

SEC Number 5223  
File Number \_\_\_\_\_

**EQUITABLE PCI BANK**  
(Company's Full Name)

Equitable PCI Bank Tower I, Makati Ave. cor. H.V. de la Costa St., Makati City  
(Company's Address)

(632) 840-7000  
(Telephone No.)

June 30, 2006  
(Quarter Ending)  
(month & day)

**SEC FORM 17-Q (QUARTERLY REPORT)**  
(Form Type)

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Amendment Designation (If applicable)

**JUNE 30, 2006**  
(Period Ended Date)

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(Secondary License Type and File Number)



**PART I - FINANCIAL INFORMATION**

Item 1. Financial Statements

See attached.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

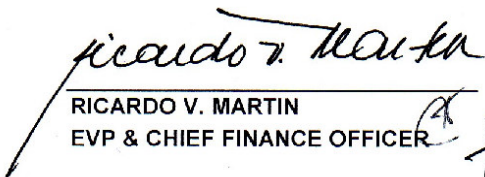
See attached.

**PART II - OTHER INFORMATION**

None

**SIGNATURES**

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

  
RICARDO V. MARTIN  
EVP & CHIEF FINANCE OFFICER

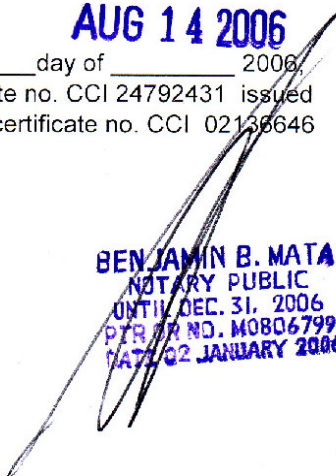
  
RENE J. BUENAVENTURA  
PRESIDENT & CEO

Republic of the Philippines) s.s.  
City Of Makati

Subscribed and sworn to before me this \_\_\_\_\_ day of \_\_\_\_\_ 2006,  
affiant exhibiting to me his/her/their residence certificate no. CCI 24792431 issued  
at Makati City on January 05, 2006 and residence certificate no. CCI 02136646  
issued at Makati City on January 27, 2006.

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Book No. XLII  
Series of 2006 \_\_\_\_\_

**AUG 14 2006**

  
**BENJAMIN B. MATA**  
NOTARY PUBLIC  
UNTIL DEC. 31, 2006  
PTR NO. M0806799  
DATE 02 JANUARY 2006

**CONSOLIDATED STATEMENTS OF CONDITION**  
**JUNE 30, 2006 and DECEMBER 31, 2005**  
(In Thousand Pesos)

		<b>UNAUDITED</b> <b>JUNE 30, 2006</b>		<b>AUDITED</b> <b>DECEMBER 31, 2005</b>
<b>RESOURCES</b>				
Cash and Other Cash Items	P	5,565,342	P	7,541,236
Due from Bangko Sentral ng Pilipinas		11,783,302		7,232,106
Due from Other Banks		2,509,566		4,676,319
Interbank Loans Receivables and Securities Purchased Under Resale Agreements		12,931,681		18,199,624
Securities at Fair Value Through Profit or Loss		30,623,672		25,913,783
Available-for-Sale Investments		16,558,772		17,108,772
Held-to-Maturity Investments – net		43,764,449		32,483,945
Loans and Receivables – net		143,407,784		142,432,744
Property and Equipment		9,520,501		9,784,185
Other Resources		50,272,585		50,990,327
		-----		-----
<b>TOTAL RESOURCES</b>	<b>P</b>	<b>326,937,654</b>	<b>P</b>	<b>316,363,041</b>
		=====		=====
<b>LIABILITIES AND CAPITAL FUNDS</b>				
Deposit Liabilities				
Demand Deposits	P	12,774,117	P	11,755,327
Savings Deposits		163,631,462		142,339,247
Time Deposits		51,874,234		52,569,671
Sub-total		-----		-----
		228,279,813		206,664,245
Bills, Bonds and Acceptances Payable		19,475,767		30,331,525
Due to Bangko Sentral ng Pilipinas		74,089		51,570
Manager' s Checks		1,370,832		912,091
Accrued Taxes, Interests and Other Expenses		3,910,239		3,106,123
Deferred Credits and Other Liabilities		24,857,931		27,212,552
<b>TOTAL LIABILITIES</b>		-----		-----
		<b>277,968,671</b>		<b>268,278,106</b>
		-----		-----
<b>Subordinated Notes Payable *</b>		<b>10,598,283</b>		<b>10,587,521</b>
		-----		-----
<b>CAPITAL FUNDS</b>		<b>38,370,700</b>		<b>37,497,414</b>
		-----		-----
	<b>P</b>	<b>326,937,654</b>	<b>P</b>	<b>316,363,041</b>
		=====		=====
<b>CONTINGENT ACCOUNTS</b>				
Unused Commercial Letters of Credit	P	10,651,572	P	8,182,676
Trust Department Accounts		90,663,516		109,694,557
Other Contingent Accounts		42,530,909		5,823,670
		-----		-----
	<b>P</b>	<b>143,845,997</b>	<b>P</b>	<b>123,700,903</b>
		=====		=====



