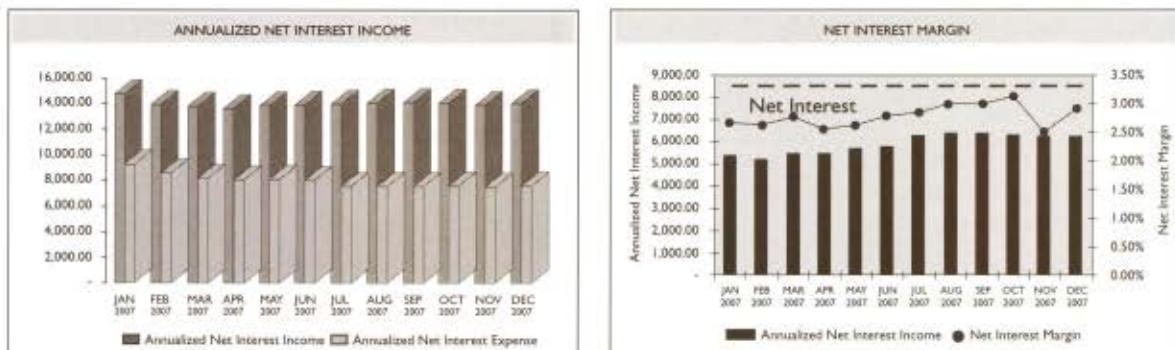
The Parent Company's better-than-industry liquidity ratios resulted from its ability to secure and maintain long-term funding and conservative management of resources by primarily investing excess liquidity on actively traded instruments. The Parent Company has also continued to strengthen its ties with government agencies and corporations to generate deposits making it less dependent on interbank borrowings. In most cases, the Parent Company has been a net lender to the inter-bank market.

	USD	Others	Total
Resources			
Due from other banks	7,551,710	341,025	7,892,735
Interbank loans receivables	1,572,768		1,572,768
Financial assets at fair value through profit and loss	17,928,059	234	17,928,293
Financial assets available for sale	24,385,303		24,385,303
Financial assets held to maturity	1,806,260		1,806,260
Loans and receivables	2,922,479	114,309	3,036,788
Other resources	1,790,523	7,260	1,797,783
Total Resources	57,957,102	462,828	58,419,930
Liabilities			
Deposit liabilities	14,403,224	432,379	14,835,603
Bills payable	10,388,348	68,582,370	78,970,718
Accrued taxes, interests and expenses	550,160	175,440	725,600
Deferred credits and other liabilities	1,274,946	117,932	1,392,878
Total liabilities	26,616,678	69,308,121	95,924,799
Net exposure	31,340,424	(68,845,293)	(37,504,869)
Total contingent accounts	37,386,781	7,193,819	44,580,630

Interest Rate Risk

The Parent Company currently adopts the Earnings-at-Risk (EaR) methodology in measuring interest rate risk exposure in the Banking Book. Extensive analysis, which includes scenario simulations, on the Parent Company's Interest Rate Gap (IRG), Net Interest Income (NII) and Net Interest Margin (NIM) are done on a regular basis.

The graph below shows the monthly movement of the Parent Company's NII and NIM in 2007.



Operational Risk Management

The Group defines Operational risk as the risk of loss arising from fraud, inadequate or failed processes, unauthorized activities, error, omission, inefficiency, systems failure or external events.

The Group manages operational risk by identifying, assessing, monitoring, controlling and mitigating the risk, rectifying operational risk events, and implementing additional procedures required to comply with regulatory requirements. All Group units are responsible for managing operational risk by implementing clear and defined processes, delineation of responsibilities, and business continuity plan, among others.

Operational Loss Monitoring Module (OLMM)

The Parent Company's OLMM is an automated monitoring tool and consolidator that systematically tracks and reports internal operational loss data of all Parent Company units. The reporting frequency was enhanced from quarterly to monthly, improving the timeliness of reporting and identification of loss events patterns.

Operational Risk and Capital Efficiency

A comparative evaluation of the methodology in computing the operational risk capital charge – the Basic Indicator Approach (BIA) and the Standardized Approach (TSA) was made during the year. Initial assessment indicated that the BIA is more appropriate for the Parent Company in determining operational risk capital requirement considering its current business profile.

Finally, the Group implements a risk assessment process to ensure that the risks inherent in Group's products, activities, procedures and systems are identified and adequately addressed. This is to control/mitigate potential risks and determine the appropriate level of training, controls, and testing necessary.

Capital Management

Capital Measurement and Efficiency

Major decisions and strategies undertaken for the year were geared towards achieving capital efficiency and sustaining strength. The Parent Company has incorporated processes that will ensure that all inherent risks of the portfolio are properly identified and in accord with its risk tolerance and guided by a defined risk return

framework. Quantitative factors on risk-taking activities are evaluated on a regular basis to determine sufficiency of existing capital levels in absorbing market shocks.

Capital Adequacy Framework

The Parent Company gauges its risk capital using the Basel II capital adequacy framework. The Basel II framework was adopted by the Philippine banking industry, as regulated by Bangko Sentral ng Pilipinas (BSP), starting July 2007 to promote safety and soundness in the financial system and maintain at least the current overall level of capital in the system; enhance competitive equality; constitute a more comprehensive approach to addressing risks. The Parent Company has adopted the Standardized Approach for market and credit risk capital charging while the calculation of the operational risk capital charge is based on the Basic Indicator Approach.

Capital Management

The Parent Company maintains a high capital base to cover for its risk assets resulting to a consistently high Capital Adequacy Ratio (CAR) averaging at 22% for 2007, as compared with the industry average of 15.7% (as of 3rd quarter 2007) and 10% minimum BSP requirement.

The Parent Company's CAR from July to December 2007 is illustrated as follows:



It is the Parent Company's policy to maintain a strong capital base in order to sustain its mandate of supporting developmental initiatives in the countryside. It seeks to maintain a prudent balance between capital utilization and risk exposures.

