

Independent Auditor's Report

To the Board of Directors and Stockholders of
Bank of the Philippine Islands
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Makati City

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We have audited the accompanying consolidated and parent financial statements of Bank of the Philippine Islands, which comprise the consolidated and parent statements of condition as of December 31, 2006 and 2005, and the consolidated and parent statements of income, changes in capital funds and cash flows for each of the three years in the period ended December 31, 2006, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Isla Lipana & Co.

Independent Auditor's Report
To the Board of Directors and Stockholders of
Bank of the Philippine Islands

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Isla Lipana & Co.

Independent Auditor's Report
To the Board of Directors and Stockholders of
Bank of the Philippine Islands

Opinion

In our opinion, the accompanying consolidated and parent financial statements present fairly, in all material respects, the financial position of Bank of the Philippine Islands as of December 31, 2006 and 2005, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2006 in accordance with Philippine Financial Reporting Standards.

Isla Lipana & Co.

Makati City
February 21, 2007

Blesilda A. Pestaño

BLESILDA A. PESTAÑO
(Signing on behalf of Isla Lipana & Co.)

CPA Cert. No. 40446

P.T.R. No. 0315945, January 15, 2007, Makati City

SEC A.N. (Individual) as general auditors 0049-AR-1

SEC A.N. (Firm) as general auditors 0009-FR-1

TIN 112-071-927

BIR A.N. 08-000745-7-2004, issued on October 12, 2004, effective until October 11, 2007

BOA/PRC Reg. No. 0142, issued on October 25, 2004

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CONDITION
DECEMBER 31, 2006 AND 2005

(In Millions of Pesos)

	Notes	Consolidated		Parent	
		2006	2005	2006	2005
RESOURCES					
CASH AND OTHER CASH ITEMS	8	P 11,858	P 10,018	P 11,528	P 9,741
DUE FROM BANGKO SENTRAL NG PILIPINAS	8	54,591	18,009	43,004	14,764
DUE FROM OTHER BANKS	8	7,923	16,670	4,840	14,103
INTERBANK LOANS RECEIVABLE AND SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL	8, 9	22,942	7,729	21,257	9,165
TRADING SECURITIES	10	14,161	11,872	12,633	10,447
INVESTMENT SECURITIES					
- AVAILABLE-FOR-SALE SECURITIES, net	12	90,680	89,072	72,666	73,280
- HELD-TO-MATURITY SECURITIES, net	13	68,752	78,945	61,355	71,294
LOANS AND ADVANCES, net	14	243,191	228,887	186,928	178,524
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT, net	15	11,727	10,849	9,119	9,155
INVESTMENT PROPERTY, net	16	2,365	2,454	2,354	2,454
ASSETS HELD FOR SALE, net		17,611	19,928	14,554	16,363
EQUITY INVESTMENTS, net	17	933	188	5,899	6,380
ASSETS ATTRIBUTABLE TO INSURANCE OPERATIONS	6	19,795	19,318	-	-
DEFERRED INCOME TAX ASSETS, net	18	6,358	6,690	5,838	6,225
OTHER RESOURCES, net	19	9,083	8,656	6,273	7,056
Total resources		P 581,970	P 529,285	P 458,248	P 428,951
LIABILITIES AND CAPITAL FUNDS					
DEPOSIT LIABILITIES					
Demand		P 72,407	P 63,526	P 67,434	P 59,136
Savings		123,417	122,303	107,387	107,287
Time		271,252	234,281	209,980	190,102
		467,076	420,110	384,801	356,525
BILLS PAYABLE	20	5,716	13,571	3,257	12,388
DUE TO BANGKO SENTRAL NG PILIPINAS AND OTHER BANKS		1,006	774	981	751
MANAGER'S CHECKS AND DEMAND DRAFTS OUTSTANDING		2,249	1,924	1,898	1,588
ACCRUED TAXES, INTEREST AND OTHER EXPENSES		3,963	4,546	2,875	3,803
LIABILITIES ATTRIBUTABLE TO INSURANCE OPERATIONS	6	15,197	14,491	-	-
DEFERRED CREDITS AND OTHER LIABILITIES	21	21,276	13,801	18,686	12,565
Total liabilities		P 516,483	P 469,217	P 412,498	P 387,620

(forward)

BANK OF THE PHILIPPINE ISLANDS
STATEMENTS OF CONDITION
DECEMBER 31, 2006 AND 2005
(In Millions of Pesos)

	Notes	Consolidated		Parent	
		2006	2005	2006	2005
CAPITAL FUNDS ATTRIBUTABLE TO THE EQUITY					
HOLDERS OF BPI	22				
Capital stock		P 27,043	P 22,479	P 27,043	P 22,479
Paid-in surplus		1,356	1,073	1,356	1,073
Translation adjustments		(95)	(46)	-	-
Reserves		5,544	1,300	2,875	232
Surplus		30,591	33,722	14,476	17,547
		64,439	58,528	45,750	41,331
MINORITY INTEREST					
Total capital funds		65,487	60,068	45,750	41,331
Total liabilities and capital funds		P 581,970	P 529,285	P 458,248	P 428,951

(The notes on pages 1 to 52 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF INCOME
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2006
(In Millions of Pesos, Except Per Share Amounts)

	Notes	Consolidated			Parent		
		2006	2005	2004	2006	2005	2004
INTEREST INCOME							
On loans and advances		P 23,045	P 21,162	P 19,108	P 16,904	P 14,773	P 14,436
On held-to-maturity and trading securities		6,234	7,018	6,441	5,425	6,856	5,235
On available-for-sale securities		4,460	3,004	-	3,503	2,383	-
On deposits with banks		1,339	644	480	1,017	527	423
Gross receipts tax		(1,324)	(1,291)	(1,020)	(1,020)	(1,018)	(807)
		33,754	30,537	25,009	25,829	23,521	19,287
INTEREST EXPENSE							
On deposits		13,294	11,090	9,070	10,040	8,520	7,334
On bills payable and other borrowings		500	584	446	357	534	343
		13,794	11,674	9,516	10,397	9,054	7,677
NET INTEREST INCOME		19,960	18,863	15,493	15,432	14,467	11,610
IMPAIRMENT LOSSES	14	1,524	2,000	1,623	1,081	2,046	1,555
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		18,436	16,863	13,870	14,351	12,421	10,055
OTHER INCOME							
Income from foreign exchange trading and trading securities		2,947	1,830	1,650	2,364	1,632	1,483
Service charges and commissions		2,570	2,313	2,193	1,908	1,744	1,625
Income attributable to insurance operations	6	962	1,100	664	-	-	-
Other operating income	26	4,811	4,442	3,024	6,563	4,771	3,919
Gross receipts tax		(649)	(433)	(312)	(567)	(372)	(267)
		10,641	9,252	7,219	10,268	7,775	6,760
OTHER EXPENSES							
Compensation and fringe benefits		7,543	6,220	5,726	5,341	4,282	3,756
Occupancy and equipment-related expenses		4,635	3,853	3,314	3,712	3,265	2,822
Other operating expenses	28	5,249	5,309	3,014	4,636	4,816	2,703
		17,427	15,382	12,054	13,689	12,363	9,281
INCOME BEFORE INCOME TAX		11,650	10,733	9,035	10,930	7,833	7,534
PROVISION FOR INCOME TAX	29						
Current		2,205	2,650	1,381	1,423	1,681	853
Deferred	18	251	(471)	767	407	(204)	587
		2,456	2,179	2,148	1,830	1,477	1,440
NET INCOME FOR THE YEAR		P 9,194	P 8,554	P 6,887	P 9,100	P 6,356	P 6,094
Attributable to:							
Equity holders of BPI		P 9,040	P 8,383	P 6,733	P 9,100	P 6,356	P 6,094
Minority interest		154	171	154	-	-	-
		P 9,194	P 8,554	P 6,887	P 9,100	P 6,356	P 6,094
Earnings per share for net income attributable to the equity holders of BPI during the year							
Basic and diluted	22	P 3.34	P 3.11	P 2.50	P 3.37	P 2.36	P 2.26

(The notes on pages 1 to 52 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CHANGES IN CAPITAL FUNDS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2006
(In Millions of Pesos)

	Note	Consolidated					Minority interest	Total
		Attributable to equity holders of BPI						
		Capital stock	Paid-in surplus	Translation adjustments	Reserve ^s	Surplus		
Balance, January 1, 2004		P 18,604	P 532	P -	P 920	P 32,852	P 971	P 53,879
Currency translation differences		-	-	25	-	-	-	25
Fair value reserve on investments of insurance subsidiaries	22	-	-	-	47	-	-	47
Net income recognized directly in equity		-	-	25	47	-	154	72
Net income for the year		-	-	-	-	6,733	154	6,887
Total recognized income for the year		-	-	25	47	6,733	154	6,959
Change in paid-in surplus	22	-	(11)	-	-	-	-	(11)
Transfer from surplus		-	-	-	58	-	-	58
Transfer to reserves		-	-	-	-	(58)	-	(58)
Cash dividends	22	-	-	-	-	(5,834)	-	(5,834)
Stock dividends	22	3,739	-	-	-	(3,739)	-	-
Other changes in minority interest		-	-	-	-	-	259	259
Balance, January 1, 2005		22,343	521	25	1,025	29,954	1,384	55,252
Net adjustment due to adoption of PAS 32/39		-	-	-	(565)	1,796	-	1,231
Adjusted balance, January 1, 2005		22,343	521	25	460	31,750	1,384	56,483
Net change in available-for-sale investments, net of deferred income tax effect	22	-	-	-	966	-	-	966
Currency translation differences		-	-	(71)	-	-	-	(71)
Fair value reserve on investments of insurance subsidiaries	22	-	-	-	(246)	-	-	(246)
Net income (loss) recognized directly in equity		-	-	(71)	720	-	-	649
Net income for the year		-	-	-	-	8,383	171	8,554
Total recognized income (loss) for the year		-	-	(71)	720	8,383	171	9,203
Change in capital stock	22	136	-	-	-	-	-	136
Change in paid-in surplus		-	552	-	-	-	-	552
Transfer from surplus		-	-	-	120	-	-	120
Transfer to reserves		-	-	-	-	(120)	-	(120)
Cash dividends	22	-	-	-	-	(6,291)	-	(6,291)
Other changes in minority interest		-	-	-	-	-	(15)	(15)
Balance, January 1, 2006		22,479	1,073	(46)	1,300	33,722	1,540	60,068
Net change in available-for-sale investments, net of deferred income tax effect	22	-	-	-	3,749	-	-	3,749
Currency translation differences		-	-	(49)	-	-	-	(49)
Fair value reserve on investments of insurance subsidiaries	22	-	-	-	315	-	-	315
Net income (loss) recognized directly in equity		-	-	(49)	4,064	-	-	4,015
Net income for the year		-	-	-	-	9,040	154	9,194
Total recognized income (loss) for the year		-	-	(49)	4,064	9,040	154	13,209
Change in capital stock	22	57	-	-	-	-	-	57
Change in paid-in surplus	22	-	283	-	-	-	-	283
Transfer from surplus		-	-	-	91	-	-	91
Transfer to reserves		-	-	-	-	(91)	-	(91)
Value of services under the stock option plan	22	-	-	-	89	-	-	89
Cash dividends	22	-	-	-	-	(7,573)	-	(7,573)
Stock dividends	22	4,507	-	-	-	(4,507)	-	-
Other changes in minority interest		-	-	-	-	-	(646)	(646)
Balance, December 31, 2006		P 27,043	P 1,356	P (95)	P 5,544	P 30,591	P 1,048	P 65,487

(The notes on pages 1 to 52 are an integral part of these financial statements)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CHANGES IN CAPITAL FUNDS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2006
(In Millions of Pesos)