**STATEMENTS OF CHANGES IN CAPITAL FUNDS**  
(Amount in Thousands)

		(UNAUDITED) JUNE 2006		(AUDITED) DECEMBER 2005
<b>COMMON STOCK - P10 par value</b>	P	7,270,033	P	7,270,033
<b>CAPITAL PAID IN EXCESS OF PAR VALUE</b>		37,395,672		37,395,672
<b>SURPLUS RESERVE</b>		668,450		558,396
<b>SURPLUS (DEFICIT)</b>				
Balance at beginning of year		(3,049,953)		2,374,702
Effect of change in accounting				230,186
Balance at beginning of year		(3,049,953)		2,604,888
Net income		1,271,556		2,698,385
Cumulative effect of change in accounting				(7,868,984)
Transfer to surplus reserves				(48,040)
Dividends paid				(436,202)
Bank's prior year adjustments		441,692		
Balance at end of year		(1,336,705)		(3,049,953)
<b>PARENT COMPANY SHARES HELD BY A SUBSIDIARY</b>		(7,396,929)		(7,466,950)
<b>NET UNREALIZED GAIN ON AVAILABLE-FOR SALE INVESTMENTS</b>		(418,502)		548,127
<b>EQUITY IN NET UNREALIZED GAIN ON AVAILABLE FOR-SALE INVESTMENTS OF A SUBSIDIARY</b>		(10,386)		15,436
<b>REVALUATION INCREMENT IN PROPERTY</b>		1,361,791		1,357,939
<b>ACCUMULATED TRANSLATION ADJUSTMENT</b>		(29,142)		(119,362)
<b>TOTAL</b>		37,504,282		36,509,338
<b>MINORITY INTEREST IN EQUITY OF CONSOLIDATED SUBSIDIARIES</b>		866,418		988,076
	P	<b>38,370,700</b>	P	<b>37,497,414</b>

**CONSOLIDATED STATEMENTS OF INCOME**  
(In Thousand Pesos)

	(Unaudited) QUARTER ENDING JUNE 30, 2006	(Unaudited) QUARTER ENDING JUNE 30, 2005
<b>INTEREST INCOME</b>		
Interest on:		
Loans and receivables	P 2,963,128 P	2,987,736
Trading and investment securities, interbank loans, Deposits with other banks and others	2,012,784	1,837,003
	4,975,912	4,824,739
<b>INTEREST AND FINANCE CHARGES</b>		
Interest on deposit liabilities, interbank loans, bills payable, borrowings and others	2,173,236	2,119,634
	2,802,676	2,705,105
<b>NET INTEREST INCOME</b>		
	451,327	388,196
	2,351,349	2,316,909
<b>OTHER INCOME</b>		
Service charges, fees and commissions	1,358,011	1,218,459
Trading gains and foreign exchange profits	256,073	244,838
Miscellaneous	445,329	453,269
	2,059,413	1,916,566
<b>OTHER EXPENSES</b>		
Compensation and fringe benefits	1,066,269	959,043
Occupancy and other equipment related expenses	930,392	728,899
Taxes and licenses	331,959	335,475
Miscellaneous	968,491	1,048,531
	3,297,111	3,071,948
<b>INCOME BEFORE INCOME TAX</b>		
	1,113,651	1,161,527
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b>		
	520,548	536,763
<b>NET INCOME</b>		
	<b>593,103</b>	<b>624,764</b>
Attributable to:		
Equity holdings of the Parent Company	561,203	574,157
Minority interest	31,900	50,607
	<b>P 593,103 P</b>	<b>624,764</b>