Risk Limit Structure

The Parent Company risk management limit structures on investments and trading activities are based on its risk appetite translated as management's perspective of the tolerable reduction in its CAR. Risk Factors and corresponding capital requirements are taken into consideration in evaluating new products and investment structures.

Capital Structure

	12/31/07	07/31/07	Inc/(Dec)
	(In million pesos)		
Composition of Capital			
Tier 1 capital			
Paid-up common stock	12,500.000	12,500.000	0
Retained earnings	14,613,510	10,592,491	4,021,019
Undivided profits	4,747,134	2,200,741	2,546,393
Eligible hybrid tier 1 capital	3,425,061	3,102,259	322,802
Less: Regulatory adjustments	12,455,201	7,716,694	4,738,507
Total qualifying tier 1 capital	22,830,504	20,678,797	2,151,707
Less: Investments in equity of unconsolidated subsidiaries – 50%	18,990	18,405	0.585
Net qualifying tier 1 capital	22,811,514	20,660,392	2,151,122
Tier 2 capital			
General loan loss provisions	848,315	932,959	(84,644)
Excess hybrid tier 1 capital	1,941,339	2,791,941	(850,602)
Unsecured subordinated debt	2,350,000	2,350,00	0
Total qualifying tier 2 capital	5,139,654	6,074,900	(935,246)
Less: Investments in equity of unconsolidated subsidiaries – 50%	18,989	18,404	0.585
Net qualifying tier 2 capital	5,120,665	6,056,496	(935,831)
Total qualifying capital	27,932,179	26,716,888	1,215,291
Risk Weighted Assets			
Loans	62,643,662	69,141,658	(6,497,996)
Investments	11,264,884	10,564,856	700,028
Others	16,411,016	13,555,402	2,855,614
Trading book	19,348,670	17,623,800	1,724,870
Operational	17,028,682	13,658,610	3,370,072
	126,696,914	124,544,326	2,152,588
Capital Ratios			
Total Capital	22.05%	21.45%	0.60%
Tier 1 Capital	18.01%	16.59%	1.42%

Figures above are computed in accordance with BSP guidelines under the Risk-Based Capital Adequacy Framework for the Philippine Banking System.

Total qualifying capital increased by P1.2 billion, or 4.5%, attributed mainly on the growth of earnings for the year. The increase was partly offset by the appreciation of peso against the US dollar resulting in a P527.8 million decrease in local currency value of the Bank's Hybrid Tier 1 Capital.

Total risk weighted assets increased by P2.2 billion, or 1.7%, reflecting the growth in loan exposures and trading book of the Parent Company.

Tier 1 core capital remains to be the Parent Company's stable source of capital sufficiency contributing 82% to the total qualifying capital and generating a ratio against total risk assets of 17.67%, well above the BSP minimum requirement of 5%.

The resulting CAR increased by 0.60% in absolute figures or a 2.8% improvement from July to December 2007 creating greater capital cushion to support the Parent Company's pipeline projects for the coming year.

Note 6 – Maturity analysis of assets and liabilities

The tables below show the assets and liabilities analyzed according to when they are expected to be recovered or settled: (In thousands)

	Group					
	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	820,504	0	0	0	0	820,504
Due from BSP	11,279,211	0	0	0	0	11,279,211
Due from other banks	7,992,038	34,880	0	100,000	0	8,126,918
Loans – net	57,333,253	7,965,257	12,246,627	29,005,538	19,337,026	125,887,701
Investment securities	6,767,069	8,423,474	4,690,630	44,963,473	15,616,375	80,461,021
Other assets	11,090,419	630,381	609,777	3,014,337	1,260,638	16,605,552
Total Assets	95,282,494	17,053,992	17,547,034	77,083,348	36,214,039	243,180,907
Liabilities						
Due to BSP	0	89,965	0	0	0	89,965
Due to other banks	375	0	0	0	0	375
Deposits	67,083,503	1,899,218	1,278,765	340,209	487	70,602,182
Borrowings	40,073,161	2,687,353	1,866,967	19,314,281	54,794,893	118,736,655
Other liabilities	3,191,771	3,085,284	167,204	2,020,037	12,119,038	20,583,334
Total Liabilities	110,348,810	7,761,820	3,312,936	21,674,527	66,914,418	210,012,511
Asset-liability gap	(15,066,316)	9,292,172	14,234,098	55,408,821	(30,700,379)	33,168,396

	Group					
	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	768,674	0	0	0	0	768,674
Due from BSP	8,309,386	350,000	0	0	0	8,659,386
Due from other banks	5,007,211	0	0	100,000	0	5,107,211
Loans – net	74,129,535	8,994,575	8,429,058	40,890,086	3,349,421	135,792,675
Investment securities	2,498,769	3,733,985	7,751,838	40,015,078	18,539,179	72,538,849
Other assets	18,251,067	930,515	613,360	31,125	2,181,369	22,007,436
Total Assets	108,964,642	14,009,075	16,794,256	81,036,289	24,069,969	244,874,231
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	15,090,911	6,107,276	6,498,068	25,510,097	65,097,903	118,304,255
Other liabilities	13,034,401	3,780,570	352,612	1,541,499	3,588,380	22,297,462
Total Liabilities	92,937,076	13,975,041	9,094,493	27,157,215	68,686,283	211,850,108
Asset-liability gap	16,027,566	34,034	7,699,763	53,879,074	(44,616,314)	33,024,123