	Note	Parent				Total
		Capital stock	Paid-in surplus	Reserves	Surplus	
Balance, January 1, 2004		P 18,604	P 532	P 564	P 19,393	P 39,093
Net income for the year		-	-	-	6,094	6,094
Total recognized income for the year		-	-	-	6,094	6,094
Change in paid-in surplus	22	-	(11)	-	-	(11)
Transfer from surplus		-	-	58	-	58
Transfer to reserves		-	-	-	(58)	(58)
Cash dividends	22	-	-	-	(5,834)	(5,834)
Stock dividends	22	3,739	-	-	(3,739)	-
Balance, January 1, 2005		22,343	521	622	15,856	39,342
Net adjustment due to adoption of PAS 32/39		-	-	(744)	1,746	1,002
Adjusted balance, January 1, 2005		22,343	521	(122)	17,602	40,344
Net change in available-for-sale investments, net of deferred income tax effect	22	-	-	234	-	234
Net income (loss) recognized directly in equity		-	-	234	-	234
Net income for the year		-	-	-	6,356	6,356
Total recognized income (loss) for the year		-	-	234	6,356	6,590
Change in capital stock	22	136	-	-	-	136
Change in paid-in surplus	22	-	552	-	-	552
Transfer from surplus		-	-	120	-	120
Transfer to reserves		-	-	-	(120)	(120)
Cash dividends	22	-	-	-	(6,291)	(6,291)
Balance, January 1, 2006		22,479	1,073	232	17,547	41,331
Net change in available-for-sale investments, net of deferred income tax effect	22	-	-	2,482	-	2,482
Net income recognized directly in equity		-	-	2,482	-	2,482
Net income for the year		-	-	-	9,100	9,100
Total recognized income for the year		-	-	2,482	9,100	11,582
Change in capital stock	22	57	-	-	-	57
Change in paid-in surplus	22	-	283	-	-	283
Transfer from surplus		-	-	91	-	91
Transfer to reserves		-	-	-	(91)	(91)
Value of services under the stock option plan	22	-	-	70	-	70
Cash dividends	22	-	-	-	(7,573)	(7,573)
Stock dividends	22	4,507	-	-	(4,507)	-
Balance, December 31, 2006		P 27,043	P 1,356	P 2,875	P 14,476	P 45,750

(The notes on pages 1 to 52 are an integral part of these financial statements)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CASH FLOWS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2006
(In Millions of Pesos)

	Consolidated			Parent		
	2006	2005	2004	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	P 11,650	P 10,733	P 9,035	P 10,930	P 7,833	P 7,534
Adjustments for:						
Impairment losses	1,524	2,000	1,623	1,081	2,046	1,555
Depreciation and amortization	1,611	1,150	1,109	1,191	1,133	945
Equity in net income of associates	(36)	(33)	(2)	-	-	-
Share-based compensation	89	-	-	70	-	-
Dividend income	-	-	-	(2,928)	(1,404)	(1,436)
Interest income	(35,078)	(31,828)	(26,029)	(26,849)	(24,539)	(20,094)
Interest received	34,335	31,185	25,587	27,336	23,417	19,410
Interest expense	13,794	11,674	9,516	10,397	9,054	7,677
Interest paid	(13,483)	(11,009)	(9,172)	(10,237)	(8,649)	(7,406)
Operating income before changes in operating assets and liabilities	14,406	13,872	11,667	10,991	8,891	8,185
Changes in operating assets and liabilities						
(Increase) decrease in:						
Due from Bangko Sentral ng Pilipinas	(34,182)	(2,588)	(3,250)	(28,240)	(1,142)	(3,373)
Interbank loans receivable and securities purchased under agreements to resell	(9,470)	197	1,011	(9,470)	197	1,011
Trading securities	(2,289)	8,498	(13,720)	(2,621)	7,616	(16,205)
Loans and advances	(14,595)	(23,387)	(18,440)	(8,306)	(17,868)	(14,048)
Assets held for sale	1,464	(19,928)	-	503	(16,363)	-
Assets attributable to insurance operations	(410)	2,676	(52)	-	-	-
Other resources	(329)	12,989	486	1,001	10,788	293
Increase (decrease) in:						
Deposit liabilities	46,966	53,079	42,519	28,276	39,261	40,520
Due to Bangko Sentral ng Pilipinas and other banks	232	118	39	805	117	38
Manager's checks and demand drafts outstanding	325	244	95	310	291	(9)
Accrued taxes, interest and other expenses	(894)	1,860	(378)	(1,095)	1,697	(127)
Liabilities attributable to insurance operations	706	(938)	2,045	-	-	-
Deferred credits and other liabilities	1,930	(2,215)	442	2,435	(1,851)	105
Net cash generated from (used in) operating activities before income tax	3,860	44,477	22,464	(5,411)	31,634	16,390
Income taxes paid	(2,124)	(2,245)	(1,368)	(1,421)	(1,621)	(815)
Net cash generated from (used in) operating activities	1,736	42,232	21,096	(6,832)	30,013	15,575
CASH FLOWS FROM INVESTING ACTIVITIES						
(Increase) decrease in:						
Available-for-sale securities	2,141	(88,394)	-	3,002	(73,270)	-
Held-to-maturity securities	10,193	56,721	(16,733)	9,952	49,972	(18,731)
Bank premises, furniture, fixtures and equipment	(2,224)	(5,819)	(563)	(1,155)	(5,107)	(551)
Investment property	89	62	40	98	-	-
Dividends received	-	-	-	2,854	1,399	1,444
Equity investments	(1,089)	2,002	806	481	(354)	753
Assets attributable to insurance operations	(148)	(2,396)	(2,945)	-	-	-
Net cash generated from (used in) investing activities	8,962	(37,824)	(19,395)	15,232	(27,360)	(17,085)

(forward)

Bank of the Philippine Islands

STATEMENTS OF CASH FLOWS

FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2006

(In Millions of Pesos)

	Consolidated			Parent		
	2006	2005	2004	2006	2005	2004
CASH FLOWS FROM FINANCING ACTIVITIES						
Cash dividends	P (2,028)	P (6,067)	P (5,535)	P (4,463)	P (6,067)	P (5,535)
Collection on stock subscriptions	340	218	436	340	218	436
Increase (decrease) in bills payable	(7,855)	1,598	4,057	(9,131)	(232)	7,838
Net cash (used in) generated from financing activities	(9,543)	(4,251)	(1,042)	(13,254)	(6,081)	2,739
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS						
	1,455	157	659	(4,854)	(3,428)	1,229
CASH AND CASH EQUIVALENTS						
January 1	31,351	31,194	30,535	29,826	33,254	32,025
December 31	P 32,506	P 31,351	P 31,194	P 24,972	P 29,826	P 33,254
Supplemental cash flow information						
Non-cash financing activities:						
Stock dividends declared	P 4,507	P	P 3,739	P 4,507	P -	P 3,739
Issuance of shares to Prudential Bank minority shareholders	-	-	-	-	515	-
		515				

(The notes on pages 1 to 52 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

NOTES TO FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2006 AND 2005
AND FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2006

Note 1 - General Information

Bank of the Philippine Islands (BPI or the "Parent Bank") is a domestic commercial bank with an expanded banking license and with principal office at BPI Building, Ayala Avenue corner Paseo de Roxas, Makati City. BPI and its subsidiaries (collectively referred to as the "BPI Group") offer a whole breadth of financial services that include corporate banking, consumer banking, investment banking, asset management, corporate finance, securities distribution, and insurance services. At the end of 2006, the BPI Group had 12,339 employees (2005 - 12,605 employees) and operated 895 branches, 1,497 ATMs and 13,088 point-of-sale terminals to support its delivery of services. The BPI Group also serves its customers through alternative electronic banking channels such as telephone, mobile phone and the internet. The BPI shares have been traded in the Philippine Stock Exchange since October 12, 1971. The Parent Bank was registered with the Securities and Exchange Commission (SEC) on January 4, 1943. This license was extended for another 50 years on January 4, 1993.

These financial statements have been approved and authorized for issuance by the Board of Directors on February 21, 2007.

Note 2 - Merger; Basis of Accounting

On September 1, 2005, BPI acquired 92% of the share capital of Prudential Bank, Inc. (Prudential) for cash consideration of P5,619 million. In addition, in accordance with the provisions of the plan of merger approved by the Bangko Sentral ng Pilipinas (Bangko Sentral or BSP) and the SEC on December 21 and December 29, 2005, respectively, BPI issued 9.99 million of its common shares with fair value of P515 million to the 8% Prudential minority shareholders. The fair value of the shares issued was based on BPI stock market price on August 31, 2005. Under the approved merger, BPI shall be the surviving entity.

Details of purchase consideration for the above acquisition follow:

	In Millions of Pesos
Cash paid	P 5,619
Fair value of shares issued	515
Direct cost relating to the acquisition	23
	6,157
Fair value of net assets acquired	5,779
Goodwill (included in Miscellaneous assets in Note 19)	P 378

The goodwill represents the fair value of the expected synergies and other benefits from combining Prudential's net assets with those of BPI. The merger is seen to offer a good strategic fit to BPI in penetrating the attractive customer segment of Prudential composed mostly of middle market entrepreneurs. It will allow customers of BPI and Prudential wider access to various products and services through an expanded branch distribution network. BPI is also expected to reap the benefits from cost savings and improved operational efficiencies from the merger of the two banks.

There is no impairment recognized on goodwill as of December 31, 2006.

The assets and liabilities of Prudential as of September 1, 2005 arising from the acquisition are as follows:

	Fair Value	Prudential's Carrying Amount
	(In Millions of Pesos)	
Cash and other cash items	P 945	P 945
Due from BSP	2,082	2,082
Due from other banks	3,043	3,043
Interbank loans receivable	200	200
Investment securities	25,538	26,130
Loans and advances, net	10,060	11,490
Assets held for sale, net	7,782	6,446
Bank premises, furniture and equipment, net	3,783	4,784
Deferred income tax assets, net	1,739	828
Other resources, net	1,431	2,279
Total assets	56,603	58,227
Deposit liabilities	42,614	42,614
Bills payable	5,534	5,534
Manager's checks and demand drafts outstanding	103	103
Due to BSP and other banks	19	19
Accrued taxes, interest and other expenses	444	368
Deferred credits and other liabilities	2,110	2,044
Total liabilities	50,824	50,682
Net assets acquired	P 5,779	P 7,545

Net cash outflow on the acquisition is computed below:

	In Millions of Pesos
Purchase consideration settled in cash	P 5,619
Cash and cash equivalents acquired from Prudential	(4,188)
Cash outflow on acquisition	P 1,431

The acquired business of Prudential contributed net interest income of P361 million, non-interest income of P640 million and net income of P573 million to the BPI Group for the period from September 1 to December 31, 2005.

Note 3 - Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The financial statements of BPI Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, PAS and SIC/IFRIC interpretations which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC, including SEC pronouncements.

As allowed by the SEC, the pre-need subsidiary of the Parent Bank continues to follow the provisions of Pre-Need Uniform Chart of Accounts (PNUCA) prescribed by the SEC and all the PASs/PFRSs effective in 2005, except for the recognition of income and the classification and measurement of liabilities under the pre-need plan contracts under PAS 39 and PFRS 4.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and trading securities, and all derivative contracts.

The preparation of these financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the BPI Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

Standards, interpretations and amendments to published standards effective beginning January 1, 2006 and onwards

The BPI Group adopted the following applicable accounting standards and interpretations approved by the FRSC which are effective for annual periods beginning January 1, 2006:

- *PAS 19, Employee Benefits (Amendment) - Actuarial Gains and Losses, Group Plans and Disclosures.* This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. As the BPI Group did not change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment impacts only the format and extent of disclosures presented in the accounts.
- *PAS 39, Financial Instruments: Recognition and Measurement (Amendment) - The Fair Value Option.* This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The BPI Group is able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss.
- *IFRIC - 4, Determining whether an Arrangement contains a Lease.* The adoption of this interpretation did not result in substantial changes to the BPI Group's accounting policies.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after January 1, 2006 or later periods, which are not relevant to the BPI Group, except for IFRIC 9, PFRS 7, and amendment to PAS 1, which the BPI Group has not early adopted, as follows:

- *PAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions* (effective from January 1, 2006)
- *PAS 39 and PFRS 4 (Amendment), Financial Guarantee Contracts* (effective from January 1, 2006)
- *IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* (effective from January 1, 2006)
- *IFRIC 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment* (effective from December 1, 2005)
- *IFRIC 7, Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies* (effective from March 1, 2006)
- *IFRIC 8, Scope of PFRS 2* (effective from May 1, 2006)
- *IFRIC 9, Reassessment of Embedded Derivatives* (effective from June 1, 2006). Management believes that this interpretation does not have a significant impact on the reassessment of embedded derivatives as the BPI Group already assesses if embedded derivatives should be separated using principles consistent with IFRIC 9.
- *IFRIC 10, Interim Financial Reporting and Impairment* (effective from November 1, 2006)
- *PFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to PAS 1, Presentation of Financial Statements - Capital Disclosures* (effective from January 1, 2007). PFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosures of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. The amendment to PAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The BPI Group assessed the impact of PFRS 7 and the amendment to PAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of PAS 1. The BPI Group will apply PFRS 7 and the amendment to PAS 1 beginning January 1, 2007.