**CONSOLIDATED STATEMENTS OF INCOME**  
(In Thousand Pesos)

	(Unaudited) YEAR TO DATE JUNE 30, 2006	(Unaudited) YEAR TO DATE JUNE 30, 2005
<b>INTEREST INCOME</b>		
Interest on:		
Loans and receivables	P 5,890,995 P	5,926,856
Trading and investment securities, interbank loans, Deposits with other banks and others	3,816,635	3,550,043
	9,707,630	9,476,899
<b>INTEREST AND FINANCE CHARGES</b>		
Interest on deposit liabilities, interbank loans, bills payable, borrowings and others	4,290,193	4,182,838
	5,417,437	5,294,061
<b>NET INTEREST INCOME</b>		
<b>PROVISION FOR IMPAIRMENT LOSSES</b>	804,062	703,923
	4,613,375	4,590,138
<b>NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT LOSSES</b>		
<b>OTHER INCOME</b>		
Service charges, fees and commissions	2,571,908	2,311,680
Trading gains and foreign exchange profits	892,790	633,529
Miscellaneous	846,255	779,919
	4,310,953	3,725,128
<b>OTHER EXPENSES</b>		
Compensation and fringe benefits	2,044,649	1,889,571
Occupancy and other equipment related expenses	1,657,014	1,469,069
Taxes and licenses	721,969	691,540
Miscellaneous	2,147,622	2,023,062
	6,571,254	6,073,242
<b>INCOME BEFORE INCOME TAX</b>	2,353,074	2,242,024
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b>	1,023,791	1,050,497
	<b>1,329,283</b>	<b>1,191,527</b>
	<b>1,329,283</b>	<b>1,191,527</b>
Attributable to:		
Equity holdings of the Parent Company	1,271,556	1,140,709
Minority interest	57,727	50,818
	<b>P 1,329,283 P</b>	<b>1,191,527</b>
	<b>1,329,283</b>	<b>1,191,527</b>
<b>Earnings Per Share Attributable to Equity Holdings of the Parent Company</b>		
Earnings per share amounts were computed as follows:		
Net Income attributable to equity holdings of the Parent Co.	P 1,271,556 P	1,140,709
Weighted ave. no. of outstanding common shares of the Parent Co.	648,196	648,196
	<b>P 3.96 P</b>	<b>3.55</b>
	<b>3.96</b>	<b>3.55</b>

**STATEMENT OF CHANGES IN FINANCIAL POSITION**

<b>FUNDS WERE PROVIDED FROM:</b>	<b>Quarter Ending June 30, 2006</b>	<b>Quarter Ending June 30, 2005</b>
<b>OPERATIONS</b>		
Net Income for the Quarter	P 561,202,748	P 574,156,000
Items not involving the Use of Funds During the Quarter:		
Depreciation and Amortization Expenses	P 385,995,915	P 406,396,353
Bad Debts Expense	159,447,968	4,932,018
Provision for Probable Losses	460,783,228	372,244,950
	<u>1,006,227,111</u>	<u>783,573,321</u>
	P 1,567,429,859	P 1,357,729,321
<b>DECREASE IN</b>		
Cash and Other Cash Items	332,201,289	2,421,419,000
Due from Other Banks	3,653,231,707	0
Interbank Loans Receivables	12,149,137,419	3,232,872,000
Equity Investments – Net	0	417,356,000
Investment Properties	256,405,532	0
Other Resources	<u>0</u>	<u>2,749,261,530</u>
	16,390,975,947	8,820,908,530
<b>INCREASE IN</b>		
Deposit Liabilities	18,274,772,162	5,648,891,000
Bills Payable	0	2,546,586,000
Manager's Checks	80,297,003	201,455,000
Accrued Taxes, Interest & Other Expenses	241,650,872	442,373,000
Other Liabilities	0	2,024,594,000
Subordinated Debt	396,683,717	286,881,000
Capital Accounts	<u>532,915,807</u>	<u>25,981,000</u>
	19,526,319,561	11,176,761,000
<b>TOTAL FUNDS PROVIDED</b>	P <u>37,484,725,367</u>	P <u>21,355,398,851</u>
<b>FUNDS WERE APPLIED TO :</b>		
<b>ADDITIONS TO BANK PREMISES, FURNITURES, FIXTURES &amp; EQUIPMENT</b>	P 192,018,594	P 13,193,479
<b>INCREASE IN</b>		
Due from Bangko Sentral ng Pilipinas	2,507,284,618	2,050,127,000
Due from other banks	0	332,884,000
Securities at Fair Value Through Profit or Loss	1,389,741,843	299,916,000
Available-for-Sale-Investments	6,486,631,613	4,703,905,000
Held to Maturity Investments	10,469,147,184	1,596,292,000
Loans and Receivables - Net	5,144,294,200	11,106,815,372
Investment Properties	0	3,871,000
Other Resources	<u>1,137,943,736</u>	<u>0</u>
	27,135,043,194	20,093,810,372
<b>DECREASE IN</b>		
Bills Payable	5,896,395,467	0
Due to Bangko Sentral ng Pilipinas	108,026,383	98,348,000
Margin Deposits	115,708,914	134,001,000
Outstanding Acceptances	22,970,492	460,290,000
Other Liabilities	2,994,390,409	0
Capital Accounts	<u>1,020,171,914</u>	<u>555,756,000</u>
	10,157,663,579	1,248,395,000
<b>TOTAL FUNDS APPLIED</b>	P <u>37,484,725,367</u>	P <u>21,355,398,851</u>