	Parent					
	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	819,972	0	0	0	0	819,972
Due from BSP	11,279,211	0	0	0	0	11,279,211
Due from other banks	7,980,488	0	0	100,000	0	8,080,488
Loans – net	57,333,253	7,965,257	12,246,627	29,005,538	19,337,026	125,887,701
Investment securities	6,766,980	8,423,474	4,690,630	44,947,473	15,616,375	80,444,932
Other assets	11,106,397	581,053	603,986	3,003,745	1,231,738	16,526,919
Total Assets	95,286,301	16,969,784	17,541,243	77,056,756	36,185,139	243,039,223
Liabilities						
Due to BSP	0	89,965	0	0	0	89,965
Due to other banks	375	0	0	0	0	375
Deposits	67,087,888	1,899,218	1,278,765	340,209	487	70,606,567
Borrowings	40,073,161	2,687,353	1,866,967	19,314,281	54,794,893	118,736,655
Other liabilities	3,229,722	3,049,462	167,204	2,009,282	12,119,038	20,574,708
Total Liabilities	110,391,146	7,725,998	3,312,936	21,663,772	66,914,418	210,008,270
Asset-liability gap	(15,104,845)	9,243,786	14,228,307	55,392,984	(30,729,279)	33,030,953

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	3,733,556	7,726,868	39,999,079	18,539,179	72,486,459
Other assets	18,298,721	866,206	612,813	24,915	2,152,469	21,955,124
Total Assets	108,977,410	13,994,337	16,768,739	81,014,080	24,041,069	244,745,635
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	15,088,313	6,107,276	6,498,068	25,510,097	65,097,903	118,301,657
Other liabilities	13,069,946	3,744,869	352,612	1,530,546	3,588,380	22,286,353
Total Liabilities	92,971,820	13,939,340	9,094,493	27,146,262	68,686,283	211,838,198
Asset-liability gap	16,005,590	4,998	7,674,246	53,867,817	(44,645,214)	32,907,437

Note 7 – Cash and cash equivalents

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

	Group		Parent	
	2007	2006	2007	2006
Cash and other cash items	P 820,504	P 768,674	P 819,972	P 766,436
Due from Bangko Sentral ng Pilipinas	11,279,211	8,659,386	11,279,211	8,659,386
Due from other banks	8,126,918	5,107,211	8,080,488	5,085,555
Interbank loans receivable	1,572,768	2,721,165	1,572,768	2,721,165
Securities purchased under agreement to resell	39,415,000	42,680,000	39,415,000	42,680,000
	P 61,214,401	P 59,936,436	P 61,167,439	P 59,912,542

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, 2007 amounted to P7.02 billion.

Note 8 - 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 9 – Interbank loans receivable

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

	Group		Parent	
	2007	2006	2007	2006
Domestic	P 0	P 32,686	P 0	P 32,686
Foreign	1,572,768	2,721,165	1,572,768	2,721,165
	P 1,572,768	P 2,721,165	P 1,572,768	P 2,721,165

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

	2007		2006	
	Foreign currency denominated		4.73205%	-5.31%
			5.26%	-7.53813%

Note 10 – Financial assets at fair value through profit or loss (FVTPL)

This account consists of: (In thousands)

	Group		Parent	
	2007	2006	2007	2006
Credit Linked Notes	P 16,054,304	P 16,234,567	P 16,054,304	P 16,234,567
Government securities purchased	1,802,871	2,114,466	1,802,871	2,114,466
Equity securities	8,642	8,624	8,642	8,624
Derivatives with positive fair value – FX Cover	11,676,403	18,079,805	11,676,403	18,079,805
	29,542,220	36,437,462	29,542,220	36,437,462
Accrued interest receivable	236,509	311,688	236,509	311,688
	P 29,778,729	P 36,749,150	P 29,778,729	P 36,749,150

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

	Group		Parent	
	At December 31, 2006	Additions	Disposals	Fair value adjustments
At December 31, 2006	P 36,749,150	P 35,116,496	(33,686,284)	(746,333)
Additions				
Disposals				
Fair value adjustments				
Exchange differences				
Net change in accrued interest receivable	29,853,908	(75,179)	(75,179)	
At December 31, 2007	P 29,778,729	P 29,778,729	P 29,778,729	

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

	2007	2006
Peso denominated	4.185% - 16.00%	5.015% - 14.500%
Foreign currency denominated	3.593% - 9.875%	2.46513% - 10.25%

Note 11 – Financial assets available for sale (AFS)

This account consists of: (In thousands)

	Group	2007	2006	Parent	2007	2006	
Debt securities:							
Government							
Treasury notes	P	15,345,577	P	9,735,562	P	15,345,577	
Retail treasury bonds		489,104		864,286		489,104	
Treasury bills		7,193		79,075		7,193	
Treasury bonds – ROP		2,425,325		2,602,999		2,425,325	
Under repurchased		2,649,811		0		2,649,811	
Private		20,917,010		13,281,922		20,917,010	
PLDT		0		193,657		0	
Investments/Notes with embedded derivatives		20,917,010		13,475,579		20,917,010	
Underwritten debt securities purchased		19,310,168		10,611,666		19,310,168	
Underwritten debt securities purchased		4,650,000		1,800,000		4,650,000	
Equity securities:							
Government		205,000		205,000		205,000	
Private		604,451		342,023		588,362	
809,451				547,023		793,362	
Accrued interest receivable		45,686,629		26,434,268		45,670,540	
		869,924		504,054		869,924	
Allowance for impairment		46,556,553		26,938,322		46,540,464	
		(1,118,175)		(2,541,271)		(1,118,175)	
			P	45,438,378	P	24,397,051	
				P	45,422,289	P	24,380,954

The Parent Company's AFS is carried at inclusive/net of accumulated unrealized gain/(loss) of P1,006 million and P1,023 million as of December 31, 2007 and 2006, respectively.

