Sec Number 5223

File Number _____

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

(632) 840-7000
(Telephone Number)

December 31, 2006
(Fiscal Year Ending)
(month/day/year)

SEC Form 17-A (Annual Report)
(Form Type)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended: **December 31, 2006**

2. SEC Identification Number: **5223** 3. BIR Tax Identification No.: **000-453-086**

1. Exact name of registrant as specified in its charter: **EQUITABLE PCI BANK, INC.**

5. **Philippines** 6. [ ] **(SEC Use Only)**
Province, Country or other jurisdiction of incorporation or organization **Industry Classification Code**

7. **Equitable PCI Bank Tower I Makati Ave. cor H.V. de la Costa St. Makati City, Metro Manila**
Address of principal office

8. **(632) 840-7000**
Issuer's telephone number, including area code

9. ______________________________
Former name, former address, and former fiscal year, if changed since last report.

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common shares	**727,003,345**

11. Are any or all of these securities listed on a Stock Exchange?
YES **[x]** **NO** **[ ]**

Name of Stock Exchange: **Philippine Stock exchange, Inc.**
Class of Securities Listed: **Common Shares**

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a) -1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

YES **[x]** **NO** **[ ]**

(b) has been subject to such filing requirements for the past 90 days.

YES **[ ]** **NO** **[x]**

13. Aggregate market value of the voting stock held by non-affiliates -**P76,665,410,743.63***

*** Average stock price for the past 5 trading days = P105.454**

PART I – BUSINESS AND GENERAL INFORMATION

ITEM 1. BUSINESS

Brief description of the business and its significant subsidiaries, to the extent material to an understanding of the registrant:

Equitable PCI Bank is a commercial bank with an expanded banking license. It is the third largest private domestic bank in the country in terms of resources, capital, deposits, and loans. The Bank and its subsidiaries provide a wide range of banking and other financial services. Offering traditional and innovative deposit products and services, cash management, international banking, commercial and corporate banking, money market, trust and treasury services, the Bank caters to the needs of corporate, middle market, and retail clients.

Combining the individual strengths of Equitable Bank and PCI Bank, the merger in 1999 created a strong presence in significant market segments particularly the corporate and Filipino-Chinese middle market. Moreover, Equitable PCI Bank's extensive distribution network provides the critical mass to further fortify the Bank's position in the consumer/retail sector as it presents increased opportunities for cross-selling other retail products.

Aside from commercial banking, the Bank also capitalizes on strengths brought about by its leading positions in leasing, credit card, remittance, trust, and investment banking. In the credit card business, for example, the Bank occupies a dominant position through Equitable Card Network, which currently has the largest merchant acquiring business in the Philippines in terms of volume. The Bank provides a host of other financial services through its subsidiaries, such as thrift banking, insurance brokerage, and foreign exchange services, among others.

The Bank offers a wide range of retail banking products, including current accounts (non-interest bearing demand deposits), savings accounts (including fixed amount savings accounts and savings and overdraft combination accounts), and time deposits in Peso, US dollars, and other foreign currencies.

The Bank's Commercial Banking Group provides a wide range of banking products and services to its commercial middle market customers, mainly small-to medium-sized enterprises. Products and services offered include deposit products, term loans, revolving credit lines, overdraft facilities, trade finance, payment remittances, and foreign exchange transactions.

For its corporate clients, the Bank's Corporate Banking Group provides deposit products, medium and long-term loans, project finance loans, revolving credit lines, foreign currency loans, trade related financing, payment remittances, foreign exchange transactions and cash management services.

For the consumer market, the Bank's Retail Banking Segment offers domestic general purpose loans, mortgages, automobile loans, credit cards, payment and collection services, remittance services, foreign exchange services, a selection of different deposit and check accounts, ATMs, telephone banking, common trust funds, stockbroking, and life and non-life insurance.

On December 27, 2006, shareholders of EPCIB approved a merger with Banco de Oro Universal Bank (BDO). The Bank is now awaiting final approvals from the BSP and the SEC, as well as from other regulatory agencies, for the merger to take effect. When the requisite approvals are obtained, BDO will be the surviving entity and the merged bank will be named Banco de Oro-EPCI, Inc. Noteworthy, the merger will propel the combined Bank to be among the largest in the country in terms of scale with leading market positions in all core business lines.

Bank's Subsidiaries

Equitable PCI Bank's major subsidiaries are as follows:

Equitable Savings Bank, Inc. (ESB) – ESB was established in 1996 to operate the Bank's consumer banking business and to take advantage of certain benefits, including the lower reserve requirements that savings banks have as compared to universal banks. ESB is a wholly owned subsidiary of the Bank and is operated separately and branded differently from the Bank, taking into account its mass retail customer base. ESB had 40 branches in Metro Manila at the close of 2006 through which it takes deposits and offers consumer credit products. ESB caters largely to the mass market and provides its customers with a wide variety of deposit accounts, including non-interest bearing demand deposits, interest-bearing combination check book/savings accounts and fixed and floating rate savings accounts. In addition, ESB markets the other products and services of the Bank and its subsidiaries including its consumer finance products.

Equitable Card Network (ECN) – ECN was established on May 24, 1989. The Bank operates its credit card business through its 90% owned subsidiary, ECN. ECN's principal business is focused on two areas, namely card issuing and merchant acquiring. ECN derives income from annual fees charged to cardholders, transaction commissions from merchants, fees on cash advances and interest payable on outstanding card receivables. ECN also issues co-branded cards for major Philippine companies. Meanwhile, ECN's merchant acquiring business is currently the largest in the Philippines in terms of volume. ECN has active merchant acquiring relationships with over 41,000 merchants, of whom approximately half have electronic terminals installed which accept all Visa, MasterCard, Amex, and JCB cards. ECN derives income from these merchants based on merchant discounts.

On January 23, 2007, Equitable PCI Bank's Board of Directors approved a resolution to fold ECN into the parent company or into the surviving entity resulting from the merger between the Parent company and BDO, as may be appropriate, for reasons of cost efficiency and economies of scale.

PCI Capital – PCI Capital, a wholly-owned subsidiary, is the Bank's investment banking arm, organized on April 15, 1982. PCI Capital is one of the country's leading investment houses in terms of the volume and Peso value of capital market transactions. PCI Capital is licensed as an investment house and offers financial services such as equity and debt underwriting, equity private placements, financial advisory, direct investments, mergers and acquisitions, project finance, securities trading and brokerage and debt syndication. In addition to providing the Bank's clients alternative high-yielding fixed income securities for investment, PCI Capital also actively cross-sells the Bank's products and services in its investment banking transactions, such as debt financing, deposit-taking and agency and trust arrangements.

On February 22, 2007, Equitable PCI Bank's Board of Directors granted management the authority to consolidate PCI Capital with the merged Banco de Oro, EPCI, Inc. after the latter receives the necessary approvals from the appropriate regulatory bodies.

PCI Leasing – PCI Leasing was established on August 10, 1981 and is the Bank's leasing and finance subsidiary. PCI Leasing's principal business is providing leasing and financial products to SMEs. PCI Leasing's leasing products include sale and leaseback arrangements and direct leases. PCI Leasing's financing products include commercial and consumer loans, installment paper purchases, employee personal loans, receivables discounting and receivables factoring. Assets leased and financed include trucks, office equipment, industrial and agricultural machinery, automobile fleets, real property and financial assets such as receivables. In March 2005, PCI Leasing organized a wholly-owned rental company called the Equitable Rental Pentad, Inc., with the primary purpose of renting and leasing equipment to various industries e.g. information technology, food processing, etc. as well as leasing, renting and hiring motor vehicles.

EBC Insurance Brokerage, Inc. (EIBI) – EIBI is a wholly-owned insurance broker subsidiary of the Bank, registered on April 26, 1993, it offers a wide range of products and services covering life and non-life insurance, including group term life insurance, credit life insurance, health insurance, industrial and commercial property insurance, marine cargo and hull insurance, trust receipts insurance, fleet and individual motor insurance, surety bonds and electronic equipment insurance. EIBI provides risk assessment and insurance packages for clients of the Bank and acts as the Bank's insurance manager for asset protection, crime exposure and insurable third party liability claims.

Principal products or services and their markets indicating their relative contribution to sales or revenues of each product or service, or group of related products or services, which contribute ten percent or more to sales or revenues.

Equitable PCI Bank's 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:

Treasury principally provides 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. It sells and trades treasury products, including securities to individual and institutional investors and engages in similar activities for its own proprietary account. In 2006, the Treasury segment contributed 32% of the Bank's gross income

Consumer and Retail Banking – The Retail Banking Segment, meanwhile provides branch banking services, consumer finance, small business lending, electronic banking and OFW remittance operations for the Bank. It principally handles individual customers' deposits, and consumer type loans, overdrafts, credit card facilities and funds transfer facilities. The consumer and retail banking segments contributed 25% to the Bank's gross income in 2006.

Commercial Banking - Commercial banking provides a wide range of banking products and services to its commercial middle market customers, mainly small- to medium-sized enterprises. The commercial banking segment contributed 16% to the Bank's gross income in 2006.

Corporate Banking principally handles loans and other credit facilities and deposits and current accounts for corporate and institutional customers. It offers medium and long term loans, project finance loans, revolving credit lines, foreign currency loans, trade related financing, payment remittances, foreign exchange transactions and cash management services. Corporate banking contributed 11% to the Bank's 2006 gross income.

Investment Banking provides equity and debt underwriting, equity private placements, financial advisory, direct investments, mergers and acquisitions, project finance, securities trading and brokerage and debt syndication. It contributed 1% to gross income in year 2006.

Aside from the above discussions:

a. There is no percentage of sales or revenues and net income contributed by foreign sales (broken down into major markets such as Western Europe, Southeast Asia, etc.) for each of the last three years.
b. There are no other transactions with and/or dependence on related parties.
c. There are no principal terms and expiration dates of all patents, trademarks, copyrights, licenses, franchises, concessions, and royalty agreements held; Indicate the extent to which the registrant's operations depend, or are expected to depend, on the foregoing and what steps are undertaken to secure these rights.
d. There is no need for any government approval of principal products or services.
e. There are no other amount spent on research and development activities, during the last three fiscal years.

Distribution Methods of the Products or Services:

The Bank's products and services are distributed and accessed through a number of channels, primarily branches but they are also accessible through other channels such as call centers, mobile and landline telephones, internet, and point-of-sale terminals.

The Bank's branch network serves as the main distribution channel for its products and services. Equitable PCI Bank's network of 448 domestic branches and a branch in Hong Kong is currently the third largest branch network among Philippine banks. Its network of 689 ATM machines further extends its reach. For the Bank's remittance services, OFW remittances are accepted at any of the Bank's overseas remittance offices and designated agent banks overseas with which it maintains remittance arrangements.

The Bank also offers greater customer convenience through its electronic banking capabilities via phone banking (FastPhone), mobile phones (e-banking), and the internet (FastNet). Beyond the Bank's branches and ATMs, these electronic channels allow customers to access the Bank's banking services through their computers and telephones 24 hours daily, seven days a week.

The Bank's extensive distribution network provides it a good market coverage that is superior to many of its competitors' networks.

Competition

The banking industry in the Philippines is composed of universal banks, commercial banks, savings banks, and mortgage banks, private development banks, stock savings and loan associations, rural banks, and micro-finance banks. At end-2006, the commercial banking sector consisted of 39 commercial banks, of which 19 are private domestic banks, 14 are branches of foreign banks. 3 are subsidiaries of foreign banks, and 3 are government banks. Of the 39 commercial banks, 17 are universal banks, of which three are foreign bank branches.

In terms of structure, the top five banks account for more than 48% of the total assets of the whole commercial banking system. Increased competition in the industry has exerted pressure on margins with both the domestic and foreign banks competing for the same markets, from the corporate side to the consumer finance side.

Equitable PCI Bank enjoys many advantages as the third largest private domestic bank in the Philippines. The Bank has had a long history of financial strength and stability and holds leading positions in key business segments. It has a strong position in the middle market and in the corporate market. It enjoys a large presence, wide customer base, and extensive distribution network. The Bank has a base of diversified well-established financial services businesses, which further bolster its position. In credit cards, Equitable Card Network dominates the local credit card industry as merchant acquirer, and third party processor. This provides good scope for the Bank to increase its retail lending. The Bank's remittance arm, Express Padala, is a pioneer in the local remittance business possessing more than 20 years of experience. PCI Leasing and Finance is one of the most profitable finance companies with a high capital base and wide reach. PCI Capital Corporation is well recognized for being a dominant player in investment banking.

The Bank's extensive distribution network provides it better market coverage than most competitors. Capitalizing on its size and large customer base, the Bank also continues to invest in technology and is able to take advantage of economies of scale. These capabilities allow the Bank to intensify efforts to keep ahead of competition.

Employees:

Group Total No. of Employees as of Dec. 31, 2006	No. of Employees
Senior Officer	289
Junior Officer	2,341
Rank and File	5,348
Total	7,978

The bank anticipates hirings from the average attrition rate of 3.08% or around 246 to replace anticipated resigning employees throughout 2007.

The Bank has recently signed a collective bargaining agreement (CBA) with the Equitable PCI Bank Employees Union (EPCIBEU) covering the period January 1, 2006 to December 31, 2010. The agreement's economic provisions cover the period January 1, 2006 to December 31, 2008. Currently, there is no threat of a strike by the Bank's employees.

ITEM 2. PROPERTIES

The following branch sites (land and buildings) are owned by the Bank:

Head Office and Branches	Location
8th Avenue – Grace Park	Rizal Avenue Extension Grace Park, Caloocan City
9th Avenue – Grace Park	2/F 8th Ave. Extension Cor. 11th Ave.1400 Cal. City
A. Banzon – Balanga	Antonio Banzon St. 2100 Balanga, Bataan
A. Linao – Paco	1635-1641 Dart Street Paco Manila
ADB Avenue – Ortigas	Robinson's PCIBank Tower, ADB Ave. Ortigas Center, 1600 Pasig City
Alexander – Urdaneta	Alexander St., Poblacion 2428 Urdaneta, Pangasinan
Alfaro – Salcedo Village	PCCI Bldg. 118 Alfaro St. Salcedo Village, 1227 Makati City
Alunan Highway – Tacurong	Alunan Highway, 9800 Tacurong Sultan Kudarat
Aparri – Rizal St.	Rizal cor Balisi (Macanaya) Aparri, Cagayan
Araneta – Bacolod	Araneta cor. Gonzaga St. 6100 Bacolod City – Negros Occidental
Asia Tower – Paseo	G/F Asia Tower Cor. Paseo De Roxas & Benavidez St. 1229 Makati
Bagtican – Pasong Tamo	Unit 102 G/F Pryce Center Cond. 1179 Chino Roces Ave. cor Bagtican St. San Antonio Village Makati City
Balintawak St. – Laoag	Cor. Rizal & Balintawak St. 2900 Laoag City, Ilocos Norte
Bel Air – Gil Puyat	Country Space 1 Cond. Bldg. Sen Gil Puyat Ave. Bel Air Village 1209 Mkt.
Blumentritt – San Juan	Lot 11-B Blk, 127 Blumentritt cor. Sto Toribio St. San Juan M.M.
Bonifacio ST. – Tuguegarao	Bonifacio St., Tuguegarao Cagayan
Borromeo – Cebu City	Magallanes cor., Borromeo St. Cebu City
Burgos – Ormoc	Cor., Burgos & Rizal St. 6541 Ormoc City, Leyte
C. Palanca-Quiapo	Quezon Blvd. Cor C. Palanca St., Quiapo Metro Manila
C.M. Recto Davao City	C.M. Recto, Davao City
Cabahug – Cadiz	Cabahug St. 6121 Cadiz, Negros Occidental
Candelaria – Rizal St.	Rizal cor. Valle Sts. 4323 Candelaria Quezon
Capitol – Pasig	Shaw Blvd. Cor. Christian Route Pasig City
Capitol Shopping – Bacolod	Benigno Aquino Drive, Capitol Shopping 6100 Bacolod City, Negros Occ.
CM Recto –Lipa	131 CM Recto St., 4217 Candelaria, Quezon
Colon – Dumaguete	Colon St., fronting Bldg. V. of City Public Market, Poblacion Dumaguete City
Congreso – Malolos	Paseo Del Congreso, San Agustin 3000 Malolos, Bulacan
Dasmariñas St. – Binondo	PCIBank Bldg. Dasmarinas St. Binondo, Manila
Dasmarinas Techno Park Cavite	Governor's Drive Brgy Paliparan 1, Dasmarinas Cavite
Del Pilar – Iligan	Grd. & Mezannine Flrs. EBS Bldg. Juan Luna St., Iligan City
Dian – Gil Puyat	G/F EPCIB Bldg. Sen. Gil Puyat Ave. cor Dian Street.
Digos-Rizal Avenue	Rizal Avenue, Zone II, Digos, Davao Del Sur
Equitable PCI Tower 1	Equitable PCI Bank Tower 1 Makati Avenue Makati City
Escalante – Negros Occidental	National Highway, Escalante 6124 Negros Occidental
F. Gonzales – Cebu City	F. Gonzales cor., Magallanes St. Cebu City
Fernandez – Dagupan City	AB Fernandez Ave., 2400 Dagupan City, Pangasinan
Forest Hills – Novaliches	Lot 2 D 1 Quirino Ave., Novaliches,, Quezon City
FS Pajares – Pagadian	FS Pajares Ave., Pagadian City 7016 Zamboanga Del Sur
Fuente Osmena – Cebu City	Fuente Osmena Rotonda, Cebu City
Gateway Business Park Cavite	Gateway Business Park, C. delos Reyes Ave., 4107 Gen. Trias Cavite
Gatuslao – Bacolod	26 & 28 Gov. V Gatuslao St. Bacolod City, Negros Occidental
Gen Luna – Naga	Gen Luna St. 4400 Naga City, Camarines Sur
Gorordo – Cebu City	Gorordo Ave., Lahug 6000 Cebu City, Cebu
Gov. Villavert – Antique	Carretas cor. Solana St., Panay Islands, 5700 San Jose Antique
Heroes Hill – Quezon Avenue	1050 Quezon Avenue 1103 Quezon City
Herrera St. Salcedo Village	Unit#2 G/F Chatham House, Herrera St. cor Valero and San Agustin St. Salcedo Village
Isulan – National Highway	Sultan Kudarat, national Highway
Iznart – Iloilo	Iznart St., 5000 Iloilo City, Iloilo

J. Luna - Tarlac City	J. Luna St. near cor Mac Arthur Tarlac, Tarlac
JP Rizal – Baliwag	JP Rizal St. San Jose, Baliwag Bulacan
Juan Luna – Binondo	262 Juan Luna St. Binondo Manila
Kabankalan – Negros	Guanzon St., Kanbankalan, 6111 Negros Occidental
Kidapawan – Quezon Blvd.	Quezon Blvd. 9400 Kidapawan North Cotabato
Lacson – Bacolod	Lacson cor. Galo St. 6100 Bacolod City, Negros Occidental
Lapasan – Cagayan De Oro	CM Recto Highway, Lapasan 9000 Cagayan De Oro City, Misamis Oriental
Leveriza – Libertad	212 Libertad St., Pasay City
Lipa – Rotonda	CM Recto Avenue, Lipa City
M. De Santos – Ylaya	632 M. de Santos St., Manila
Mabini St. Mati	Rizal cor., Mabini St., 8200 Mati, Davao Oriental
Magallanes – Cebu City	Magallanes cor., Plaridel St., 6000 Cebu City
Maharlika Road – Cabanatuan	Maharlika Road, near cor. Sanciangco St., Cabanatuan City
Makakua – Cotabato	Makakua St. 9600 Cotabato City Maguindanao
Makati Avenue – Ayala	LV Locsin Bldg. Ayala Ave. cor Makati Ave. 1228 Makati City
Makati Cinema Square	Makati Cinema Square Pasong Tamo, 1229 Makati City
Malabon – Rizal Avenue	694 Rizal Ave. 1404 Malabon, Metro Manila
Marulas – McArthur Highway	Lot 16 & 17 McArthur H'way Valenzuela, Metro Manila
Medical Plaza – Legaspi Village	Unit 101 G/F Medical Plaza Makati Amorsolo St. cor dela Rosa St. Legaspi Vill Makati
Miranda – Angeles City	PCIB Bldg., Miranda St. 2009 Angeles City, Pampanga
Munoz – Nueva Ecija	T. Delos Santos St., 3119 Munoz, Nueva Ecija
North – Calamba Crossing	Calamba Crossing National Highway, 4027 Calamba , Laguna
North – Mandaue	National Highway, Mandaue City
North Reclamation – Cebu	Blk. 20-A cor., Port Centre Ave. and San Jose de la Montana North Recla cebu
Notre Dame – Aurora Blvd.	Aurora Blvd. Cor. Notre Dame St. Cubao, 1110 Quezon City
Ortigas – EDSA	SEC Bldg. Edsa cor. Florida St. (Near Ortigas Avenue) Quezon City
Ortigas 1 – Exchange Road	G/F, PSE Center , Exchange Road, Ortigas Commercial Complex
Ortigas Avenue – San Juan	Units 102-103 Sunrise Cond. Ortigas Avenue
Ortigas Avenue- Greenhills	EBC Bldg. Ortigas Ave., cor Roosevelt Ave., Greenhills San Juan MM
P. Burgos – Batangas City	Rizal Ave., cor. P. Burgos St., 4200 Batangas, Batangas City
P. Burgos – Cavite City	P. Buros & P. Julio Sts., Caridad 4100 Cavite City
Padre Faura – A. Mabini	A. Mabini Cor. Padre Faura St. 1000 Ermita, Manila
Paseo – Equitable PCI Tower	Equitable Bank Tower # 8751 Paseo de Roxas, Makati City
Paseo – Gil Puyat	EBC Bldg. Paseo de Roxas cor. Gil Puyat Ave. Makati City
PCI Leasing and Finance, Inc.	PCI Leasing Centre, Corinthians Gardens Ortigas Ave. QC
Perea – Paseo	G/F Universal Re. Bldg. 106 Paseo De Roxas 1228 Makati City
Philamlife Ave – Las Pinas	Alabang – Zapote Road Pamplona Tres 1740 Las Pinas
Pioneer St. – Gen. Santos	National Highway cor. Roxas Ave. 9500 Gen. Santos City, S. Cotabato
Pitimini – Roosevelt	EBC Bldg. Roosevelt Ave., Cor Pitimini St., SFDM, Quezon City
Plaza Sta. Cruz - Dasmariñas St.	377 Plaza Sta Cruz 1003 Sta Cruz Manila
Presidents Ave – BF Paranaque	President Ave – Corner J. Elizalde St. BF Home Paranaque
R. Alunan – Koronadal	R. Alunan Ave. cor Osmena St. 9506 Koronadal South Cotabato
Redemptorist Road – Baclaran	Redemptorist Road, Baclaran Paranaque
Reliance St. – EDSA	G/F Paragon Plaza , EDSA corner Reliance St., Mandaluyong City
Reposo – Makati	EBC Bldg. JP Rizal cor. N. Garcia Makati City
Rizal Avenue – Puerto Princesa	261 Rizal Ave 5300 Puerto Princesa City Palawan
Rizal St. – San Pablo	Ground Flr., Farcon Bldg. Rizal Ave. cor. Lopez Jaena St., San Pablo
Rizal St. – Zamboanga	Rizal St., Zamboanga City 7000 Zamboanga Del Sur
Rockwell Center – Makati	Lot 3, Block 7, Rockwell Drive, Rockwell Center, Poblacion, Makati
Rosario Lacson	Lot 296-B-7 lacson St. cor Rosario St., Bacolod City Negros Occidental
Roxas Isabela	#23 Osmena Rd., Bantug, Mallig Plain, 3320 Roxas, Isabela
Salcedo St. Legaspi Village	EBC Bldg. 203 Salcedo St., Legaspi Village, Makati City
Salvador – Guimba	Afan Salvador St. 3115, Guimba Nueva Ecija (temporary relocation site)
San Fernando – La Union	Quezon Ave. 2500 San Fernando La Union
San Sebastian – C.M. Recto	2070 CM Recto St. 1008 Sampaloc Manila
Sangandaan – Kalookan	No. 628 A. Mabini St. 1408 Sangandaan, Caloocan City
Santiago St., - Gen. Santos	Ireneo Santiago Blvd. 9500 Gen. Santos St., South Cotabato
Scout Tobias – Timog	35 – A. Timog Ave., Quezon City
Shaw Blvd. Stanford	EBC Bldg. , Shaw Blvd. Cor Stanford St. Mandaluyong Metro Manila
Silay – Figueroa	Figueroa cor. Rizal St., Silay City 6116 Negros Occidental
South Mandaue	National Highway 6014 Mandaue City, Cebu
St. James – A Santos	Dr. A. Santos Ave., Sucat 1700 Paranaque
Sta. Rosa – South Express	National Road Pulong Sta. Cruz 4026 Sta. Rosa, Laguna
Sto. Tomas – Batangas	Maharlika Highway, San Antonio Sto. Tomas Batangas
Strata 100- Ortigas	G/F Strata 100 Bldg. Emerald Ave., Pasig City
Sumulong – Marikina	Amang Rodriguez Avenue Metro Manila
T. Alonzo – Arranque	733 T. Alonzo St., Manila
T. Morato – Kamuning	Grd. Flr. & 2nd Flr. #175 Tomas Morato cor. Sct. Castor, Quezon City
Tabora – M. De Santos	817 Tabora St.1006 Binondo Manila
Tagum – Rizal St.	577 Rizal St., 8100 Tagum Davao Del Norte
Tinio – Gapan	Tinio St., 3105 Gapan Nueva Ecija
TM Kalaw – Luneta	707 TM Kalaw St. Corner Churruca St. Ermita Manila
U.N. Avenue – J. Bocobo	EBC Bldg. UN Avenue cor. J. Bocobo St. Ermita Manila
Valencia – Cagayan De Oro	M. L. Quezon St. cor Ginuyuran Road.

Valeria – Iloilo	Valeria cor. Solis St. 5000 Iloilo City, Iloilo
Vamenta-Cagayan de Oro	V. Castro St., Carmen District, 9000 CDO Misamis Oriental
Velez – Cagayan De Oro	Don Apolinar Velez Rd. cor Abojuela St., 9000 Cagayan De Oro
Vigan – Quezon Avenue	Cor. Bonifacio St. & Quezon Ave. 2900 Vigan, Ilocos Sur
Vito Cruz – Taft	Bankard Bldg. 2422 Taft Avenue 1004 Malate Manila
West Trade Center – West Avenue	Unit #1 G/F West Trade Center, West Avenue, Quezon City
Zamora – Meycauayan	Poblacion 3022 Meycauayan, Bulacan (temporary relocation site-I)

There is no liens or encumbrances on real properties owned.