**STATEMENT OF CHANGES IN FINANCIAL POSITION**

<b>FUNDS WERE PROVIDED FROM:</b>	<b>Year to Date June 30, 2006</b>	<b>Year to Date June 30, 2005</b>
<b>OPERATIONS</b>		
Net Income for First Semester	P 1,271,555,540	P 1,140,709,000
Items not involving the Use of Funds During the First Semester:		
Depreciation and Amortization Expenses	P 833,340,496	P 743,520,768
Bad Debts Expense	159,522,967	5,280,663
Provision for Probable Losses	799,457,895	698,530,259
	<u>1,792,321,358</u>	<u>1,447,331,690</u>
	P 3,063,876,898	P 2,588,040,690
<b>DECREASE IN</b>		
Cash and Other Cash Items	1,975,893,483	2,960,243,000
Due from Other Banks	2,166,752,728	2,058,580,000
Interbank Loans Receivable	5,267,942,742	0
Available for Sale Investments	549,998,938	0
Held to Maturity Investments	0	16,795,730,000
Investment Properties	361,244,656	253,646,000
Equity Investments – Net	0	1,142,045,000
Other Resources	0	870,053,564
	<u>10,321,832,547</u>	<u>24,080,297,564</u>
<b>INCREASE IN</b>		
Deposit Liabilities	21,615,568,590	12,104,526,000
Bills Payable	0	12,641,925,000
Due to Bangko Sentral ng Pilipinas	22,518,739	0
Outstanding Acceptances	577,126,263	0
Manager's Checks	458,741,348	386,212,000
Accrued Taxes, Interest & Other Expenses	804,115,089	865,613,000
Subordinated Notes Payable	10,761,725	0
Other Liabilities	0	3,489,359,000
Capital Accounts	715,839,627	0
	<u>24,204,671,381</u>	<u>29,487,635,000</u>
<b>TOTAL FUNDS PROVIDED</b>	P <u>37,590,380,826</u>	P <u>56,155,973,254</u>
<b>FUNDS WERE APPLIED TO :</b>		
<b>ADDITIONS TO BANK PREMISES, FURNITURES, FIXTURES &amp; EQUIPMENT</b>	P 315,557,627	P 74,164,260
<b>INCREASE IN</b>		
Due from Bangko Sentral ng Pilipinas	4,551,195,198	6,359,460,000
Interbank Loans Receivables	0	646,478,000
Securities at Fair Value Through Profit or Loss	4,695,865,713	10,460,099,000
Available-for-Sale-Investments	0	21,994,471,000
Held to Maturity Investments	11,280,503,703	0
Loans and Receivables – net	1,776,259,627	9,642,948,994
Other Resources	69,383,847	0
	<u>22,373,208,088</u>	<u>49,103,456,994</u>
<b>DECREASE IN</b>		
Bills Payable	11,432,884,099	0
Margin Deposits	136,435,812	8,177,000
Outstanding Acceptances	0	6,296,779,000
Due to Bangko Sentral ng Pilipinas	0	62,287,000
Other Liabilities	2,218,185,251	0
Subordinated Notes Payable	0	29,798,000
Capital Accounts	1,114,109,949	581,311,000
	<u>14,901,615,111</u>	<u>6,978,352,000</u>
<b>TOTAL FUNDS APPLIED</b>	P <u>37,590,380,826</u>	P <u>56,155,973,254</u>

**EQUITABLE PCI BANK**  
**Aging of Accounts Receivable (Parent only)**  
**As of June 30, 2006**  
**(In thousand pesos)**

Below 30 days	P	937.1
Over 30 days		<u>1,874.5</u>
<b>TOTAL</b>	<b>P</b>	<b><u><u>2,811.6</u></u></b>



## **SEGMENT INFORMATION**

The Group's operating businesses are organized and managed separately according to the nature of services provided and the different markets served with a segment representing a strategic business unit. The Group's business segments are as follows:

### ***Consumer and Retail Banking***

Principally handling individual customers' deposits, and providing consumer type loans, overdrafts, credit card facilities and funds transfer facilities;

### ***Commercial Banking***

Principally handling commercial customers' deposits, and providing products and services to its commercial middle market customers, mainly small-medium-sized enterprises;

### ***Corporate Banking***

Principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers;

### ***Investment Banking***

Principally arranging structured financing, and providing services relating to privatizations, initial public offerings, mergers and acquisitions; and

### ***Treasury***

Principally providing money market, trading and treasury services, as well as the management of the Parent Company's funding operations by use of treasury bills, government securities and placements and acceptances with other banks, through treasury and wholesale banking.

These segments are the basis on which the Group reports its primary segment information. Other operations of the Group comprise the operations and financial control groups. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged or credited to business segments based on a pool rate, which approximates the marginal cost of funds.