Consolidation

(a) Subsidiaries

Subsidiaries are all entities over which the BPI Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the BPI Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the BPI Group. They are de-consolidated from the date on which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the BPI 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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the BPI Group's share of the identifiable net assets acquired is recorded as goodwill.

Intercompany transactions, balances and unrealized gains on transactions between BPI Group of companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the BPI Group.

(b) Associates

Associates are all entities over which the BPI 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. The BPI Group's investment in associates includes goodwill identified on acquisition (net of any accumulated impairment loss).

BPI's share of its associates' post-acquisition profits or losses is recognized in the statement of income, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When BPI Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, it does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between BPI Group and its associates are eliminated to the extent of its interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the BPI Group.

The percentages of effective ownership of BPI in major operating subsidiaries are as follows:

	Country of Incorporation	% of ownership	
		2006	2005
BPI Family Savings Bank, Inc. (BPI Family Bank)	Philippines	100.00	100.00
BPI Capital Corporation (BPI Capital)	Philippines	100.00	100.00
BPI Leasing Corporation (BPI Leasing)	Philippines	100.00	100.00
BPI Direct Savings Bank, Inc. (BPI Direct)	Philippines	100.00	100.00
BPI International Finance Limited, Hong Kong (BPI IFL)	Hong Kong	100.00	100.00
Insurance companies			
Ayala Life Assurance, Inc. and subsidiaries (ALAI)	Philippines	98.67	98.67
BPI/MS Insurance Corporation (BPI/MS)	Philippines	50.85	50.50

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

Equity investments

The financial statements include the consolidated financial statements of the BPI Group and the separate financial statements of the Parent Bank.

Equity investments in the Parent Bank'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 statement 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.

Cash and cash equivalents

Cash and cash equivalents consist of balances with maturities of less than three months from the date of acquisition including Cash and other cash items, Due from other banks, and Interbank loans receivable and securities purchased under agreements to resell.

Financial instruments

(a) Classification

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

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Financial assets designated at fair value through profit or loss at inception are those that are managed and their performance is evaluated on a fair value basis, in accordance with a documented BPI Group's investment strategy. Information about these financial assets is provided internally on a fair value basis to the BPI Group entity's key management personnel. Financial assets are not reclassified into or out of the fair value through profit or loss category.

Derivatives are also categorized as held for trading unless they are designated as hedging instruments.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading.

(iii) Held-to-maturity securities

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the BPI Group's management has the positive intention and ability to hold to maturity. If the BPI Group were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available-for-sale.

(iv) Available-for-sale securities

Available-for-sale securities are non-derivatives that are either designated in this category or not classified in any of the other categories.

(b) Initial recognition and derecognition

Regular-way purchases and sales of financial assets at fair value through profit or loss, held to maturity and available-for-sale are recognized on trade-date, the date on which the BPI Group commits to purchase or sell the asset. Loans are recognized when cash is advanced to the borrowers. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the BPI Group has transferred substantially all risks and rewards of ownership.

(c) Subsequent measurement

Available-for-sale securities and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity securities are subsequently carried at amortized cost using the effective interest method. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included in the statement of income in the year in which they arise. Gains and losses arising from changes in the fair value of available-for-sale securities are recognized directly in capital funds, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in capital funds should be recognized in the statement of income. However, interest calculated on these securities using the effective interest method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognized in the statement of income. Dividends on available-for-sale equity instruments are recognized in the statement of income when the BPI Group's right to receive payment is established.

(d) Determination of fair value

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the BPI Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

(e) Impairment

(i) Assets carried at amortized cost

The BPI Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. Individually significant financial assets are tested for impairment if there are indicators of impairment. Impairment is measured on a portfolio basis when there is indication of impairment in a group of similar assets (with similar credit characteristics) and impairment cannot be identified with an individual asset within the group. An asset that is deemed impaired on an individual basis is not subsequently included in any group of assets that is tested for impairment on a portfolio basis.

The amount of impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate (recoverable amount). The calculation of recoverable amount of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable. Impairment loss is recognized in the statement of income and the carrying amount of the asset is reduced through the use of an allowance.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

An impairment charge is reversed subsequently by adjusting the allowance account if the decrease in impairment loss can be related objectively to an event occurring after the impairment loss is recognized. The amount of reversal is recognized in the statement of income in the impairment charge for credit losses.

(ii) Assets classified as available-for-sale

A significant or prolonged decline in the fair value of available-for-sale equity instrument 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 capital funds and recognized in the statement of income when the asset is determined to be impaired. Impairment losses recognized on equity instruments are not reversed through the statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases 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.

Bank premises, furniture, fixtures and equipment

Land and buildings comprise mainly of branches and offices. All bank premises, furniture, fixtures and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the BPI Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the year in which they are incurred.

Depreciation is calculated using the straight-line method to allocate cost or residual values over the estimated useful lives of the assets, as follows:

Building	50 years
Furniture and equipment	3-5 years

Leasehold improvements are depreciated over the shorter of the lease term and the useful life of the related improvement. Major renovations are depreciated over the remaining useful life of the related asset.

The assets' residual values and useful lives are reviewed at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized in the statement of income.

Investment property

Property that is held either to earn rental income or for capital appreciation or for both and that is not significantly occupied by the BPI Group is classified as investment property.

Investment property comprises land and building. Investment property 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 higher of the property's fair value less costs to sell and value in use.

Foreclosed assets

Assets foreclosed shown as Assets held for sale in the statement of condition are accounted for in accordance with PFRS 5 (provided the asset meets the criteria) at the lower of cost and fair value less costs to sell. The cost of assets foreclosed includes the carrying amount of the related loan less allowance for impairment at the time of foreclosure. Impairment loss is recognized for any subsequent write-down of the asset to fair value less cost to sell.

Foreclosed assets not classified as Assets held for sale are accounted for in any of the following classification using the measurement basis appropriate to the asset as follows:

- (a) Investment property is accounted for using the cost model under PAS 40;
- (b) Bank-occupied property is accounted for using the cost model under PAS 16; and
- (c) Financial assets are classified as available-for-sale.

Intangible assets

- (a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the BPI Group's share in the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in Other resources. Goodwill on acquisitions of associates is included in Equity investments. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of a subsidiary/associate include carrying amount of goodwill relating to the subsidiary/associate sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each cash-generating unit is represented by each primary reporting segment.

(b) Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on the basis of the expected useful lives (three to five years).

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred.

Borrowings

Borrowings are recognized initially at fair value, being their issue proceeds, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds, net of transaction costs and the redemption value is recognized in the statement of income over the period of the borrowings using the effective interest method.

Related borrowing costs are recognized as expense in the year in which they are incurred.

Interest income and expense

Interest income and expense are recognized in the statement of income for all instruments measured at amortized cost using the effective interest method.

When calculating the effective interest rate, the BPI Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss.

Fees and commission income

Fees and commissions are generally recognized on an accrual basis when the service has been provided.

Dividend income

Dividend income is recognized in the statement of income when the BPI Group's right to receive payment is established.

Foreign currency translation

(a) Functional and presentation currency

The financial statements of each of the BPI Group's entity are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Philippine Peso, which is the Parent Bank's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security, and other changes in the carrying amount of the security. Translation differences are recognized in profit or loss, and other changes in carrying amount are recognized in equity.

(c) Foreign subsidiaries

The results and financial position of BPI's foreign subsidiaries (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities are translated at the closing rate at the date of statement of condition;
- (ii) 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
- (iii) all resulting exchange differences are recognized as a separate component (translation adjustment) of capital funds. 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.

Derivative financial instruments

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 values. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in the statement of income.

BPI Group's derivative instruments do not qualify for hedge accounting. Hedging transactions although set up for the purpose of managing risk (since BPI Group policy does not permit speculative transactions) have been designated as "Trading".

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognized immediately in the statement of income.

Provisions

Provisions for restructuring costs and legal claims are recognized when the BPI Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessment of the time value of money and the risk specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

Income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses (net operating loss carryover or NOLCO) and unused tax credits (excess minimum corporate income tax or MCIT) to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

The BPI Group reassesses at each balance sheet date the need to recognize a previously unrecognized deferred income tax asset.

The BPI Group has substantial income from its investment in government securities subject to final withholding tax. Such income is presented at its gross amount and the tax paid or withheld is included in Current provision for income tax.

Gross receipts tax (GRT)

On October 18, 2005, the Supreme Court has lifted the Temporary Restraining Order on, and approved the implementation beginning November 1, 2005 of, Republic Act 9337 (the Act), otherwise known as “Expanded Value-Added Tax (EVAT) of 2005”. Such implementation was made following the declaration by the Supreme Court on September 2, 2005 of the constitutionality of the Act.

The Act, which was passed into law in May 2005, amended certain provisions of the National Internal Revenue Code of 1997. The more salient provisions of the Act included: 1) change in normal corporate income tax from 32% to 35% effective November 1, 2005 and 30% effective January 1, 2009; 2) change in allowable deduction for interest expense from 38% to 42% effective November 1, 2005 and 33% beginning January 1, 2009; and 3) revised rates for GRT.

In 2004, GRT was re-imposed to services rendered by all banks, non-bank financial intermediaries and finance companies.

Employee benefits

(a) Pension obligations

The BPI Group operates various pension schemes. The schemes are funded through payments to trustee-administered funds, determined by periodic actuarial calculations. The BPI Group has a defined benefit plan that shares risks among entities within the group. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the statement of condition in respect of defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Cumulative actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are spread to income over the employees’ expected average remaining working lives.

Past-service costs are recognized immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

Where the calculation results in a benefit to the BPI Group, the recognized asset is limited to the net total of any unrecognized actuarial losses and past service costs, and the present value of any reductions in future contributions to the plan.

For individual financial reporting purposes, the unified plan assets are allocated among the BPI Group entities based on the level of the defined benefit obligation attributable to each entity to arrive at the net liability or asset that should be recognized in the individual financial statements.

(b) Profit-sharing and bonus plans

The BPI Group recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the BPI Group's shareholders after certain adjustments. The BPI Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(c) Share-based compensation

The BPI Group's management awards high-performing employees bonuses in the form of share options, from time to time, on a discretionary basis. The options are subject to certain service vesting condition, and their fair value is recognized as an employee benefits expense with a corresponding increase in reserve equity over the vesting period. The proceeds received, net of any directly attributable transaction costs, are credited to capital stock (par value) and paid-in surplus when the options are exercised.

(d) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The BPI Group recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in capital funds as a deduction from the proceeds, net of tax.

Earnings per share (EPS)

Basic EPS is calculated by dividing income applicable to common shares by the weighted average number of common shares outstanding during the year with retroactive adjustments for stock dividends. Diluted EPS is computed in the same manner as basic EPS, however, net income attributable to common shares and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential common shares. The potential common shares (stock options) have insignificant effect on the calculation of diluted EPS thus, basic and diluted EPS are the same for the years presented.

Dividends

Dividends are recognized as a liability in the BPI Group's financial statements in the year in which they are approved by the Board of Directors and the Bangko Sentral.

Fiduciary activities (see Note 32)

The BPI Group commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the BPI Group.

Leases

(a) BPI Group is the lessee

- (i) Operating lease - leases in which substantially all risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the statement of income on a straight-line basis over the period of the lease.
- (ii) Finance lease - leases of assets where the BPI Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in Deferred credits and other liabilities. The interest element of the finance cost is charged to the statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(b) BPI Group is the lessor

- (i) Operating lease - properties leased out under operating leases are included in investment property in the statement of condition. Rental income under operating leases is recognized in the statement of income on a straight-line basis over the period of the lease.
- (ii) Finance lease - when assets are leased out under a finance lease, the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned income.

Lease income under finance lease is recognized over the term of the lease using the net investment method before tax, which reflects a constant periodic rate of return.

Insurance operations

(a) Life insurance

The more significant of the accounting principles of the life insurance subsidiary follow: (a) premiums are recognized as revenue when received instead of over the life of the policy; (b) policy acquisition costs are charged to current operations as incurred rather than amortized over the premium-paying periods of the policies; (c) financial assets and liabilities are measured following the classification and valuation provisions of PAS 39 (d) a liability adequacy test is performed which compares the subsidiary's reported insurance contract liabilities against current best estimates of all contractual future cash flows and claims handling, and policy administration expenses as well as investment income backing up such liabilities, with any deficiency immediately charged to income.