The following branch sites (land and buildings) are leased by the Bank:

BRANCH	T E R M	Commencement		LEASE PERIOD Expiration	Monthly Rental Rate
11th Avenue – Grace Park	10	Dec-16-2003	-	Dec-15-2013	225,401.48
2nd Avenue – Grace Park	10	Sep-01-2005	-	Aug-31-2015	74,756.06
A. Arnaiz - San Lorenzo Village	5	Dec-01-2003	-	Nov-30-2008	112,373.36
A. de Jesus – EDSA	10	Mar-01-2002	-	Mar-01-2012	117,128.00
A. Mabini – Biñan	10	Jan-01-2005	-	Dec-31-2014	100,000.00
A. Santos - South Express	10	Feb-01-2005	-	Jan-31-2015	51,051.00
Abanao Square – Baguio	4	Feb-15-2005	-	Feb-14-2009	97,045.20
ABS-CBN - Mother Ignacia St.	5	Aug-05-2002	-	Aug-04-2007	174,872.10
Acropolis - E. Rodriguez Jr.	5	May-01-2003	-	Apr-30-2008	212,960.00
Adriatico - San Andres St.	10	Mar-16-1998	-	Mar-15-2008	175,384.54
Agdao – Davao City	10	Aug-22-2003	-	Aug-21-2013	66,000.00
Agno – Banawe	15	Mar-01-1995	-	Mar-01-2010	193,554.90
Aguinaldo Highway – Dasmariñas	15	Oct-01-1998	-	Sep-30-2013	133,946.76
Aguirre - BF Parañaque	10	Oct-09-2002	-	Oct-08-2012	160,256.30
Alabang Town Center	1	Dec-16-2006	-	Dec-15-2007	29,586.69
Alaminos – Pangasinan	10	Jun-01-2000	-	May-31-2010	125,458.73
Allen – Catbalogan	10	Jun-17-2002	-	Jun-16-2012	43,923.00
Amoranto – Banawe	10	Jan-01-2001	-	Dec-31-2010	262,350.94
Angono – ML Quezon Ave	10	Jul-15-2006	-	Jul-15-2016	82,160.00
Anonas – Kamias	5	Sep-01-2006	-	Aug-31-2011	97,200.00
Antorcha – Balayan	10	Sep-12-2003	-	Sep-11-2013	148,230.20
Apalit – Pampanga	20	Aug-28-2001	-	Aug-27-2021	76,576.89
Atrium – Makati Avenue	5	Oct-01-2002	-	Sep-30-2007	144,009.82
Aurora Blvd. – Annapolis	5	Apr-21-2002	-	Aug-20-2007	170,170.88
Ayala Triangle 1	5	May-02-2006	-	Apr-30-2011	337,233.02
Bacoor – Aguinaldo Highway	15	Oct-21-1994	-	Jul-31-2009	104,087.73
Bagbaguin - Sta. Maria	10	Feb-01-2003	-	Jan-31-2013	72,600.00
Bajada – Davao	10	Oct-01-1998	-	Sep-30-2008	140,307.63
Balagtas – McArthur Highway	20	Sep-29-1992	-	Sep-28-2012	29,230.76
Balibago - Angeles City	15	Jun-10-2000	-	Jun-09-2015	102,750.54
Bambang - Rizal Avenue	5	Nov-04-2006	-	Nov-04-2011	158,800.00
Bangoy - Davao City	10	Jul-01-2002	-	Jun-30-2012	325,275.32
Bangued – Abra	5	Jan-18-2006	-	Jan-17-2011	30,361.27
Banilad - Cebu City	10	Jul-17-2000	-	Jul-16-2010	173,170.09
Bankerohan – Davao City	20	Sep-01-2002	-	Aug-31-2012	136,360.27
Batac – Washington	15	Oct-01-1992	-	Sep-30-2007	45,569.98
Batangas St. - Rizal Avenue	15	Sep-01-1998	-	Aug-31-2013	77,948.68
Bay City Mall - Batangas City	5	Jul-01-2003	-	Jul-01-2008	33,275.00
Beacon Plaza - Shaw. Blvd.	10	Oct-15-2003	-	Oct-14-2013	148,273.24
Better Living – Bicutan	10	Mar-24-1997	-	Mar-23-2007	117,897.37

Bicutan - South Superhighway	20	Jun-22-1990	-	Jun-21-2010	73,519.60
Big R – Robinson's Novaliches	3	Mar-23-2006	-	Mar-22-2009	141,361.78
Binakayan – Kawit	15	Jun-25-1992	-	Jun-24-2007	43,153.42
Binalbagan - Negros Occidental	10	Dec-01-2005	-	Nov-30-2020	53,146.83
Blue Ridge – Katipunan	10	Sep-25-2000	-	Sep-24-2010	107,501.85
Bogo – Cebu	10	Jun-18-2007	-	Jun-17-2017	45,000.00
Brixton Hill - G. Araneta	10	Jul-01-2005	-	Jun-30-2015	72,957.50
Broadway Centrum - Aurora Blvd.	5	Jan-01-2006	-	Dec-31-2010	211,701.60
C.P. Garcia Avenue – Tagbilaran	10	Jun-25-2006	-	Jun-24-2016	72,000.00
Cabuyao - J.P. Rizal	10	Sep-18-2000	-	Sep-17-2010	77,009.76
Caceres – Naga	5	Jul-20-2004	-	Jul-19-2009	77,175.00
Calapan - J.P. Rizal	15	Jul-15-2002	-	Jul-14-2007	102,487.00
Candon - National Highway	15	Apr-15-1997	-	Apr-15-2012	82,763.97
Carmen – Pangasinan	15	Jun-11-1999	-	Jun-10-2014	44,534.73
Carmen Planas - Padre Rada	15	Jul-14-2003	-	Jul-13-2018	40,000.00
Castro – Laoag	10	Nov-01-1997	-	Nov-01-2007	117,897.40
Cauayan – Isabela	15	Dec-01-1992	-	Nov-30-2007	33,860.91
Cebu - Ayala Center	2	Sep-01-2006	-	Aug-31-2008	60,090.00
Centennial - Clarkfield	10	Jul-02-1997	-	Jul-02-2007	214,358.88
Central – Iloilo	20	May-29-2002	-	May-27-2022	47,617.11
Central Market - V. Fugoso	5	Apr-04-2003	-	Apr-03-2008	103,818.00
Century Park – Adriatico	5	Sep-01-2005	-	Aug-31-2010	332,193.98
Cogon - Cagayan de Oro	20	Oct-01-1989	-	Oct-01-2009	51,957.00
Concepcion – Tarlac	15	Aug-01-1998	-	Jul-31-2013	57,600.00
Cordillera - Quezon Avenue	15	Apr-15-2000	-	Apr-14-2015	290,305.68
Daet – Camarines Norte	10	Mar-07-2005	-	Mar-06-2015	75,000.00
Daraga - Rizal St.	20	May-08-1992	-	May-07-2012	4,886.69
Dela Rosa – Rada	5	May-01-2003	-	Apr-30-2008	256,720.00
Dolores - San Fernando	5	Jul-01-2004	-	Jun-30-2009	43,962.19
Domestic Road – Pasay	5	Oct-01-2005	-	Sep-30-2010	336,795.53
Don Antonio – Commonwealth	5	Nov-12-2004	-	Nov-11-2009	115,377.20
Don Jose – Fairview	5	Oct-17-2006	-	Oct-15-2011	79,007.91
DPC Place - Chino Roces Avenue	10	Jan-31-2001	-	Jan-31-2011	203,568.86
Eastwood City - (Congressional)	5	Mar-29-2005	-	Mar-28-2010	113,243.90
EDSA East – Kalookan	10	Oct-01-1998	-	Sep-30-2008	57,245.00
Enriquez – Lucena	10	Nov-20-2002	-	Nov-19-2012	91,226.17
Enterprise Center - Ayala Avenue	3	Feb-16-2005	-	Feb-15-2008	33,600.00
EPZA – Cavite	15	Aug-13-1992	-	May-25-2007	26,330.00
EPZA – Mactan	12	May-26-1992	-	May-25-2007	13,566.00
España – Blumentritt	10	Feb-01-2002	-	Jan-30-2012	224,612.88
Evangelista – Makati	15	Jan-01-1992	-	Dec-31-2006	166,748.15
F. Ramos - Cebu City	10	Jan-01-2005	-	Dec-31-2014	86,400.00
F. Tañedo - Tarlac City	10	Jul-01-2004	-	Jun-30-2014	201,502.40
FCIE Dasmariñas – Cavite	15	Dec-16-1997	-	Dec-15-2012	108,465.60
Gandara – Soler	15	Mar-01-1998	-	Feb-28-2013	100,000.00
Gingoog - National Highway	10	Mar-01-2002	-	Feb-29-2012	53,711.50
Glori - Del Monte	5	Feb-06-2006	-	Feb-05-2011	92,642.37
Goldenfield – Bacolod	10	May-01-2004	-	Apr-30-2014	20,000.00
Governor's Drive – Carmona	17	Dec-15-1996	-	Dec-14-2013	71,327.92
Greenhills Shopping Center	2	Jan-01-2004	-	Dec-31-2005	512,734.89
Hagonoy – Bulacan	10	Dec-01-1999	-	Nov-30-2009	58,461.51
Hemady - Aurora Blvd.	15	May-17-1994	-	May-16-2009	89,759.08

Highway 1 – Iriga	10	Jun-22-1997	-	Jun-21-2007	39,094.78
Hilado – Bacolod	15	Nov-01-1992	-	Oct-31-2007	75,949.97
Hinigaran - Negros Occidental	20	Jun-23-1988	-	Jun-22-2008	6,939.18
Ilagan – Isabela	10	Mar-28-2001	-	Mar-27-2011	35,028.59
Iloilo - Quezon St.	1	Jan-01-2007	-	Dec-31-2007	85,000.00
Imus – Aguinaldo Highway	15	Apr-24-1993	-	Apr-23-2008	145,409.69
Intramuros – Magallanes Drive	10	Dec-16-1997	-	Dec-15-2007	241,576.50
Ipil – Zamboanga	20	Apr-01-1990	-	Apr-01-2010	4,000.00
J. Orosa – Bauan	20	Jul-01-1994	-	Jun-30-2014	44,289.03
Jaro – Iloilo	10	Sep-17-2006	-	Sep-16-2011	99,363.31
Jaycee Avenue – Midsayap	10	Jan-31-2005	-	Jan-30-2015	30,000.00
Juan Luna - Cebu City	20	Apr-01-1989	-	Mar-31-2009	68,411.27
Kabacan - Rizal Avenue	15	Apr-28-2002	-	Apr-27-2007	51,243.50
Kalentong - Shaw Blvd.	15	Feb-01-1997	-	Jan-31-2012	247,500.00
Kalibo – Aklan	10	Feb-01-2006	-	Jan-31-2016	50,000.00
Kamias Road	1 & 3 mos	Apr-20-2006	-	Jul-21-2007	127,376.70
Karuhatan - McArthur Highway	10	Apr-24-2002	-	Apr-22-2012	122,991.95
Kumintang - Batangas City	10	Dec-03-2002	-	Dec-02-2012	65,884.50
La fuerza Plaza – Chino Roces	5	Oct-01-2003	-	Sep-30-2008	93,767.63
La Huerta – Parañaque	10	Apr-26-2005	-	Apr-25-2015	84,000.00
La Trinidad – Benguet	5	Oct-11-2006	-	Oct-11-2011	60,900.00
Lapu-lapu – Northbay	5	Jul-12-2003	-	Jul-11-2008	183,725.01
Ledesma – Iloilo	5	Nov-01-2006	-	Oct-31-2011	45,000.00
Libertad – Taft	10	May-25-2004	-	May-24-2014	77,175.00
Ligaya - Boni Avenue	15	Apr-01-1997	-	Apr-01-2012	163,392.76
Lingayen – Pangasinan	15	Apr-06-2001	-	Apr-05-2016	54,450.00
Loyola Heights – Katipunan	10	Jul-15-2003	-	Jul-15-2013	111,127.37
Luzon St. – Masangkay	20	Jun-01-1997	-	May-31-2007	169,529.06
M. Belen – Silang	10	Jul-14-2000	-	Jul-13-2010	106,293.66
Magallanes St. – Surigao	12	Oct-10-1994	-	Dec-2006	43,200.00
Magsaysay – Baguio	10	Jun-30-1994	-	Dec-2006	108,360.00
Malanday - McArthur Highway	20	Apr-02-1999	-	Apr-02-2019	86,960.78
Malhacan – Meycauayan	10	Oct-01-1998	-	Sep-30-2008	97,338.43
Mandalagan – Lacson	10	Oct-06-2000	-	Oct-05-2010	42,517.46
Marcos - Sumulong Highway	25	Jul-07-1992	-	Jul-07-2017	168,204.10
Marikina - J.P. Rizal	12	Aug-01-2000	-	Jul-31-2012	106,293.66
Marilao - McArthur Highway	10	Dec-15-2003	-	Mar-14-2013	74,215.21
Matalino – Diliman	2	Feb-08-2006	-	Feb-07-2008	156,481.97
Mayon - N. Roxas	10	Aug-01-2004	-	Jul-31-2014	67,416.00
Mayor Climaco – Zamboanga City	10	Nov-01-2006	-	Oct-31-2016	94,928.00
MC Home Depot – Fort Bonifacio	5	Jun-08-2003	-	Jun-07-2008	133,400.07
MERALCO Center – Ortigas	2	Jul-01-2006	-	Jun-30-2008	331,472.79
MEZ II - Lapu-lapu City	10	May-12-2004	-	May-11-2014	45,164.70
Mindanao Avenue – Congressional	8	Oct-01-2004	-	Apr-30-2012	200,000.00
Montilla – Butuan	5	Dec-01-2002	-	Nov-30-2007	116,439.87
Morning Star-Gil Puyat	5	Oct-15-2001	-	Dec-2006	149,133.23
N. Roxas – Banawe	10	Dec-01-2002	-	Nov-30-2012	150,491.25
NE Pacific Mall – Cabanatuan	2	May-21-2005	-	May-20-2007	27,724.72
Nepo Mart - Angeles City	15	Sep-02-2002	-	Nov-30-2013	236,652.20
Neptune - Makati Avenue	15	May-01-1995	-	Apr-30-2010	275,000.00
New Farmers Plaza – EDSA	5	Apr-15-2003	-	Mar-31-2008	44,380.00
New Manila - E. Rodriguez Sr.	5	Mar-01-2006	-	Feb-28-2011	65,000.00

New York – EDSA	10	Sep-01-1998	-	Aug-31-2008	128,615.00
North Road – Cebu	20	Jan-01-1998	-	Dec-31-2007	76,821.61
Obando - J.P. Rizal	15	Sep-01-1997	-	Sep-01-2012	51,874.85
Olivarez Plaza - Los Baños	15	Apr-15-1999	-	Apr-15-2014	128,840.80
Olongapo - Rizal Avenue	5	Aug-01-2003	-	Jul-31-2008	96,800.00
One Corporate Plaza - A. Arnaiz	10	Jan-16-2005	-	Jan-15-2015	126,590.00
Ongpin – Gandara	5	Jan-01-2005	-	Dec-31-2009	126,000.00
Oppus – Maasin	2	Jul-17-2006	-	Jul-16-2008	48,487.83
Oroquieta – Washington	5	Jan-17-2002	-	Jan-16-2007	35,000.00
Ortigas Avenue – Pasig	10	Jun-01-1998	-	May-31-2008	243,082.96
Ortigas Avenue Ext. – Cainta	10	Nov-28-2003	-	Nov-27-2013	79,627.80
Ozamis - Rizal Avenue	10	Apr-08-1996	-	Dec-2006	32,400.00
Pacific Star – Makati	5	Mar-01-2003	-	Feb-28-2008	324,457.47
Pacita - San Pedro	10	Jan-16-1998	-	Jan-15-2008	115,897.37
Paniqui – Tarlac	20	Oct-09-1997	-	Oct-08-2017	33,000.00
Parañaque - Ninoy Aquino Avenue	15	Jun-16-1998	-	Jun-15-2013	187,076.85
Parañaque Cable - A. Santos	15	Oct-01-1997	-	Sep-30-2012	362,652.35
Pasay – EDSA	20	Apr-16-1993	-	Apr-15-2013	110,368,.94
Pasig Blvd. Ext. – Rosario	10	Sep-01-2004	-	Aug-31-2014	71,099.00
Paso de Blas - North Expressway	15	Sep-01-1997	-	Sep-01-2012	129,687.12
Pedro Gil - A. Mabini	5	Feb-16-2003	-	Feb-15-2008	181,824.42
Pendatun - Gen. Santos	20	Mar-01-1994	-	Feb-28-2014	43,200.00
Perez - Dagupan City	20	May-13-1992	-	May-12-2012	23,000.00
Pioneer Highlands – Madison	5	Oct-09-2002	-	Oct-08-2007	110,255.51
Plaza Burgos – Guagua	10	Feb-12-2002	-	Feb-11-2012	70,000.00
Plaza Calderon - Pedro Gil	10	Jan-21-2002	-	Jan-20-2012	102,487.00
Plaza Maestro - Vigan	10	Apr-01-2003	-	Mar-31-2013	29,947.50
Poblacion - Sta. Maria	20	Mar-15-1993	-	Mar-14-2013	47,141.23
Pres. Quirino – Taft	10	May-12-1999	-	May-11-2009	193,990.90
Pritil – Tondo	10	Dec-02-2005	-	Dec-01-2015	162,940.05
Pulilan-Junction-Bulacan	10	Jun-30-2004	-	Jun-29-2014	53,500.00
Puregold – Clarkfield	5	Sep-15-2005	-	Sep-16-2010	80,000.00
Q.I. - E. Rodriguez Sr.	15	May-01-1992	-	Apr-30-2007	113,924.95
Quezon Avenue – Iligan	25	Mar-01-1983	-	Mar-01-2008	6,521.90
Quezon Avenue – Lucena	5	Sep-20-2005	-	Sep-19-2010	100,000.00
Quinta Market – Quiapo	10	Nov-11-2001	-	Nov-10-2011	85,824.87
R. Magsaysay Avenue - Davao City	10	Aug-07-2003	-	Aug-06-2013	215,711.84
R. Salas - Roxas Boulevard	10	Mar-01-2005	-	Feb-28-2015	247,194.83
Reina Regente - C.M. Recto	15	Aug-01-2005	-	Jul-31-2010	75,386.72
Richville Center - Ayala Alabang	15	Jul-01-1997	-	Jul-01-2013	210,312.63
Rizal St. - Legaspi City	20	Jul-01-1995	-	Jun-30-2015	85,593.50
Robinsons - Cagayan de Oro	2	Dec-12-2006	-	Dec-11-2008	39,930.00
Robinsons Metro East	3	Oct-15-2004	-	Oct-14-2007	254,817.20
Robinsons Place – Manila	2	Aug-16-2006	-	Aug-15-2008	353,573.22
Robinsons Place Lipa	2	Oct-10-2005	-	Oct-09-2007	84,637.62
Robinson's Place Dasmarinas	2	Aug-01-2006	-	Jul-31-2008	94,743.00
Robinsons Starmills – Pampanga	1	Aug-02-2006	-	Aug-01-2007	59,060.80
Rufino – Ayala	20	Feb-01-1992	-	Jan-31-2012	218,400.00
Rustan' s Laguna –Technopark	2	Mar-01-2006	-	Mar-01-2008	94,001.00
Salazar – Tacloban	5	Dec-15-2001	-	Dec-14-2006	249,860.38
Sales St. – Raon	10	May-21-2001	-	May-20-2011	241,576.50
San Agustin - San Fernando	10	May-15-2002	-	May-15-2012	54,243.00

San Carlos – Pangasinan	20	Mar-22-1993	-	Mar-21-2013	17,622.39
San Jose - Nueva Ecija	20	Jun-19-1991	-	Jun-18-2011	10,646.13
San Juan – Batangas	15	May-02-1998	-	May-01-2013	66,125.00
San Juan St. – Virac	5	May-15-2005	-	May-14-2010	35,000.00
San Miguel Center – Ortigas	5	May-01-2002	-	Apr-30-2007	544,645.20
San Pedro - Davao City	5	Jun-03-2002	-	Jun-02-2012	161,051.00
San Rafael – Bulacan	5	Apr-05-2006	-	Apr-04-2011	35,000.00
Sanciangco – Cabanatuan	20	Apr-30-2001	-	Apr-29-2021	49,500.00
Santiago – Isabela	5	Sep-01-2002	-	Aug-31-2007	97,240.50
Scout Albano - Quezon Avenue	16	Apr-01-1993	-	Mar-31-2009	70,862.44
Sct. Limbaga - T. Morato	10	Dec-03-2003	-	Dec-02-2013	185,220.00
Session Road – Baguio	5	Apr-01-2004	-	Mar-30-2009	175,006.00
Severino - C.M. Recto	5	Aug-01-2002	-	Jul-31-2007	205,700.00
Shari-La Plaza Mall – EDSA	2	Apr-01-2004	-	Mar-31-2007	235,950.00
Sienna - Del Monte	10	Oct-16-1997	-	Oct-15-2007	218,646.05
Sindalan - San Fernando City	10	Dec-16-2002	-	Dec-15-2012	82,633.80
Sixto Antonio – Pasig	10	Oct-27-2004	-	Oct-26-2014	125,777.06
SM City – Fairview	3	Nov-01-2003	-	Dec-2006	167,915.00
SM North EDSA	3	Feb-01-2004	-	Jan-31-2007	164,010.35
Solano - Nueva Vizcaya	15	Sep-15-1998	-	Sep-14-2013	148,923.00
Sorsogon - Rizal St.	10	Feb-14-2006	-	Feb-14-2016	42,000.00
St. Ignatius – Katipunan	10	Sep-10-2003	-	Sep-09-2013	110,021.67
Sta. Ana - Davao City	5	Oct-01-2006	-	Sep-30-2011	137,864.22
Sta. Cruz – Laguna	10	Jul-01-2000	-	Jun-30-2010	159,440.49
Sto. Niño St. – Roosevelt	10	Oct-16-1998	-	Oct-15-2008	243,268.40
Tabaco-Albay	10	Sep-16-2005	-	Sep-15-2015	65,000.00
Tabo-an - Cebu City	10	May-01-1997	-	Apr-30-2007	100,124.16
Tacloban - Rizal Avenue	10	Jul-01-2002	-	Jun-30-2012	99,119.57
Tagaytay - Olivarez Plaza	10	Sep-03-2001	-	Sep-02-2011	144,945.90
Tagaytay – Rotonda	10	Oct-24-2005	-	Oct-23-2015	100,000.00
Talavera - Nueva Ecija	15	Sep-17-1992	-	Sep-16-2007	27,756.73
Tanauan - A. Mabini	15	Apr-01-1993	-	Mar-31-2008	46,087.43
Taytay - Rizal Avenue	10	Oct-27-2004	-	Oct-26-2014	55,125.00
Tierra Nueva – Alabang	5	Apr-01-2004	-	Mar-31-2009	136,095.18
Times Square – Subic	10	Mar-16-1999	-	Mar-15-2009	235,297.69
Timog – EDSA	20	Apr-20-1992	-	Apr-19-2012	75,949.97
Valle Verde - E. Rodriguez Jr.	5	Mar-16-2003	-	Mar-15-2008	203,308.59
Victorias - Negros Occidental	20	Mar-01-1989	-	Feb-28-2009	4,000.00
Villa Mendoza - A. Santos	5	May-01-2002	-	Apr-30-2007	87,846.00
Villar - Salcedo Village	5	Jun-15-2005	-	Jun-14-2010	100,152.00
Virgo Drive – Northbay	5	Oct-31-2002	-	Oct-30-2007	105,230.72
Visayas Avenue – Project 6	15	Sep-01-1998	-	Aug-31-2013	126,666.62
Waltermart – Calamba	3	Jul-14-2004	-	Jul-13-2007	93,092.90
Waltermart - Sta. Rosa	10	Oct-01-1996	-	Dec-2006	256,373.00
Washington - Gil Puyat	5	May-05-2003	-	May-04-2008	150,679.36
West Avenue - Del Monte	5	Jan-02-2007	-	Jan-01-2012	152,100.00

Leases are subject to negotiation upon expiration of contract.

ITEM 3. LEGAL PROCEEDINGS

1. *RCBC Capital vs. EPCIBank, et. al. (International Chamber of Commerce - Reference No. 13290/MS)*

i) Brief Description of the Proceeding:

On 17th May 2004, RCBC Capital Corporation petitioned the International Chamber of Commerce to nullify its purchase of shares in the credit card company, Bankard Inc., which it purchased from the Bank in 2000. RCBC and the Bank entered into a sale and purchase agreement in May 2000 pursuant to which RCBC purchased 67% of Bankard for a consideration of P1.78 billion. In its petition to the International Chamber of Commerce, RCBC has alleged that the Bank has breached the representations and warranties contained in the sale and purchase agreement with respect to the financial condition of Bankard and has claimed P810 million of damages plus interest in arbitration. The Bank believes that these claims are without merit and has obtained legal advice from external counsel.

ii) Court/Agency in which the proceeding is pending:

International Chamber of Commerce – An Arbitration Tribunal has been constituted.. The three (3) member arbitral tribunal was constituted with the following as members; (a) Neil Kaplan, Esq. of London, nominee of RCBC; (b) retired Supreme Court Justice Santiago Kapunan, nominated by the Arbitration Respondents, and (c) the Hon. Sir Ian Barker of New Zealand, as the Chairman of the tribunal designated by the ICC.

EPCIB has likewise filed a Petition to open a docket with the Regional Trial Court of Makati City for the latter to (a) take cognizance of ICC Arbitration Ref. No. 13290/MS and (b) order the opening of a docket for the arbitration and requiring RCBC to file a copy of its witness statements and exhibits. The petition was granted and is now docketed as Special Proceeding Case No. M-6045 before Branch 148 of the RTC-Makati City.

iii) Principal Parties:

Equitable PCI Bank (EPCIB) and Rizal Commercial Banking Corporation (RCBC)

iv) Factual Basis Alleged and Relief Sought

In its Request for Arbitration, RCBC contends that the Arbitration Respondents breached their warranty under Section 5(g). It claims that the 1999 AFS did not comply with GAAP because an Asset account (Accounts Receivables) was overstated by P431.1 million for (i) failure to provide sufficient provisions or allowances for probable losses as required by GAAP due to the use of "bucketing" approach instead of the "accelerated" approach; and (ii) failure to provide for sufficient deferred credits for late payments pertaining to written accounts. Claiming that these accounting improprieties or errors resulted in overvalued Net Worth, resulting in its having overpaid P556,011,225.00 for the shares, RCBC prayed for (1) rescission of the SPA with restitution and damages, or (2) if rescission cannot be adjudged, damages in the amount of P809,796,082.00 as of April 30, 2004.

EPCIB controverts the RCBC position as follows:

(a) the questioned financial statements are fair, accurate and complete, and were prepared in accordance with GAAP;

(b) RCBC had directly (as Bankard Stockholder) and indirectly (through Bankard' s management) accepted and declared the questioned statements as fair, accurate and complete, and prepared in accordance with GAAP;

(c) RCBC accepted, adopted and used the relevant entries in the questioned financial statements as of December 31, 2000 and succeeding years;

(d) the accounts of the credit card operations of RCBC' s parent company was kept and maintained according to methods and policies similar to those of Bankard' s;

(e) having taken control of Bankard' s affairs from June 02, 2000, RCBC had full opportunity to examine the accounts despite which it failed to notify EPCIB of any complaints until May 2003;

(f) RCBC accepted the questioned financial statements as true and correct when it caused cash dividends to be paid by Bankard to its stockholders on or about September 2000 as a result of which RCBC received cash dividends in the amount of P452.8 million;

(g) given that the claim alleges omissions in Bankard' s records having a material adverse effect on its net worth exceeding P100 million, the relevant warranty is Section 5(h) of the SPA (not Section 5(g), as RCBC claims) under which the claim is barred because it was not presented to EPCIB on or before the agreed period' s expiry on December 31, 2000;

(h) the alleged misrepresentation by EPCIB in respect of Bankard' s net worth was, under Section 5(h), remediable only by price recovery, and not by rescission or other form of relief.

EPCIB made a counterclaim of USD$300,000.00 for litigation costs, as well as moral and exemplary damages.

The parties have submitted their respective witnesses' affidavits and memoranda last December 2006 and the petition was deemed submitted for decision. The Arbitral Tribunal is expected to come out with its decision by March to April 2007.

2. Other than the foregoing, the Bank is not involved in any litigation, arbitration or other administrative proceedings other than those arising in the ordinary course of business. The Bank believes that such proceedings would not individually or in the aggregate have a material adverse effect on the financial condition of the Bank and its subsidiaries.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II – OPERATIONAL AND FINANCIAL INFORMATION

ITEM 5. MARKET FOR ISSUER'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(1) *Market Information:*

The Registrant's common shares are traded in the Philippine Stock Exchange, Inc. The high and low sales prices for each quarter within the last two (2) fiscal years are as follows:

Market price as of April 12, 2007 close at P106.00 per share

2006	LOW	HIGH
1st Quarter	57.50	79.50
2nd Quarter	60.00	74.00
3rd Quarter	72.50	87.50
4th Quarter	64.50	85.00

2005	LOW	HIGH
1st Quarter	45.00	51.50
2nd Quarter	46.50	52.00
3rd Quarter	45.00	54.50
4th Quarter	47.00	59.00

(2) *Holders*

Title of each Class	Number of Holders of Each Class of Common Security as of December 31, 2006
Common Shares	14,495

Top 20 Stockholders as of December 31, 2006

Name of Record	No. of Shares held	% to Total
PCD Nominee Corp. – Filipino	368,847,051	50.735%
SM Investments Corporation	175,191,441	24.098%
Trans Middle East Philippines Equities, Inc.	51,827,640	7.129%
Social Security System	28,105,359	3.866%
Banco de Oro	24,778,761	3.408%
Shoemart, Inc.	15,814,856	2.175%
PCD Nominee Corp. – Non-Filipino	13,447,602	1.850%
Multi-Realty Development Corporation	8,379,925	1.153%
Antonio C. Chua	1,455,417	0.200%
Edilberto Narciso	1,410,708	0.194%
DHS Investment	1,260,933	0.173%
Keng Koc Co / or Mary D. Go	1,035,920	0.142%
Yu Chi Hua	776,250	0.107%
Andrew L. Tan	681,996	0.094%
Anita S. Lim	680,000	0.094%
Lily S. Lim	675,000	0.093%
Simeon Tan	636,930	0.088%
Agvid Construction Corp.	582,468	0.080%
Ernest Lee Go	562,095	0.077%
San Lim	560,866	0.077%

(3) *Dividends Declared For the Last Two (2) Years:*

(a) There were no cash and stock dividends on common shares declared in 2006.

On January 18, 2005, the Bank's Board of Directors approved the declaration of cash dividend at the rate of sixty centavos (₱0.60) per share or ₱436.20 million. Such declaration was approved by the Bangko Sentral ng Pilipinas (BSP) on April 1, 2005.

(b) Other than the statutory restrictions on declaration of cash dividends, i.e., approval by at least majority of the Board of Directors, availability of unrestricted retained earnings and prior written approval of the BSP, there are no other restrictions that limit the payment of dividends on common shares of stock of the Registrant.

(4) *Recent Sales of Unregistered or Exempt Securities including Recent Issuance of Securities Constituting an Exempt Transaction (within the past three (3) years)*

Title of Securities Sold: US$200.0 million Subordinated Debt Eligible as Tier 2

US$130 million Tranche	
Amount:	US$130,000,000.00
Date of Sale/Launch:	Date May 16, 2003
Joint Lead Managers:	Deutsche Bank AG/UBS Warburg
Sole Book-runner :	UBS Warburg
Total Fees/Commission:	US$1,495,000.00
Offer Price:	98.733%
US$70 million Tranche	
Amount:	US$70,000,000.00
Date of Sale/Launch Date:	May 16, 2003
Sole Book-runner/Lead Manager:	UBS Warburg
Total Fees/Commission:	US$350,000.00
Offer Price:	101.51%

Title of Securities Sold: US$100.0 million 6.50% Notes Due Feb. 19, 2008

Amount:	US$100,000,000.00
Date of Sales/Launch Date:	February 18, 2005
Joint Bookrunner and Joint Lead Managers:	HSBC/JPMorgan
Total Fees/Commissions:	US$1,070,000
Offer Price:	99.330%

Redemption for Taxation Reasons

The Bank may redeem the Notes in whole but not in part at a redemption price equal to 100% of the principal amount of the Notes together with accrued and unpaid interest to the date fixed for redemption upon the occurrence of certain changes affecting taxation in the Philippines, as more particularly specified in “Terms and Conditions of the Notes-Redemption and Purchase – Redemption for taxation reasons”.