Segment Information for the period June 30, 2006 are as follows:  
(in thousand pesos)

	Consumer and Retail Banking	Commercial Banking	Corporate Banking	Investment Banking	Treasury	Others	Total
Gross Income	P 3,877,249	P 2,593,575	P 1,573,695	P 200,622	P 4,316,780	P 1,456,663	P 14,018,583
Segment Result	1,698,102	625,931	378,565	109,092	1,133,634	369,051	4,314,374
Unallocated Costs							1,961,300
Profit from Operations							2,353,074
Equity in net income of associates							0
Income Before Tax							2,353,074
Benefit from income tax							(1,023,791)
Minority interest							(57,728)
Net profit for the year							P 1,271,556
Other information							
Segment assets	P 48,231,718	P54,739,730	P50,037,000	P2,820,803	P106,321,855	P39,127,657	P301,278,764
Intra-segment assets							3,316,105
Investments in associates							380,979
Unallocated assets							21,961,806
Total assets							P326,937,654
Segment Liabilities	P 47,704,427	P53,946,721	P42,482,266	P 2,479,348	P103,502,832	P38,451,360	288,566,954
Unallocated liabilities							--
Total Liabilities							P288,566,954
Other Segment Information							
Depreciation	P 367,262	P 30,451	P 3,742	P 2,541	P 29,763	P 214,812	P 648,571



Segment Information for the year December 31, 2005 are as follows:  
(in thousand pesos)

	Consumer and Retail Banking	Commercial Banking	Corporate Banking	Investment Banking	Treasury	Others	Total
Gross Income	P 7,459,910	P 5,450,925	P 3,214,859	P 477,074	P 7,931,032	P 4,074,488	P 28,608,288
Segment Result	3,816,821	1,344,352	335,259	253,277	2,804,568	1,852,955	10,407,232
Unallocated Costs							5,433,512
Profit from Operations							4,973,720
Equity in net income of associates							562
Income Before Tax							4,974,282
Income tax expense							(2,176,436)
Minority interest							(99,461)
Net income for the year							P 2,698,385
Other information							
Segment resources	P 49,617,946	P58,662,288	P48,732,627	P 2,906,429	P90,786,617	P39,614,219	P290,320,126
Intra-segment resources							3,192,449
Investments in associates							1,877,470
Unallocated resources							20,972,996
Total resources							P316,363,041
Segment Liabilities	P 47,969,029	P55,047,610	P39,470,351	P 2,487,277	P93,528,590	P40,362,770	278,865,627
Other Segment Information							
Depreciation	P 685,945	P 36,917	P 7,558	P 5,795	P 58,069	P 550,387	P 1,344,671

## FINANCIAL INFORMATION

Securities and Exchange Commission  
SEC Building EDSA, Greenhills,  
Mandaluyong, Metro Manila

The financial statements for the period ended June 30, 2006 have been prepared in conformity with the generally accepted accounting principles and reflect amounts that are based on the best estimates and informed judgement of Management with an appropriate consideration to materiality. The Bank maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. In addition, Management represents that:

- a. No changes were made on accounting policies and methods of computation and estimates compared with the 2005 audited financial statements.
- b. Seasonality or cyclical nature of business condition during interim operations does not apply.
- c. There are no unusual items as to nature, size or incidents affecting assets, liabilities, equity net income or cash flows.
- d. There are no changes in accounting estimates effected in this interim period reported on.
- e. No material issuances, repurchases and repayments of debt and equity securities compared with the most recent 2005 annual financial statement.
- f. The bank has not declared/paid any dividends to stockholders during the first semester of 2006.
- g. There are no material events subsequent to the end of the interim period.
- h. There are no material changes in the composition of the issuer during the interim period including business combinations, acquisitions and disposals of long-term investments, restructuring and discontinuing operations except for the opening of three additional branches of Equitable Savings Bank namely ESB Banilad-Cebu Branch, ESB Biñan Branch and ESB Lobregat Highway-Zamboanga.
- i. No material change in the contingent liabilities or assets since last annual balance sheet date.
- j. There are no contingencies and any other events or transactions that are material to an understanding of the current interim period.



## SEC FORM 17-Q

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (MDA) OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

#### **I. FINANCIAL CONDITION**

##### **Balance Sheet – June 2006 vs. December 2005**

Equitable PCI Bank's total resources at the end of June 2006 stood at P326.9 billion, P10.6 billion more than the end-2005 level of P316.4 billion. Asset growth is seen mainly in the form of investment securities.

As of June 30, total cash and due from banks showed a 2% increase to P19.9 billion from P19.4 billion in December 2005. Cash and Other Cash Items showed a 26% reduction, while Due from Other Banks registered a 46% decline. The cutbacks were more than offset by the hike in Due from Bangko Sentral ng Pilipinas, which showed a 63% growth.

The Bank's portfolio of investment securities aggregated to P90.9 billion at the end of June 2006, 20% more than the P75.5 billion volume at the end of 2005. Available-for-Sale Investments went down by P550 million or 3% to P16.6 billion from the December 2005 figure of P17.1 billion. Securities at Fair Value Through Profit or Loss amounted to P30.6 billion, P4.7 billion or 18% higher than the end-2005 figure, while Held-to-Maturity Investments expanded 35% to P43.8 billion from P32.5 billion in December 2005. The Bank continues to review and balance its investment portfolio with the new regulatory and accounting standards on investment securities in place and in view of market developments.

Net Loans and Receivables amounted to P143.4 billion as of end-June, up by P975 million from end-December 2005. Meanwhile, Interbank Loans Receivable and Securities Purchased Under Resale Agreements contracted by 29% to P12.9 billion as the bank rebalance its earning assets.