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

	Group	2007	Parent	2006
At December 31, 2006	P	24,397,051	P	24,380,954
Additions		67,008,631		67,008,631
Disposals		(43,361,472)		(43,361,472)
Fair value adjustments		(474,472)		(474,464)
Exchange differences		(3,920,326)		(3,920,326)
Net change in accrued interest receivable		43,649,412		43,633,323
Net change in allowance for impairment		365,870		365,870
At December 31, 2007	P	45,438,378	P	45,422,289

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

	2007	2006
Peso denominated	5.424% - 15.125%	5.125% - 17.50%
Foreign currency denominated	3.865% - 10.625%	5.65% - 10.625%

Note 12 – Financial assets held to maturity (HTM)

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

	Group	2007	2006	Parent	2007	2006	
		2007	2006		2007	2006	
Domestic							
Government							
Treasury notes	P	3,098,965	P	2,438,082	P	3,098,965	
Treasury bills		0		2,423,353		0	
Land Bank bonds		93,758		115,484		93,758	
IRA Monetization Program bonds		0		227,372		0	
Bases Conversion Development Authority		0		1,000,000		0	
Others		140,000		140,000		140,000	
Foreign		3,332,723		6,344,291		3,332,723	
		1,806,260		4,816,203		1,806,260	
Accrued interest receivable		5,138,983		11,160,494		5,138,983	
		104,931		232,154		104,931	
		P	5,243,914	P	11,392,648	P	5,243,914
							11,356,355

Government securities amounting to P275 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, 2006	P 11,392,648	P 11,356,355
Additions	3,460,428	3,460,428
Maturities	(8,528,556)	(8,492,215)
Accretion/(Amortization) of premium/discount	477	477
Fair value adjustments	(641,297)	(641,297)
Exchange differences	(312,563)	(312,563)
Net change in accrued interest receivable	5,371,137	5,370,708
At December 31, 2007	P 5,243,914	P 5,243,914

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

	2007	2006
Peso denominated	6.50% - 14.875%	4.85% - 12.00%
Foreign currency denominated	4.407% - 8.375%	6.7088% - 9.50%

Note 13 – Loans and receivables

This account consists of: (In thousands)

	Group		Parent	
	2007	2006	2007	2006
Loans and discounts	P 78,962,251	P 76,173,143	P 78,962,251	P 76,173,143
Unquoted debt securities classified as loan (UDSCL)	5,597,734	14,712,831	5,597,734	14,712,831
Customers' liabilities under letters of credit/trust receipts	3,072,569	1,504,901	3,072,569	1,504,901
Bills purchased	5,882	2,310	5,882	2,310
Accounts receivable (AR) – advances on loans	87,638,436	92,393,185	87,638,436	92,393,185
Sales contract receivables (SCR)	8,922	7,986	8,922	7,986
	173,596	217,823	173,596	217,823
Accrued interest receivable	87,820,954	92,618,994	87,820,954	92,618,994
	666,663	927,760	666,663	927,760
Unearned discount/income	88,487,617	93,546,754	88,487,617	93,546,754
Allowance for impairment and credit losses	(97,803)	(106,214)	(97,803)	(106,214)
	(3,489,881)	(3,081,716)	(3,489,881)	(3,081,716)
	P 84,899,933	P 90,358,824	P 84,899,933	P 90,358,824
Non-Performing Loans (NPL):				2007
NPLs with 100% reserves			P 3,581,747	P 3,005,360
NPL Rates			P 115,427	P 125,377
			2.70%	2.09%

Above NPL rates are way below industry average of 4.70% for CY 2007 and 5.70% for CY 2006, based on BSP figures.

Wholesale lending portfolio represents 25% as of December 31, 2007 and 31% as of 2006 of the Parent Company's total loan portfolio.

The highest exposure is to the financial intermediation amounting to P20.39 billion or 23% of the total loan portfolio. The next highest exposure is the P14.41 billion for electricity, gas and water representing 16% of the total loan portfolio. This is followed by financial assistance to manufacturing sector amounting to P11.13 billion or 13% of the total loan portfolio for the year. Other exposures are distributed widely among BSP classified industries.

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

	2007		2006	
	Secured:		Unsecured:	
Retail	P 38,028,416		27,808,709	
Wholesale *	968,329		20,832,982	
	38,996,745	44%	48,641,691	56%
			P 87,638,436	100%
				P 92,393,185
				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 Group 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.

Note 14 - Bank premises (including leasehold improvements), furniture, fixtures and equipment

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

	Group		Parent	
	2007	2006	2007	2006
Land	P 320,031	P 320,067	P 320,031	P 320,067
Building	588,061	581,370	582,713	576,161
Office equipment, furniture and fixtures	1,183,235	1,177,981	1,155,226	1,150,615
Transportation equipment	526,577	515,434	525,748	514,605
	2,617,904	2,594,852	2,583,718	2,561,448
Accumulated depreciation	(1,449,796)	(1,408,811)	(1,432,428)	(1,395,237)
Allowance for impairment	(340)	(340)	(340)	(340)
	(1,450,136)	(1,409,151)	(1,432,768)	(1,395,577)
Total	P 1,167,768	P 1,185,701	P 1,150,950	P 1,165,871

Broken down as follows:

	Group						
	Land	Building	Leasehold Improvement	Computer Equipment	Office Machine, Furniture and Fixtures	Transportation Equipment	Total
At December 31, 2006							
Cost	320,067	549,556	31,814	662,372	515,609	515,434	2,594,852
Accumulated depreciation	0	(267,672)	0	(453,875)	(378,001)	(309,263)	(1,408,811)
Allowance for impairment	0	(340)	0	0	0	0	(340)
Net book amount	320,067	281,544	31,814	208,497	137,608	206,171	1,185,701
Year ended December 2007							
Opening net book amount	320,067	281,544	31,814	208,497	137,608	206,171	1,185,701
Additions	653	13,253	2,164	42,840	86,201	41,285	186,396
Disposals	(24)	(2,315)	0	(49,147)	(62,497)	(22,793)	(136,776)
Impairment loss	0	0	0	0	0	0	0
Depreciation	0	(17,869)	0	(27,418)	(12,726)	(16,997)	(75,010)
Amortization	0	0	(4,455)	0	0	0	(4,455)
Adjustments - cost	(665)	(2,091)	135	(6,822)	(5,321)	(7,349)	(22,113)
Adjustments - accumulated depreciation	0	2,803	0	9,674	13,597	7,951	34,025
Closing net book amount	320,031	275,325	29,658	177,624	156,862	208,268	1,167,768
At December 31, 2007							
Cost	320,031	558,403	29,658	649,242	533,993	526,577	2,617,904
Accumulated depreciation	0	(282,738)	0	(471,618)	(377,131)	(318,309)	(1,449,796)
Allowance for impairment	0	(340)	0	0	0	0	(340)
Net book amount	320,031	275,325	29,658	177,624	156,862	208,268	1,167,768