Exemption for Registration Claimed

The sale and distribution of the securities is exempt from the registration requirements under the Securities Regulation Code because they were distributed outside the Philippines and by a bank duly licensed by the BSP. Section 8.1 and 9.1 of the SRC exempt from the registration requirement securities sold or distributed outside the Philippines and/or issued by a bank.

ITEM 6. MANAGEMENT’S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

FINANCIAL CONDITION CHANGES IN FINANCIAL CONDITION, AND RESULTS OF OPERATIONS FOR EACH OF THE LAST THREE FISCAL CALENDAR YEARS.

The balance sheet and income statement highlights of Equitable PCI Bank for each of the years 2003 to 2006 are shown in the tables below.

Balance Sheet Highlights

In million pesos	2003	2004 (restated)	2005 (restated)	2006
Assets	290,751	305,874	312,052	345,142
Deposits	186,044	193,520	206,664	240,099
Loans & Receivables (net)	120,974	133,099	140,188	161,432
Investment Securities (aggregate)[1]	50,338	60,827	75,655	62,286
Capital[2]	39,527	41,638	36,509	46,312

1/ Consists of Securities at Fair Value Through Profit or Loss, Available for Sale Investments, and Held to Maturity Investments
2/ Capital attributable to equity holders of the parent company

Income Statement Highlights

In million pesos	2003	2004	2005	2006
Net Interest Income	4,768	8,922	10,649	10,963
Non-Interest Income	8,920	7,808	9,557	12,467
Total Operating Income	13,687	16,730	20,206	23,430
Operating Expenses[1]	9,505	11,140	12,374	14,323
Provision for Impairment & Credit Losses	2,233	4,130	2,858	4,127
Net Income[2]	1,302	2,412	2,698	3,265

1/ Excludes provision for impairment and credit losses
2/ Net income attributable to equity holders of the parent company

2006 Compared to 2005 (Group Basis)

Equitable PCI Bank's total resources reached P345.14 billion at the end of 2006, reflecting an 11% increase over the 2005 asset level of P312.05 billion. Asset growth is evident in the Bank's Net Loans and Receivables which grew by P21.2 billion or P15% to P161.4 billion as a result of successful corporate strategies targeted at the higher-margin middle market and consumer loan accounts.

The Bank's short-term assets also increased for the year from the liquidity brought about by higher deposits and the sale of assets. Cash and Other Cash Items increased by 15% to P8.7 billion with the higher cash levels emanating from increased deposits. Due from BSP, which includes reserves, also went up by P16 billion to P23.3 billion with the growth in the Bank's deposit liabilities. Due from Other Banks went up by 39% to P6.5 billion, while Interbank Loans Receivables and Securities Purchased under Resale Agreements rose 51% to P27.6 billion as excess liquidity were placed with other banks and in overnight lending, respectively.

The Bank rebalanced its earning assets portfolio by reducing its aggregate Investment Securities portfolio. The combined Securities at Fair Value (SFV) through Profit or Loss, Available for Sale (AFS) Investments and Held-to-Maturity (HTM) Investments amounted to P62.3 billion, 18% or P13.4 billion lower than the P75.7 billion aggregate volume in 2005. This transpired as the Bank took advantage of favorable market developments to recalibrate its investment portfolio. SFV went down to P22.8 billion from P26.1 billion, AFS dropped to P9.6 billion from P17.1 billion, while Held to Maturity Investments declined to P29.9 billion from P32.5 billion.

Investment Properties declined by P561 million or 3% to P17.9 billion mainly from asset sales and transfers. Investments in Subsidiaries and Associates receded by P86 million or 30% to P204 million due to an allowance for impairment losses, while Other Assets contracted 15% to P12.2 billion generally due to lower inter-office float items, asset sales and provisions for impairment losses.

On the liabilities, total deposits registered a 16% growth from P206.7 billion in 2005 to P240.1 billion in 2006 as the Bank harnessed its extensive distribution network to generate incremental low-cost deposits. The deposit profile improved as demand and savings deposits increased 36% and 23%, respectively, while time deposits, which cost higher, declined 8%.

Bills Payable dropped 32% to P20.1 billion in 2006 as the growth in deposits enabled the Bank to cut down on other sources of higher-cost funding. The appreciation of the Philippine peso also lowered the translation value of the US$100 million senior notes. Accrued Interest Payable increased 32% to P1.1 billion due to bookings relating to the US$100 million senior notes issued. Accrued Taxes and Other Expenses surged 35% to P3.1 billion from higher accruals of the vacation and sick leave credits of officers and staff under IAS 19 among others. Outstanding Acceptances ballooned 56% to P961 million due to certain reclassifications. Manager's Checks and Demand Drafts Outstanding also rose 56% from a much bigger volume of checks issued which have not yet been presented for payment. Subordinated Notes Payable dipped 7% to P9.7 billion due to the strengthening of the peso, affecting the local currency value of the outstanding US$200 million Tier 2 notes, while Other Liabilities decreased 8% to P21.2 billion mainly from a lower Bills Purchased-Contra account and a smaller volume of Unearned Income and Other Deferred Credits.

Capital funds attributed to shareholders amounted to P46.3 billion at the end of the year, expanding by 27% due to the impact of the sale of the EBCII-held EPCI shares in October 2, 2006, and from income from operations. The acquisition cost of the parent company shares held by EBCII amounting to P7.47 billion was deducted from capital funds prior to the sale.

Minority interest, which represents the portion of profit or loss and the net asset not held by the Equitable PCI Bank Group, amounted to P1.12 billion at the end of 2006.. The figure is higher by 18% than the 2005 level of P988 million mainly from the share of the minority in the Group's profits.

For the full year 2006, the Bank posted a 23% hike in total net income to P3.45 billion from P2.8 billion in 2005, of which net income attributable to equity holders of parent amounted to P3.27 billion, up 21% from P2.7 billion. The significant increase in non-interest income and a modest improvement in net interest income buoyed the bottom line, despite conservative provisioning policies.

Non-interest income surged 30% to P12.5 billion, with P5.7 billion coming from service charges fees and commissions, P2.5 billion from trading gains, P814 million from foreign exchange gains and P3.4 billion from miscellaneous income. The Bank continued to expand its fee-based income by leveraging on its solid business franchise in branch banking, remittance, trust banking, bancassurance, credit cards and corporate cash management. The Bank bolstered its trading and foreign exchange gains as it judiciously managed its investment portfolio by carefully navigating through the turbulent emerging market environment in the second quarter and riding on the downtrend in interest rates in the second half of 2006.

Net interest income rose 3% to P11 billion in spite of tight interest spreads that hounded the interest differential business during the year. Interest income for the year rose 3% to P19.6 billion. Interest income on loans and receivables went up by 2% to P11.8 billion even as interest rates went down due to bigger loan volumes. Interest income on trading and investment securities rose 21% to P6.5 billion, while interest income from Interbank loans receivables dropped 54% to P640 million. Interest on deposits with other banks were higher by only 1% at P632 million.

The increase in interest and finance charges was also contained at 3% to P8.7 billion. Interest expenses on deposit liabilities grew 13% to P6.2 billion, while interest expenses on bills payable and borrowings was cut by 16% to P2.4 billion. The growth in deposits allowed the Bank to fund a larger level of earning assets and prune higher-cost funding sources at the same time.

The Bank continued to adopt conservative provisioning policies despite better asset quality ratios. Provision for impairment and credit losses climbed 44% to P4.1 billion, even as the non-performing loan (NPL) ratio sustained its decline to 3.85%.
The Bank's operating expenses, excluding provision for impairment and credit losses, reached P14.3 billion for the year, 16% higher than the P12.4 billion in 2005. Compensation and fringe benefits grew by 13% or P506 million to P4.3 billion due to new IAS provisions on the amortization of pension fund liabilities as well as merit and salary increases. Occupancy Expenses amounted to P1.9 billion, up by 5% from P1.8 billion in 2005, while Depreciation and Amortization expenses were higher by 5% in 2006 at P1.4 billion as the Bank continued to expand its branch and ATM network. Taxes and Licenses reached P1.6 billion, up by P143 million or 10% from a year-ago due to a higher level of income subject to the gross receipts tax (GRT). Other expenses, meanwhile, rose by 29% to P5.1 billion, mainly from a bigger miscellaneous expense account.

Provision for income taxes amounted to P1.6 billion in 2006, less than the income tax provision of P2.2 billion in 2005. A smaller amount of deferred tax assets (DTA) was written-off as the volume of DTA outstanding can be utilized against taxable profits.

2005 Compared to 2004 (Group Basis)

Equitable PCI Bank's total resources reached P312 billion in 2005, reflecting a 2% increase over the restated 2004 asset level of P305.9 billion. Growth in assets came mainly in the form of investment securities. The combined Securities at Fair Value through Profit or Loss/Trading Account Securities (TAS), Available for Sale (AFS) Securities and Held-to-Maturity (HTM) Investments/Investment in Bonds and Other Debt Instruments (IBODI) amounted to P75.7 billion, 24% or P14.8 billion more than the P60.8 billion aggregate volume in 2004. This transpired as the Bank took advantage of favorable market developments to beef up its investment portfolio and reflected the impact of IAS.

The Bank's other short-term assets reflected a mixed trend for the year. Due from BSP rose 212% to P7.2 billion, while Interbank Loans Receivable rose 5% to P18.2 billion. Cash and Other Cash Items dipped by 14% to P7.5 billion, while Due from Other Banks went down by 39% to P4.7 billion.

Net Loans and Receivables/Receivables from Customers of P140.2 billion were still higher by 5% or P7 billion even after reflecting the second tranche non-performing asset (NPA) sale worth P5.3 billion in the third quarter of the year. Investment Properties declined by P757 million or 4% to P18.4 billion mainly from asset sales and transfers. Equity Investments dropped 11% to P291 million while Other Resources contracted 53% to P14.4 billion generally due to the impact of new IAS provisions.

On the liabilities side, deposits registered a 7% growth from P193.5 billion in 2004 to P206.7 billion in 2005 with the deposit profile improving as low-cost demand and savings deposits increased 9% and 10%, respectively, while high-cost time deposits declined 2%. Bills Payable rose 24% to P29.7 billion in 2005 due mainly to the US$100 million senior notes issuance in February 2005 as the Bank rationalized its fund sources. Accrued Interest Payable increased 44% to P795 million due to bookings relating to the US$100 million senior notes issued. Accrued Taxes and Other Expenses surged 34% to P2.3 billion from higher accruals of the vacation and sick leave credits of officers and staff under IAS 19 among others. Outstanding Acceptances dropped 92% to P616 million due to certain reclassifications. Subordinated Notes Payable dipped 7% to P10.5 billion due to the strengthening of the peso, while Other Liabilities decreased 3% to P23.1 billion.

Capital funds attributed to shareholders amounted to P36.5 billion at the end of the year, contracting by 12% due to the impact of the new IAS policies.

For the year-ended 2005, the Bank posted an 11% hike in total net income to P2.8 billion from its level of P2.5 billion in 2004, of which net income attributable to equity holders of parent amounted to P2.7 billion, up 12% from P2.4 billion. This stemmed from wider net interest margin, better asset and liability mix, healthier loan portfolio quality and larger non-interest income.

Total Interest Income increased by 14% to P19.0 billion, driven by larger earning assets and an improvement in the portfolio mix. Interest income on Customer Loans went up by 14% to P11.6 billion in 2005 from P10.2 billion in the previous year. Similarly, interest income from Interbank Loans rose by 28% to P1.4 billion, while interest revenues from Trading and Investment Securities grew by 22% to P5.4 billion. However, interest income from Deposit with Banks dropped by 37% to P624 million.

Interest expenses rose at a slower pace of 9% to P8.4 billion with an improved funding cost structure. Thus, net interest income reached P10.6 billion, up by P1.7 billion or 19% from P8.9 billion a year ago.

Meanwhile, Other Income rose by 22% year-on-year to P9.6 billion in 2005. The Bank earned P4.9 billion in Service Charges, Fees and Commissions, up by P520 million or 12% from a year-ago as a result of initiatives to build up fee-based income sources. Treasury-related trading gains and foreign exchange profits also grew by 169% and 131% to P1.1 billion and P670 million, respectively, due to favorable market conditions. Some P2.8 billion was booked as Miscellaneous Income representing a 5% hike.

The Bank set aside a total of P2.9 billion as provision for probable losses in 2005, P1.3 billion or 31% less than the provision of P4.1 billion a year ago. This was after the sale of P10.5 billion of non-performing assets (NPA) in December 2004 and another P5.3 billion in September 2005.
The Bank's operating expenses, exclusive of provision for impairment and credit losses, reached P12.4 billion for the year, 11% more than the P11.1 billion in 2004. Compensation and fringe benefits grew by 14% or P466 million to P3.8 billion due to new IAS provisions on the amortization of pension fund liabilities as well as merit and salary increases. Occupancy Expenses amounted to P1.8 billion, up by 12% from P1.6 billion in 2004. Depreciation and Amortization expenses were flat in 2005 at P1.3 billion. Taxes and Licenses reached P1.4 billion, up by P296 million or 26% from a year-ago due to a higher level of income subject to the gross receipts tax (GRT). Miscellaneous expenses, meanwhile, rose by 8% to P4.0 billion.

Provision for income taxes amounted to P2.2 billion in 2005 from an income tax benefit of P1.1 billion in 2004 due to a higher taxable income and write-offs on deferred tax assets.

2004 Compared to 2003 (Group Basis)

In 2004, Equitable PCI Bank's total resources, as restated, grew by P15.1 billion or 5% to P305.9 billion from the end-2003 level of P290.8 billion. The rise in total assets is seen mainly in the growth of investment securities, which grew 21%, and in loans. Net Receivables from Customers amounted to P133.1 billion as of end-December 2004, 10% more than the December 2003 level of P121.0 billion.

The Bank's liquid assets generally showed a drop as the Bank deployed funds to higher earning assets. Due from BSP dipped by 56% year-on-year to P2.3 billion from P5.3 billion. Due from Other Banks also declined 10% year-on-year to P7.7 billion from P8.6 billion. Interbank Loans Receivables contracted 24% to P17.4 billion. Only Cash and Cash Items were up by 16% at P8.7 billion as of end-December 2004.

On the liabilities side, deposits held by the Bank amounted to P193.5 billion at end-2004, 4% more than the December 2003 level of P186.0 billion. Bills Payable declined 19% year-on-year to P24.0 billion although Other Liabilities expanded 22% to P23.7 billion.

Capital funds attributable to shareholders stood at a restated P41.6 billion at the end of 2004. This shows a growth of 5% or P2.1 billion from the December 2003 level, with the growth coming from the Bank's earnings.

Equitable PCI Bank's restated net income attributable to equity holders of parent amounted to P2.4 billion in 2004, up by 85% or P1.1 billion from P1.3 billion in 2003, driven largely by wider net interest margins, lower funding costs, a better portfolio mix and an improved cost structure.

Total Interest Income increased by 31% to P16.6 billion, driven by larger earning assets, improvements in the portfolio mix and the rise in domestic interest rates. Interest expenses were lower by P224 million or almost 3% at P7.7 billion from P7.9 billion with an improved funding cost structure. Thus, net interest income reached P8.9 billion, up by P4.2 billion or 87% from P4.8 billion a year ago.

Meanwhile, Other Income dipped by 12% year-on-year to P7.8 billion in 2004. The Bank earned P4.4 billion in Service Charges, Fees and Commissions, which was generally flat year-on-year. Treasury-related trading gains and foreign exchange gains dropped by 74% and 52%, respectively. Miscellaneous income though posted a 15% gain to P2.7 billion.

The Bank set aside a total of P4.1 billion as provision for probable losses in 2004, P1.9 billion or 85% more than the provision of P2.2 billion a year earlier in preparation for the sale of P10.5 billion of non-performing assets (NPA) in December 2004.

The Bank's other operating expenses reached P11.1 billion for the year, 17% higher than the P9.5 billion in 2003. Compensation and fringe benefits grew by 6% to P3.3 billion due to provisions contained in the CBA with the employees union. Occupancy expenses amounted to P1.6 billion, down by 4% from P1.7 billion in 2003. Depreciation and Amortization expenses were higher by 16% in 2004 at P1.3 billion. Taxes and Licenses reached P1.1 billion, up by P722 million or 169% from a year-ago due to the re-imposition of the gross receipts tax (GRT) in 2004. Miscellaneous expenses, meanwhile, rose by 20% to P3.7 billion.

A benefit from income tax of P1.1 billion was recorded in 2004 in contrast to provision for income taxes of P526 million in 2003. This was related to timing differences in the recognition of tax liabilities arising from the sale of P10.5 billion of non-performing assets (NPA) and the accompanying provision of probable losses booked in 2004.

Key Performance Indicators

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

	2006	2005	2004
Return on Equity (%)[1]	14.40%	10.57%	11.65%
Return on Assets (%)[1]	1.06%	0.88%	1.04%
Net Interest Margin (%)	4.31%	4.35%	4.21%
Efficiency Ratio (%)	61.07%	61.24%	64.04%
NPL Ratio (%)[2]	3.85%	4.54%	7.01%

1/ without appraisal increment and goodwill
2/ based on BSP Circular No. 351, net of fully-provided "loss" accounts.

The Group's Return on Equity (ROE), the ratio of net income to average equity excluding goodwill and appraisal increment rose to 14.40% in 2006 from 10.57% in 2005. The 2006 ROE is also higher than the 11.65% in 2004.

Return on Assets (ROA), the ratio of net income to average assets excluding goodwill and appraisal increment also went up to 1.06% in 2006 from 0.88% in 2005. The ratio was at 1.04% in 2004.

Net Interest Margin (NIM), the ratio of net interest income to average earning assets continued to increase and was down by 4 basis points at 4.31% in 2006 from 4.35% in 2005, but 10 basis points higher than the 4.21% in 2004. The NIM dipped slightly as a result of the prevailing low interest rates and highly competitive environment.

Efficiency ratio, the ratio of other expenses excluding goodwill amortization to the sum of net interest income and other income, has improved at 61.07% in 2006 from 61.24% in 2005 and from 64.04% in 2004.

The Bank's non-performing loan (NPL) ratio improved to 3.85% in 2006 from 4.54% in 2005 and 7.01% in 2004 due to enhanced credit processes, aggressive collection efforts and asset sales. The NPL ratio is net of fully-provisioned accounts following the BSP formula.

PAST AND FUTURE FINANCIAL CONDITION AND RESULTS OF OPERATION WITH PARTICULAR EMPHASIS ON THE PROSPECTS FOR THE FUTURE

The positive results for Equitable PCI Bank in recent years bear out the Bank's moves to expand certain businesses in high growth areas, while carefully managing asset quality and improving overall service to clients. They also reflect major strides the Bank has achieved in strengthening its balance sheet and capturing more business.

To provide customers with greater banking convenience, the Bank in 2006 continued to expand its distribution network. Total branch network inclusive of the Bank's Hong Kong branch reached 449 by yearend. The Bank, similarly, increased its alternative channels by expanding its ATM network size and bringing the Bank's installed ATM network to 689. The Bank also introduced more enhancements to the features and range of electronic banking products and services.

At the same time, cost containment and productivity continue to be a focus. Technology is being leveraged for the delivery of products and services. Branch formats continue to be reconfigured and electronic banking is being promoted to minimize costs and maximize efficiency. Manpower, which number 7,978 employees as of end-2006, are being more efficiently utilized with the branch network transformed into a sales-centric organization.

Equitable PCI Bank continues to strengthen its balance sheet through conservative provisioning and by improving asset quality with a proactive management of risk through selective lending and enhanced credit processes. Non-performing assets (NPA) continues to be reduced through aggressive sale of acquired assets.

Material Events and Uncertainties

On 30th 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 on 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. Subsequently, the SSS participated in SMIC Tender Offer by the SM group (see below) subject to the resolution of the case pending in the Supreme Court.

On 11th 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).

In its letter dated 25th 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 31st 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. Subsequently, EBCII agreed to sell its 10.8% stake to the SM group under the same terms and conditions as the Tender Offer (see below).

On 6th 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 31st January 2006.

On 26th 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 ₱92/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 6th March 2006, was reportedly first extended to 6th April and then extended again to 8th May 2006. No buyer, however, was reported to have submitted a bid for the GSIS shares on the May 8 deadline. GSIS subsequently sold its entire holdings to the SM group in the EPCI Tender Offer (see below).

On 29th August 2006, SM Investments Corporation (SMIC) and related companies made a Tender Offer for 401,015,110 shares of Equitable PCI Bank, representing 55.16% of outstanding shares at a price of ninety-two pesos (₱92) per share. The consideration shall be payable as follows: ten percent (10%) on settlement date or on October 2, ten percent (10%) on June 2, 2007, ten (10%) percent on February 2, 2008, and the balance to be paid on October 2, 2008.

The Tender Offer by the SM group generated participation from shareholders with total shares of 374.9 million equivalent to 51.6% of EPCI's total shares outstanding. The sellers included the GSIS with 13.55%, the SSS with 25.84%, and other individual shareholders with 1.34%. The participation of the SSS in the Tender Offer, however, is subject to the resolution of the case pending in the Supreme Court.

EBCII also agreed to sell its 78,807,098 EPCI common shares under the same terms and conditions as the Tender Offer. The EBCII-held shares represent about 10.8% of EPCI's total shares outstanding.

The sale of the shares under the Tender Offer was consummated through cross trades on October 2, 2006 at the Philippine Stock Exchange. The SM group now holds an effective 55.8% ownership stake in the Bank, which could go up to 81.6% if the SSS stake is included.

On 6th November 2006, the Boards of Directors of Equitable PCI Bank Inc. (EPCI) passed a resolution approving a plan to merge with BDO. The Board endorsed to the shareholders the approved Plan of Merger for ratification and this was approved by the shareholders on 27th December 2006. Under the terms of the merger, EPCI shares will be swapped for BDO shares at a ratio of 1.8 BDO shares for every EPCI share. The Bank is now awaiting final approvals from the BSP and the SEC, as well as from other regulatory agencies, for the merger to take effect. When the requisite approvals are obtained, BDO will be the surviving entity and the merged bank will be named Banco de Oro-EPCI, Inc. The Philippine Stock Exchange (PSE) has already given its approval for the listing of BDO equivalent shares of EPCI, which will be transacted once the merger is legally consummated. Subsequently, EPCI shares will be delisted from the PSE

On 23rd January 2007, Equitable PCI Bank's Board of Directors resolved to fold its subsidiary, ECN, into the parent company or into the surviving entity resulting from the merger between the parent company and BDO, as may be appropriate, for reasons of cost efficiency and economies of scale.

On 22nd February 2007, the Board of Directors of Equitable PCI Bank granted Management the authority and discretion to determine the manner and time of the implementation of the following corporate actions, taking into consideration the best interest of the parent company and subject to applicable statutory and regulatory requirements:

1. The sale or disposal of the parent company's equity investments in certain publicly listed and non-listed corporations, the engagement of the services of a broker to handle the equity placement of the listed shares, and the engagement of the services of an investment/portfolio manager to implement the sale and disposition of non-listed shares;
2. The sale or dissolution of certain non-operating non-stock companies;
3. The consolidation, integration or merger of its two (2) information technology (IT) company subsidiaries, PCI Automation and Equitable Data Center, Inc. (EDCI), with the latter as the surviving entity;
4. The consolidation, integration, or merger of Equitable Exchange, Inc. with its parent company EBC Investments, Inc., once the merger between BDO and the parent company receives approval from the appropriate regulatory bodies; and
5. The consolidation, integration, or merger of PCI Capital and EBC Capital Corporation with the merged Banco de Oro-EPCI, Inc., after the latter receives the necessary approvals from the appropriate regulatory bodies.

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

1. Any known trends or demands, 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 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 less that did not arise from continuing operations
7. Any seasonal aspects that had a material effect on the financial condition or results of operations.

Prospects for the Future

The BDO-EPCI merger has been approved last December by BDO and EPCIB shareholders in separate stockholders in separate special stockholders meetings, and is currently awaiting final approvals from the BSP and the SEC as well as from other regulatory agencies. Key officers of the two banks are currently ironing out an integration work plan designed to ensure that the competitive advantages and market leadership of the two banks would be preserved and built into the merged entity. It is expected that the resulting consolidation of resources, talents and networks will translated into greater stability, expertise, and accessibility that the banking public can rely on. Noteworthy, the merger will propel the combined Bank to be among the largest in the country in terms of scale with leading market positions in all core business lines. With each of the two banking institutions reporting excellent performance in 2006, the merged entity of BDO and EPCI lays claim to the enviable advantages of a solid foundation and dynamic synergy upon which to build even more vigorous growth.

ITEM 7. FINANCIAL STATEMENTS

The consolidated financial statements and schedules listed in the accompanying Index to Financial Statements and Supplementary Schedules are filed as part of this Form 17-A (page 41)

ITEM 8. INFORMATION ON INDEPENDENT ACCOUNTANT AND OTHER RELATED MATTERS

The Report of Independent Certified Public Accountant (SGV) is attached to the Financial Statements of the Bank (page 39-40).

Information on Independent Accountant

EquitablePCI Bank engaged the services of SyCip Gorres Velayo and Co. (SGV) for the audit of the Parent's Financial Statements as of December 31, 2006 and 2005.

The total fees for each of the last two fiscal years for professional services rendered by the registrant's external auditors are summarized below:

		Total Fees (millions)	
	Nature of Services Rendered	2006	2005
Audit and Audit Related Fees	Annual audit fees of the Parent Bank based on the contract amount for 2006 and actual payment/billed for 2005		
Tax – Related Fees	Tax advisory and compliance review services		
All Other Fees	Seminars conducted on International Accounting Standards (IAS) and IAS 39 conversion		
	Limited review of financial statements relative to the issuance of bank's bond offering in 2005		
	Audit fees of the parent bank for Sept 30, 2006 audited FS for merger purposes Fees during annual and special stockholders meeting		
Total Fees	(excluding VAT and out of pocket expenses)	**P12.7**	**P7.2**

<u>Audit Committee's Approval Policies and Procedures for Above Services</u>

The stockholders of the Parent Bank approve the appointment of the external auditors during their regular meeting each year. The Board Audit Committee reviews and sets the terms for the engagement of the external auditor and recommends its selection for the approval to the board of directors.

Sycip, Gorres, Velayo and Co. (SGV) was appointed as the Company's external auditor for 2006 and 2005. In compliance with the existing regulatory policy, changes were made in the assignment of SGV's engagement partners for the Parent Company, at least once during the immediately preceding five (5) year period.

PART III – CONTROL AND COMPENSATION INFORMATION

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The incumbent directors and executive officers of the Registrant are as follows:

1. Directors

Corazon S. De La Paz, 65, Filipino, was elected Chairman of Equitable PCI Bank on February 21, 2006. She is currently the President & Chief Executive Officer of the Social Security System. She is the President of the International Social Security Association, a Geneva-based organization, for the 2004 to 2007 triennium. She is also a Director of San Miguel Corporation, Philippine Long Distance Telephone Co., PCI Leasing & Finance, Inc., PCI Capital Corporation, Equitable Card Network, Inc., EBC Investments, Inc., Ionics, Inc., Philex Mining Corporation, Philex Gold, Inc. and Republic Glass Holdings. She was the Chairman & Senior Partner of Joaquin Cunanan & Co. (PricewaterhouseCoopers, Philippines) from 1981 to 2001. She is also a member of the Board of Trustees of: Asian Institute of Journalism & Communication, Jaime V. Ongpin Foundation, Inc., Laura Vicuna Foundation for Street Children, Makati Business Club (Treasurer), Meralco Foundation, Inc. (Treasurer), Miriam College and Philippine Business for the Environment. Other memberships include those in the: Management Association of the Philippines, the Financial Executive Institute of the Philippines, the Asia Society, Pacific Basin

Economic Council (Philippine Chapter), and Member of the Board of Advisors of Ramon V. Del Rosario, Sr. – AIM Center for Corporate Social Responsibility.

Winston F. Garcia, 47, Filipino, was elected Vice Chairman of the Board in July 2005. He is the President and General Manager of the Government Service Insurance System (GSIS). He is Chairman of National Reinsurance Corporation, GSIS Mutual Funds, Inc., Equitable Card Network, Inc., PCIB Securities, Inc. and Equitable Savings Bank, Inc. He is likewise Vice Chairman of the Philippine Social Security Association. He is a Director of EBC Investments, Inc., PCI Capital Corporation, Asean Forum, Inc., Asean Social Security Association, San Miguel Corporation, Philippine National Construction Corporation and Philippine Health Insurance Corporation. As representative of the GSIS, he is a member of the International Social Security Association and the International Insurance Society, Inc.

