THE MUTUAL FUND COMPANY
OF THE PHILIPPINES, INC.
(An Open-End Investment Company)

FINANCIAL STATEMENTS
December 31, 2006, 2005 and 2004

PRC-BOA Registration No. 0003
SEC Accreditation No. 0004-FR-1
BSP Accredited

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
The Mutual Fund Company of the Philippines, Inc.

We have audited the accompanying financial statements of The Mutual Fund Company of the Philippines, Inc. (an open-end investment company), which comprise the statements of assets and liabilities as at December 31, 2006 and 2005, and the statements of income, statements of changes in net assets 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.

Auditors' 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 auditors' 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 auditors consider 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Mutual Fund Company of the Philippines, Inc. 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.

April 11, 2007
Makati City, Metro Manila

KPMG

Manabat Sanagustin & Co.
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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
The Mutual Fund Company of the Philippines, Inc.
17th Floor, MFMCP, Unit 1704-1705
Tower One and Exchange Plaza, Ayala Triangle
Ayala Avenue, Makati City

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MANABAT SANAGUSTIN & CO.

EMERALD ANNE C. BAGNES
Partner
CPA License No. 0083761
SEC Accreditation No. 0312-A
Tax Identification No. 102082332
BIR Accreditation No. 08-002800-1-2006
Issued on March 21, 2006; Valid until March 20, 2009
PTR No. 0325101 J
Issued on January 18, 2007 at Makati City

April 11, 2007
Makati City, Metro Manila

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SEC Accreditation No. 0004-FR-1
BSP Accredited

REPORT OF INDEPENDENT AUDITORS TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING WITH THE BUREAU OF INTERNAL REVENUE

The Board of Directors and Shareholders
The Mutual Fund Company of the Philippines, Inc.
17th Floor, MFMCP, Unit 1704-1705
Tower One and Exchange Plaza, Ayala Triangle
Ayala Avenue, Makati City

We have audited the accompanying financial statements of The Mutual Fund Company of the Philippines, Inc. (an open-end investment company) as of and for the year ended December 31, 2006, on which we have rendered our report dated April 11, 2007.

In compliance with Revenue Regulation V-20, we are stating that:

1. No partner of our Firm is related by consanguinity or affinity to the president, manager or any principal shareholder of the Company; and

2. The taxes paid and/or accrued by the Company during the year are shown in the Schedule of Taxes and Licenses attached to the Annual Income Tax Return.

MANABAT SANAGUSTIN & CO.

EMERALD ANNE C. BAGNES
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REPORT OF INDEPENDENT AUDITORS TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING WITH THE SECURITIES AND EXCHANGE COMMISSION

The Board of Directors and Shareholders
The Mutual Fund Company of the Philippines, Inc.
17th Floor, MFMCP, Unit 1704-1705
Tower One and Exchange Plaza, Ayala Triangle
Ayala Avenue, Makati City

We have audited the accompanying financial statements of The Mutual Fund Company of the Philippines, Inc. (an open-end investment company) as of and for the year ended December 31, 2006, on which we have rendered our report dated April 11, 2007.

In compliance with SRC Rule 68, we are stating that the said Company has a total number of one thousand six hundred ninety seven (1,697) stockholders owning one hundred (100) or more shares each.

MANABAT SANAGUSTIN & CO.

EMERALD ANNE C. BAGNES
Partner
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April 11, 2007
Makati City, Metro Manila

THE MUTUAL FUND COMPANY OF THE PHILIPPINES, INC.
(An Open-End Investment Company)

STATEMENTS OF ASSETS AND LIABILITIES

		December 31	
	Note	**2006**	2005
ASSETS			
Cash		**P1,636,357**	P2,277,902
Available-for-Sale Securities	*4, 5*	**630,467,846**	433,444,356
Other Assets	*6*	**7,794,379**	6,110,477
		639,898,582	441,832,735
LIABILITIES			
Fees Payable to Fund Manager	*8*	**1,242,856**	835,703
Accounts Payable	*7*	**535,694**	526,632
Other Liabilities		**78,981**	26,365
		1,857,531	1,388,700
NET ASSETS	*5, 11*	**P638,041,051**	P440,444,035

See Notes to the Financial Statements.