	Parent						
	Land	Building	Leasehold Improvement	Computer Equipment	Office Machine, Furniture and Fixtures	Transportation Equipment	Total
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
Year ended December 2007							
Opening net book amount	320,067	281,544	26,604	197,882	133,807	205,967	1,165,871
Additions	653	13,253	1,652	42,488	86,000	41,285	185,331
Disposals	(24)	(2,315)	0	(49,147)	(62,497)	(22,793)	(136,776)
Impairment loss	0	0	0	0	0	0	0
Depreciation	0	(17,869)	0	(24,479)	(11,911)	(16,969)	(71,228)
Amortization	0	0	(4,103)	0	0	0	(4,103)
Adjustments - cost	(665)	(2,091)	157	(6,964)	(5,270)	(7,349)	(22,182)
Adjustments - accumulated depreciation	0	2,803	0	9,695	13,588	7,951	34,037
Closing net book amount	320,031	275,325	24,310	169,475	153,717	208,092	1,150,950
At December 31, 2007							
Cost	320,031	558,403	24,310	626,978	528,248	525,748	2,583,718
Accumulated depreciation	0	(282,738)	0	(457,503)	(374,531)	(317,656)	(1,432,428)
Allowance for impairment	0	(340)	0	0	0	0	(340)
Net book amount	320,031	275,325	24,310	169,475	153,717	208,092	1,150,950

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

As of December 31, 2007, the total expenditures recognized in the course of the construction of the DBP's Norham Training Center in Baguio, DBP Baguio Branch and the DBP Commercial building aggregated P6.39 million from the total contract price of P268.52 million.

Note 15 – Investment property

This account consists of Heritage Park Investment Certificates. These certificates are not titles to property but security instruments which cover and represent interest in the Heritage Park, a high value memorial ground complex located in Fort Bonifacio, Taguig, Metro Manila. Each Heritage Certificate entitles the holder to the exclusive interment right and perpetual usufruct of the memorial lot, ownership of the improvements, enjoyment of common amenities, facilities, services and perpetual care of the Park. The fair value of the said property is not available.

The movement is summarized as follows: (in thousands)

	Group	Parent
At December 31, 2006	P 412,757	P 408,584
Disposals	(1,069)	(1,069)
At December 31, 2007	P 411,688	P 407,515

Note 16 – Equity investment in subsidiaries

This account consists of: (in thousands)

	Group	2007	2006	Parent	2007	2006
Investments in subsidiaries						
Acquisition cost:						
DBP Management Corporation	P	0	P	P	37,500	P 37,500
DBP Data Center, Incorporated		0	0		1,250	1,250
DBP Remittance Center Hong Kong, Ltd.		0	0		0	0
	P	0	P	P	38,750	P 38,750

Note 17 – Equity investment in associates

This account consists of investments in share of stocks as follows: (In thousands)

	Group		Parent	
	2007	2006	2007	2006
LGU Guarantee Corporation (36.75% owned)	P 146,070	P 125,145	P 105,690	P 105,690
DBP Daiwa Securities (17.06% owned)	52,687	50,676	45,675	45,675
Odyssey Capital Ventures (35% owned)	11,482	10,938	10,938	10,938
DBP Service Corporation (29.46% owned)	10,807	8,597	855	856
Allowance for impairment	P 221,046	P 195,356	P 163,158	P 163,159
	0	(41,760)	0	(41,760)
	P 221,046	P 153,596	P 163,158	P 121,399

The following tables present financial information of associates as of and for the years ended: (In thousands)

	Statement of Condition		Statement of Income	
	Total Assets	Total Liabilities	Gross Income	Net Income
LGU Guarantee Corporation	P 468,524	P 17,516	P 47,483	P 24,568
DBP Daiwa Securities	355,700	108,176	280,974	97,262
Odyssey Capital Ventures	33,453	447	1,159	588
DBP Service Corporation	364,835	215,029	914,121	17,729

	Statement of Condition		Statement of Income	
	Total Assets	Total Liabilities	Gross Income	Net Income
LGU Guarantee Corporation	P 459,897	P 19,729	P 82,442	P 56,939
DBP Daiwa Securities	287,773	137,510	47,222	11,784
Odyssey Capital Ventures	32,435	17	1,570	1,555
DBP Service Corporation	340,225	198,731	895,412	16,693

Note 18 – Equity investment in joint venture

This account consists of: (In thousands)

	Group		Parent	
	2007	2006	2007	2006
DBP Insurance Brokerage, Inc. (40% owned)	P 4,000	P 0	P 4,000	P 0

The following tables present financial information of joint venture as of and for the years ended: (In thousands)

	Statement of Condition		Statement of Income	
	Total Assets	Total Liabilities	Gross Income	Net Income
DBP Insurance Brokerage, Inc.	P 73,475	P 61,852	P 17,239	P 1,769

	Statement of Condition		Statement of Income	
	Total Assets	Total Liabilities	Gross Income	Net Income
DBP Insurance Brokerage, Inc.	P 23,252	P 13,398	P 2,043	P (146)

Note 19 - Other assets

This account consists of: (In thousands)