Ferdinand Martin G. Romualdez, 42, Filipino, was elected Director of Equitable PCI Bank on July 21, 1999, became the Vice Chairman of the Board in April 2001. He served as Chairman of the Board from July 19, 2005 up to February 21, 2006. Prior to this, he served as Director of the former PCIBank from May 1992 to January 1997. He was re-elected to the Board on April 30, 1998 until the merger of Equitable Bank and PCIBank. He is also the Chairman of Benguet Management Corporation. He served as Director of Benguet Corporation and became the Chairman of the Board in October 2002. Likewise, he is the Chairman of BEREC Land, Inc. He concurrently holds directorships in Arrow Freight Corporation, Benguet Trade, Inc. and Carpa Realty Development Corporation (where he also serves as the company's Legal Counsel). He is President and member of the Board of Trustees of Doña Remedios Trinidad Romualdez (RTR) Medical Foundation. He is also Vice President, member of the Board of Trustees, and Dean of the College of Law of Dr. Vicente Orestes Romualdez (DVOR) Educational Foundation.

Teresita T. Sy, 56, Filipino, was last elected Director and Vice Chairperson of Equitable PCI Bank in May 2006. Concurrently, she holds directorships in Equitable Card Network, Inc., EBC Investments, Inc., PCI Capital Corporation, PCI Leasing & Finance, Inc. and Equitable Savings Bank, Inc. She is presently Director and Chairperson of BDO Realty Corp., as well as Chairperson and President of Supervalue, Inc., Director and Vice Chairperson of SM Investments Corp. and Generali Pilipinas Holding Co., Inc., Director and President of Shoemart, Inc. and SM Mart, Inc. and Director and Executive Vice President of First Asia Realty Development Corp. and SM Prime Holdings. She likewise holds directorships in Multi Realty Development Corp., and SM Keppel Land, Inc. She also served as Director and Chairperson of Banco de Oro Universal Bank from 1986 and 1996, respectively, until August 2005. She formerly was the Chairperson of BDO Private Bank and Director of Philippine Long Distance Telephone Company.

Rene J. Buenaventura, 51, Filipino, was elected Director of Equitable PCI Bank effective March 16, 2002. He is also the President & Chief Executive Officer of Equitable PCI Bank. He is likewise Chairman of EBC Insurance Brokerage, Inc., Express Padala (USA), Inc., Express Padala (HK) Ltd., Express Padala (Rotterdam), B.V., Express Padala (España), S.A., Equitable PCI Express Padala (Deutschland) GmbH, PCI Travel Corporation, PCI Management Consultants, Inc., Equitable Pentad Rental Inc. and Two PCIB Tower, Inc.; Director & President of Megalink, Inc. Vice Chairman of PCI Leasing & Finance, Inc., PCI Automation Center, Inc., Equitable Data Center, Inc., PCI Capital Corporation, Strategic Property Holdings, Inc., PCIB Properties, Inc., Equitable Savings Bank, Inc. and Maxicare Healthcare Corporation; Vice Chairman & President of Express Padala International, Inc.; Chairman & President of The Executive Banclounge; Trustee of PCIBank Foundation, Inc. and The Sign of the Anvil, Inc.; and a Director of the following Equitable PCI Bank subsidiaries: EBC Investments, Inc., EBC Strategic Holdings Corporation, Equitable Card Network, Inc., Property Care, Inc. and Philam Equitable Life Assurance Company (PELAC). He is likewise the Chairman of the Board of Trustees and President of PCIBank Buendia Building Condominium Corporation, Chairman of the Board of Trustees of Bankard Building Condominium Corporation and PCIBank Development Academy, Inc. He is also a Director of LGU Guaranty Corporation.

Nazario S. Cabuquit, Jr., 73, Filipino, was elected Director of Equitable PCI Bank on July 19, 2005. He is one of the nominees of the Social Security System (SSS) where he works as Special Assistant to the President and Chief Executive Officer. Prior to joining the SSS, he worked as Consultant for projects financed by the World Bank and the Asian Development Bank. He was also associated with SGV working as a Management Consultant handling engagements for various clients in the power industry, steel, merchandising, real estate and others. He was Undersecretary of the Department of Budget and Management during the Aquino administration, where he served as alternate member in the Monetary Board of the then Central Bank of the Philippines. After he left the Government in 1989, he was elected member of the Board of Directors of the then Associated Bank where he was also a member of the Executive Committee and Chairman of the Audit Committee. He also served as member of the Board of Philippine National Oil Company and First Philippine Holdings, Inc. He was Country Manager of the Philippine operations of SmithKline Corporation (now GlaxoSmithKline) for more than 18 years. He was President of Barbizon Philippines, Inc. and was Executive Vice President of Philippine Steel Coating Corporation and its affiliates. He was elected in June 2006 as Chairman of Co-ops for Christ, a multi-purpose cooperative of the Couples for Christ foundation.

Fulgencio S. Factoran, Jr., 63, Filipino, was elected to the Board in August 2002. He is likewise a Director of Equitable Card Network, Inc., Express Padala (USA), Inc., EBC Investments, Inc., PCI Leasing & Finance, Inc. and EBC Insurance Brokerage, Inc. His other executive or corporate governance positions include: Director, Central Azucarera de Tarlac, Inc.; Director, Philippine Educational Theater Association (PETA); Director, Center for Media Freedom and Responsibility; Chairman of the Board, Geologistics Philippines, Inc.; and Chairman of the Board, Gaia South, Inc.

Peter D. Garrucho, Jr., 62, Filipino, was elected Independent Director of Equitable PCI Bank on May 23, 2006. He is currently the Managing Director for Energy of First Philippine Holdings Corporation. He is the Vice-Chairman & Chief Executive Officer of First Gen Corporation, First Gas Holdings Corp., First Gas Power Corp., FGP Corp., First Gas Pipeline and First Gen Renewables, Inc. and Unified Holdings Corporation. He is the President and Chief executive Officer & Director of First Private Power Corporation and Bauang Private Power Corporation. He is the Managing Director of First Philippine Industrial Corporation. He is also a Director of ABS-CBN, First Philippine Balfour, Inc., Eugenio Lopez Foundation Inc., Lopez Group Foundation, Inc., Panay Electric and Strategic Equities Corporation and Strategic Equities Corporation. He is the Chairman of the Energy Council of the Philippines., Philippine Center for Population and Development and Intellectual Property Foundation. He was the Secretary of Tourism from 1989 to 1991, Secretary of Trade & Industry from 1991 to 1992 during the administration of President Corazon C. Aquino. He was the Executive Secretary and the Presidential Adviser fro Energy Affairs under President Fidel V. Ramos. Other memberships include those in the: Management Association of the Philippines, European Chamber of Commerce of the Philippines, Pacific Basin Economic Council.

Ma. Luz C. Generoso, 52, Filipino, was elected to the Board of Equitable PCI Bank on December 4, 2001. She is currently the Assistant Vice President, Loans Program Division, Investments & Finance Sector of the Social Security System (SSS). She is also a Director of the Small Business Guarantee and Finance Corporation (SBGFC), PCI Capital Corporation, Philamlife Tower Management Corporation and Philam Tower Realty Corporation (PTRC). She is likewise Vice President of the PTRC and the Philamlife Tower Condominium Corporation. Other positions held include: Member of the Investments Planning & Strategy Committee and Employee Housing Committee of SSS, Trust Committee as well as Board Credit Committee of Equitable PCI Bank and Chairperson, Board Audit Committee of SBGFC.

Antonio A. Henson, 66, Filipino, was elected Director of Equitable PCI Bank on May 23, 2006. Concurrently, he holds directorships in Nationwide Development Corp., and Manila Southcoast Development Corp. He is presently Director and President of Highlands Prime Inc. and Belle Bay City Corp., Director and Ex-Com of Belle Corporation, and Director and Chairman of Phil. Estates Corp. and Universal Light Rail Corp. He has held various positions in both public and private sectors. He was a partner in SGV and Co. until 1986. He thereafter served as Undersecretary of Trade and Industry until 1991. He was General Manager of National Development Co. from 1987 to 1991. He was also President of Clark Development Corp. from 1993 to 1995. In 1995, he served as President of Asia's Emerging Dragon Corp. He became President of SM Investments Corporation in 1999 and held such position until 2004

Ramon J. Jabar, 76, Filipino, was elected to the Board of Equitable PCI Bank in April 2004. He was a Commissioner of the Social Security System from August 2003 to October 2006. He was the President of the Federation of Free Workers until his retirement in July 2006.

Reynaldo P. Palmiery, 66, Filipino, was elected to the Board in April 2004. He is also a member of the Board of Directors of PCI Leasing Inc. and Advisory Board Member of both Equitable Savings Bank, Inc. and PCI Capital Corporation. He is currently a member of the Board of Trustees of the Government Service Insurance System (GSIS) and President & Director of the GSIS Family Bank. He has extensive experience in banking and finance including a two-year assignment as the representative of the Philippine Government to the World Bank in Washington, D.C., U.S.A. He has served the government for more than 35 years.

Edmundo L. Tan, 61, Filipino, was appointed Director of Equitable PCI Bank on March 31, 2006. He is the Chairman of EBC Investments, Inc. He was likewise appointed Director of PCI Leasing & Finance, Inc. and PCI Capital Corporation in March 2006. He serves as Director and Corporate Secretary of APC Group, Inc., Philippine Global Communications, Inc., Philcom Corp., and APC Mining Corp. He concurrently holds directorship in Sinophil Corp., Aragorn Power & Energy Corp., and Aragorn Coal Resources, Inc. Atty. Tan is Managing Partner of Tan Acut Lopez Law Offices.

Josefina N. Tan, 61, Filipino, was last appointed Director of Equitable PCI Bank in May 2006. She is a Director of BDO Realty Corp. She is also Vice Chairperson of Miriam College, President of Regal Properties, Inc. and a Trustee in both Development Center for Finance and Laura Vicuña Foundation. Previously, she was Director of BDO Universal Bank from 2001 to August 2005. She was previously a director and President of BDO Private Bank. Ms. Tan was also Executive Vice President of the former Far East Bank & Trust Co., Director and President of FEB Leasing & Finance Corp., Executive Director and Trustee of FEB Foundation, Inc., and Executive Vice President of FEB Investments, Inc. until 2000. She also held directorships in FEB Insurance Brokers, Inc., FEB Exchange Inc., FEB Management Inc., FEB Information Technologies, FEB Stock Brokers, Inc. and Makati Insurance Co., similarly until 2000.

Jesus G. Tirona, 66, Filipino, is an Independent Director of Equitable PCI Bank on July 19, 2005. He serves as Chairman of the Board Audit Committee and member of the Board Credit Committee, Governance and Legal review Committee and Board Nomination Committee of the Bank. He serves as Adviser to PCICapital Corp. and Independent Director of Armstrong Securities, Inc. He recently retired as President/CEO of LGU Guarantee Corporation - a private sector-led credit guarantee/enhancing institution jointly owned by the Bankers Association of the Philippines, Development Bank of the Philippines and the Asian Development Bank – whose mandate is to provide creditworthy LGUs access to the capital market through LGUGC-enhanced LGU bond floatation. He was also Managing Director of the Guarantee Fund for Small and Medium Enterprises and the BAP Credit Guaranty Corp. – both entities involved in SME development. He has over 35 years of experience in banking and finance, having built his banking career with Citibank in Manila, New York and Hongkong as well as with other financial organizations serving in various senior positions. He holds a Master's Degree in Business Administration form the George Washington University in Washington, D.C. and a Bachelor's Degree from the Ateneo de Manila University. He is a Scholar on Corporate Social Responsibility conferred by the Asian Productivity Organization in Japan and is a Fellow of the Institute of Corporate Directors. He participates in various conferences on corporate governance and risk management. He is also tapped by multilateral organizations on various key policy matters. He has long served as Trustee of the Cupertino School for Special Children.

Sabino E. Acut,Jr., 56, Filipino, was appointed Corporate Secretary of Equitable PCI Bank on May 12, 2006. He is presently a Senior Partner and Head of the Litigation Department of Tan, Acut & Lopez Law Offices. He was a former Senior Partner and Head of the Litigation Department of Ponce Enrile Cayetano Reyes & Manalastas Law Offices (PECABAR), and, before that, a Partner of Angara Abello Concepcion Regala & Cruz Law Offices (ACCRA). At various times, he was Corporate Secretary of Boulevard Holdings, Inc., Puerto Azul Golf & Country Club, and Eastern General Reinsurance Corporation; Legal Counsel of Alabang Country Club and Philippine Hospital Association; Trustee of Makati Law Foundation; and President of the Legal Management Council of the Philippines. Previously, he was Journal Editor of the 1971 Constitutional Convention, Special Assistant to the Director of the Bureau of National and Foreign Information, and Confidential Attorney to former Supreme Court Justice Cecilia Muñoz Palma. He is a member of the Integrated Bar of the Philippines and the Philippine Bar Association. He is currently a Director of Philippine Global Communications, Inc. and APC Group, Inc.

The Directors hold office for one (1) year until their successors shall have been elected and have qualified.

2. Executive Officers

Walter C. Wassmer, 49, is Senior Executive Vice President & Head of Retail Banking segment of Equitable PCI Bank. He is responsible for all organizational units of the Bank serving the retail market such as Transaction Banking, Personal Banking, Elite Banking, Consumer Banking, Equitable Savings Bank and the Remittance business. He is also a Director of PCI Leasing & Finance, Inc., Jardine Equitable Finance Corp., Equitable Insurance Brokerage, Inc., Equitable PCI Life Insurance Corp., EBC Strategic Holdings Corp., Express Padala (Rotterdam), B.V. and Mabuhay Vinyl Corp. He is a member of the Advisory Board of Equitable Savings Bank. He is also currently the President of L.P. Wassmer Trading, Inc. and Treasurer of WT&T, Inc.

Antonio N. Cotoco, 58, Filipino, is the Senior Executive Vice President & Segment Head of Institutional Banking of Equitable PCI Bank. He currently serves as a Director of EBC Insurance Brokerage, Inc., EBC Strategic Holdings Corporation, PCI Leasing & Finance, Inc., and EBC Management, Inc. He has been involved in Investment Banking, Corporate Finance, Treasury, Consumer Banking, Credit, Business and Development and Account Management over the past 29 years. He currently also serves as a Director of Oriental Assurance Corporation and OAC Realty & Development Corporation.

Gerard Lee B. Co, 48, Filipino, is Executive Vice President & Group Head for Commercial Banking. He is also a Director of Agencia de Calidad, Inc.

Bienvenido M. Juat, Jr., 53, Filipino, was appointed Executive Vice President &Treasurer of Equitable PCI Bank on August 1, 2001. His other executive positions for Equitable PCI Bank subsidiaries include: Director of Express Padala International, Inc., Equitable PCIBank Cayman, Ltd. and EBC Insurance Brokerage, Inc.; Treasurer of EBC Strategic Holdings Corporation and PCI Automation Center, Inc.; and Chairman of Equitable Exchange, Inc.

Eduardo J. Katigbak, Jr., 61, Filipino, was appointed Executive Vice President of Equitable PCI Bank effective July 1, 2001. He is also Chairman of Property Care, Inc.; Director & Treasurer of Express Padala International, Inc. and Trustee of PCI Bank Development Academy, Inc. He is likewise a Director of PCI Automation Center, Inc., EPCIB Express Remittance (Greece) S.A., Bankard Building Condominium Corporation, EBC Management, Inc., Equitable Data Center, Inc., Strategic Property Holdings, Inc., PCIB Properties, Inc., Equitable PCIBank Cayman Ltd., Two PCIB Tower, Inc., PCIBank Buendia Building Condominium Corporation and PCI Travel Corporation. He has had over 30 years of banking experience in the area of Operations and Technology Management. He was the Country Operations Manager of a multinational bank prior to his appointment with EPCIB.

Ricardo V. Martin, 49, Filipino, Executive Vice President & Chief Finance Officer, joined Equitable PCI Bank in July 2001. He is also a Director of Maxicare Healthcare Corporation. He is also a member of the Retirement Committee of Equitable PCI Bank, Inc. Prior to joining Equitable PCI Bank, he served as Chief Finance Officer & Senior Vice President for Philippine Savings Bank. Earlier, he was Senior Vice President and Chief Finance Controller of Solidbank Corporation, and previously head of accounting for Citytrust Banking Corp.

Dennis B. Velasquez, 53, Filipino, is Executive Vice President in the Operations Group of Equitable PCI Bank and concurrently Officer-in-Charge of Equitable Card Network, Inc. As Group Head of Operations he is responsible for senior management oversight over Transaction Processing Division, Cash Management Products & Solutions Division, Direct Banking Division and Central Administration Division. He is also a Director of Express Padala International, Inc., PCI Automation Center, Inc., Equitable PCI Express Padala (Deutschland), GmbH, Express Padala (Rotterdam), B.V., and EBC

Insurance Brokerage, Inc. He served in 2000 as the Integration Manager for Retail Banking. Prior to the Equitable - PCIBank merger in 1999, he was First Vice President in-charge of Operations for Branch Banking of PCIBank. He has been with the Bank since August 1995.

Aristotle L. Villaraza, 55, Filipino, is Executive Vice President & Head of Special Projects, Asset Management & Legal Group of Equitable PCI Bank. He joined the former PCIBank in September 1994 as Vice President and Head of Corporate Finance Division and became concurrent head for the Corporate Banking 3 until November 1998.

Ursula A. Alano, 52, Filipino, is Deputy Treasurer & Senior Vice President of Treasury Group of Equitable PCI Bank. She also holds various positions in the Bank's subsidiaries, i.e., Director of Equitable Exchange, Inc., Director of Equitable PCIBank Cayman, Ltd., Treasurer of Equitable Savings Bank, Inc., Bankard Building Condominium Corporation, EBC Capital Corporation, EBC Insurance Brokerage, Inc., EBC Management, Inc., Equitable Bank Tower Condominium Corporation, PCIBank Development Academy, Inc., Property Care, Inc., Strategic Property Holdings, Inc., Two PCIB Tower, Inc., PCIB Properties, Inc. and PCIBank Buendia Building Condominium Corporation She is also a Director of Albulario and Sons, Inc.

Shirley S. Ang, 54, Filipino, is Senior Vice President & Head of Elite Banking Division of Equitable PCI Bank. Prior to these assignments, she was Head for Commercial Banking, Central Metro Area and Division Head under the former PCIBank Chinese Banking Group.

Manolo C. Arzadon, 57, Filipino, is Senior Vice President of Equitable PCI Bank. He was seconded to the Bank's subsidiary, PCI Leasing & Finance, Inc. in April 1993 and is currently its President/Chief Operating Officer and Director. He is also the President/Chief Executive Officer of Equitable Pentad Rental, Inc., a wholly-owned subsidiary of PCI Leasing & Finance, Inc. He is also a Director of the Board of BA Insight International Inc.

Ramon S. David, 48, Filipino, is Senior Vice President and President & Chief Executive Officer of Equitable Savings Bank, Inc. He joined the Bank as Vice President in 1993.

Marvin V. Fausto, 45, Filipino, is Senior Vice President and currently sits as Trust Officer of Trust Banking Group of Equitable PCI Bank. He is a Member of the Management Committee, Asset and Liability Committee, Investments Committee, Retirement Committee and Trust Committee of the Bank. Prior to joining the Bank in 1996, he worked as Head of Investments for Citytrust Banking Corporation and as Credit Officer at Far East Bank and Trust Co. He is the Founding President & Director of the Fund Managers Association of the Phils. (FMAP). He is Director of the Trust Officers Association of the Philippines (TOAP).

Jonathan C.B. Go, 51, Filipino, is Senior Vice President of Equitable PCI Bank. He joined the Bank in 1995 as Assistant Vice President of Administration Group. He concurrently holds the following positions: President of Olympus Import-Export Corporation, Executive Vice President of Equitable Savings Bank, Inc., Director & Vice President of Equity Development Corporation, Vice President of Equitable Development Corporation and K & L Holding Corporation, Vice Chairman of the Board of Directors, President & Chief Executive Officer of Property Care, Inc. and PCI Travel Corporation, President & Director of Equitable Bank Tower Condominium Corporation, Director of PCIB Properties, Inc., EBC Insurance Brokerage, Inc., Equitable Insurance Corporation, Strategic Property Holdings, Inc., Jardine Equitable Finance Corporation, Maxicare Healthcare Corporation, Taal Land, Inc. and Canlubang Spinning Mills, Director & Treasurer of the Executive Banclounge, Inc., Director & Vice Chairman of PCIBank Buendia Building Condominium Corporation, Director & President of Two PCIB Tower, Inc., President & Trustee of Bankard Building Condominium Corporation and Trustee of PCIBank Foundation, Inc. and The Sign of the Anvil, Inc.

Jeanette S. Javellana, 47, Filipino, is Senior Vice President & Division Head for Division 1 of Commercial Banking Group. She joined the Bank in September 2001.

Annie H. Ngo, 51, Filipino, is Senior Vice President for Metro Manila West Personal Banking Division of Retail Banking Group of Equitable PCI Bank.

Jose Pastor Z. Puno, 56, Filipino, is Senior Vice President of Equitable PCI Bank. He was hired in 1982 under the former PCIBank. He is presently seconded as President and CEO of Maxicare Healthcare Corporation, a wholly owned subsidiary of the Bank. He also serves as a Director of EBC Insurance Brokerage, Inc.

Ricardo V. Reynoso, Jr., 55, Filipino, is Senior Vice President of Equitable PCI Bank. He is currently the Lead Division Head for Transaction Banking, Retail Banking Group and concurrently Division Head for Luzon South TB-1, Transaction Banking. He has more than 32 years experience in the Branch Banking/Retail Banking Group.

Arsenio L. Severino, 49, Filipino, Senior Vice President, joined the Bank in 1996. He is Division Head of Special Projects & Assets Advisory (SPAAD), Special Projects, Asset Management & Legal Group. He is the Bank's (creditor) representative to the Board of Victoria's Quality Packaging Corporation. Prior to joining the Bank, he worked with several financial institutions in various capacities in the areas of branch operations, treasury and corporate banking.

Richard Benedict S. So, 41, Filipino, is Senior Vice President & Head of Express Padala Center. He joined Equitable PCI Bank in 1995. He presently holds directorship positions in the following subsidiaries of the Bank: Express Padala (HK) Ltd., Express Padala (Macau) Ltd., Express Padala (USA) Inc., Express Padala (Italia) S.p.A., Equitable Express Padala (Deutschland), GmbH, Express Padala (Rotterdam) BV. He is likewise President of the Association of Bank Remittance Officers Inc. (ABROI).

Grace A. Sumalpong, 50, Filipino, is Senior Vice President & Division Head of Legal Services Division, Special Projects, Asset Management & Legal Group. She is a director of PCIB Properties, Inc. She is a member of the Philippine Bar.

Robert "Sui Gui" W. Sy, 47, Filipino, is Senior Vice President and is currently the Lead Division Head of Personal Banking of Equitable PCI Bank. He also heads the Personal Banking – Metro Manila Northern Division, Retail Banking Group. He provides guidance and direction to Personal Bankers as to marketing and administration. He is also a Director of EBC Insurance Brokerage, Inc. He has been serving the Bank for more than eleven (11) years.

Rebecca S. Torres, 54, Filipino, is Senior Vice President and Chief of Staff to the President of Equitable PCI Bank and concurrent Head of Human Resources Division. She is also a Director of EBC Insurance Brokerage, Inc. since April 2002, Maxicare Healthcare Corporation since November 2002, PCI Automation Center, Inc. since August 1998 and PCIBank Development Academy, Inc. since October 2001. She is also the Treasurer and Trustee of the Sign of the Anvil, Inc. since August 1998.

Edward G. Wenceslao, 50, Filipino, is Senior Vice President & Head of the Corporate Banking Group of Equitable PCI Bank. He was elected to the Boards of Equitable Exchange, Inc. on October 24, 2001 and EBC Insurance Brokerage, Inc. on April 17, 2002. He is also a member of the Bank's Credit Committees. He has been with the Bank for the past 27 years and has been involved in Corporate Banking for a majority of that time.

Ma Susana L. Yap, 55, Filipino, is Senior Vice President of Equitable PCI Bank. She joined the Bank in August 2003 and is presently assigned at Commercial Banking Division III. Prior to joining the Bank, she was connected with two (2) universal banks, and had 28 years of experience in lending to the corporate and commercial markets.

Nenita C. Indiongco, 56, Filipino, is Senior Vice President & Division Head for Corporate Banking Group of Equitable PCI Bank. She has been involved in Corporate Banking for the majority of her 32 years stint with the Bank. She has also served as member of the Bank's various credit committees and special projects.

Antonina M. Cabuyadao, 60, Filipino, is Senior Vice President & Division Head of Luzon South Personal Banking Division of Retail Banking Segment. She was hired as Assistant Vice President of PCIBank in 1992. She was Division Head of Network Distribution, Branch Manager of Main Office Branch and Division Head of Metro Manila Division II until the merger of Equitable Banking Corporation and PCIBank in 1999.

Virgilio C. Pamatmat, 53, Filipino, is Senior Vice President & Head of Consumer Finance Division of Equitable PCI Bank. He joined the Bank in 1994 as Vice President and became First Vice President & Head of Consumer Finance Division in 2001. Previously, he served as Assistant Vice President of Solidbank Corporation under the Consumer Banking Group in 1990 and became Vice President in 1992. Likewise, he was the Vice President of MB Finance in 1987 after serving the company as Assistant Vice President since 1980. He was also a Senior Corporate Finance Officer of Bancom Finance Corp. in 1979 and was a Sales Officer of FNCB Finance in 1975 up to 1979.

Emerenciana H. Luistro, 45, Filipino, is Senior Vice President & Division Head of Business Systems Division, Information Technology Group of Equitable PCI Bank. She joined the Bank in November 1995 as Assistant Vice President to the EVP & Chief Operations Officer. Prior to joining the Bank, she was a Senior Manager at Far East Bank and Trust Company.

Domingo A. Ramos, Jr., 58, was promoted to Senior Vice President effective October 1, 2006 by the Board of Directors of Equitable PCI Bank.

Lesmes L. Garate, 55, Filipino, is currently, Senior Vice President of Transaction Banking Visayas Division. He was a financial consultant of Grand Lending and Unity Lending Investors, Inc. from 1996 up to 2000. He is presently a member of Bankers' Club of Cebu, Bayanihan Lions Club International, and Philippine Institute of Certified Public Accountants.

Significant Employees
There are no persons, other than the executive officers, who are expected by the Registrant to make significant contribution to the business.

Family Relationships
There are no family relationships up to the fourth civil degree either by consanguinity or affinity among directors, executive officers, or persons nominated or chosen by the registrant to become directors or executive officers.

Involvement of Directors and Executive Officers in Certain Legal Proceedings.

The Registrant is not aware of any bankruptcy proceedings filed by or against any business of which a director or executive officer is a party or of which any of their property is subject.

The Registrant is not aware of any conviction by final judgment in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, of any of its director or executive officer.

The Registrant is not aware of any order, judgment, or decree not subsequently reversed, superseded, or vacated, by any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending, or otherwise limiting the involvement of a director or executive officer in any type of business, securities, commodities, or banking activities.

The Registrant is not aware of any findings by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self regulatory organization, that any of its director or executive officer, has violated a securities or commodities law.

ITEM 10. EXECUTIVE COMPENSATION

Compensation of Directors and Executive Officers for the year 2005, 2006 and Estimated amount for year 2007.

Name and Principal Position	*Year*	*Annual Basic Salary*	*Bonuses*	*Total*
EXECUTIVE OFFICERS				
RENE J. BUENAVENTURA				
President & Chief Executive Officer				
WALTER C. WASSMER				
Senior Executive Vice President				
ANTONIO N. COTOCO				
Senior Executive Vice President				
GERARD LEE B. CO				
Executive Vice President				
BIENVENIDO M. JUAT, JR.				
Executive Vice President				
EDUARDO J. KATIGBAK, JR.				
Executive Vice President				
RICARDO V. MARTIN				
Executive Vice President				
DENNIS B. VELASQUEZ				
Executive Vice President				
ARISTOTLE L. VILLARAZA				
Executive Vice President				
URSULA A. ALANO				
Senior Vice President				
SHIRLEY S. ANG				
Senior Vice President				
MANOLO C. ARZADON				
Senior Vice President				
ANTONINA M. CABUYADAO				
Senior Vice President				
RAMON S. DAVID				
Senior Vice President				
MARVIN V. FAUSTO				
Senior Vice President				
LESMES L. GARATE				
Senior Vice President				
JONATHAN C. B. GO				
Senior Vice President				

NENITA C. INDIONGCO Senior Vice President				
JEANETTE S. JAVELLANA Senior Vice President				
EMERENCIA H. LUISTRO Senior Vice President				
ANNIE H. NGO Senior Vice President				
VIRGILIO C. PAMATMAT Senior Vice President				
JOSE PASTOR Z. PUNO Senior Vice President				
DOMINGO A. RAMOS, JR. Senior Vice President				
RICARDO V. REYNOSO, JR. Senior Vice President				
ARSENIO L. SEVERINO Senior Vice President				
RICHARD BENEDICT S. SO Senior Vice President				
GRACE A. SUMALPONG Senior Vice President				
ROBERT W. SY Senior Vice President				
REBECCA S. TORRES Senior Vice President				
EDWARD G. WENCESLAO Senior Vice President				
MA. TERESITA SUSANA L. YAP Senior Vice President				
EXECUTIVE OFFICERS	**2005**	**62,633,460.00**	**15,976,530.00**	**78,609,990.00**
	2006	**66,451,440.00**	**16,612,860.00**	**83,064,300.00**
	2007*	**75,940,200.00**	**18,985,050.00**	**94,925,250.00**
ALL OTHER SENIOR OFFICERS AND DIRECTORS	**2005**	**153,037,000.00**	**60,180,695.00**	**213,217,695.00**
	2006	**147,297,160.00**	**72,148,032.00**	**219,445,192.00**
	2007*	**156,357,960.00**	**98,309,490.00**	**254,667,450.00**

*Estimated amount for 2007.