On the liabilities side of the balance sheet, deposits held by the Bank amounted to P228.3 billion at end-June, up by 10% from the December 2005 level of P206.7 billion. Demand Deposits showed a growth of 9% to P12.8 billion, while Savings Deposits expanded by 15% to P163.6 billion. Time Deposits were slightly lower at P51.9 billion and thus, the ratio of Time Deposits to total deposits dipped to 22% from 25%. Savings Deposits had a higher percentage to total deposits of 72% from 69%, while Demand Deposits were stable at 6%.

Bills, Bonds and Acceptances Payable were 36% lower at P19.5 billion in June from the December 2005 level of P30.3 billion due to a much lower volume of bills payable. Due to BSP went up by 44% from December's P51.6 million to P74 million. Manager's Checks and Demand Drafts Outstanding went up by 50% at the end of June to P1.4 billion reflecting a higher volume of issued checks still pending negotiation, while Accrued Taxes, Interest and Other Expenses rose 26% to P3.9 billion due to higher accruals. Deferred Credits and Other Liabilities, meanwhile, contracted by 9% to P24.9 billion.

Capital funds stood at P38.4 billion at the end of June 2006, up by 2% from the year-end figures as earnings were mainly retained in the Bank.

Contingent Accounts increased by 16% to P143.8 billion. Unused Commercial Letters of Credit were higher by 30% at P10.7 billion on account of increased trade transactions. Trust Department Accounts declined 17% to P90.7 billion in June as the Bank's clients shifted their investments to deposits. Other Contingent Accounts went up 630% to P42.5 billion.

## **II. RESULTS OF OPERATION**

### **For the Quarters ended June 30, 2006 and 2005**

Equitable PCI Bank booked total net income of P593 million for the second quarter of 2006, lower than the P624 million income for the same quarter in 2005. Net income attributable to equity holders of the parent bank amounted to P561 million, less than the P574 million figure for the second quarter of 2005.



Interest Income grew 3% to P4.9 billion during the quarter. Interest on Loans and Receivables was nearly unchanged at P3 billion, while Interest on Trading and Investment Securities, Interbank Loans and Deposits with Other Banks grew 10% or P175 million to P2 billion.

Interest and Finance Charges amounted to P2.2 billion for the quarter, up by 3% year-on-year on account of higher deposit liabilities and as interest rates rose anew in May and June. Thus, Net Interest Income grew 4% to P2.8 billion.

Provision for Probable Losses were higher at P451 million in the second quarter of 2006 compared to the same quarter in 2005 as part of the continuing effort to further strengthen the Bank's balance sheet.

Other Income rose to P2.1 billion, P143 million or 7% more than that for same period last year. The increment came mainly from the P140 million expansion in Service Charges, Fees and Commissions to P1.4 billion. Trading Gains and Foreign Exchange Profits also increased by P11 million or 5% to P256 million.

Other Expenses reflected a growth of 7% to P3.3 billion as Occupancy and Other Equipment Related Expenses went up by P201 million to P930 million. Compensation and Fringe Benefits grew to P1.1 billion, largely due to merit increases and promotions, and additional contributions to the retirement fund in compliance with new accounting standards. Miscellaneous Expenses, meanwhile, were 8% or P80 million less than in the same quarter last year at P968 million.

Provision for income tax for the April to June 2006 period amounted to P521 million, 3% less than the P537 million provision for the same period last year even as the Bank continued to write-off deferred tax assets (DTA).

### **For the Six Months ended June 30, 2006 and 2005**

Equitable PCI Bank's earnings continued to improve for the first half of 2006. For the January to June period, the Bank's net income reached P1.33 billion, 12% higher than the P1.19 billion income for the same period in 2005. Net income attributable to equity holders of the parent bank amounted to P1.27 billion, 11% more than the P1.14 billion figure for the first half of 2005.

Interest Income grew 2% to P9.7 billion. Although interest income from Loans and Receivables was nearly unchanged at P5.9 billion, interest income from Trading and Investment Securities, Interbank Loans and Deposits with Other Banks grew 8% or P267 million to P3.8 billion.

Interest and Finance Charges amounted to P4.3 billion for the January to June period, up by 3% year-on-year on account of higher deposit volumes. Thus, Net Interest Income grew 2% to P5.4 billion.

As part of the continuing effort to further strengthen the Bank's balance sheet, Provision for Probable Losses were higher at P804 million in the first semester of 2006 compared to the same period in 2005.

Other Income rose to P4.3 billion, P586 million or 16% more than for same period last year. The increment came mainly from the P260 million or 11% increment in Service Charges, Fees and Commissions to P2.6 billion, and from the P259 million growth in Trading Gains and Foreign Exchange Profits to P893 million. Miscellaneous Income gained P66 million or 9% to P846 million.