	Group		Parent	
	2007	2006	2007	2006
Prepaid expenses	P 5,405,337	P 452,666	P 5,404,604	P 452,119
Accounts receivable	3,761,403	12,874,650	3,733,989	12,843,277
Deferred income tax	4,051,231	3,514,606	4,051,231	3,514,606
Amortization fund – Trust Services Department	775,438	1,049,475	775,438	1,049,475
Misc. assets - Gratuity plan fund	340,881	610,062	340,881	610,062
Miscellaneous assets – Intangibles *	129,023	111,254	129,023	111,254
Dividends and interest receivable	50,836	53,539	50,663	53,539
Deferred charges	(15,302)	107,243	15,302	107,243
Inter-office float items	(17,433)	113,482	(17,433)	113,482
Misc. assets - Unrealized market gain	0	487,041	0	487,041
Real estate owned	0	1,021	0	1,021
Miscellaneous	251,438	410,077	240,888	406,709
Allowance for impairment	P 14,763,456	P 19,785,116	P 14,724,586	P 19,749,828
	(158,562)	(107,748)	(158,196)	(107,322)
	P 14,604,894	P 19,677,368	P 14,566,390	P 19,642,506

* Miscellaneous assets – intangibles are software costs accounted for as follows:

	Group		Parent	
	2007	2006	2007	2006
Balance at beginning of year	P 111,254	P 98,779	P 111,254	P 98,779
Additions	33,208	48,399	33,208	48,399
Amortization	(15,439)	(35,924)	(15,439)	(35,924)
Balance at end of year	P 129,023	P 111,254	P 129,023	P 111,254

Note 20 – Allowance for impairment and credit losses

Changes in the allowance for impairment and credit losses follow: (In thousands)

	Group		Parent	
	2007	2006	2007	2006
Balance at beginning of year				
AFS investments (Note 11)	P 2,541,271	P 622,448	P 2,541,271	P 622,448
Loans and receivables (Note 13)	3,081,716	8,103,306	3,081,716	8,103,306
Investment in associates (Note 17)	41,760	41,760	41,760	41,760
NCAHFS	935,242	742,044	935,242	742,044
Others *(Note 14 and 19)	108,088	167,983	107,662	167,557
	6,708,077	9,677,541	6,707,651	9,677,115
Provision for/reversal of impairment and credit losses				
FVTPL investments * (Note 10)	1,955,000	0	1,955,000	0
AFS investments (Note 11)	(691,845)	594,000	(691,845)	594,000
Loans and receivables (Note 13)	(178,215)	1,023,156	(178,215)	1,023,156
Investment in associates (Note 17)	(41,760)	0	(41,760)	0
NCAHFS	271,935	554,262	271,935	554,262
Others ** (Note 14 and 19)	(398)	7,427	(398)	7,427
	1,314,717	2,178,845	1,314,717	2,178,845
Charges against reserves				
Write-off:				
Loans and receivables (Note 13)	(10,298)	(14,901)	(10,298)	(14,901)
NCAHFS	(243)	(3,588)	(243)	(3,588)
Others ** (Note 14 and 19)	(215)	(731)	(215)	(731)
	(10,756)	(19,220)	(10,756)	(19,220)
Foreclosures:				
Loans and receivables (Note 13)	(350)	(90,690)	(350)	(90,690)
Realized loss on NPLs sold during the year				
AFS investments (Note 11)	0	(352,273)	0	(352,273)
Loans and receivables (Note 13)	0	(4,033,985)	0	(4,033,985)
NCAHFS	(3,576)	(592,858)	(3,576)	(592,858)
Others ** (Note 14 and 19)	0	(22,042)	0	(22,042)
	(3,576)	(5,001,158)	(3,576)	(5,001,158)
Revaluation:				
AFS investments (Note 11)	(380,586)	(6,897)	(380,586)	(6,897)
Loans and receivables (Note 13)	(14,926)	(27,214)	(14,926)	(27,214)
Others ** (Note 14 and 19)	275	(661)	275	(661)
	(395,237)	(34,772)	(395,237)	(34,772)
Other transactions				
AFS investments (Note 11)	(350,665)	1,683,993	(350,665)	1,683,993
Loans and receivables (Note 13)	611,954	(1,877,956)	611,954	(1,877,956)
NCAHFS	(278,762)	235,382	(278,762)	235,382
Others ** (Note 14 and 19)	51,152	(43,888)	51,212	(43,888)
	33,679	(2,469)	33,739	(2,469)
Balance at end of year				
FVTPL investments (Note 10)	1,955,000	0	1,955,000	0
AFS investments (Note 11)	1,118,175	2,541,271	1,118,175	2,541,271
Loans and receivables (Note 13)	3,489,881	3,081,716	3,489,881	3,081,716
Investment in associates (Note 17)	0	41,760	0	41,760
NCAHFS	924,596	935,242	924,596	935,242
Others *(Note 14 and 19)	158,902	108,088	158,536	107,662
	P 7,646,554	P 6,708,077	P 7,646,188	P 6,707,651

* The FVTPL investment balances in Note 10 is already net of provision for credit losses.

** Includes allowance for impairment of Bank premises, furniture, fixtures and equipment (Note 14).

Note 21 – Deferred income tax

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

		2007	2006
Deferred tax assets on:			
Allowance for impairment		P 1,965,405	P 1,510,270
Net operating loss carry over (NOLCO)		921,139	1,331,005
Gratuity pay		483,374	360,464
Trading loss/(gain) revaluation		(129,628)	(838,246)
Unrealized foreign exchange loss/(gain) – net		585,067	961,914
Others		225,874	189,199
Total deferred tax assets (Note 19)		4,051,231	3,514,606
Deferred tax liability on:			
Unrealized foreign exchange gains (Note 24)		341,715	0
Net deferred tax assets		P 3,709,516	P 3,514,606

Note 22 – Bills payable

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

	Group		Parent	
	2007	2006	2007	2006
Domestic	P 39,765,937	P 8,855,617	P 39,765,937	P 8,853,020
Foreign:				
- with FX risk cover	64,743,252	88,080,981	64,743,252	88,080,981
- without FX risk cover	14,227,466	21,367,657	14,227,466	21,367,657
	78,970,718	109,448,638	78,970,718	109,448,638
	P 118,736,655	P 118,304,255	P 118,736,655	P 118,301,658
Maturities:				
Within one year	P 54,049,933	P 36,878,812	P 54,049,933	P 36,876,215
Beyond one year	64,686,722	81,425,443	64,686,722	81,425,443
	P 118,736,655	P 118,304,255	P 118,736,655	P 118,301,658

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) and Japan Bank for International Cooperation (JBIC) – JEXIM 5. Accordingly, foreign exchange risk is assumed by the borrower. Others are invested in the same currency.