There are currently no separate employment contracts between the Registrant and its named executive officers other than the regular employment agreements that all officers are subject to.

There are no outstanding warrants or stock options held by the Registrant's directors or executive officers
There are no price or stock warrants or options that are adjusted or amended.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Voting Securities and Principal Holders Thereof

The number of shares outstanding and entitled to vote in the stockholders' meeting is **727,003,345 shares**. The record date for purposes of determining stockholders entitled to vote in the meeting is **December 31, 2006.** Stockholders are entitled to cumulative voting in the election of directors, as provided in the Corporation Code. There are no conditions precedent for the exercise of the cumulative voting rights in the election of directors. The proxy subject of this solicitation shall confer discretionary authority to cumulative votes.

Security Ownership of Certain Record and Beneficial Owners and Management as of December 31, 2006.

(1) Security Ownership of certain Record and beneficial Owners

The persons known to the Registrant to be directly or indirectly the record or beneficial owner of more than five percent (5%) of the Registrant's voting securities as of December 31, 2006 are as follows:

Title of Class	Name & Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	Number of Shares Held	Percentage
Common	PCD NOMINEE CORP.[1] G/F Makati Stock Exchange Building 6767 Ayala Avenue, Makati City PCD Nominee Corp. has no relationship with the issuer except as stockholder.	*See Note 1*	Filipino	368,847,051	50.735%
Common	SM INVESTMENTS CORPORATION.[2] Rm. 426 Makati Stock Exchange Centre SM Investments Corporation has no relationship with the issuer except as stockholder.	*See Note 2*	Filipino	175,191,441	24.0977%
Common	TRANS MIDDLE EAST (PHILS.) EQUITIES, INC.[3] 3rd Floor, Universal-Re Building 106 Paseo de Roxas, Makati City Trans Middle East (Phils.) Equities, Inc. has no relationship with the issuer except as stockholder.	*See Note 3*	Filipino	51,827,640	7.1289%
Total				604,749,987	83.1838%

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1 PCD Nominee Corporation, a wholly-owned subsidiary of Philippine Central Depository, Inc. ("PCD"), is the registered owner of the shares in the books of the Company's transfer agents in the Philippines. The beneficial owners of such shares are PCD's participants, who hold the shares on their behalf or in behalf of their clients. PCD is a private company organized by the major institutions actively participating in the Philippine capital markets to implement an automated book-entry system of handling securities transactions in the Philippines. PCD Nominee Corp. is broken down as follows:

Filipino			368,847,051	50.735%
Top PCD Beneficial Owners:				
Deutsche Bank Manila-Clients A/C	189,880,323	26.1182%		
Social Security System (SSS) - Filipino	159,742,924	21.9728%		

Ms. Corazon S. De La Paz, President & CEO, has the right to vote or direct the voting or disposition of the Equitable PCI Bank shares held by the stockholders of SSS.

2 For SM Investments Corporation, the Registrant is not aware who is/are the direct or indirect beneficial owner/s thereof. Ms. Teresita T. Sy or her authorized designate has the right to vote or direct the voting or disposition of the Equitable PCI Bank shares held by its stockholders.

3 For Trans Middle East (Phils.) Equities, Inc., the Registrant is not aware who is/are the direct or indirect beneficial owner/s thereof. Attys. Andrea R. de la Cueva/Otilia Dimayuga – Molo have the right to vote or direct the voting or disposition of the Equitable PCI Bank shares held by its stockholders.

Security Ownership of Management

Directors

(1) Title of Class	(2) Name of Beneficial Owner	(3) Amount and Nature of Beneficial Ownership	(4) Citizenship	(5) Percentage
Common	Corazon S. De La Paz	160 (R)	Filipino	.0000%
Common	Winston F. Garcia	1 (R)	Filipino	.0000%
Common	Teresita T. Sy	1,100 (R)	Filipino	.0001%
Common	Ferdinand Martin G. Romualdez	99 (R)	Filipino	.0000%
Common	Rene J. Buenaventura	1 (R)	Filipino	.0000%
Common	Nazario S. Cabuquit, Jr.	101 (R)	Filipino	.0000%
Common	Fulgencio S. Factoran, Jr.	11,501 (R)	Filipino	.0016%
Common	Peter D. Garrucho, Jr.	189 (R)	Filipino	.0000%
Common	Ma. Luz C. Generoso	1 (R)	Filipino	.0000%
Common	Antonio A. Henson	1,000 (R)	Filipino	.0001%
Common	Ramon J. Jabar	1 (R)	Filipino	.0000%
Common	Reynaldo P. Palmiery	9 (R)	Filipino	.0000%
Common	Edmundo L. Tan	460 (R)	Filipino	.0001%
Common	Josefina N. Tan	1,437(R)	Filipino	.0002%
Common	Jesus G. Tirona	430 (R)	Filipino	.0000%
	Total	**16,490**		**.0021%**

Executive Officers

(1) Title of Class	(2) Name of Beneficial Owner	(3) Amount and Nature of Beneficial Ownership	(4) Citizenship	(5) Percentage
Common	Rene J. Buenaventura	1 (R)	Filipino	.0000%
Common	Walter C. Wassmer	-	Filipino	-
Common	Gerard Lee B. Co	-	Filipino	-
Common	Antonio N. Cotoco	-	Filipino	-
Common	Bienvenido M. Juat, Jr.	-	Filipino	-
Common	Eduardo J. Katigbak, Jr.	230 (R)	Filipino	.0000%
Common	Ricardo V. Martin	-	Filipino	-
Common	Dennis B. Velasquez	-	Filipino	-
Common	Aristotle L. Villaraza	52 (R)	Filipino	.0000%
Common	Ursula A. Alano	-	Filipino	-
Common	Shirley S. Ang	-	Filipino	-
Common	Manolo C. Arzadon	-	Filipino	-
Common	Antonina M. Cabuyadao	-	Filipino	-
Common	Ramon S. David	-	Filipino	-
Common	Marvin V. Fausto	-	Filipino	-
Common	Lesmes L. Garate	402 (R)	Filipino	.0001%
Common	Jonathan C.B. Go	-	Filipino	-
Common	Nenita C. Indiongco	310 (R)	Filipino	.0000%
Common	Jeanette S. Javellana	230 (R)	Filipino	.0000%
Common	Emerenciana H. Luistro	2,070 (R)	Filipino	.0003%
Common	Annie H. Ngo	-	Filipino	-
Common	Virgilio C. Pamatmat	-	Filipino	-
Common	Jose Pastor Z. Puno	-	Filipino	-
Common	Domingo A, Ramos, Jr.	52 (R)	Filipino	.0000%
Common	Ricardo V. Reynoso, Jr.	500 (R)	Filipino	.0001%
Common	Arsenio L. Severino	-	Filipino	-

Common	Richard Benedict S. So	2,070 (R)	Filipino	.0003%
Common	Grace A. Sumalpong	195 (R)	Filipino	.0000%
Common	Robert W. Sy	-	Filipino	-
Common	Rebecca S. Torres	908 (R)	Filipino	.0001%
Common	Edward G. Wenceslao	-	Filipino	-
Common	Ma. Susana L. Yap	1,150 (R)	Filipino	.0002%
	Total	**8,170**		**.0011%**

The total number of shares owned by executive officers of the Registrant is 8,170 shares, which is equivalent to .0011% of the total outstanding capital stock of the Registrant.

Voting Trust Holders of 5% or more- Registrant has no voting trust holders of 5% or more of its total outstanding capital stock.

Change in Control- Registrant has no knowledge of any arrangements, which may result in a change in control of the registrant.

ITEM 12. CERTAIN RELATIONSHIP AND RELATED TRANSACTIONS

There had been no material transactions during the past two (2) years to which the Registrant was a party in which any of its director or executive officer or security holder of more than five percent (5%) of the Registrant's voting securities, any relative or spouse of any such director or executive officer had direct or indirect material interest.

PART IV – CORPORATE GOVERNANCE

ITEM 13. Corporate Governance

The Registrant has adopted a Manual on Corporate Governance which was filed with and duly approved by the Commission. Pursuant to the Manual, the Registrant established an evaluation system to measure or determine the level of compliance of the Board of Directors and top level management. The Office of the Compliance Officer has prepared a rating form, duly approved by the Board Audit Committee of the Registrant, which is required to be accomplished by the Board and top level management on an annual basis.

The Registrant requires its directors and senior officers to attend seminars conducted by reputable service providers and conducts its own training and seminars to fully comply with the adopted leading practices on good corporate governance.

There has been no material deviation from the Registrant's Manual on Corporate Governance.

The Registrant will continue to send its directors and senior officers to attend training, programs and seminars to further improve the corporate governance with the company.

PART V – EXHIBIT AND SCHEDULES

See Schedule B page 136 for the DOSRI Loans and Receivables from employees.

ITEM 14. EXHIBIT AND REPORTS ON SEC FROM 17-C

The following reports on Form 17-C (Current Report) have been filed during the last six month period covered by this report, listing the items reported, any financial statements filed and the dates as such.

Item	Date of Report	Date Submitted
The Board of Directors of EPCIB approved the appointment of Mr. Nestor V. Tan, President of Banco de Oro Universal Bank (BDO), as Officer-in-charge of EPCIB in a concurrent capacity, subject to, and effective upon, the approval of the BSP, following the resignation of Mr. Rene J. Buenaventura as President and CEO of the Bank which takes effect on December 31, 2006, and pending approval by the regulatory authorities of the merger of BDO and EPCI. Pending approval by the BSP of the appointment of Mr. Tan as Officer-in-charge of EPCIB, the board appointed Mr. Walter C. Wassmer, EPCIB Senior Executive Vice President, as Officer-in-charge, effective January 1, 2007. Mr. Wassmer shall serve in such capacity until approval by the BSP of the Board's appointment of Mr. Tan. The Board likewise elected Mr. Exequiel P. Villacorta Jr. member of the Board of Directors of EPCIB effective January 1, 2007, filling in the vacancy that will be created by the resignation of Mr. Rene J. Buenaventura.	December 27, 2006	December 28, 2006
At a duly constituted special meeting of the stockholders of EPCIB held, the stockholders representing at least 2/3 of the outstanding capital stock of EPCIB approved the Plan of Merger between Banco de Oro Universal Bank and EPCIB.	December 27, 2006	December 28, 2006
Mr. Rene J. Buenaventura tendered his resignation as President and Chief Executive Officer of the Bank together with all his corresponding positions in the bank and all its subsidiaries and affiliates, effective December 31, 2006.	December 19, 2006	December 19, 2006
The Office of the Corporate Secretary of EPCIB received on December 4, 2006, through facsimile transmission, a letter dated November 28, 2006 from the BSP, addressed to President & CEO Rene J. Buenaventura, informing EPCIB of the Monetary Board approval of the request of EPCIB to transfer its shares of stock to the Corporations of the SM Group which acquired the EPCIB shares through tender offer and through negotiation with EBC Investments, Inc.	December 5, 2006	December 6, 2006
The Board of Directors of EPCIB approved the appointment of Atty. Ferdinand Martin G. Romualdez as Vice Chairman of the Board effective immediately	November 21, 2006	November 21, 2006

and until his successor shall have been duly elected and qualified.		
The Board of Directors of EPCIB has approved the Plan of merger for the proposed merger of EPCIB with Banco de Oro Universal Bank (BDO).	November 6, 2006	November 7, 2006
On October 9, 2006, President and CEO Rene J. Buenaventura received a letter dated September 26, 2006 from the BSP, relative to the request of Trans Middle East (Phils.) Equities, Inc. (TMEQ) for disqualification of certain directors, members of he Advisory Board, the Chairperson, and the Corporate Secretary of EPCIB.	October 10, 2006	October 11, 2006
The Office of the Corporate Secretary of EPCIB received a photocopy of the Sale and Purchase of Shares Agreement whereby EBC Investments, Inc sold all its EPCIB common shares (approximately 78,807,098 common shares) to SM Investments Corporation, in concert with its affiliates.	September 28, 2006	October 2, 2006
The Board of Directors of EPCIB confirmed the promotion of the following senior officers effective October 1, 2006: Lesmes L. Garate as Senior Vice President, in his capacity as Division Head,Transaction Banking Visayas, Retail Banking Group. Domingo A. Ramos, Jr. as Senior Vice President, in his capacity as Division Head, Personal Banking Mindanao, Retail Banking Segment. Roberto E. Lapid as Senior Vice President, in his capacity as Division Head, Metro Manila Division – PCI Leasing & Finance, Inc – Institutional Banking Segment. The Board likewise approved the assignment of Mr. Dennis B. Velasquez, Executive Vice President and Head of Operations Group of EPCIB also as Officer-in Charge of Equitable Card Network, Inc., a wholly owned subsidiary of EPCIB, effective October 1, 2006. The Board of Directors of EPCIB also confirmed, approved and ratified the action of EPCIB's nominees in the Board of Directors of EBCII in causing the EBCII Board to adopt resolution on August 31, 2006 accepting the binding offer of Ms. Teresita T. Sy on behalf of the Sy Family and/or their nominees to buy all the common shares of EPCIB owned by EBCII.	September 19, 2006	September 20, 2006
On September 12, 2006, President & CEO Rene J. Buenaventura received a facsimile letter of even date from the BSP confirming the Election/re-election of the following directors: Corazon S. dela Paz - Chairperson Winston F. Garcia – Vice Chairman Teresita T. Sy – Vice Chairperson Rene J. Buenaventura – Director/President & CEO Nazario S. Cabuquit, Jr. – Director Fulgencio S. Factoran, Jr. – Director	September 13, 2006	September 14, 2006

Ma. Luz C. Generoso – Director Antonio A. Henson – Director Ramon J. Jabar – Director Reynaldo P. Palmiery – Director Ferdinand Martin G. Romualdez – Director Edmundo L. Tan – Director Josefina N. Tan – Director Election of Messrs. Jesus G. Tirona and Peter D. Garrucho, Jr. as independent directors of EPCIB without prejudice to any information that may be received from the Securities and Exchange Commission on any substantial ownership and position with other companies that may adversely affect their role as independent directors. Appointment of Mr. Buenaventura as President & CEO.		
The Securities and Exchange Commission (SEC) issued on September 5, 2006, a certificate of filing of Amended By Laws of EPCIB.	September 5, 2006	September 6, 2006
The Board of Directors of EBCII, a wholly owned subsidiary of EPCIB, resolved that EBCII accept, as it accepts, the binding offer of Ms. Teresita Sy on behalf of the Sy Family and/or their nominees to buy all the common shares of EPCIB owned EBCII.	August 31, 2006	September 1, 2006
The Board of Directors of EPCIB approved and confirmed the appointment of Atty. Joseph Jayson M. Natividad as Assistant Corporate Secretary, effective September 1, 2006.	August 18, 2006	August 22, 2006
The Board of Directors of EPCIB approved and confirmed the resolution of the Corporate Governance and Legal Review Committii adopted on July 17, 2006.	July 18, 2006	July 19, 2006

Equitable PCI BANK

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on APR 1 3 2007

By:

NESTOR V. TAN
Officer-In-Charge

RICARDO V. MARTIN
EVP & Comptroller

DENNIS B. VELASQUEZ
EVP & Operating Officer

SABINO E. ACUT, JR.
Corporate Secretary

BIENVENIDO M. JUAT JR.
EVP & Treasurer

SUBSCRIBED AND SWORN to before me this APR 1 3 2007, affiant(s) exhibiting to me his/their Residence Certificates, as follows:

NAME	RES. CERT. NO.	DATE OF ISSUE	PLACE OF ISSUE
Nestor V. Tan	08472060	Jan. 29, 2007	Makati City
Dennis B. Velasquez	14124826	Jan. 16, 2007	Las Pinas City
Bienvenido M. Juat Jr.	15105006	Jan. 06, 2007	Makati City
Ricardo V. Martin	06232027	Jan. 10, 2007	Makati City
Sabino E. Acut, Jr.	16129756	Jan. 16, 2007	Pasig City

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Series of 2007

BENJAMIN B. MATA
NOTARY PUBLIC
UNTIL DEC. 31, 2007
PTR OR NO. 1187073
DATED 02 JANUARY 2007

INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES (ITEM 7)

Consolidated Financial Statements

Suplementary Schedules

* These schedules, which are required by Part IV (e) of RSA Rule 48, have been omitted because they are either not required, not applicable or the information required to be presented is included in the Consolidated Financial Statements.

Equitable PCI BANK

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

The Management of Equitable PCI Bank, Inc. and its subsidiaries is responsible for all information and representations contained in the financial statements for the years ended December 31, 2006 and 2005, and for each of the three (3) years in the period ended December 31, 2006. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, Management 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. The Management likewise discloses to the company's audit committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Audit Committee and the Board of Directors review the financial statements before such statements are approved and submitted to the stockholders of the Bank.

Sycip, Gorres, Velayo & Co., the independent auditors appointed by the stockholders, has examined the financial statements of Equitable PCI Bank, Inc. and its subsidiaries in accordance with generally accepted auditing standards in the Philippines and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the Board of Directors and stockholders.

CORAZON S. DE LA PAZ
Chairperson of the Board

NESTOR V. TAN
Officer-in-Charge

RICARDO V. MARTIN
Executive Vice President & Comptroller

SUBSCRIBED AND SWORN to before me this APR 12 2007 day of April 2007, affiants exhibiting to me their Community Tax Certificates (CTCs), as follows:

Name	CTC No.	Place of Issue	Date of Issue
Corazon S. De La Paz	21435262	Quezon City	February 13, 2007
Nestor V. Tan	08472060	Makati City	January 29, 2007
Ricardo V. Martin	24792431	Makati City	January 05, 2007

NOTARY PUBLIC
BENJAMIN B. MATA
NOTARY PUBLIC
UNTIL DEC. 31, 2007
PTR OR NO. 1187077
DATED 02 JANUARY 2...

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Makati Office: Equitable PCI Bank Towers, Makati Avenue cor. H. V. dela Costa St. Tel.: 840-7000
Manila Office: Equitable PCI Bank Building, 262 Juan Luna St., Binondo Tel.: 242-7101 / 243-0311

EQUITABLE PCI BANK, INC. AND SUBSIDIARIES

Financial Statements
December 31, 2006 and 2005
and for the Years Ended December 31, 2006, 2005 and 2004

and

Independent Auditors' Report

SGV & Co

■ SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

■ Phone: (632) 891-0307
Fax: (632) 819-0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-1

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Equitable PCI Bank, Inc.
Equitable PCI Bank Tower I
Makati Avenue corner H. V. de la Costa Street
Salcedo Village, Makati City

We have audited the accompanying consolidated financial statements of Equitable PCI Bank, Inc. and Subsidiaries (the Group) and the parent company financial statements of Equitable PCI Bank, Inc. (the Parent Company) which comprise the statements of condition as of December 31, 2006 and 2005, and the statements of income, statements of changes in equity and statements of 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 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group and of the Parent Company as of December 31, 2006 and 2005, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2006 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Wilson P. Tan

Wilson P. Tan
Partner
CPA Certificate No. 76737
SEC Accreditation No. 0100-AR-1
Tax Identification No. 102-098-469
PTR No. 0267394, January 2, 2007, Makati City

March 20, 2007

EQUITABLE PCI BANK, INC. AND SUBSIDIARIES
STATEMENTS OF CONDITION
(Amounts In Thousands)

	Consolidated		Parent Company	
	December 31			
	2006	2005	**2006**	2005
ASSETS				
Cash and Other Cash Items (Notes 14 and 18)	**₱8,663,488**	₱7,541,236	**₱8,381,197**	₱7,199,793
Due from Bangko Sentral ng Pilipinas (Notes 14 and 18)	**23,262,456**	7,232,106	**22,611,472**	6,917,169
Due from Other Banks (Notes 6 and 18)	**6,520,845**	4,676,319	**3,801,286**	3,842,373
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (Notes 18 and 31)	**27,572,262**	18,199,624	**27,732,262**	18,199,624
Securities at Fair Value Through Profit or Loss (Notes 7 and 18)	**22,761,419**	26,061,882	**22,621,745**	25,921,031
Available-for-Sale Investments (Notes 7 and 18)	**9,620,736**	17,108,772	**7,828,016**	15,358,057
Held-to-Maturity Investments (Notes 7, 14 and 18)	**29,903,374**	32,483,945	**29,552,707**	32,200,964
Loans and Receivables (Notes 8, 18, 19 and 28)	**161,431,665**	140,187,890	**140,945,119**	132,590,379
Property and Equipment (Notes 9 and 18)				
At cost	**5,085,455**	5,283,628	**4,361,059**	4,694,238
At appraised value	**4,412,676**	4,500,557	**4,406,236**	4,406,236
Investments in Subsidiaries and Associates (Notes 10 and 18)	**204,227**	290,772	**8,498,329**	8,965,584
Investment Properties (Notes 11 and 18)	**17,875,203**	18,436,362	**15,165,141**	15,932,951
Goodwill (Notes 3 and 18)	**15,680,124**	15,680,124	**15,680,124**	15,680,124
Other Assets (Notes 12 and 18)	**12,147,895**	14,368,369	**9,235,144**	11,602,514
	₱345,141,825	₱312,051,586	**₱320,819,837**	₱303,511,037
LIABILITIES AND EQUITY				
Liabilities				
Deposit Liabilities (Notes 14, 18 and 28)	**₱240,099,250**	₱206,664,245	**₱231,963,428**	₱202,154,155
Bills Payable (Notes 15 and 18)	**20,155,857**	29,705,735	**14,325,120**	27,198,167
Outstanding Acceptances (Note 18)	**960,980**	615,944	**960,980**	615,944
Manager's Checks and Demand Drafts Outstanding (Note 18)	**1,422,304**	912,091	**1,293,530**	891,704
Accrued Interest Payable (Note 18)	**1,051,145**	794,639	**620,818**	526,999
Accrued Taxes and Other Expenses (Notes 18 and 24)	**3,111,319**	2,311,484	**1,851,859**	1,580,717
Subordinated Notes Payable (Notes 16 and 18)	**9,691,113**	10,474,797	**9,691,113**	10,474,797
Other Liabilities (Notes 17 and 18)	**21,168,553**	23,075,237	**17,211,958**	19,019,762
	297,660,521	274,554,172	**277,918,806**	262,462,245

(Forward)

	Consolidated		Parent Company	
	December 31			
	2006	2005	**2006**	2005
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY				
Common Stock (Note 19)	**₱7,270,033**	₱7,270,033	**₱7,270,033**	₱7,270,033
Capital Paid in Excess of Par Value	**36,416,709**	37,395,672	**37,395,672**	37,395,672
Surplus Reserve (Notes 19 and 25)	**605,943**	558,396	**605,943**	558,396
Surplus (Deficit) (Note 25)	**167,679**	(3,049,953)	**(4,316,750)**	(5,953,851)
Parent Company Shares Held by a Subsidiary (Notes 19 and 33)	**–**	(7,466,950)	–	–
Net Unrealized Gain on Available-for-Sale Investments (Notes 7 and 31)	**596,517**	548,127	**596,517**	548,127
Share in Net Unrealized Gain on Available-for-Sale Investments of a Subsidiary (Notes 7 and 31)	**101,297**	15,436	–	–
Share in Revaluation Increment on Land of a Subsidiary (Note 9)	**12,336**	8,323	–	–
Revaluation Increment on Property (Note 9)	**1,349,616**	1,349,616	**1,349,616**	1,349,616
Accumulated Translation Adjustment	**(208,055)**	(119,362)	–	(119,201)
	46,312,075	36,509,338	**42,901,031**	41,048,792
MINORITY INTEREST	**1,169,229**	988,076	–	–
	47,481,304	37,497,414	**42,901,031**	41,048,792
	₱345,141,825	₱312,051,586	**₱320,819,837**	₱303,511,037

See accompanying Notes to Financial Statements.

EQUITABLE PCI BANK, INC. AND SUBSIDIARIES

STATEMENTS OF INCOME

(Amounts In Thousands except Earnings Per Share)

	Consolidated			Parent Company		
	Years Ended December 31					
	2006	2005	2004	**2006**	2005	2004
INTEREST INCOME						
Loans and receivables (Notes 8 and 28)	**₱11,845,659**	₱11,622,190	₱10,153,123	**₱9,596,687**	₱9,897,930	₱8,455,505
Trading and investment securities (Note 7)	**6,520,362**	5,399,839	4,409,653	**6,447,867**	5,321,506	4,258,945
Interbank loans receivable and securities purchased under resale agreements	**640,829**	1,405,277	1,097,891	**635,689**	1,374,735	1,107,502
Deposits with other banks and others	**632,268**	623,816	988,590	**391,732**	360,269	400,315
	19,639,118	19,051,122	16,649,257	**17,071,975**	16,954,440	14,222,267
INTEREST AND FINANCE CHARGES						
Deposit liabilities (Notes 14 and 28)	**6,253,512**	5,528,979	5,005,618	**5,870,775**	5,248,890	4,780,818
Bills payable, borrowings and others (Note 15)	**2,422,811**	2,872,954	2,722,002	**2,179,763**	2,736,508	2,660,761
	8,676,323	8,401,933	7,727,620	**8,050,538**	7,985,398	7,441,579
NET INTEREST INCOME	**10,962,795**	10,649,189	8,921,637	**9,021,437**	8,969,042	6,780,688
Service fees and commission income	**5,695,782**	4,927,951	4,408,239	**2,860,933**	2,782,369	2,399,632
Trading gains - net (Note 7)	**2,533,799**	1,120,139	415,761	**2,484,166**	1,098,211	324,637
Foreign exchange gains - net	**813,865**	670,382	290,079	**701,177**	665,630	194,545
Other operating income (Note 22)	**3,423,408**	2,838,131	2,694,134	**2,924,066**	2,174,838	2,643,134
TOTAL OPERATING INCOME	**23,429,649**	20,205,792	16,729,850	**17,991,779**	15,690,090	12,342,636
Compensation and fringe benefits (Notes 20 and 28)	**4,320,679**	3,814,804	3,348,972	**3,662,660**	3,232,974	2,778,298
Provision for impairment and credit losses (Note 13)	**4,127,322**	2,857,922	4,130,165	**4,096,631**	1,996,690	3,089,528
Occupancy and other equipment-related expenses (Note 21)	**1,909,069**	1,819,071	1,618,273	**1,678,784**	1,637,611	1,402,259
Depreciation and amortization (Notes 9 and 11)	**1,399,137**	1,326,926	1,326,546	**1,084,484**	1,059,006	1,082,173
Taxes and licenses (Note 24)	**1,589,498**	1,446,358	1,149,867	**1,242,949**	1,127,960	877,771
Other expenses (Note 23)	**5,104,466**	3,966,991	3,696,167	**3,376,761**	2,589,888	2,312,986
TOTAL OPERATING EXPENSES	**18,450,171**	15,232,072	15,269,990	**15,142,269**	11,644,129	11,543,015
INCOME BEFORE SHARE IN NET INCOME OF ASSOCIATES AND INCOME TAX	**4,979,478**	4,973,720	1,459,860	**2,849,510**	4,045,961	799,621
SHARE IN NET INCOME (LOSSSES OF ASSOCIATES (Note 10)	**22,739**	562	(21,748)	–	–	–
INCOME BEFORE INCOME TAX	**5,002,217**	4,974,282	1,438,112	**2,849,510**	4,045,961	799,621
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 24)	**1,555,885**	2,176,436	(1,075,730)	**1,045,661**	1,703,455	(1,557,869)
NET INCOME	**₱3,446,332**	₱2,797,846	₱2,513,842	**₱1,803,849**	₱2,342,506	₱2,357,490

(Forward)

	Consolidated		
	Years Ended December 31		
	2006	2005	2004
Attributable to:			
Equity holders of the Parent Company (Note 30)	**₱3,265,179**	₱2,698,385	₱2,412,080
Minority interest	**181,153**	99,461	101,762
	₱3,446,332	₱2,797,846	₱2,513,842
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 30)	**₱4.89**	₱4.16	₱3.72

See accompanying Notes to Financial Statements.