THE MUTUAL FUND COMPANY OF THE PHILIPPINES, INC.
(An Open-End Investment Company)

STATEMENTS OF INCOME

			Years Ended December 31	
	Note	**2006**	2005	2004
INCOME				
Realized gain on sale of available-for-sale securities - net		**P47,476,829**	P31,270,706	P10,983,577
Interest income		**17,687,590**	16,602,090	16,386,896
Dividend income		**11,878,831**	7,243,264	3,620,897
Unrealized gain on available-for-sale securities - net		**-**	-	27,777,252
		77,043,250	55,116,060	58,768,622
EXPENSES				
Management fees	*8*	**8,836,563**	6,856,178	5,550,683
Distribution fees	*8*	**2,945,521**	2,285,393	1,850,228
Administration fees	*8*	**883,656**	685,618	555,068
Professional fees		**629,490**	643,559	583,745
Taxes and licenses		**482,373**	300,456	180,744
Transfer agent fees		**239,998**	239,998	245,974
Custodianship fees		**139,190**	288,826	344,658
Miscellaneous		**221,512**	194,376	151,440
		14,378,303	11,494,404	9,462,540
INCOME BEFORE INCOME TAX		**62,664,947**	43,621,656	49,306,082
PROVISION FOR INCOME TAX	*9*	**3,333,768**	2,888,243	3,822,422
NET INCOME		**P59,331,179**	P40,733,413	P45,483,660
Earnings Per Share	*10*	**P0.1114**	P0.0797	P0.0949

See Notes to the Financial Statements.

THE MUTUAL FUND COMPANY OF THE PHILIPPINES, INC.
(An Open-End Investment Company)

STATEMENTS OF CHANGES IN NET ASSETS

			Years Ended December 31	
	Note	**2006**	2005	2004
CAPITAL STOCK - P1 par value	*11*			
Balance at beginning of year		**P513,038,601**	P491,323,522	P466,668,422
Subscriptions during the year		**94,304,999**	45,575,719	33,601,295
Redemptions during the year		**(68,637,974)**	(23,860,640)	(8,946,195)
Balance at end of year		**538,705,626**	513,038,601	491,323,522
ADDITIONAL PAID-IN CAPITAL				
Balance at beginning of year		**121,973**	121,973	121,973
Subscriptions during the year		**1,953,145**	-	-
Redemptions during the year		**-**	-	-
Balance at end of year		**2,075,118**	121,973	121,973
NET UNREALIZED GAIN ON AVAILABLE-FOR-SALE SECURITIES	*5*			
Balance at beginning of year		**54,306,430**	41,957,698	-
Net increase for the year		**112,227,525**	12,348,732	-
Balance at end of year		**166,533,955**	54,306,430	-
DEFICIT				
Balance at beginning of year		**(127,022,969)**	(163,994,451)	(160,012,196)
Subscriptions for the year		**(8,152,503)**	(8,284,452)	(10,030,055)
Redemptions for the year		**6,570,645**	4,522,521	2,521,838
Net income for the year		**59,331,179**	40,733,413	45,483,660
Balance at end of year		**(69,273,648)**	(127,022,969)	(122,036,753)
		P638,041,051	P440,444,035	P369,408,742
Net Asset Value Per Share	*11*	**P1.1844**	P0.8585	P0.7519

See Notes to the Financial Statements.

THE MUTUAL FUND COMPANY OF THE PHILIPPINES, INC.
(An Open-End Investment Company)

STATEMENTS OF CASH FLOWS

		Years Ended December 31		
	Note	**2006**	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**P62,664,947**	P43,621,656	P49,306,082
Adjustments for:				
Interest income		**(17,687,590)**	(16,602,090)	(16,386,896)
Dividend income		**(11,878,831)**	(7,243,264)	(3,620,897)
Unrealized gain on available-for-sale securities - net		**-**	-	(27,777,252)
Operating income before working capital changes		**33,098,526**	19,776,302	1,521,037
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Available-for-sale securities	*5*	**(79,059,191)**	(58,806,162)	(16,927,362)
Other assets	*6*	**(1,683,903)**	13,467,532	(17,072,221)
Increase (decrease) in:				
Accounts payable	*7*	**(46,880)**	193,618	(14,904)
Fees payable to fund manager		**463,094**	112,803	123,176
Other liabilities		**52,617**	(1,831)	3,044
Cash used in operations		**(47,175,737)**	(25,257,738)	(32,367,230)
Interest received		**16,314,174**	14,925,305	15,123,891
Dividends received		**11,439,363**	6,890,372	3,620,897
Income taxes paid		**(482,373)**	(2,888,243)	(3,822,422)
Net cash used in operating activities		**(19,904,573)**	(6,330,304)	(17,444,864)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net proceeds from issuance of capital stock	*11*	**82,550,613**	35,044,316	23,571,240
Payments for capital stock redeemed	*11*	**(63,287,585)**	(27,678,766)	(6,424,357)
Net cash provided by financing activities		**19,263,028**	7,365,550	17,146,883
NET INCREASE (DECREASE) IN CASH		**(641,545)**	1,035,246	(297,981)
CASH AT BEGINNING OF YEAR		**2,277,902**	1,242,656	1,540,637
CASH AT END OF YEAR		**P1,636,357**	P2,277,902	P1,242,656