(b) Non-life insurance

The more significant accounting policies observed by the non-life insurance subsidiary follow: (a) premiums from short duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method; (b) acquisition costs are deferred and charged to expense in proportion to the premium revenue recognized; reinsurance commissions are deferred and deducted from the applicable deferred acquisition costs, subject to the same amortization method as the related acquisition costs; (c) a liability adequacy test is performed which compares the subsidiary's reported insurance contract liabilities against current best estimates of all contractual future cash flows and claims handling, and policy administration expenses as well as investment income backing up such liabilities, with any deficiency immediately charged to income; (d) amounts recoverable from reinsurers and loss adjustment expenses are classified as assets, with an allowance for estimated uncollectible amounts; and (e) financial assets and liabilities are measured following the classification and valuation provisions of PAS 39.

(c) Pre-need

The more significant provisions of the PNUCA as applied by the pre-need subsidiary follow: (a) income from the sale of pre-need pension and education plans is recognized using the installment method. Under this method, profits on sale of the plans are recognized when installments are collected. The pre-need subsidiary also recognizes as income the portion of actuarial reserve liability equivalent to a certain percentage of collections on plans which have lapsed for more than the predetermined number of years as approved by the SEC; (b) commissions relating to the sale of pre-need plans are expensed as incurred; (c) actuarial reserve liabilities which represent the accrued net liabilities of the pre-need subsidiary to its planholders are actuarially computed based on standards and guidelines set forth by the SEC; the increase or decrease in this account is charged or credited to income; and (d) insurance premium reserves which represent the amount that must be set aside by the pre-need subsidiary to pay for premiums for insurance coverage of fully paid planholders, are actuarially computed based on standards and guidelines set forth by the SEC.

Note 4 - Financial and Insurance Risk Management

Financial risk factors

The BPI Group is exposed to a variety of financial risks, which include market risk (foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. The Risk Management Office (RMO) and Financial Risk Management Committee (FRMC) are responsible for the market and liquidity risks. Their objective is to minimize adverse impacts on BPI Group's financial performance due to the unpredictability of financial markets. The Credit Policy Group works with the Credit Committee in managing credit risks. Market and credit risks management is carried out through policies approved by the Risk Management Committee (RMC)/Executive Committee/Board of Directors.

(a) Market risk

(i) Foreign exchange risk

The BPI Group has exposures in various currencies, primarily in US dollars. Foreign exchange risk arises from the difference between the assets and liabilities and equity, net of future obligation which are all denominated in foreign currency. The BPI Group uses spot and forward contracts and at times combined with borrowings or swaps to manage foreign exchange risk.

(ii) Price risk

The BPI Group is exposed to equity securities' price risk because of investments it holds which are available for sale or at fair value through profit or loss. The BPI Group is not engaged in commodity trading and is not subject to commodity price risk.

(iii) Interest rate risk

The BPI Group is exposed to interest rate risk because of securities or investments it holds which are classified as held for trading, available-for-sale or fair value through profit and loss. Net interest income and cash flows are also affected by market interest rates and these are monitored by the RMO and the FRMC on a monthly basis.

(b) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities as well as securing credit lines from other banks. Liquidity requirements and positions are monitored as daily and monthly reports are reviewed by the FRMC.

(c) Credit risk

The BPI Group has no significant concentrations of credit risk. It has policies and procedures to ensure that customers have an appropriate credit history. Each customer whether corporate or otherwise has an approved maximum limit. These limits are reviewed annually by the appropriate Credit Committee.

Insurance Risk Management

The life and non-life insurance subsidiaries decide on the retention, or the absolute amount that they are ready to assume insurance risk from one event. The retention amount is a function of capital, experience, actuarial study and risk appetite or aversion.

In excess of the retention, these subsidiaries arrange reinsurances either thru treaties or facultative placements. They also accredit reinsurers based on certain criteria and set limits as to what can be reinsured. The reinsurance treaties and the accreditation of reinsurers require Board of Directors' approval.

Note 5 - Critical Accounting Estimates and Judgments

The BPI Group makes estimates and assumptions that affect the reported amounts of resources and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment losses on loans and advances

The BPI Group reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the statement of income, the BPI Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include 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. Management uses estimates based on historical loss experience for resources with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

(b) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not quoted in an active market is determined by using valuation techniques. The BPI Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each reporting date. The BPI Group has used discounted cash flow analysis for various available-for-sale financial assets that were not traded in active markets.

(c) Impairment of available-for-sale securities

The BPI Group follows the guidance of PAS 39 to determine when an available-for-sale security is impaired. This determination requires significant judgment. In making this judgment, the BPI Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health and near-term business outlook of the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

(d) Held-to-maturity securities

The BPI Group follows the guidance of PAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the BPI Group evaluates its intention and ability to hold such investments to maturity. If the BPI Group fails to keep these investments to maturity other than for the specific circumstances - for example selling an insignificant amount close to maturity - it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value and not at amortized cost.

(e) Valuation and classification of assets held for sale

Management follows the principle in PFRS 5 in classifying certain foreclosed assets as assets held for sale which is that the carrying amount of the assets will be recovered principally through sale. Management is committed to a plan to sell these foreclosed assets and the assets are actively marketed for sale at a price that is reasonable in relation to its current fair value. In determining the fair value of assets held for sale, sales prices are analyzed by applying appropriate units of comparison, adjusted by differences between the subject asset or property and related market data. Should there be a subsequent write-down of the asset to fair value less cost to sell, such write-down is recognized as impairment loss.

(f) Realization of deferred income tax assets

Management reviews at each reporting date the carrying amounts of deferred tax assets. The carrying amount of deferred tax assets (see Note 18) is reduced to the extent that is no longer probable that sufficient taxable profit will be available against which the related tax assets can be utilized. Management believes that sufficient taxable profit will be generated to allow all or part of the deferred income tax assets to be utilized.

Note 6 - Assets and Liabilities Attributable to Insurance Operations

Details of the assets and liabilities attributable to insurance operations as of December 31 are as follows:

	2006	2005
	(In Millions of Pesos)	
Cash and cash equivalents (Note 8)	P 36	P 117
Insurance balances receivable, net	1,208	1,299
Investments	14,407	13,209
Land, building and equipment	1,937	2,094
Accounts receivable and other assets	2,207	2,599
	P 19,795	P 19,318
Reserves and other balances	P 13,383	P 13,065
Accounts payable, accrued expenses and other payables	1,814	1,426
	P 15,197	P 14,491

Details of income attributable to insurance operations, before income tax and minority interest for each of the years ended are as follows:

	2006	2005	2004
	(In Millions of Pesos)		
Premiums earned and related income	P 2,921	P 2,640	P 3,710
Investment and other income	1,680	1,253	1,282
	4,601	3,893	4,992
Benefits, claims and maturities	1,349	828	826
Increase in actuarial reserve liabilities	1,030	797	1,368
Management and general expenses	823	679	1,024
Commissions	403	426	824
Other expenses	34	63	286
	3,639	2,793	4,328
Income before income tax and minority interest	P 962	P 1,100	P 664

Note 7 - Business Segments

The BPI Group derives revenue from the following main operating business segments:

- Consumer Banking - this segment addresses the individual and retail markets. It covers deposit taking and servicing, consumer lending such as home mortgages, auto loans and credit card finance as well as the remittance business. It includes the entire transaction processing and service delivery infrastructure consisting of the BPI network of branches, ATMs and Point-of-Sale terminals as well as phone and Internet-based banking platforms.
- Corporate Banking - this segment consists of the entire lending, leasing, trade and cash management services provided by the BPI Group to corporate and institutional customers. These customers include both high-end corporations as well as various middle market clients.
- Investment Banking - this segment includes the various business groups operating in the investment markets, and dealing in activities other than lending and deposit taking. These services cover corporate finance, securities distribution, asset management, trust and fiduciary services as well as proprietary trading and investment activities.

Transactions between business segments are on a normal commercial terms and conditions.

The segment assets, liabilities and results of operations of the reportable segments of the BPI Group as of and for the years ended December 31, 2006, 2005 and 2004 are as follows:

	2006				
	Consumer Banking	Corporate Banking	Investmen t Banking	Corporate/ Eliminatio n Items	Total
	(In Millions of Pesos)				
Net interest income and other income	P 18,141	P 5,777	P 6,378	P 305	P 30,601
Operating and other expenses	(12,779)	(1,766)	(539)	(2,343)	(17,427)
Income before impairment losses, income tax and minority interest	5,362	4,011	5,839	(2,038)	13,174
Impairment losses	521	975	28	-	1,524
Income before income tax and minority interest	4,841	3,036	5,811	(2,038)	11,650
Provision for income tax					(2,456)
Minority interest					(154)
Net income for the year					9,040
Segment assets	148,303	168,771	233,711	31,185	581,970
Segment liabilities	484,871	9,520	2,338	19,754	516,483
Other segment items:					
Capital expenditure	816	6	4	1,011	1,837
Depreciation and amortization	758	382	15	456	1,611
	2005				
	Consumer Banking	Corporate Banking	Investmen t Banking	Corporate/ Eliminatio n Items	Total
	(In Millions of Pesos)				
Net interest income and other income	P 16,379	P 5,518	P 5,811	P 407	P 28,115
Operating and other expenses	(11,527)	(1,344)	(696)	(1,815)	(15,382)
Income before impairment losses income tax and minority interest	4,852	4,174	5,115	(1,408)	12,733
Impairment losses (Recovery)	616	1,425	(43)	2	2,000
Income before income tax and minority interest	4,236	2,749	5,158	(1,410)	10,733
Provision for income tax					(2,179)
Minority interest					(171)
Net income for the year					8,383
Segment assets	145,402	160,403	195,202	28,278	529,285
Segment liabilities	431,502	9,906	15,054	12,755	469,217
Other segment items:					
Capital expenditure (inclusive of assets acquired from Prudential Bank via business combination)	798	5	9	4,970	5,782
Depreciation and amortization	655	48	14	433	1,150

	2004				Total
	Consumer Banking	Corporate Banking	Investmen t Banking	Corporate/ Eliminatio n Items	
	(In Millions of Pesos)				
Net interest income and other income	P 14,619	P 4,187	P 4,006	P (100)	P 22,712
Operating and other expenses	(9,906)	(1,301)	(466)	(381)	(12,054)
Income before impairment losses income tax and minority interest	4,713	2,886	3,540	(481)	10,658
Impairment losses	698	876	49	-	1,623
Income before income tax and minority interest	4,015	2,010	3,491	(481)	9,035
Provision for income tax					(2,148)
Minority interest					(154)
Net income for the year					6,733
Segment assets	141,197	142,428	168,016	18,209	P 469,850
Segment liabilities	379,997	7,627	15,363	11,611	414,598
Other segment items:					
Capital expenditure	657	7	5	430	1,099
Depreciation and amortization	541	13	23	532	1,109

The business segment results presented above include internal transfer pricing adjustments across segments as deemed appropriate by management.

Capital expenditure comprises additions to bank, premises, furniture, fixtures and equipment, goodwill including additions resulting from acquisition through business combination.

The Corporate/Elimination Items column includes insurance operations (see Note 6), support units and corporate offices.

The BPI Group and the Parent Bank mainly derive revenue (more than 90%) within the Philippines, accordingly, no geographical segment is presented.

Note 8 - Cash and Cash Equivalents

This account at December 31 consists of:

	Consolidated		Parent	
	2006	2005	2006	2005
		(In Millions of Pesos)		
Cash and other cash items	P 11,858	P 10,018	P 11,528	P 9,741
Due from Bangko Sentral ng Pilipinas	2,400	-	-	-
Due from other banks	7,923	16,670	4,840	14,103
Interbank loans receivable and securities purchased under agreements to resell	10,289	4,546	8,604	5,982
Cash and cash equivalents attributable to insurance operations	36	117	-	-
	P 32,506	P 31,351	P 24,972	P 29,826

Note 9 - Interbank Loans Receivable

Interbank loans receivable in 2006 include overnight lendings to BPI Leasing of P286 million and short-term lendings to various local banks of P18,028 million. The account also includes the BPI Group's reverse purchase agreement with Bangko Sentral aggregating P1,971 million and 5-year loans granted by the Parent Bank to Bangko Sentral with outstanding balance aggregating USD60 million (P2,943 million).