EQUITABLE PCI BANK, INC. AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY

(In Thousand Pesos)

	Consolidated												
	Equity Attributable to Equity Holders of the Parent Company												
	Common Stock (Note 19)	Capital Paid in Excess of Par Value	Surplu Reserv (Note 2	Surplus (Deficit) (Note 25)	Parent Company Shares Held by a Subsidiary	Net Unrealized Gain (Loss) on Available-for-Sale Investments (Note 7)	Share in Net Unrealized Gain (Loss) on Available-for-Sale Investments of a Subsidiary (Note 7)	Share in Revaluation Increment on Land of a Subsidiary	Revaluation Increment on Property (Note 9)	Accumulated Translation Adjustment	Total	Minority Interest	Total Equity
Balance at January 1, 2006	₱7,270,033	₱37,395,672	₱558,396	(₱3,049,953)	(₱7,466,950)	₱548,127	₱15,436	₱8,323	₱1,349,616	(₱119,362)	₱36,509,338	₱988,076	₱37,497,414
Translation adjustment during the year	–	–	–	–	–	–	–	–	–	(88,693)	(88,693)	–	(88,693)
Net gain (loss) during the year on available-for-sale				–									
investments	–	–	–		–	48,390	85,861	–	–	–	134,251	–	134,251
Adjustment on revaluation increment	–	–	–	–	–	–	–	4,013	–	–	4,013	–	4,013
Income and expenses for the year recognized directly													
in equity	–	–	–	–	–	48,390	85,861	4,013	–	(88,693)	49,571	–	49,571
Net income for the year	–	–	–	3,265,179	–	–	–	–	–	–	3,265,179	181,153	3,446,332
Total income and expenses for the year	–	–	–	3,265,179	–	48,390	85,861	4,013	–	(88,693)	3,314,750	181,153	3,495,903
Sale of Parent Company shares held by a subsidiary	–	(978,963)	–	–	7,466,950	–	–	–	–	–	6,487,987	–	6,487,987
Transfer to surplus reserve	–	–	47,547	(47,547)	–	–	–	–	–	–	–	–	–
Balance at December 31, 2006	₱7,270,033	₱36,416,709	₱605,943	₱167,679	₱–	₱596,517	₱101,297	₱12,336	₱1,349,616	(₱208,055)	₱46,312,075	₱1,169,229	₱47,481,304
Balance at December 31, 2004	₱7,270,033	₱37,395,672	₱510,356	₱2,604,888	(₱7,466,950)	(₱5,979)	(₱48,581)	₱8,441	₱1,350,177	₱20,151	₱41,638,208	₱980,157	₱42,618,365
Cumulative effect of change in accounting for Financial instruments - Philippine Accounting													
Standard (PAS) 39 (Note 2)	–	–	–	(7,868,984)	–	68,903	–	–	–	–	(7,800,081)	(91,542)	(7,891,623)
Balance at January 1, 2005	7,270,033	37,395,672	510,356	(5,264,096)	(7,466,950)	62,924	(48,581)	8,441	1,350,177	20,151	33,838,127	888,615	34,726,742
Translation adjustment during the year	–	–	–	–	–	–	–	–	–	(139,513)	(139,513)	–	(139,513)
Net gain during the year on available-for-sale				–									
investments	–	–	–		–	485,203	64,017	–	–	–	549,220	–	549,220
Adjustment on revaluation increment	–	–	–	–	–	–	–	(118)	(561)	–	(679)	–	(679)
Income and expenses for the year recognized directly													
in equity	–	–	–	–	–	485,203	64,017	(118)	(561)	(139,513)	409,028	–	409,028
Net income for the year	–	–	–	2,698,385	–	–	–	–	–	–	2,698,385	99,461	2,797,846
Total income and expenses for the year	–	–	–	2,698,385	–	485,203	64,017	(118)	(561)	(139,513)	3,107,413	99,461	3,206,874
Transfer to surplus reserve	–	–	48,040	(48,040)	–	–	–	–	–	–	–	–	–
Dividends paid	–	–	–	(436,202)	–	–	–	–	–	–	(436,202)	–	(436,202)
Balance at December 31, 2005	₱7,270,033	₱37,395,672	₱558,396	(₱3,049,953)	(₱7,466,950)	₱548,127	₱15,436	₱8,323	₱1,349,616	(₱119,362)	₱36,509,338	₱988,076	₱37,497,414

	Consolidated												
	Common Stock (Note 20)	**Capital Paid in Excess of Par Value**	**Surplus Reserve** (Note 26)	**Surplus (Deficit)** (Note 26)	**Parent Company Shares Held by a Subsidiary**	**Net Unrealized Gain (Loss) on Available-for-Sale Investments/ Securities** (Note 7)	**Equity in Net Unrealized Gain (Loss) on Available-for-Sale of a Subsidiary** (Note 7)	**Equity in Revaluation Increment on Land of a Subsidiary**	**Revaluation Increment on Property** (Note 9)	**Accumulated Translation Adjustment**	**Total**	**Minority Interest**	**Total Equity**
Balance at December 31, 2003	₱7,270,033	₱37,395,672	₱451,977	₱234,933	(₱7,466,950)	(₱980)	(₱63,374)	₱2,417	₱1,321,143	₱–	₱39,144,871	₱878,395	₱40,023,266
Translation adjustment during the year	–	–	–	–	–	–	–	–	–	20,151	20,151	–	20,151
Net unrealized gain (loss) during the year	–	–	–	–	–	(4,999)	14,793	–	–	–	9,794	–	9,794
Adjustment on revaluation increment	–	–	–	–	–	–	–	6,024	40,087	–	46,111	–	46,111
Income and expenses for the year recognized directly in equity	–	–	–	–	–	(4,999)	14,793	6,024	40,087	20,151	76,056	–	76,056
Net income for the year	–	–	–	2,412,080	–	–	–	–	–	–	2,412,080	101,762	2,513,842
Total income and expenses for the year	–	–	–	2,412,080	–	(4,999)	14,793	6,024	40,087	20,151	2,488,136	101,762	2,589,898
Transfer from revaluation increment	–	–	–	16,254	–	–	–	–	(11,053)	–	5,201	–	5,201
Transfer to surplus reserve	–	–	58,379	(58,379)	–	–	–	–	–	–	–	–	–
Balance at December 31, 2004	₱7,270,033	₱37,395,672	₱510,356	₱2,604,888	(₱7,466,950)	(₱5,979)	(₱48,581)	₱8,441	₱1,350,177	₱20,151	₱41,638,208	₱980,157	₱42,618,365

	Parent Company										
	Common Stock (Note 19)	Capital Paid in Excess of Par Value	Surplus Reserve (Note 25)	Surplus (Deficit) (Note 25)	Parent Company Shares Held by a Subsidiary	Net Unrealized Gain (Loss) on Available-for-Sale Investments (Note 7)	Share in Net Unrealized Loss on Available-for-sale Investments of a Subsidiary (Note 7)	Share in Revaluation Increment on Land of a Subsidiary	Revaluation Increment on Property (Note 9)	Accumulated Translation Adjustment	Total Equity
Balance at January 1, 2006	₱7,270,033	₱37,395,672	₱558,396	(₱5,953,851)	₱–	₱548,127	₱–	₱–	₱1,349,616	(₱119,201)	₱41,048,792
Translation adjustment adjusted to surplus	–	–	–	(119,201)	–	–	–		–	119,201	–
Net loss during the year on available-for-sale investments	–	–	–	–	–	48,390	–	–	–	–	48,390
Income and expenses for the year recognized directly in equity	–	–	–	(119,201)	–	48,390	–	–	–	119,201	48,390
Net income for the year	–	–	–	1,803,849	–	–	–	–	–	–	1,803,849
Total income and expenses for the year	–	–	–	1,684,648	–	48,390	–	–	–	119,201	1,852,239
Transfer to surplus reserve	–	–	47,547	(47,547)	–	–	–	–	–	–	–
Balance at December 31, 2006	₱7,270,033	₱37,395,672	₱605,943	(₱4,316,750)	₱–	₱596,517	₱–	₱–	₱1,349,616	₱–	₱42,901,031
Balance at December 31, 2004	₱7,270,033	₱37,395,672	₱510,356	(₱979,994)	₱–	(₱5,979)	₱–	₱–	₱1,350,177	₱20,151	₱45,560,416
Cumulative effect of change in accounting for Financial instruments - PAS 39 (Note 2)	–	–	–	(6,832,121)	–	49,174	–		–	–	(6,782,947)
Balance at January 1, 2005	7,270,033	37,395,672	510,356	(7,812,115)	–	43,195	–	–	1,350,177	20,151	38,777,469
Translation adjustment during the year	–	–	–	–	–	–	–		–	(139,352)	(139,352)
Net gain during the year on available-for-sale investments	–	–	–	–	–	504,932	–	–	–	–	504,932
Adjustment on revaluation increment	–	–	–	–	–	–	–	–	(561)	–	(561)
Income and expenses for the year recognized directly in equity	–	–	–	–	–	504,932	–	–	(561)	(139,352)	365,019
Net income for the year	–	–	–	2,342,506	–	–	–	–	–	–	2,342,506
Total income and expenses for the year				2,342,506		504,932			(561)	(139,352)	2,707,525
Transfer to surplus reserve	–	–	48,040	(48,040)	–	–	–	–	–		–
Dividends declared	–	–	–	(436,202)	–	–	–	–	–		(436,202)
Balance at December 31, 2005	₱7,270,033	₱37,395,672	₱558,396	(₱5,953,851)	₱–	₱548,127	₱–	₱–	₱1,349,616	(₱119,201)	₱41,048,792
Balance at December 31, 2003	₱7,270,033	₱37,395,672	₱451,977	(₱3,295,359)	₱–	(₱980)	₱–	₱–	₱1,321,143	₱–	₱43,142,486
Translation adjustment during the year	–	–	–	–	–	–	–		–	20,151	20,151
Net unrealized loss during the year	–	–	–	–	–	(4,999)	–	–	–	–	(4,999)
Adjustment on revaluation increment	–	–	–	–	–	–	–	–	40,087	–	40,087
Income and expenses for the year recognized directly in capital funds	–	–	–	–	–	(4,999)	–	–	40,087	20,151	55,239
Net income for the year	–	–	–	2,357,490	–	–	–	–	–	–	2,357,490
Total income and expenses for the year	–	–		2,357,490	–	(4,999)	–	–	40,087	20,151	2,412,729
Transfer from revaluation increment	–	–	–	16,254	–	–	–	–	(11,053)	–	5,201
Transfer to surplus reserve	–	–	58,379	(58,379)	–	–	–	–	–		–
Balance at December 31, 2004	₱7,270,033	₱37,395,672	₱510,356	(₱979,994)	₱–	(₱5,979)	₱–	₱–	₱1,350,177	₱20,151	₱45,560,416

See accompanying Notes to Financial Statements.

EQUITABLE PCI BANK, INC. AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS

(Amounts In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2006	2005	2004	**2006**	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	**₱5,002,217**	₱4,974,282	₱1,438,112	**₱2,849,508**	₱4,045,961	₱799,621
Adjustments for:						
Provision for impairment and credit losses (Note 13)	**4,127,322**	2,857,922	4,130,165	**4,096,631**	1,996,690	3,089,528
Depreciation and amortization (Notes 9 and 11)	**1,399,137**	1,344,671	1,344,291	**1,084,484**	1,059,006	1,082,173
Gain on disposal of investment properties (Note 22)	**(926,181)**	(487,459)	(83,394)	**(848,215)**	(389,649)	(82,895)
Realized trading gain	**(590,929)**	–	–	**(564,670)**	–	–
Amortization of premium/discount	**275,154**	–	–	**317,902**	–	–
Gain on sale of property and equipment (Note 22)	**(106,953)**	(90,961)	(34,085)	**(89,355)**	(85,809)	(26,947)
Share in net (income) losses of associates (Note 10)	**(22,739)**	(562)	21,748	–	–	–
Changes in operating assets and liabilities:						
Decrease (increase) in amounts of:						
Interbank loans receivable and securities purchased under resale agreements	**948,968**	1,501,333	(3,113,205)	**948,968**	(2,093,001)	(3,113,205)
Securities at fair value through profit or loss	**3,300,463**	(8,013,885)	–	**3,299,286**	(4,503,393)	–
Trading account securities	–	–	303,127		–	47,697
Loans and receivables	**(24,978,012)**	(1,485,415)	–	**(11,010,343)**	3,988,063	–
Receivable from customers	–	–	(22,258,548)		–	(18,097,635)
Other assets	**7,308,818**	(1,379,842)	(2,413,939)	**239,407**	(125,824)	(449,905)
Increase (decrease) in amounts of:						
Deposit liabilities	**33,435,005**	13,143,906	7,476,137	**29,809,273**	12,581,057	6,267,786
Accrued interest payable	**256,506**	242,230	–	**93,819**	98,068	–
Accrued taxes and other expenses	**757,547**	542,827	(139,729)	**284,397**	442,979	(448,991)
Manager's checks and demand drafts outstanding	**510,213**	29,946	(61,154)	**401,826**	29,632	(40,777)
Other liabilities	**(1,906,684)**	(1,146,171)	8,989,162	**(1,807,803)**	(2,606,854)	7,083,531
Net cash generated (used in) from operations	**28,789,852**	12,032,822	(4,401,312)	**29,105,115**	14,436,926	(3,890,019)
Income taxes paid	**(1,010,482)**	(625,184)	(747,883)	**(582,619)**	(477,287)	(345,648)
Net cash provided by (used in) operating activities	**₱27,779,370**	₱11,407,638	(₱5,149,195)	**₱28,522,496**	₱13,959,639	(₱4,235,667)

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2006	2005	2004	**2006**	2005	2004
CASH FLOWS FROM INVESTING ACTIVITIES						
Acquisitions of:						
Available-for-sale investments	**(₱31,526,419)**	₱–	₱–	**(₱30,873,159)**	₱–	₱–
Available-for-sale securities	**–**	–	(5,537,822)	–	–	(5,532,837)
Held-to-maturity investments	**(40,171,936)**	(3,079,423)	–	**(40,171,936)**	(4,197,748)	–
Investment in bonds, and other debt instruments	**–**	–	(4,886,175)	–	–	(5,272,516)
Property and equipment (Note 9)	**(1,675,359)**	(1,101,064)	(2,427,461)	**(697,393)**	(701,530)	(1,989,159)
Investments in subsidiaries and associates	**3,000**	–	–	**–**	–	–
Investment properties (Note 31)	**(8,645)**	–	–	**(8,645)**	–	–
Proceeds from sale of:						
Available-for-sale investments	**38,994,327**	3,643,001	–	**38,876,260**	4,914,297	–
Held-to-maturity investments	**42,502,291**	–	–	**42,502,291**	–	–
Investment in bonds, and other debt instruments		–	–	**–**	–	–
Property and equipment	**924,665**	381,242	1,488,590	**236,351**	110,856	1,303,490
Investments in subsidiaries and associates	**–**	428,235	363,439	**–**	(3,165,350)	1,122,001
Investment properties	**2,485,966**	2,154,426	2,573,407	**2,241,656**	1,954,967	2,195,902
Net cash provided by (used in) investing activities	**11,527,890**	2,426,417	(8,426,022)	**12,105,425**	(1,084,508)	(8,173,119)
CASH FLOWS FROM FINANCING ACTIVITIES						
Availments of bills payable	**76,514,022**	161,544,780	–	**74,318,598**	159,728,148	172,165,543
Settlement of bills payable	**(82,073,268)**	(157,377,564)	–	**(81,540,439)**	(155,306,306)	(162,029,523)
Increase (decrease) in amounts of:		–				
Bills payable	**(3,990,632)**	1,548,509	(5,559,940)	**(5,651,206)**	361,708	(15,084,335)
Outstanding acceptances	**345,036**	(6,986,372)	6,418,944	**345,036**	(6,986,372)	6,418,944
Repayment of subordinated bonds	**(783,684)**	(620,618)	156,343	**(783,684)**	(620,618)	156,343
Dividend paid (Note 19)	**–**	(436,202)	–	**–**	(436,202)	–
Net cash provided by (used in) financing activities	**(9,988,526)**	(2,327,467)	1,015,347	**(13,311,695)**	(3,259,642)	1,626,972
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**29,318,734**	11,506,588	(12,559,870)	**27,316,226**	9,615,489	(10,781,814)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	**7,541,236**	8,721,441	8,673,595	**7,199,793**	8,471,498	8,509,893
Due from Bangko Sentral ng Pilipinas	**7,232,106**	2,316,093	5,305,743	**6,917,169**	2,059,639	5,129,645
Due from other banks	**4,676,319**	7,701,330	8,592,021	**3,842,373**	6,114,500	7,136,031
Interbank loans receivable and securities purchased under resale agreements (Note 31)	**16,106,623**	5,310,832	14,038,207	**16,106,623**	7,804,832	14,456,714
	₱35,556,284	₱24,049,696	₱36,609,566	*₱34,065,958*	₱24,450,469	₱35,232,283

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2006	2005	2004	**2006**	2005	2004
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	**₱8,663,488**	₱7,541,236	₱8,721,441	**₱8,381,197**	₱7,199,793	₱8,471,498
Due from Bangko Sentral ng Pilipinas	**23,262,456**	7,232,106	2,316,093	**22,611,472**	6,917,169	2,059,639
Due from other banks	**6,520,845**	4,676,319	7,701,330	**3,801,286**	3,842,373	6,114,500
Interbank loans receivable and securities purchased under resale agreements (Note 31)	**26,428,229**	16,106,623	5,310,832	**26,588,229**	16,106,623	7,804,832
	₱64,875,018	₱35,556,284	₱24,049,696	**₱61,382,184**	₱34,065,958	₱24,450,469

OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS

	Consolidated			Parent Company		
	Years Ended December 31					
	2006	2005	2004	**2006**	2005	2004
Interest received	**₱19,531,648**	₱19,499,849	₱16,635,750	**₱16,984,868**	₱17,423,407	₱14,216,162
Interest paid	**8,419,817**	8,159,703	8,134,159	**7,956,719**	7,887,330	7,942,182
Dividend received	**97,278**	90,513	61,479	**1,120,052**	460,635	1,156,607

See accompanying Notes to Financial Statements.

1. Corporate Information

Equitable PCI Bank, Inc. (the Parent Company) is a universal bank incorporated in the Philippines, with registered office address at Equitable PCI Bank Tower I, Makati Avenue corner H.V. de la Costa Street, Salcedo Village, Makati City. The Parent Company and its subsidiaries (the Group) are engaged in the business of banking, financing, leasing, real estate, insurance and stock brokering and other related services to personal, commercial, corporate and institutional clients through a network of 409 local and international branches, offices and agencies. The Group's products and services include deposit-taking, lending and related services, treasury and capital market operations, trade services, payments and cash management, and trust services.

The accompanying financial statements of the Group and of the Parent Company were authorized for issue by the Parent Company's Board Audit Committee and confirmed by the Board of Directors (BOD) in its meeting on March 20, 2007.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis except for securities at fair value through profit or loss (FVPL), available-for-sale (AFS) investments, land, and derivative financial instruments that have been measured at fair value. The financial statements are presented in Philippine pesos, and all values are rounded to the nearest thousand pesos (₱000) except when otherwise indicated.

The financial statements of the Parent Company reflect the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine pesos. The financial statements individually prepared for these units are combined after eliminating inter-unit accounts.

Statement of Compliance

The financial statements of the Group and of the Parent Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation

The consolidated financial statements include the financial statements of the Parent Company and the following wholly-owned and majority-owned subsidiaries:

Subsidiary	Effective Percentage of Ownership	Country of Incorporation
Financial Markets:		
EBC Investments, Inc. (EBCII) and Subsidiaries	100	Philippines
Equitable PCI Bank Cayman Limited (EPCI Cayman)	100	Cayman Island
Equitable Savings Bank, Inc. (ESB)	100	Philippines
Express Padala (HK) Ltd. (EPHK)	100	Hong Kong
Jardine Equitable Finance Corp. (JEFC)	100	Philippines
PCI Capital Corporation (PCI Capital) and Subsidiaries	100	Philippines
PCIB Europe S.p.A. (PCIB S.p.A)	100	Italy
PCI Express Padala (HK) Limited (Express Padala HK)	100	Hong Kong
PCI Express Padala - L.A. (Express Padala L.A.)	100	United States of America
PCI Express Padala Frankfurt	100	Germany
PCI Express Padala (Rotterdam) B.V.	100	Netherlands
Equitable Card Network, Inc. (ECN) and Subsidiaries	90	Philippines
PCI Leasing and Finance, Inc. (PCI Leasing)	85	Philippines
Insurance Brokerage:		
EBC Insurance Brokerage, Inc. (EIBI)	100	Philippines
PCI Insurance Brokers, Inc. (PCI Insurance)	100	Philippines
Securities Brokerage:		
PCIB Securities, Inc. (PCIB Securities)	100	Philippines
Real Estate:		
PCIB Properties, Inc. (PCIB Properties)	100	Philippines
PCI Realty Corporation (PCI Realty)	100	Philippines
Equimark-NFC Development Corporation (Equimark)	60	Philippines
Others:		
EBC Strategic Holdings Corp. (ESHC) and Subsidiaries	100	Philippines
Equitable Data Center, Inc. (EDCI)	100	Philippines
PCI Automation Center, Inc. (PCI Automation)	100	Philippines
Maxicare	60	Philippines

The consolidated financial statements are prepared for the same reporting year of the Parent Company using consistent accounting policies.

All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full in the consolidation.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Consolidation of subsidiaries ceases when control is transferred out of the Group or Parent Company.

The consolidated financial statements include the accounts of special purpose vehicles (SPV) namely, Philippine Investment One (PIO), Philippine Investment Two (PIT), and Cameron Granville Asset Management, Inc. (CGAM) in accordance with Philippine Interpretation SIC-12, Consolidation of Special Purpose Entity (SPE). The Parent Company sold certain assets to PIO, PIT and CGAM under transactions that qualified, and was approved by the BSP, as legal true sale (see Notes 8 and 12). While the Group has no equity interest in PIO, PIT and CGAM, it retains majority of the residual risks related to PIO, PIT and CGAM or their assets in order to obtain benefits from their activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

Minority Interests

Minority interests represent the portion of profit or loss and the net assets not held by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated statement of condition, separately from parent shareholders' equity. Acquisitions of minority interests are accounted for using the entity concept method, whereby the difference between the consideration and the book value of the share of the net assets acquired is recognized as an equity transaction.

Changes in Accounting Policies

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

Amendments to PFRSs and Philippine Interpretations effective in 2006

The Group has adopted the following amendments to PFRS and Philippine Interpretation during the year. Adoption of these revised standards and interpretations did not have any significant effect on the Group. They did, however, give rise to additional disclosures in the financial statements.

- Philippine Accounting Standard (PAS) 19 Amendment–Employee Benefits
- PAS 21 Amendment–The Effects of Changes in Foreign Exchange Rates
- PAS 39 Amendments–Financial Instruments: Recognition and Measurement
- Philippine Interpretation IFRIC–4, Determining Whether an Arrangement Contains a Lease

Philippine Interpretation early adopted

The Group has early adopted Philippine Interpretation IFRIC–9, *Reassessment of Embedded Derivatives*.

The principal effects of these changes, if any, are as follows:

PAS 19, Employee Benefits
Amendment for actuarial gains and losses, group plans and disclosures. As of January 1, 2006, the Group adopted the amendments to PAS 19. As a result, additional disclosures on the financial statements are made, starting in 2006, to provide information about trends in the assets and liabilities in the defined benefit plans and the assumptions underlying the components of the defined benefit cost. This change has no recognition nor measurement impact, as the Group chose not to apply the new option to recognize actuarial gains and losses outside of the statement of income.

PAS 21, The Effects of Changes in Foreign Exchange Rates
Amendment for net investment in a foreign operation. As of January 1, 2006, the Group adopted the amendments to PAS 21. As a result, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognized in a separate component of equity in the consolidated financial statements regardless of the currency in which the monetary item is denominated. This change has no significant impact on the financial statements.

PAS 39, Financial Instruments: Recognition and Measurement
Amendment for financial guarantee contracts. This amended the scope of PAS 39 to require financial guarantee contracts that are not considered to be insurance contracts to be recognized initially at fair value and to be remeasured at the higher of the amount determined in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with PAS 18, *Revenue*. This amendment did not have any significant impact on the financial statements.

Amendment for cash flow hedge accounting of forecast intra-group transactions. This amended PAS 39 to permit the foreign currency risk of a highly probable intra-group forecast transaction to qualify as the hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated statement of income. As the Group currently has no such transactions, the amendment did not have any significant impact on the financial statements.

Amendment for the fair value option. This amended PAS 39 to restrict the use of the option to designate at inception any financial asset or any financial liability to be measured at fair value through the income statement. The Bank has reassessed its existing FVPL investments, including documentation of the specific conditions allowing the continued FVPL classification of such investments. The Bank complied with the requirements of this amendment.

Philippine Interpretation *IFRIC–4, Determining Whether an Arrangement Contains a Lease*
This Interpretation provides guidance in determining whether an arrangement contains a lease to which lease accounting must be applied. This Interpretation has no significant impact on the financial statements.

Philippine Interpretation IFRIC–9, Reassessment of Embedded Derivatives
This Interpretation becomes effective for financial years beginning on or after June 1, 2006. It establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. The Group assessed that adoption of this Interpretation has no significant impact on the financial statements.

Foreign Currency Translation
The consolidated financial statements are presented in Philippine pesos, which is the Parent Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transaction and balances
The books of accounts of the RBU are maintained in Philippine pesos, while those of the FCDU are maintained in US dollar. For financial reporting purposes, the monetary assets and liabilities of the FCDU and foreign currency-denominated monetary assets and liabilities in the RBU are translated in Philippine pesos based on the Philippine Dealing System (PDS) closing rate prevailing at end of the year and foreign currency-denominated income and expenses, at the average PDS weighted average rate (PDSWAR) for the year. Foreign exchange differences arising from restatements of foreign currency-denominated assets and liabilities are credited to or charged against income in the period in which the rates change. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Group companies
As at the reporting date, the assets and liabilities of subsidiaries and the overseas branch are translated into the Parent Company's presentation currency (the Philippine peso) at the rate of exchange prevailing on the statement of condition date, and their income and expenses are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity (under Accumulated Translation Adjustment). On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the statement of income.

Financial instruments

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or market convention are recognized on the settlement date. Derivatives are recognized on trade date (i.e., the date that the Group commits to purchase or sell). Deposits, amounts due to banks and customers and loans are recognized when cash is received by the Group or advanced to the borrowers. For stockbroker subsidiaries, PCIB Securities and Armstrong Securities, Inc. (ASI), securities transactions and the related commission income and expense are recorded on a trade date.

Initial recognition of financial instruments

All financial assets, including trading and investment securities and loans and receivables, are initially recognized at fair value. Except for securities at FVPL, the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets in the following categories: securities at FVPL, held-to-maturity (HTM) investments, AFS investments, and loans and receivables. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Determination of fair value

The fair value for financial instruments traded in active markets at the statement of condition date is based on their quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

Derivatives recorded at FVPL

The Parent Company and some of its subsidiaries are counterparties to derivative contracts, such as currency forwards, currency swaps, and interest rate swaps. These derivatives are entered into as a service to customers and as a means of reducing or managing their respective foreign exchange and interest rate exposures, as well as for trading purposes. Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as accounting hedges) are taken directly to the statement of income and are included in 'Trading gains - net'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified primarily as either: a) a hedge of the fair value of an asset, liability or a firm commitment (fair value hedge); or b) a hedge of the exposure to variability in cash flows attributable to an asset or liability or a forecasted transaction (cash flow hedge). In 2006 and 2005, the Group did not apply hedge accounting treatment for its derivatives transactions.

The Group has certain derivatives that are embedded in host financial (such as structured notes, debt investments, and loan receivables) and non-financial (such as purchase orders and service agreements) contracts. These embedded derivatives include credit default swaps (which are linked either to a single reference entity or a basket of reference entities), barrier options, and calls and puts in debt instruments, which include structured notes and deposits; conversion options in loans receivable; call options in certain long-term debt, and foreign currency - denominated derivatives in debt instruments, purchase orders and service agreements.

Embedded derivatives are bifurcated from their host contracts and carried at fair value with fair value changes being reported through profit or loss, when the entire hybrid contracts (composed of both the host contract and the embedded derivative) are not accounted for as securities at FVPL, and when their economic risks and characteristics are not closely related to those of their respective host contracts.

Other financial assets or financial liabilities held for trading

Other financial assets or financial liabilities held for trading are recorded in the statement of condition at fair value. Changes in fair value relating to the held-for-trading positions are recognized in 'Trading gains - net'. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded in other operating income when the right to receive payment has been established.

Included in this classification are debt securities which have been acquired principally for the purpose of selling or repurchasing in the near term.

Financial assets or financial liabilities at FVPL

Financial assets or financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at FVPL are recorded in the statement of condition at fair value. Changes in fair value on financial assets and liabilities designated as FVPL are recorded in 'Trading gain - net'. Interest earned or incurred is recorded in interest income or expense, respectively, while dividend income is recorded in other operating income according to the terms of the contract, or when the right of payment has been established.

'Day 1' profit
Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a Day 1 profit) in the statement of income in 'Trading gains - net'. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' profit amount.

HTM investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments. After initial measurement, HTM investments are subsequently measured at amortized cost using the effective interest rate method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in 'Interest income' in the statement of income. Gains and losses are recognized in income when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statement of income under 'Provision for impairment and credit losses'. The effects of restatement of foreign currency-denominated HTM investments are recognized in the statement of income.

Loans and receivables, amounts due from BSP and other banks
Classified as Loans and Receivables are 'Due from Bangko Sentral ng Pilipinas' (BSP), 'Due from other banks', and 'Loans and receivables'. These are financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'other financial assets held for trading', designated as 'AFS investments' or 'financial assets designated at FVPL'.

Loans and receivables also include receivables arising from transactions on credit cards issued directly by ECN. Collection of receivables from credit cardholders of other banks is guaranteed by those banks with tie-up arrangements with ECN. 'Loans and receivables' also include the aggregate rental on finance lease transactions. Unearned income on finance lease transactions is shown as a deduction from 'Loans and receivables' (included in 'Unearned discount').

After initial measurement, 'Loans and Receivables', 'Due from BSP' and 'Due from other banks' are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in 'Interest income' in the statement of income. The losses arising from impairment of such loans and receivables are recognized in 'Provision for impairment and credit losses' in the statement of income.

AFS investments
AFS investments are those investments which are designated as such or do not qualify to be classified as designated as FVPL, HTM investments or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include equity investments, money market papers and other debt instruments.