See Notes to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Reporting Entity

The Mutual Fund Company of the Philippines, Inc. (the Company) is a domestic corporation incorporated on December 7, 1995 as an open-end investment company, engaged in the sale of its shares of stock and investment of the proceeds in equity and fixed income securities. As an open-end investment company, the Company stands ready at any time to redeem its outstanding shares of stock at net asset value per share at the time of redemption. The Company is managed and operated by The Mutual Fund Management Company of the Philippines, Inc. (MFMCP), an investment management company. MFMCP provides operations, management and technical services to the Company and also serves as the adviser and principal distributor of the Company's shares. Accordingly, the Company had no employees as of December 31, 2006, 2005 and 2004.

The Company's principal place of business is located at 17th Floor, MFMCP, Unit 1704-1705 Tower One and Exchange Plaza, Ayala Triangle Ayala Avenue, Makati City. The Company also has an extension office at c/o Asian Life & General Assurance Corporation, 2/F Morning Star Center, 347 Sen. Gil Puyat Avenue, Makati City.

2. Basis of Preparation

Statement of Compliance
The accompanying financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

The Company's financial statements as of and for the year ended December 31, 2006 were authorized for issue by the Board of Directors on April 11, 2007.

Basis of Measurement
These financial statements have been prepared under the historical cost basis, except for available-for-sale (AFS) securities which are carried at fair value.

Functional and Presentation Currency
The financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates. These financial statements are presented in Philippine Peso, which is also the Company's functional currency.

Use of Judgments and Estimates
The preparation of financial statements in conformity with PFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are as follows:

Fair Value Estimation
The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of assets and liabilities date. If the financial instrument is not traded in an active market, the fair value is determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by management. To the extent practical, valuation models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values of financial instruments.

Investments in listed companies as of December 31, 2006 and 2005 amounted to P390.47 million and P247.41 million, respectively (see Note 5).

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

As of December 31, 2006 and 2005, there is no indication of impairment noted on the Company's AFS investments.

Deferred Income Tax Assets
The Company reviews its deferred income tax assets at each balance sheet date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Any deferred tax asset will be re-measured if it might result to derecognition where the expected tax law to be enacted has a possible risk on the realization.

As of December 31, 2006 and 2005, the Company has unrecognized deferred income tax assets of P39.01 million and P32.30 million, respectively (see Note 9).

3. Significant Accounting Policies

The significant accounting policies set out below have been adopted in the preparation of the Company's financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

Adoption of New Standards, Amendments to Standards and Interpretations
The Financial Reporting Standards Council, or FRSC, (the successor body to the Accounting Standards Council) approved the adoption as part of PFRS a number of new standards, amendments to standards, and interpretations.

Accordingly, effective January 1, 2006, the Company adopted the following amendment to standard and interpretation, which are relevant to its operations:

- International Financial Reporting Interpretations Committee (IFRIC) 4, *Determining Whether an Arrangement Contains a Lease,* provides guidance for determining whether an arrangement, comprising a transaction or a series of related transactions, that does not take the legal form of a lease but conveys a right to use an asset in return for a payment or series of payments, is or contains, a lease that should be accounted for in accordance with PAS 17, *Leases*; and

- Amendment to Philippine Accounting Standard (PAS) 39, *Financial Instruments: Recognition and Measurement - The Fair Value Option,* limits the fair value option to only those financial instruments that meet certain conditions. The conditions that are required to be met under the amendment are: where such designation eliminates or significantly reduces an accounting mismatch, when a group of financial assets, financial liabilities or both are managed and their performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and when an instrument contains an embedded derivative that meets particular conditions.