Interbank loans receivable in 2005 include overnight lendings to BPI Family Bank and BPI Leasing of P2,610 million and P702 million, respectively. The account in 2005 also includes the Parent Bank and BPI Group's reverse repurchase agreement with Bangko Sentral aggregating P2,670 million and P4,546 million, respectively, and 5-year loans granted by the Parent Bank to Bangko Sentral with outstanding balance aggregating USD60 million (P3,183 million).

Interbank loans receivable of the BPI Group carry interest rates (%) at December 31 as follows:

	2006	2005
Peso-denominated accounts	3.50 - 8.00	7.50 - 12.68
US dollar-denominated accounts	5.20 - 5.53	5.97

Note 10 - Trading Securities

The account at December 31 consists of:

	Consolidated		Parent	
	2006	2005	2006	2005
	(In Millions of Pesos)			
Government securities	P 13,564	P 10,072	P 12,373	P 8,739
Equity securities	162	739	24	648
Commercial papers of private companies	196	486	5	486
	13,922	11,297	12,402	9,873
Accrued interest receivable	239	575	231	574
	P 14,161	P 11,872	P 12,633	P 10,447

Trading securities of the BPI Group carry effective interest rates (%) at December 31 as follows:

	2006	2005
Peso-denominated accounts	4.53 - 9.65	5.85 - 9.90
US dollar-denominated accounts	4.52 - 7.15	3.41 - 8.03

The movement in trading securities is summarized as follows:

	Consolidated		Parent	
	2006	2005	2006	2005
	(In Millions of Pesos)			
At January 1	P 11,872	P 19,849	P 10,447	P 17,786
Additions	347,742	327,766	290,468	261,227
Disposals	(345,339)	(336,556)	(288,086)	(269,368)
Fair value adjustments	234	74	159	64
Exchange differences	(12)	164	(12)	164
	14,497	11,297	12,976	9,873
Accrued interest receivable	(336)	575	(343)	574
	P 14,161	P 11,872	P 12,633	P 10,447

Note 11 - Derivative Financial Instruments

The account (consolidated and parent) at December 31 consists of:

	Contract/ Notional Amount		Fair Values			
	2006	2005	Assets		Liabilities	
			2006	2005	2006	2005
(In Millions of Pesos)						
Derivatives held for trading						
a) Foreign exchange derivatives						
Currency forwards						
Peso denominated	P 1,259	P 3,730	P 3	P 3	P -	P -
Foreign denominated	3,768	605	-	-	-	-
	5,027	4,335	3	3	-	-
Currency swaps						
Peso denominated	53,035	16,290	-	-	(29)	(34)
Foreign denominated	54,055	809	-	-	-	-
	107,090	17,099	-	-	(29)	(34)
			3	3	(29)	(34)
b) Interest rate derivatives						
Interest rate swaps	25,000	7,950	286	70	(349)	(57)
Total derivatives assets (liabilities) held for trading			P 289	P 73	P (378)	P (91)

The fair values of derivative assets (liabilities) held for trading are included in Other resources (see Note 19) and Deferred credits and other liabilities (see Note 21), respectively.

Note 12 - Available-for-Sale Securities

This account at December 31 consists of:

	Consolidated		Parent	
	2006	2005	2006	2005
(In Millions of Pesos)				
Government securities	P 84,529	P 83,567	P 69,170	P 68,022
Others	5,100	4,886	2,587	4,886
	89,629	88,453	71,757	72,908
Accrued interest receivable	1,303	745	1,082	522
Allowance for impairment	(252)	(126)	(173)	(150)
	P 90,680	P 89,072	P 72,666	P 73,280

Held-to-maturity securities at December 31 of the BPI Group carry effective interest rates (%) as follows:

	2006	2005
Peso-denominated accounts		
Less than 1 year	4.00 - 13.86	4.65 - 10.38
More than 1 year	6.10 - 15.61	8.00 - 13.86
Foreign currency-denominated accounts		
Less than 1 year	3.61 - 6.45	3.32 - 5.69
More than 1 year	2.12 - 8.64	1.39 - 8.23

The movement in held-to-maturity securities is summarized as follows:

	Consolidated		Parent	
	2006	2005	2006	2005
	(In Millions of Pesos)			
At January 1	P 78,945	P 94,954	P 71,294	P 86,732
Additions	76,210	191,831	70,419	179,037
Maturities	(87,241)	(206,539)	(81,148)	(194,450)
(Amortization)/accretion of premium/discount	619	(651)	574	656
Exchange differences	(38)	(1,690)	(36)	(1,581)
	68,495	77,905	61,103	70,394
Accrued interest receivable	257	1,040	252	900
At December 31	P 68,752	P 78,945	P 61,355	P 71,294

The aggregate fair values of held-to-maturity securities for the BPI Group amounted to P71,419 million and P77,611 million at December 31, 2006 and 2005, respectively. The aggregate fair values of held-to-maturity securities for the Parent Bank amounted to P64,660 million and P71,184 million at December 31, 2006 and 2005, respectively.

Note 14 - Loans and Advances

Major classifications of this account at December 31 are as follows:

	Consolidated		Parent	
	2006	2005	2006	2005
	(In Millions of Pesos)			
Loans and discounts	P 233,339	P 221,835	P 173,104	P 167,584
Customers' liability on drafts under letters of credit/trust receipts and bank's acceptances	12,113	13,070	11,936	12,940
Bills purchased	8,332	6,620	8,324	6,614
	253,784	241,525	193,364	187,138
Accrued interest receivable	1,452	1,526	1,220	1,215
Unearned discount/income	(2,956)	(2,989)	(191)	(182)
	252,280	240,062	194,393	188,171
Allowance for impairment	(9,089)	(11,175)	(7,465)	(9,647)
	P 243,191	P 228,887	P 186,928	P 178,524

The carrying amounts of loans and advances approximate their fair values.

On April 4, 2006, the BPI Group sold P3,875 million and P1,021 million worth of legal claims relating to non-performing loans (NPLs) to Asset Pool A (SPV-AMC), Inc. and Bellegging Maatschapp Broem Bv, respectively. The NPLs sold have related provisions aggregating P2,794 million.

On July 4, 2005, the BPI Group sold P861 million and P1,575 million worth of legal claims relating to NPLs to Asset Pool A (SPV-AMC), Inc. and Avenue Asia Special Situations Fund III, L.P., respectively. The NPLs sold have related provisions aggregating P1,265 million.

The Parent Bank acquired from BPI Family Bank, under a deed of assignment dated November 30, 2004, various loan accounts secured by real estate mortgage and other securities with a net book value of P2,871 million. In accordance with the deed of assignment, BPI Family Bank will act as collecting agent for the loan accounts assigned to the Parent Bank.

Also, on July 21, 2004, the Parent Bank approved the sale by the BPI Group to Morgan Stanley Emerging Markets, Inc. of P7,843 million worth of legal claims relating to NPLs. The total NPLs sold have related provisions aggregating P4,200 million. A deposit equivalent to 10% of the purchase price was effected on signing date, with the remaining balance received fully on January 5, 2005.

Details of the loans and advances portfolio of the BPI Group at December 31 are as follows:

1) As to industry/economic sector (in %)

	Consolidated		Parent	
	2006	2005	2006	2005
Consumer	23.64	23.80	2.31	3.10
Manufacturing	19.23	27.13	24.59	34.11
Real estate, renting and other related activities	15.73	12.99	20.34	16.54
Agriculture and forestry	11.40	13.82	14.77	17.29
Wholesale and retail trade	13.33	8.50	16.96	10.52
Financial institutions	4.67	3.15	6.03	3.83
Others	12.00	10.61	15.00	14.61
	100.00	100.00	100.00	100.00

2) As to collateral

	Consolidated		Parent	
	2006	2005	2006	2005
	(In Millions of Pesos)			
Secured loans				
Real estate mortgage	P 89,293	P 82,365	P 52,249	P 50,331
Chattel mortgage	14,762	14,562	855	1,440
Others	13,665	21,144	10,145	16,819
	117,720	118,071	63,249	68,590
Unsecured loans	133,108	120,465	129,924	118,366
	P 250,828	P 238,536	P 193,173	P 186,956

Other collaterals include hold-out deposits, mortgage trust indentures, government securities and bonds, quedan/warehouse receipts, standby letters of credit, trust receipts, and deposit substitutes.

Loans and advances of the BPI Group carry effective interest rates (%) at December 31 as follows:

	2006	2005
Commercial loans		
Peso-denominated loans	4.00 - 17.20	5.00 - 17.47
Foreign currency-denominated loans	0.91 - 9.88	1.06 - 10.00
Mortgage loans	7.00 - 14.25	9.75 - 14.25
Auto loans	8.00 - 19.22	10.48 - 19.22

Non-performing accounts (over 90 days past due) of the BPI Group and the Parent Bank, net of accounts in the "loss" category and covered with 100% reserves (excluded under BSP Circular 351), are as follows:

	Consolidated		Parent	
	2006	2005	2006	2005
	(In Millions of Pesos Except for Rates)			
Non-performing accounts (NPL 90)	P 18,655	P 21,856	P 15,821	P 19,228
"Loss" category loans with 100% reserves	3,867	6,124	3,530	5,728
Net NPL 90	14,788	15,732	12,291	13,500
NPL ratio	5.99%	6.76%	6.48%	7.44%

The aggregate fair values of the collateral held for non-performing accounts for the BPI Group amounted to P22,135 million and P23,411 million at December 31, 2006 and 2005, respectively.

The non-performing accounts (over 30 days past due) of the BPI Group and the Parent Bank, net of accounts in the “loss” category are:

	Consolidated		Parent	
	2006	2005	2006	2005
	(In Millions of Pesos)			
Net NPL 30	P 14,935	P 16,430	P 12,437	P 14,198

The changes in the allowance for impairment at December 31 are summarized as follows:

	Consolidated		Parent	
	2006	2005	2006	2005
	(In Millions of Pesos)			
Balance, January 1	P 11,175	P 8,772	P 9,647	P 7,231
Provision for impairment losses	1,524	2,000	1,081	2,046
Transfer from (to) held-to-maturity and available-for-sale securities, investments property, assets held for sale and other resources, net	90	2,094	252	1,863
Write-offs	(3,313)	(1,388)	(3,163)	(1,220)
Unwind of discount	(387)	(303)	(352)	(273)
Balance, December 31	P 9,089	P 11,175	P 7,465	P 9,647

Note 15 - Bank Premises, Furniture, Fixtures and Equipment

This account at December 31 consists of:

	Consolidated				
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	Total
	(In Millions of Pesos)				
Cost					
January 1, 2006	P 5,535	P 4,286	P 9,368	P 721	P 19,910
Additions	76	375	1,386	1,412	3,249
Disposals/amortizations	(95)	(296)	(659)	(257)	(1,307)
Reclass (to) from other resources	(383)	255	-	-	(128)
December 31, 2006	P 5,133	P 4,620	P 10,095	P 1,876	P 21,724
Accumulated depreciation January 1, 2006	P -	P 1,603	P 7,424	P 34	P 9,061
Depreciation	-	152	856	273	1,281
Disposals	-	(97)	(244)	(10)	(351)
Reclass from other resources	-	6	-	-	6
December 31, 2006	P -	P 1,664	P 8,036	P 297	P 9,997
Net book value December 31, 2006	P 5,133	P 2,956	P 2,059	P 1,579	P 11,727

Consolidated					
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	Total
(In Millions of Pesos)					
Cost					
January 1, 2005	P 2,443	P 3,238	P 7,679	P -	P 13,360
Additions	15	197	1,410	-	1,622
Disposals/amortizations	(9)	(177)	(575)	-	(761)
Acquisition of Prudential	3,086	1,028	854	-	4,968
Reclass from other resources	-	-	-	721	721
December 31, 2005	P 5,535	P 4,286	P 9,368	P 721	P 19,910
Accumulated depreciation January 1, 2005					
Depreciation	-	237	793	34	1,064
Disposals	-	(131)	(237)	-	(368)
Acquisition of Prudential	-	415	770	-	1,185
December 31, 2005	P -	P 1,603	P 7,424	P 34	P 9,061
Net book value December 31, 2005	P 5,535	P 2,683	P 1,944	P 687	P 10,849

Parent				
	Land	Buildings and leasehold improvements	Furniture and equipment	Total
(In Millions of Pesos)				
Cost				
January 1, 2006	P 5,075	P 3,675	P 8,664	P 17,414
Additions	29	223	1,324	1,576
Disposals/amortizations	(80)	(190)	(579)	(849)
Reclass (to) from other resources	(374)	282	-	(92)
December 31, 2006	P 4,650	P 3,990	P 9,409	P 18,049
Accumulated depreciation				
January 1, 2006	P -	P 1,429	P 6,830	P 8,259
Depreciation	-	134	776	910
Disposals	-	(77)	(162)	(239)
December 31, 2006	P -	P 1,486	P 7,444	P 8,930
Net book value December 31, 2006	P 4,650	P 2,504	P 1,965	P 9,119

	Parent			
	Land	Buildings and leasehold improvements	Furniture and equipment	Total
	(In Millions of Pesos)			
Cost				
January 1, 2005	P 1,974	P 2,627	P 6,994	P 11,595
Additions	15	149	1,326	1,490
Disposals/amortizations	-	(129)	(510)	(639)
Acquisition of Prudential	3,086	1,028	854	4,968
December 31, 2005	P 5,075	P 3,675	P 8,664	P 17,414
Accumulated depreciation				
January 1, 2005	P -	P 919	P 5,517	P 6,436
Depreciation	-	190	748	938
Disposals	-	(95)	(205)	(300)
Acquisition of Prudential	-	415	770	1,185
December 31, 2005	-	1,429	6,830	8,259
Net book value December 31, 2005	P 5,075	P 2,246	P 1,834	P 9,155

Depreciation is included in Occupancy and equipment-related expenses in the statements of income.