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in earnings. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded net of tax from reported earnings and are reported as 'Net unrealized gain or loss on AFS investments' (net of tax where applicable) in the equity section of the statement of condition.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized as 'Trading gains - net' in the statement of income. Interest earned on holding AFS investments are reported as interest income using the effective interest rate. Dividends earned on holding AFS investments are recognized in the statement of income as 'Other operating income' when the right of payment has been established. The losses arising from impairment of such investments are recognized as 'Provisions on impairment and credit losses' in the statement of income.

Bills payable and other borrowed funds
Issued financial instruments or their components, which are not designated at FVPL are classified as liabilities under 'Bills payable' or other appropriate financial liability accounts, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, bills payable and similar financial liabilities not qualified as and not designated as FVPL, are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate.

Prior to January 1, 2005, investment securities were accounted for as follows:

Trading Account Securities (TAS)

TAS, which consist of government and private debt and equity securities, are purchased and held principally with the intention of selling them in the near term. These securities are carried at fair value; realized and unrealized gains and losses on these instruments are recognized in 'Trading Gains – net' in the statement of income. Interest earned on debt instruments is reported as 'Interest Income'.

When a security is transferred from TAS, the unrealized holding gain or loss at the date of the transfer is not reversed and is recognized in the statements of income immediately.

Available- for-Sale Securities (ASS)

Securities are classified as ASS when purchased and held indefinitely, i.e., neither held to maturity nor for trading purposes, where the Group anticipates to sell in response to liquidity requirements or in anticipation of changes in interest rates or other factors. ASS are carried at fair market value and any unrealized gains or losses are reported as a separate component of equity.

After initial recognition, investments which are classified as ASS are measured at fair value. Gains or losses are recognized as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in capital funds is included in the statement of income.

Investment in Bonds and Other Debt Instruments (IBODI)

IBODI are debt securities where the Group has the positive intent and ability to hold to maturity. These securities are carried at amortized cost on a straight-line basis; realized gains and losses are included in 'Trading Gains – net' in the statement of income.

When a debt security is transferred into ASS from IBODI, the unrealized holding gain or loss at the date the transfer shall be excluded from reported earnings and reported as a separate component of equity until realized.

The cumulative effect of adopting PAS 32 and 39 charged to surplus as of January 1, 2005 consists of:

	Consolidated	Parent Company
Recognition of additional impairment losses	(₱6,663,892)	(₱5,627,029)
Recognition of fair value changes on embedded derivatives at transition date	(1,160,688)	(1,160,688)
Take up of the effect of change from straight line to effective interest method	(19,872)	(19,872)
Net effect of reclassification of securities	(24,532)	(24,532)
	(₱7,868,984)	(₱6,832,121)

The net effect of the reclassification from other financial assets to AFS investments and vice versa on 'Net unrealized gain (loss) on AFS investments' amounted to ₱68.9 million as of January 1, 2005.

Derecognition of Financial Assets and Liabilities

Financial asset

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized where:

1. the rights to receive cash flows from the asset have expired;
2. the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
3. the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risk and rewards of the asset but has transferred the control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liability

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the statement of condition. The corresponding cash received, including accrued interest, is recognized on the statement of condition as a loan to the Group, reflecting the economic substance of such transaction. The Group has no repurchase agreements as of December 31, 2006 and 2005.

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized on the statement of condition. The corresponding cash paid, including accrued interest, is recognized on the statement of condition as 'Securities Purchased Under Resale Agreements (SPURA), and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest rate method.

Securities Lending and Borrowing
Securities lending and borrowing transactions are usually collateralized by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of condition if the risk and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not derecognized on the statement of condition, unless they are sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in 'Trading gains - net'.

Impairment of Financial Assets
The Group assesses at each statement of condition date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an
incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables
For loans and receivables carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be recognized thereafter based in the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss. Loans, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts
formerly charged are credited to the 'Provision for impairment and credit losses' account.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, collateral type, past-due status and term.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group. 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 exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such changes in property prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

HTM investments
For HTM investments, the Group assesses whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred using the original effective interest rate of the investment, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be recognized based on the original effective interest rate of the asset.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to 'Provisions for impairment and credit losses' account in the statement of income and the allowance account, reduced. The HTM investments, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized.

AFS investments
For AFS investments, the Group assesses at each statement of condition date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In case of equity investments classified as AFS investments, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income - is removed from equity and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in equity.

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of Interest income in the statement of income. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

Restructured loans
Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original effective interest rate, is recognized in 'Provisions for impairment and credit losses' in the statement of income.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the statement of condition if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of condition.

Terminal Value of Leased Assets and Deposits on Finance Leases
The terminal value of a leased asset, which approximates the amount of guaranty deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the sale of the leased asset at the end of the lease term. At the end of the lease term, the terminal value of the leased asset is generally applied against the guaranty deposit of the lessee when the lessee decides to buy the leased asset.

Revenue Recognition
Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Interest income

For all financial instruments measured at amortized cost and interest bearing financial instruments classified as AFS investments, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), including any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The adjusted carrying amount is calculated based on the original effective interest rate. The change in carrying amount is recorded as interest income.

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized based on the effective interest rate used to discount the future recoverable cash flows.

Fee and commission income

The Group earns fee and commission income from diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

a. Fee income earned from services that are provided over a certain period of time

   Fees earned for the provision of services over a period of time are accrued over that period. These fees include investment fund fees, custodian fees, fiduciary fees, commission income, credit related fees, asset management fees, portfolio and other management fees, and advisory fees. However, loan commitment fees for loans that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

b. Fee income from providing transaction services

   Fees arising from negotiating or participating in the negotiation of a transaction for a third party - such as underwriting fees, corporate finance fees, and brokerage fees for the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria. Loan syndication fees are recognized in the statement of income when the syndication has been completed and the Group retains no part of the loans for itself or retains part at the same effective interest rate as for the other participants.

Dividends

Dividend income is recognized when the Group's right to receive payment is established.

Trading gains - net
Results arising from trading activities including all gains and losses from changes in fair value for financial assets and financial liabilities held for trading.

Rental Income
Rental income arising from leased properties is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the statement of income under 'Other operating income'.

Commissions earned on credit cards
Commissions earned on credit cards are taken up as income upon receipt from member establishments of charges arising from credit availments by credit cardholders. These commissions are computed based on certain agreed rates and are deducted from amounts remittable to member establishments.

Purchases by the credit cardholders, collectible on installments basis, are recorded at the cost of the items purchased plus certain percentage of cost. The excess over cost is credited to 'Unearned discount' and is shown as a deduction from 'Loans and receivables' in the consolidated statement of condition. The unearned discount is taken up to income over the installment terms and is computed using the effective interest method.

Income on direct financing leases and receivables financed
Income on loans and receivables financed with short-term maturities is recognized using the effective interest method.

Interest and finance fees on finance leases and loans and receivables financed with long-term maturities and the excess of the aggregate lease rentals plus the estimated terminal value of the leased equipment over its cost are credited to unearned discount and amortized over the term of the note or lease using the effective interest rate method. Unearned income ceases to be amortized when receivables become past due.

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks, and interbank loans receivable (IBLR) and SPURA (Note 31) with original maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value.

Receivables from Special Purpose Vehicles
Receivables from SPVs in the Parent Company financial statements included under 'Other Assets' are stated at the face value of the related note reduced by allowance for credit losses. The allowance for credit losses is determined based on the difference between the outstanding principal amount and the recoverable amount which is the present value of the future cash flows expected to be received in payment of the receivable.

Investments in Subsidiaries and Associates

Investments in subsidiaries
Subsidiaries pertain to all entities over which the 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 Group controls another entity.

Investments in associates
Associates pertain to all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for under the equity method of accounting in the consolidated financial statements. The Group's share of its associates' post-acquisition profits or losses is recognized in the consolidated statement of income, and its share of post-acquisition movements in the associates' equity is recognized directly in equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

In the Parent Company financial statements, investments in subsidiaries and associates are carried at cost, less impairment in value.

Property and Equipment
Depreciable properties including buildings, leasehold improvements, and furniture, fixtures and equipment are stated at cost less accumulated depreciation and amortization, and any impairment in value. Such cost includes the cost of replacing part of the property and equipment when the cost is incurred, if the recognition criteria are met but excludes repairs and maintenance costs.

Land is stated at appraised value less any impairment in value. The appraised values were determined by professionally qualified, independent appraisers in 2002 for the Parent Company and 2004 for the subsidiaries. The Parent Company is currently undergoing appraisal of land items. The revaluation increment resulting from revaluation of land is credited to 'Revaluation increment on property' under the equity section, net of applicable deferred income tax.

Depreciation is calculated on the straight-line method over the estimated useful life of the depreciable assets. The estimated useful lives of the depreciable assets are as follows:

Buildings	50 years
Furniture, fixtures and equipment	3-5 years
Leasehold improvements	3-5 years or the terms of the related leases, whichever is shorter

The depreciation and amortization method and useful life are reviewed periodically to ensure that the method and period of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the asset is derecognized.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment property acquired is measured at the carrying amount of asset given up. Foreclosed properties are classified under investment properties from foreclosure date.

Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and impairment in value.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of income in 'Other operating income' in the year of retirement or disposal.

Expenditures incurred after the investment properties has been put into operations, such as repairs and maintenance costs, are normally charged to income in the period in which the costs are incurred.

Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the investment properties but not to exceed:

Buildings	50 years
Condominium units	40 years

Transfers are made to investment properties when, and only when, there is a change in use as evidenced by ending of owner occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use as evidenced by commencement of owner occupation or commencement of development with a view to sale.

Real Estate Properties

Real estate properties included under Other assets are stated at lower of cost and net realizable value.

Intangible Assets and Goodwill

Exchange Trading Rights
Exchange trading rights (included in the consolidated other investments under Other Assets) was acquired, together with Philippine Stock Exchange (PSE) shares, in exchange for the exchange membership seat under the conversion program of the PSE. The exchange trading rights are carried at the amount allocated from the original cost of the exchange membership seat (after a corresponding allocation was made to the value of the PSE shares) less any allowance for impairment loss. PCIB Securities and ASI do not intend to sell their respective exchange trading right in the near future.

The exchange trading right is deemed to have an indefinite useful life as there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group. It ceased to be amortized on January 1, 2004 but will be tested annually for any impairment in realizable value. Any impairment loss is charged directly to statement of income (see accounting policy on Impairment of Non-Financial Assets).

Goodwill
Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. Goodwill represents the excess of the acquisition cost of the former PCI Bank, which was merged with the Parent Company in 1999, over the fair value of its identifiable net assets at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually (see accounting policy on Impairment of Non-Financial Assets).

Impairment of Non-Financial Assets
At each reporting date, the Group assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's (or cash-generating unit's) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs. Where the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the asset (or cash generating unit) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash generating unit).

An impairment loss is charged to operations in the year in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset.

For non-financial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill
Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash generating unit (or group of cash generating units) to which the goodwill relates. Goodwill sometimes cannot be allocated on a non-arbitrary basis to individual cash operating units, but only to the groups of cash-generating units. As a result, the lowest level within the Parent Company at which the goodwill is monitored for internal management purposes sometimes comprises a number of cash generating units to which the goodwill relates but cannot be allocated. Where the recoverable
amount of the cash generating unit (or group of cash generating units) is less than the carrying
amount of the cash generating unit (or group of cash generating units) to which goodwill has been allocated (or to the aggregate carrying amount of a group of cash-generating units to which the goodwill relates but cannot be allocated), an impairment loss is recognized immediately in the statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Group performs its annual impairment test of goodwill as at December 31.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually as of December 31 either individually or at the cash generating unit level, as appropriate.

Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a. There is a change in contractual terms, other than a renewal or extension of the arrangement;
b. A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
c. There is a change in the determination of whether fulfillment is dependent on a specified asset; or,
d. There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c), or (d) above; and at the date of renewal or extension period for scenario (b).

For arrangements entered into prior to January, 1, 2005, the date of inception is deemed to be January 1, 2005 in accordance with the transitional requirements of Philippine Interpretation IFRIC-4.

Group as Lessee
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in Property and equipment account with the corresponding liability to the lessor included in 'Other liabilities' account. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to Interest expense.

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term.

Group as Lessor
Finance leases, where the Group transfers substantially all the risk and benefits incidental to ownership of the leased item to the lessee, are included in the statement of condition under Loans and Receivables account. A lease receivable is recognized at an amount equivalent to the net investment (asset cost) in the lease. All income resulting from the receivable is included in 'Interest income' in the statement of income.

Leases where the Group does not transfer substantially all the risk and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and are recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Pension Benefits

The Group is covered by a noncontributory defined benefit retirement plan.

The retirement cost of the Parent Company and its subsidiaries namely ECN, EBCII, ESB, EDCI, PCI Capital, EIBI, PCI Leasing, PCIB Securities and PCI Automation is determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current period.

The liability recognized in the statement of condition in respect of defined benefit pension plans (see Note 20) is the present value of the defined benefit obligation at the statement of condition 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 an independent actuary 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 rate on government bonds that have terms to maturity approximating the terms of the related retirement liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged against income when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These excess gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Past-service costs, if any, 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.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs not yet recognized and less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service cost not yet recognized and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Most of the officers and staff of EPHK, ESHC, JEFC and PCIB Properties are seconded from the Parent Company. Accordingly, the retirement benefits of these officers and employees are determined and provided for by the Parent Company and are charged against income for the period.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Contingent liabilities and contingent assets

Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable.

Income Taxes

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

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular income tax, and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carry forward of unused tax credits from MCIT and unused NOLCO can be utilized. Deferred income tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income.

Deferred tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries and associates. With respect to investments in foreign subsidiaries and associates, deferred tax liabilities are recognized except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

Current tax and deferred tax relating to items recognized directly in equity is also recognized in equity and not in the statement of income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred taxes related to the same taxable entity and the same taxation authority.

Treasury shares and contracts on own shares
Own equity instruments which are acquired (treasury shares) are deducted from equity and accounted for at weighted average cost. Parent Company share held by a subsidiary is treated to similar treasury shares in the consolidated financial statements. No gain or loss is recognized in the statement of income on the purchase, sale, issue or cancellation of the Parent Company's own equity instruments.

Earnings Per Share
Basic earnings per share (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 and stock rights exercised during the year, if any. The Group does not have any dilutive potential common shares.

Dividends on common shares
Dividends on common shares are recognized as a liability and deducted from equity when approved by the shareholders of the Parent Company. Dividends for the year that are approved after the statement of condition date are dealt with as an event after the statement of condition date.

Subsequent Events
Any post-year-end event that provides additional information about the Group's position at the statement of condition date (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

Segment Reporting
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 26. Substantial of the Group's assets producing revenues are located in the Philippines (i.e., one geographical location). Therefore, geographical segment information is no longer presented.

Fiduciary Activities
Assets and income arising from fiduciary activities together with related undertakings to return such assets to customers are excluded from the financial statements where the Parent Company acts in a fiduciary capacity such as nominee, trustee or agent.

Future Changes in Accounting Policies
The Group has not applied the following PFRS and Philippine Interpretations which are not yet effective for the year ended December 31, 2006:

PFRS 7, Financial Instruments: Disclosures, and the complementary amendment to PAS 1, Presentation of Financial Statements: Capital Disclosures (effective for annual periods beginning on or after January 1, 2007)
PFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure 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, as well as sensitivity analysis to market risk. It replaces PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and the disclosure requirements in PAS 32, *Financial Instruments: Disclosure and Presentation*. It is applicable to
all entities that report under PFRS. The amendment to PAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group is currently assessing the impact of PFRS 7 and the amendment to PAS 1 and expects that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by PFRS 7 and the amendment to PAS 1. The Group will apply PFRS 7 and the amendment to PAS 1 in 2007.

PFRS 8, *Operating Segments (effective for annual periods beginning on or after January 1, 2009)*
This PFRS adopts a management approach to reporting segment information. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the balance sheet and statement of income and companies will need to provide explanations and reconciliations of the differences. PFRS 8 will replace PAS 14, *Segment Reporting* The Group will assess the impact of the standard on its current manner of reporting segment information.

Philippine Interpretation IFRIC-7, Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after March 1, 2006)
This Interpretation provides guidance on how to apply PAS 29 when an economy first becomes hyperinflationary, in particular the accounting for deferred income tax. The Interpretation has no significant impact on the financial statements of the Group.

Philippine Interpretation IFRIC-8, Scope PFRS 2 (effective for annual periods beginning on or after May 1, 2006)
This Interpretation requires PFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are only issued to employees in accordance with the employee share scheme, the Interpretation has no significant impact on the financial position of the Group.

Philippine Interpretation IFRIC-10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after November 1, 2006)
This Interpretation prohibits the reversal of impairment losses on goodwill and AFS equity investments recognized in the interim financial reports even if impairment is no longer present at the annual balance sheet date. This Interpretation has no significant impact to the financial statements of the Group.

Philippine Interpretation IFRIC-11, PFRS 2 Group and Treasury Share Transactions (effective for annual periods beginning on or after March 1, 2007)
This Interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if (a) the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or (b) the shareholder(s) of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to the equity instruments of the parent. The Group currently does not have any stock option plan and therefore, does not expect this interpretation to have significant impact to its financial statements.

Philippine Interpretation IFRIC-12, Service Concession Arrangements, (effective for annual periods beginning on or after January 1, 2008)
This Interpretation covers contractual arrangements arising from private entities providing public services and is not relevant to the Group's current operations.

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in accordance with PFRS requires the Group to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Judgments and estimates 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.

Judgments

(a) Operating leases
The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

(b) SPEs

The Group sponsors the formation of SPEs primarily for the purpose of allowing clients to hold investments and for asset securitization transactions. The Group consolidates SPEs that it controls. Control over SPEs is assessed based on benefits test in accordance with SIC 12. As it can sometimes be difficult to determine whether the Group does control an SPE, it makes judgments about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over an SPE, but when considered together make it difficult to reach a clear conclusion. In such cases, the SPE is consolidated.

(c) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of condition cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation.

(d) HTM investments

The classification under HTM investments requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire portfolio as AFS investments. The investments would therefore be measured at fair value and not at amortized cost.

(e) Financial assets not quoted in an active market

The Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

Estimates

a) Impairment losses of loans and receivables

The Group reviews its impaired loans and receivables at each reporting date to assess whether additional provision for credit losses should be recorded in the statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant loans and receivables, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on changes in factors that are indicative of incurred losses, such as deterioration in payment status, underlying property prices, among others.

As of December 31, 2006 and 2005 allowance for credit losses on loans and receivables amounted to ₱ 11.5 billion and ₱11.4 billion, respectively, for the Group, and ₱9.6 billion and ₱9.0 billion, respectively, for the Parent Company. As of December 31, 2006 and 2005, loans and receivables are carried at ₱161.4 billion and ₱140.2 billion, respectively, for the Group and ₱140.9 billion and ₱132.6 billion, respectively, for the Parent Company (see Note 8).

b) *Fair values of structured debt instruments and derivatives*
The fair values of structured debt instruments and derivatives that are not quoted in active markets are determined using internal valuation techniques. These internal valuation techniques uses generally accepted market valuation models such as the Black-Scholes model for instruments with embedded options. Where internal valuation techniques are used to determine fair values, they are validated and periodically reviewed by market risk management and other qualified personnel independent of the business. All models are reviewed before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use observable data; however for models requiring inputs on other market factors, management uses estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. Refer to Notes 4 and 29 for the information on the carrying amounts of these instruments.

c) *Valuation of unquoted equity investments*
Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. The Group calibrates the valuation techniques periodically and tests them for validity using either price from observable current market transactions in the same instrument or from other available observable market data. Refer to Note 7 for the information on the carrying amounts of these investments.

d) Impairment of AFS equity investments

The Group treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Group treats 'significant' generally as 20% or more and 'prolonged' as greater than 6 months for quoted equity securities. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Refer to Note 7 for the information on the carrying amounts of these investments.

(e) Recognition of deferred income taxes

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

The Group has been in a tax loss position over the past several years. However, estimates of future taxable income indicate that certain temporary differences will be realized in the future. As discussed in Note 24, recognized deferred tax assets as of December 31, 2006 and 2005 amounted to ₱5.3 billion and ₱5.8 billion, respectively, for the Group and ₱5.0 billion and ₱5.4 billion, respectively, for the Parent Company. As of December 31, 2006 and 2005, no deferred tax assets have been set up on deductible temporary differences amounting to ₱8.8 billion and ₱3.2 billion, respectively, for the Group and ₱6.3 billion and ₱2.6 billion, respectively, for the Parent Company.

(f) Present value of retirement obligation

The cost of defined benefit pension plan and other post-employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

The expected rate of return on plan assets of 9.0% as of December 31, 2006 and 2005 was based on the average historical return of the fund assets. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of statement of condition date. Refer to Note 20 for the details of assumption used in the calculation.

As of December 31, 2006 and 2005, the present value of the retirement obligation amounted to ₱3.4 billion and ₱1.7 billion, respectively, for the Group and ₱3.1 billion and ₱1.5 billion, respectively for the Parent Company (see Note 20).

(g) Impairment of non-financial assets
Property and Equipment and Investment Properties

The Group assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

The Group recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the value in use approach. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

As of December 31, 2006, the carrying value of the property and equipment and investment properties amounted to ₱9.5 billion and ₱17.9 billion, respectively, for the Group and ₱8.8 billion and ₱15.2 billion, respectively, for the Parent Company. As of December 31, 2005, the carrying value of the property and equipment and investment properties amounted to ₱9.8 billion and ₱ 18.4 billion, respectively, for the Group and ₱9.1 billion and ₱15.9 billion, respectively, for the Parent Company (see Notes 9 and 11).

Goodwill

The Parent Company's management conducts an annual review for any impairment in value of the goodwill. The impairment on the goodwill is determined by comparing (a) the carrying value of goodwill plus the net tangible assets of the merged bank and (b) the company value composed of the present value of the annual projected cash flows for five years and the present value of the terminal value of the merged bank computed under the discounted cash flow method. The Bank uses the Weighted Average Cost of Capital (WACC) as the discount rate, as this is the required rate of return for an investment consisting of more than one form of capital (debt and equity).

As of December 31, 2006 and 2005, goodwill amounted to ₱15.7 billion.

4. Fair Value Measurement

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

Cash equivalents and short-term investments - Carrying amounts approximate fair values due to the relatively short-term maturities of these investments.

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

Quoted equity securities - Fair values are based on quoted prices published in markets.

Unquoted equity securities - Fair values could not be reliably determined due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

Loans and receivables - Fair values of loans are estimated using the discounted cash flow methodology, using the Group's current incremental lending rates for similar types of loans.

Liabilities - The fair value of quoted debt instruments are based on quotes obtained from an independent pricing service. For unquoted instruments, fair values are estimated using the discounted cash flow methodology using the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

Derivative instruments - Fair values are estimated based on quoted market prices, prices provided by independent parties or acceptable valuation models.

The following tables summarize the carrying amounts and fair values of the Group's financial assets and liabilities as of December 31, 2006 and 2005:

	2006			
	Consolidated		Parent Company	
	Carrying Value	Fair Value	Carrying Value	Fair value
Financial Assets				
Cash and other cash items	**₱8,663,488**	**₱8,663,488**	**₱8,381,197**	**₱8,381,197**
Due from BSP	**23,262,456**	**23,262,456**	**22,611,472**	**22,611,472**
Due from other banks	**6,520,845**	**6,520,845**	**3,801,286**	**3,801,286**
IBLR and SPURA	**27,572,262**	**27,572,262**	**27,732,262**	**27,732,262**
Securities at FVPL	**22,761,419**	**22,761,419**	**22,621,745**	**22,621,745**
AFS investments	**7,681,665**	**7,681,665**	**6,925,663**	**6,925,663**
Unquoted AFS equity investments	**1,939,071**	**NA ***	**902,353**	**NA ***
HTM investments	**29,903,374**	**32,024,603**	**29,552,707**	**31,662,507**
Loans and receivables	**161,431,665**	**154,057,642**	**140,945,119**	**130,885,182**
Investments in subsidiaries and associates	**310,511**	**310,511**	**11,754,200**	**12,397,605**
Receivables from SPVs	**–**	**–**	**3,336,056**	**3,336,056**
Inter office float items - net	**2,247,833**	**2,247,833**	**2,105,288**	**2,125,288**
Financial Liabilities				
Deposit liabilities	**240,099,250**	**240,099,250**	**231,963,428**	**231,963,428**
Bills payable	**20,155,857**	**20,218,453**	**14,325,120**	**14,387,715**
Outstanding acceptances	**960,980**	**960,980**	**960,980**	**960,980**
Manager's checks and demand drafts outstanding	**1,422,304**	**1,422,304**	**1,293,530**	**1,293,530**
Accrued interest payable	**1,051,145**	**1,051,145**	**620,818**	**620,818**
Subordinated notes payable	**9,691,113**	**10,271,785**	**9,691,113**	**10,271,785**
Other liabilities	**17,211,167**	**17,211,167**	**15,749,837**	**15,749,887**

*not available

	2005			
	Consolidated		Parent Company	
	Carrying Value	Fair Value	Carrying Value	Fair value
Financial Assets				
Cash and other cash items	₱7,541,236	₱7,541,236	₱7,199,793	₱7,199,793
Due from BSP	7,232,106	7,232,106	6,917,169	6,917,169
Due from other banks	4,676,319	4,676,319	3,842,373	3,842,373
IBLR and SPURA	18,199,624	18,199,624	18,199,624	18,199,624
Securities at FVPL	26,061,882	26,061,882	25,921,031	25,921,031
AFS investments	14,616,414	14,616,414	14,597,154	14,597,154
Unquoted AFS equity investments	2,492,358	NA *	760,903	NA *
HTM investments	32,483,945	33,258,308	32,200,964	32,955,536
Loans and receivables	140,187,890	140,322,534	132,590,379	132,834,372
Investments in subsidiaries and associates	290,772	290,772	11,050,975	11,126,628
Interoffice float items - net	3,310,905	3,310,905	3,211,309	3,211,309
Receivables from SPVs	–	–	3,336,056	3,336,056
Financial Liabilities				
Deposit liabilities	206,664,245	206,664,245	202,154,155	202,154,155
Bills payable	29,705,735	29,760,434	27,198,167	27,252,866
Outstanding acceptances	615,944	615,944	615,944	615,944
Managers checks and demand drafts outstanding	912,091	912,091	891,704	891,704
Accrued interest payable	794,639	794,639	526,999	526,999
Subordinated notes payable	10,474,797	11,116,489	10,474,797	11,116,489
Other liabilities	18,147,700	18,147,700	16,940,819	16,940,619

*not available

5. Financial Risk Management Objectives and Policies

a. *Credit Risk and Concentration of Assets and Liabilities and Off Balance Sheet Items*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group manages credit risk by setting limits for individual borrowers, and groups of borrowers and industry segments. The Group also monitors credit exposures, and continually assesses the creditworthiness of counterparties. In addition, the Group obtains security where appropriate, enters into master netting agreements and collateral arrangements with counterparties, and limits the duration of exposures.

In compliance with BSP requirements, the Group established in 2005 an internal credit risk rating system for the purpose of measuring credit risk for every exposure in a consistent manner as accurately as possible and uses the risk information for business and financial decision-making. The Group adopted the Bankers' Association of the Philippines model which has been approved by the BSP as a minimum standard for an internal risk rating system under BSP Circular No. 439. The system has two components namely a) Borrower Risk Rating System which provides an assessment of credit risk without considering the security arrangements and b) Facility Risk Rating which is an account rating taking into account the collateral and other credit risk mitigants. The rating scale consists of 10 grades, 6 of which fall under unclassified accounts and 4 classified accounts according to regulatory provisioning guidelines.

In 2005, the Group also employed the use of Credit Scorecards in assessing its loan accounts. The scorecards were developed jointly with third party service providers using data from its own portfolio and wealth experience in Consumer Finance.

Credit risk in respect of derivative financial instruments is limited to those with positive fair values, which are included under Securities at FVPL. As a result, the maximum credit risk, without taking into account the fair value of any collateral and netting agreements, is limited to the amounts on the statement of condition plus credit commitments.