The adoption of the above amendment to standard and interpretation, did not result in substantial changes to the Company's accounting policies. Additional disclosures required by the above standards were included in the financial statements, when applicable.

New Accounting Standards Effective Subsequent to 2006

The following are the new accounting standard and amendment to standard which are not yet effective for the year ended December 31, 2006, and have not been applied in preparing these financial statements:

- PFRS 7, *Financial Instruments: Disclosures,* requires extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and quantitative and qualitative disclosures on the nature and extent of risks; and

- Amendment to PAS 1, *Presentation of Financial Statements - Capital Disclosures,* adds requirements to disclose the entity's objectives, policies and processes for managing capital; quantitative data about what the entity regards as capital; whether the entity has complied with any capital requirements; and if it has not complied, the consequences of such non-compliance.

Under the prevailing circumstances, the adoption of the above standard and amendment to standard in 2007 is not expected to have any material effect on the Company's financial statements and additional capital disclosures provided by the standards will be included in the Company's financial statements when these are adopted in 2007.

Income Recognition

The difference between the selling price and the cost of investments, which is computed based on the average cost of each securities held at the time of sale, is shown as "Realized Gain on Sale of Available-for-Sale Securities " in the statements of income.

Interest income is recognized in the statements of income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the carrying amount of the financial asset. The effective interest rate is established on initial recognition of the financial asset and is not revised subsequently.

Dividend income is recognized when the right to receive income is established.

Financial Assets and Liabilities

Financial assets and liabilities are accounted for as follows:

a. Recognition

The Company initially recognizes investments in equity and debt securities on the date that they are originated. All other financial assets and liabilities are initially recognized on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

b. Derecognition

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Derecognition also takes place for certain assets when the Company charges off balances pertaining to the assets deemed to be uncollectible.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

c. Offsetting

Financial assets and liabilities are set off and the net amount presented in the statements of assets and liabilities when, and only when, the Company has a legal right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards.

d. Amortized Cost Measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

e. Identification and Measurement of Impairment

At each balance sheet date, the Company assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Company determines that AFS Securities (representing investments in listed companies and fixed income securities). The Company determines that AFS Securities (representing investments in listed companies and fixed income securities) are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Company evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Available-for-Sale Securities

AFS are initially measured at fair value plus incremental direct transaction costs. AFS are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized as a separate component of statements of changes in net assets under the "Net Unrealized Gains (Losses) on Available-for-Sale Securities" account, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in net assets should be recognized in current operations. However, interest calculated using the effective interest method is recognized in current operations.

The fair values of AFS financial assets that are actively traded in organized financial markets are determined by reference to quoted market bid prices at the close of business on the statement of assets and liabilities date. Unquoted AFS securities whose fair value cannot be reliably measured are stated at cost.

Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are based on terms similar to those offered to non-related parties.

Income Taxes

Income tax for the year is composed of current and deferred income tax. Income tax is recognized in the statements of income except to the extent that it relates to items recognized directly in net assets, in which case it is recognized in net assets.

Current Tax

Current income tax includes tax on income for the current year that is subject to final tax and any adjustment to tax payable in respect of previous years.

Deferred Tax
Deferred income tax is provided using the balance sheet liability method on temporary differences, at the statements of assets and liabilities date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred income tax assets are recognized for all deductible temporary differences and the carryforward tax benefits of the net operating loss carryover (NOLCO) and unused tax credits from excess minimum corporate income tax (MCIT), to the extent that it is probable that future taxable income will be available against which such assets can be utilized. The carrying amounts of deferred income tax assets are reviewed at each statements of assets and liabilities date and reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred income tax assets and liabilities are measured at the tax rate that is expected to apply in the year when the asset is realized or the liability is settled based on tax rates that have been enacted or substantially enacted as of the statements of assets and liabilities date.

Related Parties
Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subjected to common control or common significant influence. Related parties may be individual or corporate entities. Transactions between related parties are based on terms similar to those offered to non-related parties.

Earnings Per Share (EPS)
EPS is computed by dividing net income for the year by the weighted average number of common shares outstanding during the year after giving retroactive effect to stock dividends declared during the year, if any.

Net Asset Value Per Share (NAVPS)
NAVPS is computed by dividing net assets by the total number of shares issued and subscribed. NAV is the amount of net assets attributed to each share of capital stock outstanding at the close of the period.