Note 16 - Investment Property

This account at December 31 consists of:

	Consolidated		Parent	
	2006	2005	2006	2005
	(In Millions of Pesos)			
Land	P 2,262	P 2,255	P 2,255	P 2,255
Buildings	2,154	2,183	2,148	2,183
	4,416	4,438	4,403	4,438
Accumulated depreciation	(798)	(733)	(796)	(733)
Allowance for impairment	(1,253)	(1,251)	(1,253)	(1,251)
	P 2,365	P 2,454	P 2,354	P 2,454

Depreciation is included in Occupancy and equipment-related expenses in the statements of income.

The movement in investment property is summarized as follows:

	Consolidated		Parent	
	2006	2005	2006	2005
	(In Millions of Pesos)			
At January 1	P 2,454	P 3,769	P 2,454	P 3,769
Transfer	15	-	2	-
Disposals	(37)	-	(37)	-
Depreciation	(65)	(64)	(63)	(64)
Impairment charge	(2)	(1,251)	(2)	(1,251)
At December 31	P 2,365	P 2,454	P 2,354	P 2,454

Note 17 - Equity Investments

This account at December 31 consists of investments in shares of stock:

	Consolidated		Parent	
	2006	2005	2006	2005
	(In Millions of Pesos)			
Carrying value (net of impairment)				
Investments at equity method	P 933	P 188	P -	P -
Investments at cost method	-	-	5,899	6,380
	P 933	P 188	P 5,899	P 6,380

The details of equity investments at cost method in the separate financial statements of the Parent Bank at December 31 are as follows:

	Acquisition cost		Allowance for impairment		Carrying value	
	2006	2005	2006	2005	2006	2005
	(In Millions of Pesos)					
BPI Capital	P 1,573	P 1,573	P -	P -	P 1,573	P 1,573
ALAI	768	768	-	-	768	768
BPI Leasing	645	645	-	-	645	645
BPI Direct	392	392	-	-	392	392
FGU	303	303	-	-	303	303
Pilipinas Savings Bank	302	302	-	-	302	302
UMRC	204	204	-	-	204	204
BPI Family Bank	150	150	-	-	150	150
BPI IFL	143	143	(104)	(104)	39	39
Far East Savings Bank, Inc. (FESBI)	-	500	-	-	-	500
Other equity investments	1,523	1,727	-	(223)	1,523	1,504
	P 6,003	P 6,707	P (104)	P (327)	P 5,899	P 6,380

UMRC

The stockholders of UMRC, in its meeting on October 25, 2005, approved the plan of merger of National Reinsurance Corporation of the Philippines (NRCP) and UMRC, with NRCP as the surviving entity. The principal terms and conditions of the merger are as follows: (1) new NRCP shares shall be issued in exchange for UMRC shares held by the shareholders of UMRC at a share swap ratio of 6.80 UMRC shares for every NRCP share; (2) NRCP shall assume certain assets and liabilities of UMRC; (3) the cut-off date shall be June 30, 2005; and (4) the effectivity of the merger shall be subject to the approval of the board of directors and stockholders of NRCP, stockholders of UMRC, the Office of the Insurance Commission, and the SEC. The legal merger took effect on March 6, 2006 upon the approval by the SEC.

FESBI

On December 22, 2006, the Bangko Sentral approved the sale of entire outstanding shareholdings of the BPI Group in FESBI, a wholly-owned subsidiary, relative to the Agreement to Purchase Shares signed on October 20, 2006. FESBI operated in the consumer banking segment and contributed operating income of P23 million to the BPI Group for the period from January 1, 2006 to October 31, 2006 (P34 million for the period from January 1, 2005 to December 31, 2005).

Note 18 - Deferred Income Taxes

The significant components of deferred income tax assets and liabilities at December 31 are as follows:

	Consolidated		Parent	
	2006	2005	2006	2005
	(In Millions of Pesos)			
Deferred income tax assets				
Allowance for impairment	P 4,632	P 5,426	P 3,937	P 4,801
Net operating loss carry over (NOLCO)	1,949	1,553	1,949	1,553
Fair value loss on available-for-sale securities	300	430	291	418
Others	685	893	608	780
Minimum corporate income tax (MCIT)	415	399	412	369
Total deferred income tax assets	7,981	8,701	7,197	7,921
Deferred income tax liabilities				
Revaluation gain on properties	(1,277)	(1,428)	(1,277)	(1,428)
Leasing income differential between capital and operating lease method	(162)	(223)	-	-
Excess pension asset contribution	(121)	(313)	(19)	(221)
Others	(63)	(47)	(63)	(47)
Total deferred income tax liabilities	(1,623)	(2,011)	(1,359)	(1,696)
	P 6,358	P 6,690	P 5,838	P 6,225

The movement in the deferred income tax account is summarized as follows:

	Consolidated		Parent	
	2006	2005	2006	2005
	(In Millions of Pesos)			
At January 1	P 6,690	P 5,379	P 6,225	P 5,052
Income statement charge	(251)	471	(407)	204
Fair value adjustment on available-for-sale securities	(131)	418	(127)	418
Others	50	422	147	551
At December 31	P 6,358	P 6,690	P 5,838	P 6,225

The deferred tax charge in the statements of income comprises the following temporary differences:

	Consolidated		Parent	
	2006	2005	2006	2005
	(In Millions of Pesos)			
Allowance for impairment	P 794	P 117	P 864	P 100
NOLCO	(396)	(434)	(396)	(435)
Pension	37	67	37	48
Leasing income differential	(63)	(111)	-	-
Others	(121)	(110)	(98)	83
	P 251	P (471)	P 407	P (204)

The outstanding NOLCO at December 31 consists of:

Year of Incurrence	Year of Expiration	Consolidated		Parent	
		2006	2005	2006	2005
		(In Millions of Pesos)			
2006	2009	P 1,827	P -	P 1,827	P -
2005	2008	1,389	1,389	1,389	1,389
2004	2007	2,352	2,352	2,352	2,352
2003	2006	695	695	695	695
2002	2005	-	1,869	-	1,869
		6,263	6,305	6,263	6,305
NOLCO claimed as deduction		-	(1,381)	-	(1,381)
Expired portion		(695)	(488)	(695)	(488)
		5,568	4,436	5,568	4,436
Tax rate		35%	35%	35%	35%
Deferred income tax asset on NOLCO		P 1,949	P 1,553	P 1,949	P 1,553

The details of MCIT at December 31 are as follows:

Year of Incurrence	Year of Expiration	Consolidated		Parent	
		2006	2005	2006	2005
(In Millions of Pesos)					
2006	2009	P 208	P -	P 205	P -
2005	2008	207	237	207	207
2004	2007	162	162	162	162
2003	2006	-	150	-	150
Derecognized MCIT		577	549	574	519
		(162)	(150)	(162)	(150)
		P 415	P 399	P 412	P 369

Note 19 - Other Resources

The account at December 31 consists of the following:

	Consolidated		Parent	
	2006	2005	2006	2005
(In Millions of Pesos)				
Accounts receivable	P 2,251	P 1,565	P 1,605	P 1,339
Foreign currency notes and coins on hand	1,905	1,764	1,762	1,604
Residual value of equipment for lease	1,023	338	-	-
Sales contracts receivable	474	505	421	480
Prepaid expenses	300	287	233	220
Inter-office float items	254	380	271	372
Returned checks and other cash items	147	595	140	586
Other receivables	798	267	698	267
Miscellaneous assets	3,021	4,278	2,210	3,487
	10,173	9,979	7,340	8,355
Allowance for impairment	(1,090)	(1,323)	(1,067)	(1,299)
	P 9,083	P 8,656	P 6,273	P 7,056

BPI Leasing assigned to the Parent Bank and to BPI Trust Funds and Managed Funds all its rights and interests to lease contracts receivable with aggregate book value of P449 million. Of this amount, P288 million was transferred and conveyed to the Parent Bank without recourse for a consideration of P267 million covered by a deed of assignment dated August 1, 2005. The assignment of lease contracts receivable was approved by the Parent Bank's Board of Directors in their meetings on January 19, February 16 and July 27, 2005 and recorded as Other receivables (Note 33).

Miscellaneous assets consist mainly of pension asset, goodwill, other investments, accrued trust income, miscellaneous checks and other cash items, and fair values of derivative financial assets.

Note 20 - Bills Payable

This account at December 31 consists of:

	Consolidated		Parent	
	2006	2005	2006	2005
		(In Millions of Pesos)		
Private firms and individuals	P 5,698	P 7,988	P 3,239	P 7,249
Bangko Sentral ng Pilipinas	18	428	18	428
Interbank borrowings	-	5,155	-	4,711
	P 5,716	P 13,571	P 3,257	P 12,388

Interbank borrowings include funds borrowed from various foreign banks aggregating P5,095 million at December 31, 2005 to fund the reversal of the Parent Bank's foreign currency swap transactions.

The carrying amounts of bills payable approximate their fair values.

Bills payable of the BPI Group bear interest rates (%) as follows:

	2006	2005
Private firms and individuals	4.25 - 14.20	5.66 - 14.20
Interbank borrowings		
Peso-denominated borrowings	-	7.75 - 8.50
Foreign currency-denominated borrowings	-	0.06 - 4.89
Bangko Sentral ng Pilipinas	5.79 - 7.34	5.49 - 9.00

Note 21 - Deferred Credits and Other Liabilities

The account at December 31 consists of the following:

	Consolidated		Parent	
	2006	2005	2006	2005
		(In Millions of Pesos)		
Sundry credits	P 9,579	P 6,511	P 9,480	P 6,465
Dividends payable	5,138	2,028	5,138	2,028
Accounts payable	2,495	2,440	1,834	1,870
Withholding tax payable	388	322	311	260
Acceptances outstanding	362	507	362	507
Miscellaneous liabilities	3,314	1,993	1,561	1,435
	P 21,276	P 13,801	P 18,686	P 12,565

Significant portion of sundry credits represents contra account for bills purchased. Miscellaneous liabilities include other credits-dormant and miscellaneous liabilities-others and derivative financial liabilities.

Note 22 - Capital Funds

Details of authorized capital stock of the Parent Bank follow:

	2006	2005	2004
	(In Millions of Pesos Except Par Value Per Share)		
Authorized shares (at P10 par value per share)			
Common shares	<u>(2,900,000,000)</u> P 29,000	P 29,000	P 29,000
Preferred A shares	<u>(60,000,000)</u> 600	600	600
	P 29,600	P 29,600	P 29,600

Details of movements of common shares of the Parent Bank follow:

	2006	2005	2004
	(In Millions of Pesos)		
Issued common shares			
Balance, January 1	P 22,446	P 22,236	P 18,481
Issuance of shares during the year	-	100	-
Transfer from subscribed shares	90	110	16
Stock dividends	4,507	-	3,739
Balance, December 31	27,043	22,446	22,236
Subscribed and paid-up			
Balance, January 1	90	200	216
Payment of common shares subscribed	(90)	(110)	(16)
Balance, December 31	-	90	200
Subscriptions receivable	-	(57)	(93)
	-	33	107
	P 27,043	P 22,479	P 22,343

	2006	2005	2004
	(In Number of Shares)		
Issued common shares			
Balance, January 1	2,244,648,263	2,223,646,864	1,848,094,162
Transfer from subscribed shares	8,988,812	11,007,174	1,607,291
Stock dividends	450,733,339	-	373,945,411
Issuance of shares during the year (Note 2)	-	9,994,225	-
Balance, December 31	2,704,370,414	2,244,648,263	2,223,646,864
Subscribed common shares			
Balance, January 1	9,018,432	20,025,606	21,632,897
Full payment of common shares subscribed	(8,988,812)	(11,007,174)	(1,607,291)
Balance, December 31	29,620	9,018,432	20,025,606

As of December 31, 2006 and 2005, the Parent Bank has 14,539 and 14,973 stockholders, respectively.