Other Expenses settled at P6.6 billion. Compensation and Fringe Benefits grew 8% to P2.0 billion, largely due to merit increases and promotions, and additional contributions to the retirement fund in compliance with new accounting standards. Occupancy and Other Equipment Related Expenses went up by P188 million to P1.66 billion. Miscellaneous Expenses, meanwhile, were 6% or P125 million more at P2.1 billion.

Provision for income tax for the January to June 2006 period amounted to P1.02 billion, 3% lower than the P1.05 billion provision for the same period last year even as the Bank continued to write-off deferred tax assets (DTA).

**Key Performance Indicators**

The following ratios measure the financial performance of the Equitable PCI Bank Group:

	<b>YTD June 2006</b>	<b>Full Year 2005 (audited)</b>	<b>YTD June 2005</b>
Return on Equity (%) <sup>1</sup>	12.67%	10.57%	9.16%
Return on Assets (%) <sup>1</sup>	0.85%	0.88%	0.75%
Net Interest Margin (%)	4.35%	4.35%	4.44%
Efficiency Ratio (%)	67.55%	61.24%	67.33%
NPL Ratio (5) <sup>2</sup>	4.78%	4.50%	6.48%

*1/without appraisal increment and goodwill*

*2/based on BSP definition, net of fully-provided loss accounts*

The Group's Return on Equity (ROE), the ratio of annualized net income to average equity excluding goodwill and appraisal increment went up to 12.67% as of June 2006. The ratio showed continued improvement from 9.16% in June 2005 and from 10.57% for the year 2005, indicating more optimal use of shareholders' funds to generate income.

Return on Assets (ROA), the ratio of annualized net income to average assets excluding goodwill and appraisal increment, was recorded at 0.85% for the six months of 2006. The Bank's ROA in 2005 was 0.88% and 0.75% a year earlier.

Net Interest Margin (NIM), the ratio of net interest income to average earning assets, has shown improvements from previous years resulting from a bigger and better-yielding earning asset portfolio and managed funding costs. It remained at 4.35% in June 2006, same as the full year 2005 NIM. The NIM was at 4.44% in June 2005.

Efficiency Ratio, the ratio of other expenses excluding goodwill amortization to the sum of net interest income and other income, was at 67.55% as of June 2006. The full year 2005 ratio was 61.24%, while the June 2005 ratio was 67.33%.

The Bank's non-performing loan (NPL) ratio, net of fully provisioned accounts following the BSP formula, stood at 4.50% in December 2005 as enhanced credit processes, aggressive collection efforts and bulk NPA sales under the SPV law greatly improved the ratio. A slowdown in the growth of the Bank's loan portfolio, however, resulted in a slight setback in the NPL ratio to 4.78% as of June 2006. Nevertheless, this is still much better than the 6.48% NPL ratio in June 2005.

### **Material Events and Uncertainties**

On 30<sup>th</sup> December 2003, the Social Security System (SSS) announced that it intended to sell its entire 25.83% shareholdings in the Bank to BDO Capital and Investment Corporation, the investment arm of Banco de Oro (BDO), another universal bank in the Philippines. Following opposition to the proposed sale, the SSS announced that it would offer its shareholdings by way of an auction process under which BDO would be given the right to match the highest price submitted for the shareholdings. However, certain Senators petitioned the Supreme Court to stop the auction process on the basis that it violated public policy in the disposition of public assets. The Supreme Court is currently considering the petition and no date has been fixed for judicial hearings or final determination of the petition. No assurance can be given as to the outcome of the petition or in respect of the ultimate ownership of the 25.83% shareholdings in the Bank.

On 11<sup>th</sup> August 2005, the Go family's approximately 25% stake in Equitable PCI Bank and 10% stake in Equitable Card Network Inc. (ECNI) were sold to the Sy family's SM-BDO group. The sale of the Bank's shares was consummated through a cross sale at the Philippine Stock Exchange (PSE). The SM-BDO Group now occupies four (4) out of the Bank's 15 board seats.

In its letter dated 25<sup>th</sup> October 2005, the Monetary Board (MB) required EBC Investments, Inc. (EBCII) to sell its 10.84% equity holdings on its parent bank, Equitable PCI Bank (EPCIB), or to consider reversal of the accounting entries in the books of EPCIB and EBCII pertaining to these transactions as options for retiring the shares in question. On 31<sup>st</sup> March 2006, the Bank's Board of Directors (BOD) approved the reversal of the accounting entries in the books of the Bank to effect the cancellation of its advances to EBCII. The BOD agreed, with the confirmation of its external legal counsel, that such cancellation is legally feasible and will serve to restore to the Bank the shares held by its subsidiary against a corresponding elimination of the Bank's advances to EBCII. The Bank is currently reviewing all applicable and pertinent legal and documentation requirements.