Sale and Redemption of Shares of Stock
Upon sale of the Company's shares of stock, the "Capital Stock" is credited for the equivalent par value of the shares of stocks sold and any excess or deficiency of the selling price over par value is either credited or debited to "Additional Paid-In Capital" and "Deficit".

Upon redemption, the corresponding "Capital Stock" and "Additional Paid-In Capital" are debited and, any excess or deficiency of the redemption cost over the original selling price is debited to "Deficit".

Events After the Balance Sheet Date
Post year-end events that provide additional information about the Company's position at the statements of assets and liabilities (adjusting events) are reflected in the financial statements when material. Post year-end events that are not adjusting events are disclosed in the notes when material.

4. Financial Risk Management

The Company's activities are exposed to a variety of financial risks. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligation arising from redemption of shares of stocks issued in exchange of portfolio management. The most important risks to the Company are market risk (systematic risk and unsystematic risk), credit risk, liquidity risk and interest rate risk. The Company's risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on its financial performance.

a. *Market Risk*

The Company is exposed to debt and equity securities price risk because of various investments held and classified as AFS. This risk has two components: systematic risk and unsystematic risk. Systematic risk is not related to the stock itself but to sentiment or issues related to the stock market as an investment outlet. Unsystematic risk, also known as company-specific risk is the variability in a stock's price due to factors related to the company itself.

Systematic risks are typically minimized by simply diversifying into other markets. Unsystematic risk can be reduced by proper portfolio diversification.

b. *Credit Risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause another party to incur a financial loss. The Company is exposed to credit risk primarily through its investments in debt and equity securities.

The Company's investments in debt securities consist primarily of Philippine Government treasury securities. Since these are backed by the full faith and credit of the government, these are generally considered to be free of credit risk.

The Company manages its credit risk by not investing in: (1) margin purchase of securities; (b) commodity future contracts; (3) precious metals; (4) unlimited liability investments; and (5) short selling securities as investment companies are prohibited to do such. The Company limits its investments in shares of stocks of listed companies, government treasury notes and treasury bonds, private corporate bonds, special savings accounts and time deposits. It also monitors credit exposures by setting maximum investment of funds in any single enterprise, which shall not exceed ten percent (10%) of the Company's NAV, except obligations of the Philippine government or its instrumentalities.

Summarized below is a table which shows the NAV, 10% limit, and investment in government securities as of December 31, 2006, 2005 and 2004:

	Note	**2006**	2005
NAV		**P638,041,051**	P440,444,035
10% of NAV		**63,804,105**	44,044,403
Investment in government securities	*5*	**138,674,906**	127,467,570

The Company has not made total investment in excess of the limit in a single entity, except for investments in government securities.

c. *Liquidity Risk*

Liquidity risk is the risk that the Company will be unable to meet its obligations to its stockholders upon redemption of shares issued and to purchase investment securities. To effectively manage liquidity risk, the Company invests at least ten (10%) of its NAV in liquid/semi-liquid assets such as: (1) treasury notes, treasury bills and treasury bonds; and (2) savings and time deposits with government owned banks and commercial banks, provided that in no case shall any such savings or time deposits account be accepted or allowed under a "bearer" or "numbered" account or other similar arrangement.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Investment Committee. A summary report, including any exceptions and remedial action taken, is submitted regularly to Investment Committee.

Investments in government securities in 2006 and 2005 amounted to P239.99 million and P186.03 million, respectively, which exceeds 10% of NAV of P638.04 million and P440.44 for the same years, amounting to P138.67 million P127.47 and million.

The table below summarizes the maturity profile of the Company's financial assets based on contractual repayment arrangements. The Company has no outstanding financial liabilities as of December 31, 2006.