Details of movement in reserves for the years ended December 31 follow:

	Consolidated			Parent		
	2006	2005	2004	2006	2005	2004
(In Millions of Pesos)						
Fair value reserve on available-for-sale securities						
Balance, January 1	P 401	P -	P -	P (510)	P -	P -
Net adjustment due to adoption of PAS 32/39	-	(565)	-	-	(744)	-
Balance as adjusted, January 1	401	(565)	-	(510)	(744)	-
Net fair value gain (loss), net of deferred income tax effect	3,749	966	-	2,482	234	-
Balance, December 31	4,150	401	-	1,972	(510)	-
Fair value reserve on investments of insurance subsidiaries						
Balance, January 1	157	403	356	-	-	-
Net fair value gain (loss), net of deferred income tax effect	315	(246)	47	-	-	-
Balance, December 31	472	157	403	-	-	-
Stock option scheme (see Note 23)						
Balance, January 1	-	-	-	-	-	-
Value of employee services	89	-	-	70	-	-
Balance, December 31	89	-	-	70	-	-
Surplus reserve						
Balance, January 1	742	622	564	742	622	564
Transfer from surplus	91	120	58	91	120	58
Balance, December 31	833	742	622	833	742	622
	P 5,544	P 1,300	P 1,025	P 2,875	P 232	P 622

On March 15, 2006, the Parent Bank's Board of Directors approved the declaration of 20% stock dividends (P4,507 million) on issued and outstanding common shares of BPI payable to common shareholders of record as of June 1, 2006.

On February 19, 2004, the Parent Bank's Board of Directors approved the declaration of 20% stock dividends (P3,739 million) on issued and outstanding common shares of BPI payable to common shareholders of record as of May 6, 2004.

During the years 2004 to 2006, BPI recognized the following cash dividends declared by the Board of Directors on its outstanding common shares payable to stockholders of record on the 15th day from receipt by BPI of the approval by the Bangko Sentral and distributable on the 15th day from the said record date:

Date Declared	Date Approved by the Bangko Sentral	Amount of Dividends	
		Per Share	Total
(In Millions of Pesos)			
May 19, 2004	June 4, 2004	0.80	P 1,795
August 18, 2004	September 1, 2004	1.00	2,244
December 15, 2004	December 22, 2004	0.80	1,795
April 6, 2005	April 19, 2005	0.90	2,019
July 27, 2005	August 15, 2005	1.00	2,244
November 16, 2005	December 13, 2005	0.90	2,028
June 21, 2006	July 13, 2006	0.90	2,434
October 18, 2006	November 20, 2006	1.00	2,705
November 15, 2006	December 11, 2006	0.90	2,434

The weighted average number of common shares after retroactive effect of declared stock dividends used in the earnings per share computation follows:

Year	Number of Shares
Basic EPS	
2006	2,704,400,035
2005	2,693,406,387
2004	2,692,406,965
Diluted EPS	
2006	2,708,358,736
2005	2,696,253,022
2004	2,692,406,965

Capital-to-risk assets ratios at December 31 follow:

	Consolidated	Parent
2006	15.94%	12.39%
2005	16.26%	11.79%

Note 23 - Stock Option Plan

On December 29, 2005, the BPI Group granted options to qualified officers under its Executive Stock Option Plans (ESOP). The options vest over a period of three years as follows: (a) 40% after the second anniversary of the option grant date; and (b) 60% after the third anniversary of the option grant date. The option to purchase shares under this plan shall expire five years from grant date.

The fair value of options granted in 2005 determined using the Black-Scholes option-pricing model amounted to P211 million. The significant inputs into the model were as follows:

Market price per share at grant date	-	P 54.50
Exercise price per share	-	P 45.33
Standard deviation of expected share price return	-	30 %
Option life	-	5 years
Annual risk-free interest rate	-	9.57 %

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years.

Options granted in 2005 aggregated 10,568,445 shares, respectively. Options outstanding as of December 31, 2006 and 2005 aggregated 10,568,445 shares. There are no options exercisable as of December 31, 2006 and 2005. There were no options exercised or that had expired in 2006 and 2005.

Note 24 - Resources and Liabilities by Maturities

	Consolidated				Parent			
	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
(In Millions of Pesos)								
At December 31, 2006								
Resources								
Cash and other cash items	P 11,858	P -	P -	P 11,858	P 11,528	P -	P -	P 11,528
Due from Bangko Sentral	54,591	-	-	54,591	43,004	-	-	43,004
Due from other banks	7,923	-	-	7,923	4,840	-	-	4,840
Interbank loans receivable and securities purchased under agreements to resell	19,999	2,943	-	22,942	18,314	2,943	-	21,257
Trading securities	1,722	5,655	6,784	14,161	495	5,414	6,724	12,633
Investment securities								
- Available-for-sale securities (gross)	29,538	15,203	46,191	90,932	19,081	11,313	42,445	72,839
- Held-to-maturity securities (gross)	18,791	19,669	30,341	68,801	17,448	18,060	25,896	61,404
Loans and advances (gross)	188,307	38,167	28,762	255,236	161,904	17,985	14,695	194,584
Other resources (gross)	4,005	636	69,094	73,735	3,445	539	45,542	49,526
	P 336,734	P 82,273	P 181,172	600,179	P 280,059	P 56,254	P 135,302	471,615
Unearned discount/income				(2,956)				(191)
Allowance for impairment				(15,253)				(13,176)
Total resources				P 581,970				P 458,248
Liabilities								
Deposit liabilities *	P 444,821	P 10,946	P 11,309	P 467,076	P 368,592	P 5,106	P 11,103	P 384,801
Bills payable	5,716	-	-	5,716	3,257	-	-	3,257
Due to Bangko Sentral and other banks	1,006	-	-	1,006	981	-	-	981
Other liabilities	41,394	863	428	42,685	23,112	4	343	23,459
Total liabilities	P 492,937	P 11,809	P 11,737	P 516,483	P 395,942	P 5,110	P 11,446	P 412,498
At December 31, 2005								
Resources	P 319,611	P 113,940	P 116,278	P 549,829	P 274,216	P 84,203	P 86,551	P 444,970
Unearned discount/income				(2,989)				(182)
Allowance for impairment				(17,555)				(15,837)
Total resources				P 529,285				P 428,951
Total liabilities	P 438,941	P 12,986	P 17,290	P 469,217	P 381,414	P 4,669	P 1,537	P 387,620

* All deposits without fixed term are included under the category "Up to 1 year".

Note 25 - Resources, Liabilities and Off-Balance Sheet Items by Currency

	Consolidated				Parent			
	PHP	USD	Other	Total	PHP	USD	Other	Total
(In Millions of Pesos)								
At December 31, 2006								
Resources								
Cash and other cash items	P 11,837	P 12	P 9	P 11,858	P 11,528	P -	P -	P 11,528
Due from Bangko Sentral	54,591	-	-	54,591	43,004	-	-	43,004
Due from other banks	(794)	3,724	4,993	7,923	212	3,300	1,328	4,840
Interbank loans receivable and securities purchased under agreements to resell	1,971	19,250	1,721	22,942	286	19,250	1,721	21,257
Trading securities	7,149	6,861	151	14,161	5,772	6,861	-	12,633
Investment securities								
- Available-for-sale securities (gross)	32,977	56,832	1,123	90,932	21,994	50,015	830	72,839
- Held-to-maturity securities (gross)	47,230	21,544	27	68,801	40,832	20,572	-	61,404
Loans and advances (gross)	242,307	11,854	1,075	255,236	181,788	11,854	942	194,584
Other resources (gross)	69,143	4,355	237	73,735	45,257	4,150	119	49,526
	466,411	124,432	9,336	600,179	350,673	116,002	4,940	471,615
Unearned discount/income	(2,954)	(2)	-	(2,956)	(189)	(2)	-	(191)
Allowance for impairment	(14,864)	(365)	(24)	(15,253)	(12,807)	(367)	(2)	(13,176)
Total resources	P 448,593	P 124,065	P 9,312	P 581,970	P 337,677	P 115,633	P 4,938	P 458,248
Liabilities								
Deposit liabilities	P 358,348	P 102,960	P 5,768	P 467,076	P 286,401	P 95,035	P 3,365	P 384,801
Bills payable	5,716	-	-	5,716	3,257	-	-	3,257
Due to Bangko Sentral and other banks	953	53	-	1,006	928	53	-	981
Manager's checks and demand drafts outstanding	2,195	52	2	2,249	1,852	44	2	1,898
Accrued taxes, interest and other expenses	3,630	297	36	3,963	2,608	266	1	2,875
Other liabilities	33,431	1,844	1,198	36,473	17,264	1,340	82	18,686
Total liabilities	P 404,273	P 105,206	P 7,004	P 516,483	P 312,310	P 96,738	P 3,450	P 412,498
Net on-balance sheet position	P 44,320	P 18,859	P 2,308	P 65,487	P 25,367	P 18,895	P 1,488	P 45,750
Off-balance sheet net notional position	P 150,073	P 114,221	P 2,425	P 266,719	P 150,049	P 114,196	P 4,625	P 268,870
At December 31, 2005								
Total resources	P 418,558	P 120,601	P 10,670	P 549,829	P 328,423	P 111,927	P 4,620	P 444,970
Unearned discount/income	(2,983)	(6)	-	(2,989)	(176)	(6)	-	(182)
Allowance for impairment	(17,041)	(488)	(26)	(17,555)	(15,344)	(488)	(5)	(15,837)
	P 398,534	P 120,107	P 10,644	P 529,285	P 312,903	P 111,433	P 4,615	P 428,951
Total liabilities	P 343,168	P 116,193	P 9,856	P 469,217	P 271,342	P 108,331	P 7,947	P 387,620
Net on-balance sheet position	P 55,366	P 3,914	P 788	P 60,068	P 41,561	P 3,102	P (3,332)	P 41,331
Off-balance sheet net notional position	P 1,945	P (5,592)	P 3,713	P 66	P 1,945	P (5,592)	P 3,713	P 66

Note 26 - Other Operating Income

Other operating income substantially represents dividend income, trust and investment management fees, credit card income, gain on sale of acquired assets and NPLs, and income from rentals.

Note 27 - Leases

The BPI Group and the Parent Bank lease the premises occupied by a number of their extension offices and branches for periods ranging from one to twenty-five years, and have the option to renew such leases under certain terms and conditions. The rentals (included in Occupancy and equipment-related expenses) under these lease contracts are as follows:

	Consolidated	Parent
	(In Millions of Pesos)	
2006	718	485
2005	643	426
2004	598	388

Note 28 - Other Operating Expenses

The account comprises mainly of supervision and examination fees, litigation expenses, traveling and communication expenses, advertising and publicity, and documentary stamps and other taxes.