Borrowings in foreign currency without FXRC by the NG amounting to P8,174 billion are invested as follows:

1. IBRD-PLDT	- \$17.12 million or P706.66 million Invested in US Dollar with Trust under the Amortization Fund. Payment of principal and interest due to Funder comes from the Amortization Fund.	3. NDF 3M	- EUR 2.46 million or P148.01 million Lent in Peso. The foreign exchange risk is assumed by the Bank.
2. IBRD – MERALCO -	\$12.23 million or P504.68 million Invested in the same currency.	4. JBIC – JEXIM 5	- JPY 18.42 billion or P6.81 billion Lent in Peso. The foreign exchange risk is managed by the Bank effective July 1, 2007.

Other information about bills payable as of December 31, 2007, are as follows:

		Bills Payable	
		Wholesale	Retail
a. Maturities			
Maximum			
Domestic		12 years	25 years
Foreign		40 years	40 years
Average			
Domestic		4 years	9 years
Foreign		26 years	32 years
b. Average rate (interest rate to funders)			
Domestic		4.73%	5.63%
Foreign		1.91%	1.85%
c. Balance (In thousand pesos)			
Maximum month-end balance		59,237,301	36,283,497
Average monthly balance		51,431,914	34,368,793

Note 23 - Deposit liabilities

Deposits maturing within the year amounted to P69,926,380 thousand and P69,930,765 thousand for the Group and Parent Company, respectively.

Note 24 - Deferred credits and other liabilities

This account consists of: (In thousands)

	Group		Parent	
	2007	2006	2007	2006
Residual value with FX cover	P 9,935,767	P 7,253,172	P 9,935,767	P 7,253,172
Derivatives with negative fair value	1,247,136	139,197	1,247,136	139,197
Accounts payable	874,668	679,386	874,220	679,156
Unearned income/deferred credits	479,397	357,077	479,397	357,077
Deferred tax liability	341,715	0	341,715	0
Withholding taxes payable	234,738	169,594	234,738	169,594
Outstanding acceptances	143,602	358	143,602	358
Miscellaneous liability - lawsuits	117,000	0	117,000	0
Cash letters of credit	55,677	143,626	55,677	143,626
Due to Treasury of the Philippines	41,022	24,995	41,022	24,995
Other miscellaneous liabilities	792,670	257,012	770,694	233,230
	P 14,263,392	P 9,024,417	P 14,240,968	P 9,000,405

Other miscellaneous liabilities include mainly special funds, GSIS/Medicare/Employee Compensation Premium/Pag-ibig and domestic bills for clearing.

The Group recognized provisions for lawsuits with court decisions that are final and executory and those with probability that the Bank will be finally held liable for the claim of the plaintiff within one or two years from balance sheet date.

Note 25 – Unsecured subordinated debt/Other equity instrument – hybrid tier 1

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 1 (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 P 2.35 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.

The Parent Company classifies the HT1 Capital Securities under stockholder's equity – other equity instrument in accordance with BSP Circular Nos. 503 dated December 22, 2005. Hence, the interests paid out are recognized as dividends or debited directly to stockholder's equity net of any related income tax benefit. Also, various costs in issuing or acquiring the securities are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

Note 26 – Surplus reserves

This account consists of: (In thousands)

	Group		Parent	
	2007	2006	2007	2006
Reserve for trust business	P 96,442	P 92,757	P 96,442	P 92,757
Reserve for contingencies	P 85,199	P 85,199	P 85,199	P 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
	P 91,010	P 91,010	P 71,010	P 71,010
	P 272,651	P 268,966	P 252,651	P 248,966

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 2006			92,757
Adjustment in 2006			(556)
Add: 10% Net Income			
CY 2007	42,411	4,241	96,442

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 27 – Miscellaneous income

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

Note 28 – Other operating expenses

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

Note 29 – Income and other taxes

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.

Interest allowed as a deductible expense is reduced by an amount equivalent to 42% of interest income subjected to final tax. 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	
	2007	2006	2007	2006
Current:				
Final taxes	P 19,649	P 74,345	P 19,649	P 74,345
RCIT	52	2,198	0	0
MCIT	43,190	63,066	43,190	63,066
Tax Deficiency	0	67,136	0	67,136
	62,891	206,745	62,839	204,547
Deferred (Note 21)	(194,910)	(535,189)	(194,910)	(535,189)
	P (132,019)	P (328,444)	P (132,071)	P (330,642)

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)

	2007		2006	
	Amount	Rate (%)	Amount	Rate (%)
Statutory income tax	P 893,252	35.00	P 866,053	35.00
Effect on items not subject to statutory tax rate:				
Income subjected to lower tax rates	(499,994)	(19.59)	(713,059)	(28.81)
Tax-exempt income	(564,771)	(22.13)	(1,237,409)	(50.01)
Non-deductible expenses	719,203	28.18	1,484,004	59.97
Others	(679,760)	(26.63)	(730,231)	(29.51)
Tax benefits	P (132,070)	(5.17)	P (330,642)	(13.36)

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

Inception Year	Amount	Used/Expired	Balance	Expiry Year
NOLCO				
2004	P 24,286	P 24,286	P 0	2007
2006	P 4,033,349	P 1,247,019	P 2,791,330	2009
	P 4,057,635	P 1,266,305	P 2,791,330	
MCIT				
2005	P 29,516		P 29,516	2008
2006	P 63,066		P 63,066	2009
2007	P 43,190		P 43,190	2010
	P 135,772	0	P 135,772	

Note 30 – 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 P14,609 million and P17,305 million or 11.34% and 12.53% of total loan portfolio as of December 31, 2007 and 2006, respectively.