	December 31, 2006					
	Up to 1 Month	**1 to 3 months**	**3 months to 1 year**	**1 to 5 Years**	**Over 5 years**	**Total**
Assets						
Cash in bank	P1,636,357	P -	P -	P -	P -	P1,636,357
Investments in fixed income securities:	-	-	-	-	-	-
Treasury notes	-	-	-	138,674,906	-	138,674,906
Treasury bonds	-	-	-	-	-	-
Special saving account	62,951,927	-	-	-	-	62,951,927
Corporate fixed rate bonds	-	-	-	14,328,274	12,201,542	26,529,816
Time deposit	-	-	-	10,000,000	-	10,000,000
Preferred shares	-	-	-	1,836,323	-	1,836,323
	P64,558,287	P -	P -	P164,839,503	P12,201,542	P241,629,332

	December 31, 2005					
	Up to 1 Month	1 to 3 months	3 months to 1 year	1 to 5 Years	Over 5 years	Total
Assets						
Cash in bank	P2,277,902	P -	P -	P -	P -	P2,277,902
Investments in fixed income securities:						
Treasury notes	-	-	4,527,833	109,205,486	-	113,733,319
Treasury bonds	-	-	6,252,541	7,481,710	-	13,734,251
Special saving account	9,064,711	27,097,555	-	-	-	36,162,266
Corporate fixed rate bonds	-	-	-	-	12,400,000	12,400,000
Time deposit	-	-	-	10,000,000	-	10,000,000
	P11,342,613	P27,097,555	P10,780,374	P126,687,196	P12,400,000	P188,307,738

d. *Cash Flow and Fair Value Interest Rate Price Risk*

Cash flow and fair value interest rate price risks arise from the possibility that changes in interest rates will affect future cash flows and fair values of financial instruments. The Company is exposed to interest rate risk as a result of mismatches of interest rate repricing of financial assets. The Company's exposure to interest rate price risk relates primarily to the Company's investments in treasury notes and treasury bonds. Accordingly, limits on interest rate gaps for stipulated periods have been established by the Fund Manager.

The Company's operations are subject to the risk of interest rate fluctuations to the extent of interest-earning assets (including investments). Risk management activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Company's business strategies.

Effective interest rates for 2006 and 2005 are as follows:

	2006	2005
	%	%
Assets		
Cash in bank	**1.00**	1.00
Investment in fixed income securities:		
Treasury notes	**12.74**	11.92
Treasury bonds	**11.03**	10.96
Treasury bills	**8.48**	7.46
Time deposit	**9.75**	9.75
Special savings account	**5.98**	6.5
Corporate fixed rate bonds	**10.82**	11.55

e. *Operational Risk*

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Company's operations and are faced by all business entities.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;

- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

5. Available-for-Sale Securities

This account consists of investments in listed companies and fixed income securities as follows:

Investments in Listed Securities

	December 31, 2006		
Shares of Stock:	**Number of Shares Held**	**Cost**	**Market Value**
Philippine Long Distance Telephone Company	**16,050**	**P20,207,610**	**P40,559,152**
Bank of the Philippine Islands	**434,398**	**18,196,225**	**27,336,040**
Petron Corporation	**3,875,000**	**14,377,728**	**15,744,512**
First Philippine Holdings Corporation	**399,400**	**14,109,489**	**24,935,740**
Universal Robina Corporation	**683,000**	**12,316,534**	**13,029,420**
Ayala Land, Inc. "B"	**1,389,688**	**12,023,225**	**21,002,007**
Robinsons Land Corporation	**1,524,600**	**11,797,396**	**24,551,777**
Banco de Oro Universal Bank	**417,500**	**11,667,987**	**19,032,155**
Globe Telecom, Inc.	**13,098**	**11,607,587**	**16,030,446**
Aboitiz Equity Ventures	**2,870,000**	**11,131,172**	**19,909,190**
Manila Water Company	**1,500,000**	**11,081,448**	**13,973,100**
Jollibee Food Corporation	**278,000**	**9,884,900**	**11,570,916**
JG Summit Holdings, Inc.	**2,697,000**	**9,608,695**	**29,399,997**
Megaworld Corporation	**5,886,000**	**9,578,617**	**14,115,921**
Pilipino Telephone Corporation	**2,152,000**	**9,335,761**	**14,715,161**
Ayala Corporation "A"	**28,076**	**9,215,890**	**16,415,756**
Security Bank Corporation	**265,000**	**9,066,754**	**17,201,282**
Filinvest Development Corporation	**3,848,000**	**7,465,478**	**13,918,793**
A. Soriano Corporation	**3,440,000**	**6,972,437**	**9,715,764**
PNOC Energy Department	**1,400,000**	**5,088,794**	**6,728,890**
Union Bank of the Philippines	**88,400**	**3,992,215**	**4,292,616**
International Container Terminal Services, Inc.	**810,000**	**3,565,051**	**16,296,236**
		P232,290,993	**P390,474,871**