On 6<sup>th</sup> January 2006, Equitable PCI Bank received an offer of "Merger of Equals" from BDO. The proposed terms of the merger offer were:

- (1) Merger of equals between BDO and the Bank, with BDO as the surviving entity;
- (2) Merger by way of share swap of common shares;
- (3) Swap Ratio shall, at the option of the Board of Directors of the Bank, be either:
  - a. A maximum Swap ratio of 1.60 BDO common shares for every EPCIB common share; or
  - b. Book-to-book values adjusted for comparability by an independent accounting firm using IAS.

The merger offer lapsed on 31<sup>st</sup> January 2006.

On 26<sup>th</sup> January 2006, the Government Service Insurance System (GSIS) publicly announced that it was selling its entire 12.4% stake in the Bank, equivalent to two (2) board seats, through a public bidding at a minimum price of P92/share. The alleged intended sale of GSIS of its entire stake in EPCIB is a matter which involves the proprietary rights and prerogatives of the former as the owner of those shares. The offer, that was supposed to be originally valid up to 6<sup>th</sup> March 2006, was reportedly first extended to 6<sup>th</sup> April and then extended again to 8<sup>th</sup> May 2006. No buyer, however, was reported to have submitted a bid for the GSIS shares on the May 8 deadline.



Other than those enumerated above, Equitable PCI Bank has nothing to report on the following:

1. Any known trends or demand, commitments, events or uncertainties that will have material impact on its liquidity.
2. Any event that will trigger direct or contingent financial obligation that is material to the Bank including any default or acceleration of an obligation.
3. Material off-balance sheet transactions, arrangements, obligations, (including contingent obligations), and other relationships of the Bank with unconsolidated entities or other persons created during the reporting period.
4. Any material commitment for capital expenditure.
5. Any known trends, events or uncertainties that have had or that are reasonably expected to have material favorable or unfavorable impact on net sales/revenues/income from continuing operations.
6. Any significant elements of income or loss that did not arise from continuing operations.
7. Any seasonal aspects that had a material effect on the financial condition or results of operations.

### **III. Plans and Prospects for the Future**

The Bank's vision is to become the client's Bank of Choice. Its strategy is to be the dominant bank in the middle market and retail segments while serving the corporate market. The Bank continues to undertake initiatives that will further strengthen its position as the 3<sup>rd</sup> largest private domestic bank in the country and result in greater profitability.

The Bank plans to continue placing a strong drive on deposit growth and improving leverage especially on low-cost deposits by emphasizing quality of service delivery and through a more focused approach towards customers, products, and channels. The Bank will also launch marketing and communications campaigns and implement product level advertising and sales promotions for the major products distributed by its Retail Banking Group. Automation projects will continue to be pursued to support a seamless or end-to-end processing in remittance, consumer finance, and branches and expand or update the retail customer database to support customer segmentation initiatives. In line with this, the Bank will continue instituting an effective sales management process in the branches.

The Bank will increase its consumer loan portfolio and intensify cross-selling initiatives by leveraging on its wide branch network and good banking relationships with clients. Consumer loan growth is expected to come from the acquisition of portfolios, tapping of corporate clients for their employee loans, and entering into more Contract-to-Sell arrangements with property developers. Offering of incentive programs for consumer loans will also be continued.

Strong control will be exercised over the current level of asset quality through early recognition and continued tight monitoring of problem accounts. As a major part of its priorities, the Bank is aggressively undertaking its own sale of real estate assets even after selling an aggregate P15.8 billion NPAs.

The Bank specifically plans to increase its funds-based revenues and improve its net interest margin by growing its low-cost deposit base and growing a larger proportion of high-yielding consumer loans. Cash management and electronic banking capabilities will be used as tools to grow deposits from corporates as well as from individual clients.

Treasury will continue to be a major contributor to the Bank's income. This effort will be greatly enhanced by its strong market presence, through Treasury Money Centers, that are located not only in the major commercial areas of Metro Manila but in the prime regional hubs of the Visayas and Mindanao as well. This market reach will remain to be a competitive advantage as it enables the Bank to bring Treasury products, like fixed income securities and foreign exchange, within closer reach of clients in these growth areas.

For the fee-based business, credit cards, trust banking, remittance, branch transactions and bancassurance are expected to be the main growth areas for the Bank. The Bank will strive to reinforce its major position in the credit card segment by further broadening its cardholder and merchant base and launching new products to address all market segments. The Bank's status as a top tier asset manager will also be strengthened with initiatives to push new Unit Investment Trust Fund (UITF) products as well as continue focusing on existing strengths with traditional retail and corporate products. The Bank will also add and strengthen remittance tie-ups to further improve market reach and enhance service delivery, while the introduction of new fee-based retail products will widen the Bank's menu of products and services. Finally, the Bank's joint venture with Philamlife will enable it to become a major player in the field of bancassurance, consistent with its goal to offer customers an expanded range of financial products and be responsive to their needs.

The Bank, likewise, intends to further enhance fee income through its investment banking arm – where it intends to be an active participant in the recently established fixed income exchange. It intends to channel lower-margin corporate banking accounts to the capital markets to generate fee income while maintaining the banking relationship as well.