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

	Group		Parent	
	2007	2006	2007	2006
a) Short-term employee benefits	P 56.41	P 66.76	P 51.04	P 61.16
b) Post employment benefits	P 88.42	P 49.01	P 87.76	P 48.70
	P 144.83	P 115.77	P 138.80	P 109.86

Note 31 - 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 contingent liabilities are as follows: (In thousands)

	2007	2006
Transferred to national government (NG)	P 0	P 29,459,945
Derivative on FX contracts OTC option	P 64,958,295	P 88,186,596
Outstanding guarantees issued	P 931,294	P 1,037,371
Unused commercial letters of credit	P 5,806,451	P 1,494,841
Forward exchange bought	P 491,517	P 14,851,654
Forward exchange sold	P 23,081,525	P 14,462,341
Forward exchange bought swap	P 6,732,646	P 0
Forward exchange sold swap	P 6,426,232	P 0
Spot exchange bought	P 0	P 375,619
Spot exchange sold	P 0	P 375,619
Interest rate swap receivable	P 0	P 500,000
Interest rate swap payable	P 0	P 500,000
Others	P 337,206	P 183,039
	P 108,765,166	P 151,427,025

Note 32 - 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, 2007 amounted to P22.55 billion from 2006's year-end balance of P19.86 billion. These are off-books transactions and therefore not included in the Parent Company's financial statements.

Income realized from trust operations amounted to P42.41 million, net of operating expenses of P62.15 million and Gross Receipts Tax of P7.9 million, which was remitted to the Parent Company and included in its financial statements.

Note 33 - 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 are exempted from all taxes. However, interest income from foreign currency loans granted to residents are 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 34 - Other information

	2007	2006
Key financial indicators of the Parent Company		
Return on average equity	8.07%	10.49%
Return on average assets	1.11%	1.23%
Net interest margin	3.35%	3.56%
Debt to equity ratio	6.36:1	6.44:1
Debt ratio	0.86:1	0.87:1
Capital to risk assets ratio	22.05% *	28.00%
Efficiency ratio	59.33%	53.30%
Salaries & personnel expenses / operating expenses	57.85%	54.37%

* Based on BASEL II framework

Note 35 – Reclassifications

The following account in CY 2006 was restated to be comparable with CY 2007 figures: (In thousands)

	From	To	Amount
Heritage Park	Other assets	Investment properties	408,584

Note 36 – Events after the Balance Sheet date

a) Per Board Resolution No. 0155 dated April 9, 2008, the Board approved the declaration of cash dividend to the National Government amounting to P1 billion covering CY 2007 net earnings.

b) On February 6, 2008, the Board of Directors of the Parent Company approved the acquisition of Al – Amanah Islamic Investment Bank (AAIIBP) in its Resolution No. 0050.

On April 3, 2008, the BSP Monetary Board in its Resolution No. 421 approved the 100% equity investment of the Parent Company in the AAIIBP pursuant to Republic Act No. 8791 and the acquisition of the 452,361 shares representing 90.04% of the issued and outstanding capital stock of AAIIBP for a total purchase price of P45.2 million.

On May 27, 2008, the Share Purchase Agreement was made and executed by and between the National Government and the Parent Company. The Parent Company paid the total purchase price of P35 million representing 350,000 shares at P100 per share.

c) On April 10, 2008, the sealed-bid public auction of non-performing assets (NPAs) consisting of SPV eligible NPAs under the Special Purpose Vehicle Act of 2002 or RA 9182 and non-SPV eligible NPAs was declared failed by the Parent Company. NPAs include NPLs of P1.32 billion and ROPAs of P0.45 billion.

d) On April 16, 2008, the Board of Directors of the Parent Company approved the acquisition of NDC Maritime Leasing Corporation (NMLC) from the National Development Company (NDC) per BR No. 0160. The total equity infusion of P400 million was divided into:

i) P100 million to pay all the authorized and issued common shares of NMLC subscribed and owned by NDC consisting of 1,000,000 shares.

ii) P300 million to take out NDC loan to be converted to equity to build up NMLC's networth.

On April 18, 2008, the BSP approved-in-principle the Parent Company's request to acquire 100 percent of the outstanding capital stock of NMLC from NDC.

On June 12, 2008, the Parent Company paid the P100 million and P279.21 million representing 1,000,000 issued and outstanding common shares at P100 per share and deposit to NMLC to pay off its outstanding loan from NDC, respectively.

On June 16, 2008, the Parent Company paid the remaining P20.79 million deposit to NMLC.

e) As a Government Financial Institution responding to the Constitutional mandate and consistent with its commitment to the values of Corporate Social Responsibility by way of supporting investments in the development of human capital as a strategy for poverty alleviation, the Parent Company has established the DBP Education Endowment Program (DEEP) that shall grant financial assistance to deserving students from the ranks of underprivileged Filipino families who aspire to pursue a nursing course at quality public and private tertiary schools. As of September 2008, the Parent Company booked an expense aggregating P21 million under Miscellaneous Expense-Others DEEP.

f) The Board of Directors, in its September 24, 2008 meeting, authorized the sale of all the Parent Company's outstanding Credit Linked Notes (CLNs) issued by Lehman Brothers Holdings Inc. with a minimum selling price. Actual disposal was done in September and October 2008. The account is adequately covered by reserves for credit losses. Lehman's rating was "A+" before it filed the Chapter 11 of the US Bankruptcy Code.

Note 37 – Approval of financial statements

The financial statements of the DBP Group have been approved for issuance by the Board of Directors on November 26, 2008.