	December 31, 2005		
Shares of Stock:	Number of Shares Held	Cost	Market Value
Philippine Long Distance Telephone Company	20,600	P23,080,514	P37,460,791
First Philippine Holdings Corporation	578,000	17,304,854	28,067,102
Bank of the Philippine Islands	366,932	17,851,103	19,817,814
Ayala Land, Inc. "B"	1,759,688	13,470,128	17,264,123
SM Prime Holdings, Inc.	1,967,000	12,988,862	15,399,446
Petron Corporation	2,865,000	10,152,857	12,776,468
SM Investment Corporation	49,300	12,325,000	11,725,512
Aboitiz Equity Ventures	2,281,000	7,817,373	10,850,260
International Container Terminal Services, Inc.	1,150,000	5,061,695	10,598,745
Globe Telecom, Inc.	13,758	10,037,841	10,021,121
Banco de Oro Universal Bank	292,300	6,634,108	9,848,756
Manila Water Company	1,417,000	9,123,440	8,706,331
Ayala Corporation "A"	24,056	7,443,918	7,509,441
Metropolitan Bank & Trust Company	220,000	6,206,990	6,976,640
Jollibee Food Corporation	168,000	6,144,527	6,742,764
JG Summit Holdings, Inc.	1,953,000	5,836,889	6,677,209
Security Bank Corporation	182,000	5,301,753	6,222,489
A. Soriano Corporation	2,840,000	5,418,162	5,854,035
San Miguel Corporation	75,000	4,895,261	4,831,125
Megaworld Corporation	3,000,000	3,973,437	3,567,600
Manila Electric Company "A"	239,000	2,684,010	3,375,098
International Exchange Bank	150,000	2,518,038	3,121,650
		P196,270,760	P247,414,520

Net unrealized gain on marking investments shares of stocks of listed companies to market amounted to P158.18 million and P51.14 million as of December 31, 2006 and 2005, respectively, which are presented in the statements of changes in net assets.

Investments in Fixed Income Securities

	Note	**2006**	2005
At market value:			
Treasury notes	*4*	**P138,674,906**	P113,733,319
Treasury bonds	*4*	**-**	13,734,251
Treasury bills		**-**	-
At cost:			
Special savings account		**62,951,927**	36,162,266
Corporate fixed rate bonds		**26,529,819**	12,400,000
Time deposit		**10,000,000**	10,000,000
Preferred shares		**1,836,323**	-
		P239,992,975	P186,029,836

Net unrealized gain on marking investments in fixed income securities to market amounted to P8.35 million in 2006 and P3.16 million in 2005, which are presented in the statements of changes in net assets.

The carrying value of the fixed income securities as of December 31, 2006 and 2005 amounted to P231.64 million and P182.87 million, respectively.

The following table presents the annual interest rates earned by each type of investment in 2006 and 2005:

Percentage of interest	**2006**	2005
Treasury notes	**8.50 - 16.00**	9.125 - 16.00
Treasury bonds	**9.50 - 12.37**	9.50 - 12.37
Treasury bills	**9.50**	6.125 - 9.00
Time deposit	**9.75**	9.75
Special savings account	**4.00 - 7.00**	4.00 - 9.00
Corporate fixed rate bonds	**10.00 - 11.55**	11.55

Time deposit represents a 5-year term deposit with a local bank.

6. Other Assets

	2006	2005
Accrued interest receivable	**P6,887,209**	P5,682,895
Dividends receivable	**907,170**	427,582
	P7,794,379	P6,110,477

7. Accounts Payable

	2006	2005
Legal and audit	**P446,581**	P425,911
Honoraria and shareholders	**45,000**	30,591
Transfer agent	**20,383**	60,493
Custodian	**13,530**	9,637
Suppliers	**10,200**	-
	P535,694	P526,632

8. Related Party Transactions

On November 7, 2006, the Board of Directors approved the extension of the term of MFMCP as investment manager and distribution agent of the Company for a period of two years from September 1, 2006 to September 1, 2008 under the terms and conditions of various contracts between the Company and MFMCP, renewable upon mutual agreement of both parties.

Under the operating agreements, the Company pays its fund manager 1.50% management fee, 0.50% distribution fee and 0.15% administration fee based on the Company's average net assets determined on a daily basis, provided that the minimum annual administration fee shall not be less than P300,000.