The account also includes representation and entertainment expenses as follows:

	Consolidated	Parent
	(In Millions of Pesos)	
2006	33	27
2005	50	44
2004	41	35

Note 29 - Income Taxes

A reconciliation between the provision for income tax at the statutory tax rate and the actual provision for income tax for the years ended December 31 follows:

	Consolidated					
	2006		2005		2004	
	Amount	Rate (%)	Amount	Rate (%)	Amount	Rate (%)
	(In Millions of Pesos Except for Rates)					
Statutory income tax	P 4,078	35.00	P 3,488	32.50	P 2,891	32.00
Effect of items not subject to statutory tax rate:						
Income subjected to lower tax rates	(371)	(3.18)	(178)	(1.66)	(167)	(1.85)
Tax-exempt income	(2,045)	(17.55)	(1,314)	(12.24)	(536)	(5.93)
Others, net	794	6.81	183	1.70	(40)	(0.45)
Actual income tax	P 2,456	21.08	P 2,179	20.30	P 2,148	23.77

	Parent					
	2006		2005		2004	
	Amount	Rate (%)	Amount	Rate (%)	Amount	Rate (%)
	(In Millions of Pesos Except for Rates)					
Statutory income tax	P 3,826	35.00	P 2,546	32.50	P 2,411	32.00
Effect of items not subject to statutory tax rate:						
Income subjected to lower tax rates	(386)	(3.53)	(170)	(2.17)	(488)	(6.48)
Tax-exempt income	(1,842)	(16.85)	(1,035)	(13.21)	(391)	(5.19)
Others, net	232	2.12	136	1.74	(92)	(1.22)
Actual income tax	P 1,830	16.74	P 1,477	18.86	P 1,440	19.11

Note 30 - Basic Quantitative Indicators of Financial Performance

The key financial performance indicators follow (in %):

	Consolidated		Parent	
	2006	2005	2006	2005
Return on average equity	14.38	14.70	18.91	15.69
Return on average assets	1.69	1.79	2.13	1.65
Net interest margin	4.42	4.59	4.23	4.29

Note 31 - Retirement Plans

BPI (including employees of former Prudential) and its subsidiaries, and the insurance company subsidiaries have separate trustee, noncontributory retirement benefit plans covering all qualified officers and employees. The description of the plans follows:

BPI

BPI has a unified plan which includes its subsidiaries other than insurance companies. Under this plan, the normal retirement age is 60. Normal retirement benefit consists of a lump sum benefit equivalent to 200% of the basic monthly salary of the employee at the time of his retirement for each year of service, if he has rendered at least 10 years of service, or to 150% of his basic monthly salary, if he has rendered less than 10 years of service. For voluntary retirement, the benefit is equivalent to 112.50% of the employee's basic monthly salary for a minimum of 10 years of service with the rate factor progressing to a maximum of 200% of basic monthly salary for service years of 25 or more. Death or disability benefit, on the other hand, shall be determined on the same basis as in voluntary retirement.

Retirement plan of acquired business (Prudential Bank)

Until July 31, 2006, former employees of Prudential Bank absorbed by the Parent Bank as a result of merger in 2005 were covered by the defined benefit plan of Prudential Bank which provided for separation, retirement and benefits for substantially all of its employees. The funding program was based on an actuarial study prepared by an independent actuary.

In addition, BPI continued to maintain until July 31, 2006 the defined contribution plan of the former Prudential Bank which provides an equal contribution share to the fund between the Parent Bank and the former employees of Prudential Bank.

Effective August 1, 2006, the benefit terms of the defined benefit retirement plan of the former Prudential Bank is aligned with BPI Group's unified plan. Also, on said date, as agreed with the employees of former Prudential Bank, the defined contribution plan was terminated.

Insurance company subsidiaries

The insurance company subsidiaries have separate retirement benefit plans which are either funded or unfunded and non-contributory. The normal retirement age for these plans is 60.

Normal retirement benefits for ALAI employees consist of a lump sum benefit equivalent to 150% of the monthly salary of the employee at the time of his retirement for each year of service or the sum of all contributions made by the respective companies on his behalf including related investment earnings, whichever is larger. Voluntary retirement is allowed for ALAI employees who have attained at least age 50 and have completed at least 20 years of continuous service and the benefit is determined on the same basis as normal retirement.

Effective February 1, 2004, the retirement benefit plans of FEB Mitsui Marine (formerly BPI/MS) and FGU Insurance Corporation were consolidated. The new plan will be administered by BPI as trustee. The defined benefit obligation is calculated by an independent actuary using the projected unit credit cost method. Under the plan, the normal retirement age is 60 or the employee should have completed at least 10 years of service, whichever is earlier. The normal retirement benefit is equal to 150% of the final basic monthly salary for each year of service for below 10 years and 175% of the final basic monthly salary for each year of service for 10 years and above.

Death or disability benefit for all employees of the insurance company subsidiaries shall be determined on the same basis as in normal or voluntary retirement as the case may be.

Following are the amounts recognized based on recent actuarial valuations:

(a) (Asset) Liability recognized in the statements of condition

	Consolidated		Parent	
	2006	2005	2006	2005
	(In Millions of Pesos)			
Present value of defined benefit obligations	P 8,645	P 5,846	P 6,487	P 4,500
Fair value of plan assets	(6,831)	(5,272)	(4,968)	(3,883)
Present value of unfunded obligation	1,814	574	1,519	617
Unrecognized actuarial losses	(2,138)	(745)	(1,566)	(523)
(Asset) liability recognized in the statements of condition	P (324)	P (171)	P (47)	P 94

Experience adjustments at December 31, 2006 follow:

	Consolidated	Parent
	(In Millions of Pesos)	
Experience adjustments on plan liabilities	P 2,456	P 1,898
Experience adjustments on plan assets	1,033	707

The movement in plan assets is summarized as follows:

	Consolidated			Parent		
	2006	2005	2004	2006	2005	2004
	(In Millions of Pesos)					
At January 1	P 5,272	P 4,658	P 3,854	P 3,883	P 3,313	P 2,692
Expected return on plan assets	578	503	415	426	359	290
Contributions	605	337	283	496	241	201
Benefit payments	(657)	(508)	(480)	(479)	(325)	(332)
Assets acquired from Prudential Bank	-	406	-	-	406	-
Portion of assets acquired from Prudential Bank allocated to subsidiaries due to transfer of employees	-	-	-	(65)	-	-
Actuarial gains (losses)	1,033	(124)	586	707	(111)	462
At December 31	P 6,831	P 5,272	P 4,658	P 4,968	P 3,883	P 3,313

The plan assets are comprised of the following:

	Consolidated				Parent			
	2006		2005		2006		2005	
	Amount	%	Amount	%	Amount	%	Amount	%
	(In Millions of Pesos Except for Rates)							
Equity securities	P 4,134	61	P 2,928	55	P 3,007	61	P 2,156	55
Debt securities	1,949	29	1,882	36	1,418	29	1,386	36
Others	748	10	462	9	543	10	341	9
	P 6,831	100	P 5,272	100	P 4,968	100	P 3,883	100

Pension plan assets include investment in BPI's common shares with fair value of P3,497 million and P2,520 million at December 31, 2006 and 2005, respectively. The actual return on plan assets was P873 million and P378 million at December 31, 2006 and 2005, respectively.

The movement in the present value of defined benefit obligation is summarized as follows:

	Consolidated			Parent		
	2006	2005	2004	2006	2005	2004
	(In Millions of Pesos)					
At January 1	P 5,846	P 3,564	P 3,192	P 4,500	P 2,535	P 2,230
Current service cost	333	216	197	252	154	138
Interest cost	686	500	392	521	355	275
Liabilities acquired from Prudential Bank	-	1,131	-	-	1,131	-
Portion of liabilities acquired from Prudential Bank allocated to subsidiaries due to transfer of employees	-	-	-	(65)	-	-
Benefit payments	(657)	(508)	(480)	(479)	(325)	(332)
Actuarial losses	2,437	943	263	1,758	650	224
At December 31	P 8,645	P 5,846	P 3,564	P 6,487	P 4,500	P 2,535

(b) Expense recognized in the statements of income

	Consolidated			Parent		
	2006	2005	2004	2006	2005	2004
	(In Millions of Pesos)					
Current service cost	P 333	P 216	P 197	P 252	P 154	P 138
Interest cost	686	500	392	521	355	275
Expected return on plan assets	(578)	(503)	(415)	(426)	(359)	(290)
Net actuarial loss recognized during the year	10	-	-	7	-	-
Effect of asset ceiling	(153)	-	-	(153)	-	-
Total expense included in compensation and fringe benefits	P 298	P 213	P 174	P 201	P 150	P 123

The principal assumptions used for the actuarial valuations of the unified plan of the BPI Group were as follows:

	2006	2005	2004
Discount rate	8.00%	12.58%	14.01%
Expected return on plan assets	12.00%	10.80%	10.76%
Future salary increases	8.00%	8.00%	6.00%

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity securities and property investments reflect long-term real rates of return experienced in the respective markets.

Assumptions regarding future mortality and disability experience are based on published statistics generally used for local actuarial valuation purposes.

The average life expectancy in years of an employee retiring at age 60 is as follows:

	2006	2005
Male	13.61	13.15
Female	11.68	11.44

The BPI Group's expected contributions to the plan for the year ending December 31, 2007 amounts to P321 million.

Note 32 - Trust Assets

At December 31, 2006 and 2005, the net asset value of trust assets administered by the BPI Group amounted to about P206 billion and P182 billion, respectively.

Government securities deposited by the BPI Group and the Parent Bank with the Bangko Sentral in compliance with the requirements of the General Banking Act relative to the trust functions in 2006 and 2005 aggregated to P1,734 million and P1,693 million, respectively, and P1,732 million and P1,693 million, respectively.

Note 33 - Related Party Transactions

Included in the financial statements are various transactions of the BPI Group with its domestic and foreign subsidiaries and affiliates, and with its directors, officers, stockholders and related interest (DOSRI). These transactions usually arise from normal banking activities such as deposit arrangements, trading of government securities and commercial papers, sale of assets, lending/borrowing of funds, lease of bank premises, investment advisory/management, service arrangements and advances for operating expenses. Related party transactions which are not eliminated in the consolidation process are considered immaterial.

In the ordinary course of business, the BPI Group has loan transactions with its DOSRI. At December 31, 2006 and 2005, the BPI Group is in full compliance with the General Banking Act and the Bangko Sentral regulations on DOSRI loans.

Details of DOSRI loans at December 31 are as follows:

	Consolidated		Parent	
	2006	2005	2006	2005
	(In Millions of Pesos Except for Rates)			
Outstanding DOSRI loans	P 6,728	P 6,202	P 6,508	P 6,012
% to total outstanding loans and advances	2.68	2.59	3.37	3.21
% to total outstanding DOSRI loans				
Unsecured DOSRI loans	22.53	24.80	22.79	25.46
Past due DOSRI loans	0.47	0.01	0.49	0.01
Non-performing DOSRI loans	Nil	Nil	Nil	Nil

Details of key management compensation and directors' remuneration follow:

	Consolidated			Parent		
	2006	2005	2004	2006	2005	2004
	(In Millions of Pesos)					
Key management compensation						
Salaries and other short-term benefits	P 263	P 236	P 206	P 226	P 204	P 176
Post-employment benefits	18	19	16	15	16	14
Share-based compensation	29	-	-	26	-	-
Directors' remuneration	35	31	31	32	27	26

The Parent Bank entered into a Service Agreement with BPI Leasing on August 1, 2005 in relation to the latter's assignment to the Parent Bank of all its rights and interests to certain lease contracts receivable (Note 19). BPI Leasing shall perform any and all functions as may be related or indispensable to the servicing of lease contracts receivable such as but not limited to: 1) handling of collections and account delinquencies; 2) insurance administration; 3) general ledger/subsidiary ledger reconciliation; 4) safekeeping of documents; 5) management of information system; and 6) Land Transportation Office-related matters. The Parent Bank will reimburse BPI Leasing for the actual expenses incurred in the filing of cases in courts including foreclosures and other legal processes for delinquent accounts as well as in the administration and sale of foreclosed accounts.

Note 34 - Other Commitments and Contingent Liabilities

At present, there are lawsuits and claims and tax assessments pending against the BPI Group. In the opinion of management, after reviewing all actions and proceedings and court decisions with legal counsels, the aggregate liability or loss, if any, arising therefrom will not have a material effect on the BPI Group's financial condition or results of operations.

BPI and some of its subsidiaries are defendants in legal actions arising from normal business activities. Management believes that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the financial statements.

In the normal course of business, the BPI Group makes various commitments and incurs certain contingent liabilities that are not presented in the financial statements.

Details of the commitments and contingent liabilities except for derivative financial instruments (see Note 11) at December 31 are as follows:

	Consolidated	
	2006	2005
	(In Millions of Pesos)	
Foreign exchange spot contracts		
Sold	P 119,322	P 21,083
Bought	115,758	24,145
Bills for collections	7,659	6,920
Unused letters of credit	6,178	6,434
Others	1,463	3,045

	Parent	
	2006	2005
	(In Millions of Pesos)	
Foreign exchange spot contracts		
Sold	P 119,297	P 21,083
Bought	115,734	24,145
Bills for collections	7,651	7,209
Unused letters of credit	6,031	6,434
Others	1,348	2,648

Other contingent accounts consist of guarantees, late deposit payments, items held for safekeeping, and unsold travellers' checks.

The BPI Group does not anticipate any material losses from the above commitments and contingent liabilities.