The effects in current operations of the above transactions are shown under the appropriate accounts in the financial statements as follows:

	2006	2005	2004
Management fees	**P8,836,563**	P6,856,178	P6,856,178
Distribution fees	**2,945,521**	2,285,393	2,285,393
Administration fees	**883,656**	685,618	685,618
	P12,665,740	P9,827,189	P9,827,189

Total fees payable to MFMCP are as follows:

	2006	2005
Management fee payable	**P805,654**	P561,693
Administration fee payable	**268,552**	186,471
Distribution fee payable	**168,650**	87,539
	P1,242,856	P835,703

9. Income Taxes

The corporate income tax rate was 32% until October 31, 2005. Starting November 1, 2005, by virtue of the effectivity of Republic Act (R.A.) No. 9337 which was passed into law on May 24, 2005, the corporate income tax rate was changed to 35%, which will be the rate until December 31, 2008. Afterwards, the corporate income tax rate will be 30%. Interest allowed as a deductible expense is reduced by an amount equivalent to 38% of interest income subjected to final tax until October 31, 2005, and 42% from November 1, 2005 until December 31, 2008. Afterwards, the rate will be reduced to 33%. The regulations also provide for MCIT of 2% of gross income and three-year NOLCO. The MCIT and NOLCO maybe applied against the Company's income tax liability and taxable income, respectively, over a three-year period from the year of incurrence.

The current provision for income tax represents the final taxes paid on interest and other income amounting to P3.33 million, P2.89 million and P3.82 million in 2006, 2005 and 2004, respectively.

The reconciliation between the statutory income tax and effective income tax follows:

	2006	2005	2004
Statutory income tax	**P21,932,731**	P14,177,038	P15,777,946
Tax effects of tax paid and tax exempt income	**(26,965,137)**	(17,912,719)	(19,981,620)
	(5,032,406)	(3,735,681)	(4,203,674)
Provision for final taxes	**3,333,768**	2,888,243	3,822,422
Change in unrecognized deferred income tax assets	**5,032,406**	3,735,681	4,203,674
Effective income tax	**P3,333,768**	P2,888,243	P3,822,422

Deferred income tax assets have not been recognized on NOLCO amounting to P39.01 million and P32.30 million as of December 31, 2006 and 2005, because management believes that it is not probable that the carryforward benefit will be realized prior to expiration.

Details of the Company's NOLCO are as follows:

Years Incurred	Amount	Expired	Balance	Expiry Date
2006	P14,378,303	P -	P14,378,303	December 31, 2009
2005	11,494,404	-	11,494,404	December 31, 2008
2004	13,136,481	-	13,136,481	December 31, 2007
2003	7,664,879	7,664,879	-	December 31, 2006
	P46,674,067	P7,664,879	P39,009,188	

10. Earnings Per Share

Earnings per share amounts were computed as follows:

	2006	2005	2004
Net income	**P59,331,179**	P40,733,413	P45,483,660
Divided by weighted average number of outstanding common shares	**532,731,181**	510,823,623	479,153,323
Earnings per share	**P0.1114**	P0.0797	P0.0949

11. Net Assets

The Company has 1,200,000,000 authorized number of shares. The movements of the total outstanding number of shares subscribed are as follows:

	2006	2005
Balance at beginning of year	**513,038,601**	491,323,522
Subscriptions during the year	**94,304,999**	45,575,719
Redemptions during the year	**(68,637,974)**	(23,860,640)
Balance at end of year	**538,705,626**	513,038,601

NAV per share amounts were computed as follows:

	2006	2005	2004
Net assets	**P638,041,051**	P440,444,035	P369,408,742
Divided by total number of shares issued and subscribed at year end	**538,705,626**	513,038,601	491,323,522
NAV per share	**P1.1844**	P0.8585	P0.7519

COVER SHEET

ASO95122279

S.E.C. Registration Number

THE MUTUAL FUND COMPANY OF THE PHILIPPINES, INC.

(An Open-End Investment Company)

(Company's Full Name)

17th Floor, MFMCP, Unit 1704-1705, Tower One & Exchange Plaza, Ayala Triangle Ayala Avenue, Makati City

(Business Address: No. Street Company / Town / Province)

Iris Grace L. Ricafranca	841-0320
Contact Person	Company Telephone Number

12	31	AAFS		
Month	*Day*	FORM TYPE	*Month*	*Day*
			Annual Meeting	

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

1392		
Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

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