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.
The distribution of assets, liabilities, and off-balance sheet items by geographic region and industry sector of the Group and the Parent Company as of December 31, 2006 and 2005 follows:

	2006		
	Consolidated		
	Assets	**Liabilities**	**Credit Commitments**
	(In Thousands)		
Geographic Region:			
Philippines	**₱291,954,711**	**₱275,090,119**	**₱97,203,643**
Asia	**30,361,614**	**19,053,980**	**411,855**
Europe	**16,277,201**	**3,498,622**	**1,312**
United States	**6,548,299**	**17,800**	**382,875**
Total	**₱345,141,825**	**₱297,660,521**	**₱97,999,685**
Industry Sector:			
Trading and manufacturing	**₱150,896,003**	**₱142,096,851**	**₱49,787,862**
Banks and financial institutions	**133,885,319**	**61,716,651**	**17,494,185**
Consumers	**25,711,781**	**35,115,269**	**6,284,094**
Construction and real estate	**25,212,098**	**21,125,996**	**8,247,758**
Others	**9,436,624**	**37,605,754**	**16,185,786**
	₱345,141,825	**₱297,660,521**	**₱97,999,685**

	2005		
	Consolidated		
	Assets	**Liabilities**	**Credit Commitments**
	(In Thousands)		
Geographic Region:			
Philippines	₱275,896,370	₱257,466,728	₱122,195,630
Asia	11,061,920	11,376,415	1,496,753
Europe	23,511,283	5,312,314	3,196
United States	1,582,013	398,715	5,324
Total	₱312,051,586	₱274,554,172	₱123,700,903

(Forward)

	2005		
	Consolidated		
	Assets	Liabilities	Credit Commitments
	(In Thousands)		
Industry Sector:			
Trading and manufacturing	₱169,782,517	₱157,992,862	₱57,793,452
Banks and financial institutions	85,295,003	23,877,098	26,964,411
Consumers	9,529,734	14,295,583	7,637,449
Construction and real estate	21,920,976	35,585,327	13,226,734
Others	25,523,356	42,803,302	18,078,857
	₱312,051,586	₱274,554,172	₱123,700,903

	2006		
	Parent Company		
	Assets	Liabilities	Credit Commitments
	(In Thousands)		
Geographic Region:			
Philippines	**₱268,825,182**	**₱255,785,657**	**₱97,190,186**
Asia	**29,797,721**	**18,682,255**	**411,855**
Europe	**16,048,139**	**3,450,211**	**1,312**
United States	**6,148,795**	**683**	**382,875**
Total	**₱320,819,837**	**₱277,918,806**	**₱97,986,228**
Industry Sector:			
Trading and manufacturing	**₱147,243,139**	**₱133,123,109**	**₱49,778,581**
Banks and financial institutions	**125,403,813**	**58,362,949**	**17,492,526**
Consumers	**17,614,375**	**30,848,987**	**6,284,006**
Construction and real estate	**22,330,500**	**19,454,316**	**8,247,758**
Others	**8,228,010**	**36,129,445**	**16,183,357**
	₱320,819,837	**₱277,918,806**	**₱97,986,228**

	2005		
	Parent Company		
	Assets	Liabilities	Credit Commitments
	(In Thousands)		
Geographic Region:			
Philippines	₱268,260,240	₱246,325,621	₱122,171,674
Asia	10,328,027	10,642,521	1,496,753
Europe	23,340,757	5,265,914	3,196
United States	1,582,013	228,189	5,324
Total	₱303,511,037	₱262,462,245	₱123,676,947
Industry Sector:			
Trading and manufacturing	₱169,276,818	₱157,930,184	₱57,773,672
Banks and financial institutions	84,554,559	23,523,760	26,962,752
Consumers	9,431,164	14,295,583	7,637,361
Construction and real estate	17,008,451	28,591,165	13,226,734
Others	23,240,045	38,121,553	18,076,428
	₱303,511,037	₱262,462,245	₱123,676,947

b. *Market Risk*

Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchanges rates, commodity prices, equity prices and other market changes. The Group's market risk originates from its holdings in foreign exchange instruments, debt and equity securities and derivatives.

The Market Risk Management Unit is responsible for the identification and measurement of market risk under the supervision of the Risk Management Committee of the BOD. Market risk management for the Trading Book is measured using Value at Risk (VaR).

In 2001, the Parent Company commenced computation of its VaR, in certain trading activities and began benchmarking its market risk practices to industry standards. The VaR method is a procedure for estimating the probability of portfolio losses exceeding some specified proportion based on a statistical analysis of historical market price trends, correlations and volatilities. VaR estimates the potential decline in the value of a portfolio, under normal market conditions, for a given "confidence level" over a specified holding period.

In calculating VaR, the Parent Company uses a 99% confidence level and a 1 day holding period for a liquid market. This means that, statistically, the Group's losses on trading operations will exceed VaR on 2.5 days out of 250 trading business days. The validity of the VaR model is verified through back testing, which examines how frequently actual daily losses exceeds daily VaR. The Parent Company measures and monitors the VaR and profit and loss on a daily basis.

c. *Interest Rate Risk*

The Group follows a prudent policy on managing its assets and liabilities so as to ensure that its exposure to fluctuations in interest rates is kept within acceptable limits.

As a substantial proportion of the Group' s total loan portfolio is for a term of more than four years, and the majority of the balance of its medium-term portfolio is on a floating-rate basis. As of December 31, 2006 and 2005, 42% and 65.7%, respectively, of the Group' s total loan portfolio comprised of floating rate loans which are repriced periodically by reference to the transfer pool rate which reflects the Bank's internal cost of funds. As a result of these factors, the Group exposure to interest rate fluctuations and other market risk is significantly reduced. The Group, in keeping with banking industry practice, aims to achieve stability and lengthen the term structure of its deposit base while providing adequate liquidity to cover transactional banking requirements of customers. No interest is paid on demand accounts, which as of December 31, 2006 and 2005 accounted for 4.9% and 4.1%, respectively of total deposits, except for a demand account product which pays a rate of interest equal to that payable on regular savings accounts of the Parent Company. Rates on savings accounts and time deposit accounts, which constituted 73.2% and 20.1%, respectively, as of December 31, 2006 and 69.0% and 25.3%, respectively, as of December 31, 2005 of total deposits are set by different criteria. Savings account rates are set by reference to prevailing market rates while rates on time deposits and special savings accounts are usually priced by reference to rates applicable to prevailing rates on Philippine Treasury Bills and other money market instruments or, in the case of foreign currency deposits, SIBOR (Singapore interbank offered rate) and other benchmark dollar deposit rates in the Asian and international money markets with similar maturities.

The following table provides for the average effective interest rates (in %) by period of maturity or repricing of the Group and the Parent Company as of December 31, 2006 and 2005:

	2006					
	Consolidated			**Parent Company**		
	Less than 3 Months	**3 Months to 1 Year**	**Greater than 1 Year**	**Less than 3 Months**	**3 Months to 1 Year**	**Greater than 1 Year**
Peso-Denominated						
Assets						
Due from BSP	**4.89%**	–	–	**5.78%**	–	–
Due from banks	**3.09%**	–	–	–	–	–
IBLR and SPURA	–	–	–	–	–	–
Securities at FVPL	**6.39%**	**6.06%**	**8.92%**	**7.21%**	**5.64%**	**7.44%**
AFS investments	–	–	–	–	–	–
HTM investments	**5.47%**	**10.14%**	**9.05%**	**5.47%**	**10.14%**	**7.72%**
Loans and receivables	**11.14%**	**12.53%**	**13.47%**	**6.70%**	**11.23%**	**10.15%**
Liabilities						
Deposit liabilities	**3.42%**	**3.80%**	**7.49%**	**2.94%**	**4.25%**	**6.47%**
Bills payable	**5.86%**	**5.66%**	**8.58%**	**4.97%**	**6.13%**	**9.38%**
Foreign Currency-Denominated						
Assets						
Due from banks	**2.41%**	–	–	–	–	–
IBLR and SPURA	**6.11%**	–	**7.02%**	**7.26%**	–	**7.02%**
Securities at FVPL	**6.78%**	–	**9.29%**	**6.78%**	–	**9.29%**
AFS investments	–	**8.17%**	**7.04%**	–	**8.17%**	**7.04%**
HTM investments	**3.49%**	**7.50%**	**7.27%**	**3.49%**	**7.50%**	**7.27%**
Loans and receivables	**8.71%**	**7.49%**	**7.28%**	**5.71%**	**7.49%**	**7.28%**
Liabilities						
Deposit liabilities	**3.32%**	**4.48%**	**3.44%**	**4.77%**	**7.58%**	**3.44%**
Bills payable	**5.29%**	**5.41%**	**6.99%**	**5.29%**	**5.41%**	**6.99%**

	2005					
	Consolidated			**Parent Company**		
	Less than 3 Months	**3 Months to 1 Year**	**Greater than 1 Year**	**Less than 3 Months**	**3 Months to 1 Year**	**Greater than 1 Year**
Peso-Denominated						
Assets						
Due from BSP	4.00%	–	–	4.00%	–	–
Due from banks	3.60%	–	–	–	–	–
IBLR and SPURA	–	–	–	–	–	–
Securities at FVPL	5.59%	8.12%	10.03%	6.98%	8.83%	9.64%
AFS investments	–	–	–	–	–	–
HTM investments	6.32%	8.46%	9.70%	6.32%	8.46%	8.81%
Loans and receivables	9.07%	9.84%	9.72%	7.93%	9.84%	9.91%

(Forward)

	2005					
	Consolidated			Parent Company		
	Less than 3 Months	3 Months to 1 Year	Greater than 1 Year	Less than 3 Months	3 Months to 1 Year	Greater than 1 Year
Liabilities						
Deposit liabilities	2.00%	5.10%	7.88%	3.10%	3.97%	7.41%
Bills payable	6.76%	7.98%	–	5.71%	7.98%	8.37%
Foreign Currency-Denominated						
Assets						
Due from banks	–	–	–	–	–	–
IBLR and SPURA	4.22%	6.48%	6.61%	4.22%	6.48%	6.61%
Securities at FVPL	7.97%	4.20%	9.95%	7.97%	4.20%	9.95%
AFS investments	–	–	7.03%	–	–	7.03%
HTM investments	5.80%	–	8.42%	5.80%	–	8.42%
Loans and receivables	5.89%	7.01%	5.18%	5.89%	7.01%	5.18%
Liabilities						
Deposit liabilities	3.10%	3.97%	7.41%	2.66%	1.58%	2.54%
Bills payable	5.71%	7.98%	8.37%	4.22%	4.64%	6.99%

The method by which the Group measures the sensitivity of its assets and liabilities to interest rate fluctuations is by way of Earnings-at-Risk. This analysis provides the Group with a measure of the impact of changes in interest rates on the accrual portfolio i.e. the risk exposure of future accounting income. The repricing gap is calculated by distributing the statement of condition into tenor buckets according to the time remaining to maturity or next repricing date and then obtaining the difference between the total of the repricing (interest sensitive) assets and repricing (interest sensitive) liabilities.

A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. Accordingly, during a period of rising interest rates, a company with a positive gap would be better positioned than one with a negative gap to invest in or hold higher yielding assets more quickly than it would need to refinance its interest-bearing liabilities. During a period of falling interest rates, a company with a positive gap would tend to see its assets repricing at a faster rate than one with a negative gap, which may restrain the growth of its net income or result in a decline in net interest income.

The following table sets forth the repricing gap position of the Group and the Parent Company as of December 31, 2006 and 2005:

	2006					
	Consolidated					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Greater than 1 Year	Total
			(in Millions)			
Assets						
Total loans and receivables	**₱80,463**	**₱37,366**	**₱4,504**	**₱8,120**	**₱30,979**	**₱161,432**
Total investments	**7,241**	**7,881**	**1,048**	**2,199**	**42,298**	**60,667**
Placements with other banks	**33,667**	**982**	**163**	**–**	**–**	**34,812**
Total assets	**121,371**	**46,229**	**5,715**	**10,319**	**73,277**	**256,911**

(Forward)

	2006					
	Consolidated					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Greater than 1 Year	Total
	(in Millions)					
Liabilities						
Deposit liabilities	**76,471**	**29,869**	**7,177**	**7,481**	**2,194**	**123,192**
Bills payable	**14,008**	**323**	**380**	**769**	**4,676**	**20,156**
Other liabilities	**2,167**	**4,689**	**784**	**–**	**14,689**	**22,329**
Total liabilities	**92,646**	**34,881**	**8,341**	**8,250**	**21,559**	**165,677**
Asset-liability gap	**₱28,725**	**₱11,348**	**(₱2,626)**	**₱2,069**	**₱51,718**	**₱91,234**

	2005					
	Consolidated					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Greater than 1 Year	Total
	(in Millions)					
Assets						
Total loans and receivables	₱101,022	₱27,192	₱1,991	₱1,489	₱8,494	₱140,188
Total investments	17,957	14,318	4,215	6,789	32,376	75,655
Placements with other banks	9,806	5,725	1,032	–	1,637	18,200
Total assets	128,785	47,235	7,238	8,278	42,507	234,043
Liabilities						
Deposit liabilities	94,158	24,181	6,733	4,878	61	130,011
Bills payable	17,158	2,742	231	4,921	4,654	29,706
Other liabilities	–	–	–	–	10,475	10,475
Total liabilities	111,316	26,923	6,964	9,799	15,190	170,192
Asset-liability gap	₱17,469	₱20,312	₱274	(₱1,521)	₱27,317	₱63,851

	2006					
	Parent Company					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Greater than 1 Year	Total
	(in Millions)					
Assets						
Total loans and receivables	**₱72,170**	**₱34,544**	**₱3,695**	**₱12,223**	**₱18,313**	**₱140,945**
Total investments	**5,678**	**7,761**	**1,048**	**2,197**	**42,104**	**58,788**
Placements with other banks	**30,210**	**981**	**163**	**–**	**–**	**31,354**
Total assets	**108,058**	**43,286**	**4,906**	**14,420**	**60,417**	**231,087**
Liabilities						
Deposit liabilities	**73,418**	**28,492**	**7,083**	**7,376**	**103**	**116,472**
Bills payable	**10,170**	**244**	**173**	**83**	**3,655**	**14,325**
Other liabilities	**879**	**2,032**	**784**	**–**	**14,688**	**18,383**
Total liabilities	**84,467**	**30,768**	**8,040**	**7,459**	**18,446**	**149,180**
Asset-liability gap	**₱23,591**	**₱12,518**	**(₱3,134)**	**₱6,961**	**₱41,971**	**₱81,907**

	2005					
	Parent Company					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Greater than 1 Year	Total
			(in Millions)			
Assets						
Total loans and receivables	₱93,424	₱27,192	₱1,991	₱1,489	₱8,494	₱132,590
Total investments	18,993	11,914	4,215	6,788	31,570	73,480
Placements with other banks	9,806	5,725	1,032	–	1,637	18,200
Total assets	122,223	44,831	7,238	8,277	41,701	224,270
Liabilities						
Deposit liabilities	89,728	24,181	6,733	4,798	61	125,501
Bills payable	19,531	2,742	230	40	4,655	27,198
Other liabilities	–	–	–	–	10,475	10,475
Total liabilities	109,259	26,923	6,963	4,838	15,191	163,174
Asset-liability gap	₱12,964	₱17,908	₱275	₱3,439	₱26,510	₱61,096

The Group also monitors its exposure to fluctuations in interest rates by measuring the impact of interest rate movements on its interest income. This is done by modeling the impact of various changes in interest rates to the Group's interest-related income and expenses.

The following table sets forth, as of and for the year ended December 31, 2006 and 2005, the impact of changes in interest rates on the Group and the Parent Company's net interest income:

	2006							
	Consolidated				Parent Company			
	Change in interest rates (in basis points)							
	(100)	(50)	50	100	(100)	(50)	50	100
	(in million pesos, except percentages)							
Change in annualized net interest income (₱)	(359)	(180)	180	359	(328)	(164)	164	328
As a percentage of the Group's net interest income for the year ended December 31, 2006 (%)	(.033)	(.016)	.016	.033	(.036)	(.018)	.018	.036

	2005							
	Consolidated				Parent Company			
	Change in interest rates (in basis points)							
	(100)	(50)	50	100	(100)	(50)	50	100
	(in million pesos, except percentages)							
Change in annualized net interest income (₱)	(335)	(167)	167	335	(284)	(142)	142	284
As a percentage of the Group's net interest income for the year ended December 31, 2005 (%)	(.0	(.0	.0	.0	(.0	(.0	.0	.0

d. *Foreign Currency Risk*
Foreign currency liabilities generally consist of foreign currency deposits in the Parent Company's FCDU accounts made in the Philippines or which are generated from remittances to the Philippines by Filipino expatriates and overseas Filipino workers who retain for their own benefit or for the benefit of a third party, foreign currency deposit accounts with the Parent Company and foreign currency-denominated borrowings appearing in the regular books of the Parent Company.

Foreign currency deposits are generally used to fund the Parent Company's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency assets with the foreign currency liabilities held through FCDUs. In addition, the BSP requires a 30% liquidity reserve on all foreign currency liabilities held through FCDUs.

The Group's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines. The Group believes that its profile of foreign currency exposure on its assets and liabilities is within limits for a financial institution engaged in the type of business in which the Group is engaged.

The table below summarizes the Group and Parent Company's exposure to foreign exchange risk as of December 31, 2006 and 2005. Included in the table are the Group and the Parent Company's assets and liabilities at carrying amounts (categorized by currency).

Information relating to the outstanding notional amounts of the group's and the parent company's foreign currency derivatives (currency swaps and forwards are shown in Note 29)

	2006		
	Consolidated		
	USD	Others	Total
	(In Thousands)		
Assets			
Due from other banks	**₱3,741,556**	**₱1,111,244**	**₱4,852,800**
IBLR and SPURA	**20,843,356**	**3,135,640**	**23,978,996**
Securities at FVPL	**8,812,057**	**24,930**	**8,836,987**
AFS investments	**5,005,780**	**1,018,948**	**6,024,728**
HTM investments	**22,496,849**	**437**	**22,497,286**
Loans and receivables	**15,202,601**	**6,624,237**	**21,826,838**
Other assets	**3,968,996**	**(1,557,797)**	**2,411,199**
Total assets	**80,071,195**	**10,357,639**	**90,428,834**
Liabilities			
Deposit liabilities	**57,623,312**	**5,334,273**	**62,957,585**
Bills payable	**5,692,241**	**53,720**	**5,745,961**
Manager's checks and demand drafts outstanding	**–**	**5,372**	**5,372**
Accrued taxes, interest and other expenses	**293,381**	**143,112**	**436,493**
Other liabilities	**15,708,714**	**90,085**	**15,798,799**
Total liabilities	**79,317,648**	**5,626,562**	**84,944,210**
Net exposure	**₱753,547**	**₱4,731,077**	**₱5,484,624**

	2005		
	Consolidated		
	USD	Others	Total
	(In Thousands)		
Assets			
Due from other banks	₱3,228,474	₱613,798	₱3,842,272
IBLR and SPURA	13,103,366	2,310,238	15,413,604
Securities at FVPL	17,477,320	–	17,477,320
AFS investments	14,060,780	–	14,060,780
HTM investments	16,248,906	135,978	16,384,884
Loans and receivables	7,041,663	537,258	7,578,921
Other assets	1,049,147	8,840,343	9,889,490
Total assets	72,209,656	12,437,615	84,647,271
Liabilities			
Deposit liabilities	58,219,403	4,775,256	62,994,659
Bills payable	14,548,521	7,075,899	21,624,420
Manager's checks and demand drafts outstanding	–	2,364	2,364
Accrued taxes, interest and other expenses	4,088	140,705	144,793
Other liabilities	15,436,904	299,568	15,736,472
Total liabilities	88,208,916	12,293,792	100,502,708
Net exposure	(₱15,999,260)	₱143,823	(₱15,855,437)

	2006		
	Parent Company		
	USD	Others	Total
	(In Thousands)		
Assets			
Due from other banks	**₱3,098,190**	**₱663,512**	**₱3,761,702**
IBLR and SPURA	**20,574,622**	**3,135,640**	**23,710,262**
Securities at FVPL	**8,812,057**	**24,930**	**8,836,987**
AFS investments	**5,005,780**	**1,018,948**	**6,024,728**
HTM investments	**22,442,262**	**437**	**22,442,699**
Loans and receivables	**14,644,551**	**6,366,426**	**21,010,977**
Other assets	**3,551,302**	**(1,557,797)**	**1,993,505**
Total assets	**78,128,764**	**9,652,096**	**87,780,860**
Liabilities			
Deposit liabilities	**57,345,463**	**5,334,273**	**62,679,736**
Bills payable	**5,103,701**	**53,720**	**5,157,421**
Manager's checks and demand drafts outstanding	**–**	**5,372**	**5,372**
Accrued taxes, interest and other expenses	**292,994**	**133,661**	**426,655**
Other liabilities	**15,545,688**	**47,568**	**15,593,256**
Total liabilities	**78,287,846**	**5,574,594**	**83,862,440**
Net exposure	**(₱159,082)**	**₱4,077,502**	**₱3,918,420**

	2005		
	Parent Company		
	USD	Others	Total
	(In Thousands)		
Assets			
Due from other banks	₱3,228,474	₱613,798	₱3,842,272
IBLR and SPURA	13,103,366	2,310,238	15,413,604
Securities at FVPL	17,477,320	–	17,477,320
AFS investments	14,060,780	–	14,060,780
HTM investments	16,248,906	135,978	16,384,884
Loans and receivables	6,989,776	537,258	7,527,034
Other assets	1,049,147	8,840,343	9,889,490
Total assets	72,157,769	12,437,615	84,595,384
Liabilities			
Deposit liabilities	58,219,403	4,775,256	62,994,659
Bills payable	14,548,521	7,075,899	21,624,420
Manager's checks and demand drafts outstanding	–	2,364	2,364
Accrued taxes, interest and other expenses	4,088	140,705	144,793
Other liabilities	15,436,904	299,568	15,736,472
Total liabilities	88,208,916	12,293,792	100,502,708
Net exposure	(₱16,051,147)	₱143,823	(₱15,907,324)

6. **Due from Other Banks**

The Parent Company has deposits with a certain foreign bank which serve as guarantee for the performance of its obligation relating to the loans assigned to such foreign bank in the same amount. The Parent Company has authorized the foreign bank to withdraw from the deposit an amount equivalent to any principal repayment that is received by the Parent Company from the borrower.

The balance of the Parent Company's deposits with the foreign bank and the assigned loans, which is net of withdrawals by the foreign bank for repayments received by the Parent Company from the borrower, amounted to:

	2006	2005
	(In Thousands)	
In US dollars	**76,722**	69,769
Peso equivalent	**3,761,682**	3,702,106

7. Trading and Investment Securities

Securities at FVPL consist of the following:

	Consolidated		Parent Company	
	2006	2005	**2006**	2005
		(In Thousands)		
Held-for-trading	**₱15,372,121**	₱10,165,385	**₱15,232,447**	₱10,024,534
Designated FVPL	**7,228,228**	15,748,398	**7,228,228**	15,748,398
Derivative asset	**161,070**	148,099	**161,070**	148,099
	₱22,761,419	₱26,061,882	**₱22,621,745**	₱25,921,031

As of December 31, 2006 and 2005, held-for-trading securities include net unrealized gain of ₱799.8 million and ₱338.4 million, respectively, for the Group, and ₱783.8 million and ₱338.4 million, respectively, for the Parent Company.

As of December 31, 2006 and 2005, designated FVPL include net unrealized gain of ₱281.0 million and ₱437.5 million, respectively, both for the Group and the Parent Company.

AFS investments consist of the following:

	Consolidated		Parent Company	
	2006	2005	**2006**	2005
		(In Thousands)		
Debt securities:				
Government	**₱2,276,255**	₱6,672,417	**₱2,245,238**	₱6,353,000
Private	**2,799,184**	2,360,603	**2,799,184**	2,360,603
BSP	–	641,567	–	641,567
Structured	**980,305**	4,705,610	**980,305**	4,705,610
	6,055,744	14,380,197	**6,024,727**	14,060,780
Equity securities:				
Quoted	**1,625,921**	236,217	**900,936**	536,374
Unquoted	**1,939,071**	2,492,358	**902,353**	760,903
	3,564,992	2,728,575	**1,803,289**	1,297,277
	₱9,620,736	₱17,108,772	**₱7,828,016**	₱15,358,057

As of December 31, 2006, AFS investment is net of accumulated unrealized gains of ₱640.2 million and ₱549.7 million for the Group and the Parent Company, respectively. As of December 31, 2005, AFS investment is net of accumulated unrealized gains of ₱563.6 million and ₱548.1 million, for the Group and the Parent Company, respectively.

For the year ended December 31, 2006 and 2005, realized gain from sale of AFS investments amounted to ₱ 590.9 million and ₱214.7 million respectively, for the Group, of which ₱564.7 million and ₱192.8 million, respectively, pertain to the Parent Company.

HTM investments consist of the following:

	Consolidated		Parent Company	
	2006	2005	**2006**	2005
	(In Thousands)			
Government bonds	**₱16,208,552**	₱9,160,506	**₱16,153,965**	₱9,160,506
BSP treasury bills	**6,282,959**	15,165,569	**6,281,771**	15,165,011
Private bonds	**6,584,626**	7,423,708	**6,289,734**	7,128,816
Treasury notes	**827,237**	746,631	**827,237**	746,631
	29,903,374	32,496,414	**29,552,707**	32,200,964
Less allowance for impairment losses (Note 13)	–	12,469	–	–
	₱29,903,374	₱32,483,945	**₱29,552,707**	₱32,200,964

HTM investments include US dollar-denominated bonds amounting to US$457 million (₱22.5 billion) and US$306 million (₱16.4 billion) as of December 31, 2006 and 2005, respectively.

As of December 31, 2006 and 2005, the market values of HTM investments are as follows:

	Consolidated		Parent Company	
	2006	2005	**2006**	2005
	(In Thousands)			
Government bonds	**₱18,467,443**	₱9,938,118	**₱18,412,857**	₱9,938,118
BSP treasury bills	**6,112,204**	15,120,204	**6,112,204**	15,119,647
Private bonds	**6,607,636**	7,448,238	**6,300,126**	7,146,023
Treasury notes	**837,320**	751,748	**837,320**	751,748
	₱32,024,603	₱33,258,308	**₱31,662,507**	₱32,955,536

Peso-denominated HTM investments bear nominal annual interest rates ranging from 4.0% to 14.5% and from 4.0% to 14.5% in 2006 and 2005, respectively; for foreign currency-denominated HTM investments, annual interest rate range from 7.5% to 11.4% in 2006 and 2005.

Interest income on trading and investment securities consists of:

	Consolidated			Parent Company		
	2006	2005	2004	**2006**	2005	2004
	(In Thousands)					
FVPL	**₱2,801,490**	₱639,231	₱269,549	**₱2,799,525**	₱636,016	₱254,802
AFS	**824,803**	1,882,997	142,235	**784,252**	1,869,895	139,774
HTM	**2,894,069**	2,877,611	3,997,869	**2,864,090**	2,815,595	3,864,369
	₱6,520,362	₱5,399,839	₱4,409,653	**₱6,447,867**	₱5,321,506	4,258,945

8. Loans and Receivables

This account consists of:

	Consolidated		Parent Company	
	2006	2005	**2006**	**2005**
	(In Thousands)			
Loans and discounts (Note 32)	**₱111,829,197**	₱103,282,242	**₱95,205,143**	₱89,733,599
Lease receivables	**5,336,432**	4,173,388	–	–
	117,165,629	107,455,630	**95,205,143**	89,733,599
Less unearned discount	**2,307,378**	2,184,886	**670,231**	1,103,569
	114,858,251	105,270,744	**94,534,912**	88,630,030
Customers' liabilities on acceptances, letters of credit and trust receipts	**16,770,725**	18,520,703	**16,770,725**	18,520,703
Bills purchased	**12,352,539**	13,869,770	**12,327,552**	13,850,233
Receivables from cardholders	**4,569,754**	3,675,087	–	–
	148,551,269	141,336,304	**123,633,189**	121,000,966
Unquoted debt securities	**9,733,349**	2,546,567	**9,377,997**	1,896,567
Other receivables (Note 19)	**14,743,195**	7,820,967	**17,552,266**	18,739,392
	173,027,813	151,703,838	**150,563,452**	141,636,925
Less client's equity	**100,837**	89,269	–	–
allowance for credit losses (Note 13)	**11,495,311**	11,426,679	**9,618,333**	9,046,546
	₱161,431,665	₱140,187,890	**₱140,945,119**	₱132,590,379

The Parent Company's loan receivables from customers amounting to ₱810.7 million and ₱827.1 million as of December 31, 2006 and 2005, respectively, were pledged as collaterals with the BSP to secure borrowings under rediscounting privileges. In addition, loan receivables from customers amounting to ₱3.8 billion and ₱4.9 billion as of December 31, 2006 and 2005, respectively, have been rediscounted under the Development Bank of the Philippines (DBP), Land Bank of the Philippines (LBP) and Social Security System (SSS) rediscounting facilities (see Note 15).

Consolidated loans and discounts include loans sold by the Parent Company to SPVs amounting to ₱3.3 billion (see Note 12) and ESB loans sold to CGAM on April 1, 2005 amounting to ₱621.0 million. Investment properties sold by ESB to LNC on April 12, 2005 amounting to ₱98.0 million are included under Investment properties (see Note 11).

In exchange for the loans and investment properties (see Note 11), ESB received SPV Notes and cash of ₱60.0 million and ₱23.1 million, respectively, for the sale of loans and ₱39.2 million and ₱4.2 million, respectively, for the sale of ROPA. On June 24, 2005 and July 8, 2005, the Closing Certificate was signed between ESB and CGAM and ESB and LNC, respectively, to implement and make effective the SPA on loans and investment properties as of April 1, 2005 and April 12, 2005, respectively. Accordingly, ESB received SPV Notes amounting to ₱60.0 million for loans from CGAM and ₱39.2 million for investment properties from LNC. Total loans transferred to CGAM amounted to ₱621.0 million. Investment properties transferred to LNC amounted to ₱98.0 million.

Unquoted debt securities consist of:

	Consolidated		Parent Company	
	2006	2005	**2006**	2005
	(In Thousands)			
Structured notes	**₱7,539,132**	₱–	**₱7,539,132**	₱–
Peace bonds	**1,370,079**	1,255,276	**1,370,079**	1,255,276
Home Insurance Guarantee Corp. bonds	**302,444**	302,362	**302,444**	302,362
Global Ispat Holdings, Inc. (GIHI) and Global Steelworks International, Inc. (GSII)	**136,388**	200,836	**136,388**	200,836
Others	**385,306**	788,093	**29,954**	138,093
	₱9,733,349	₱2,546,567	**₱9,377,997**	₱1,896,567

Unquoted debt securities include the subordinated notes representing investments in GIHI and GSII which assumed the liabilities of National Steel Corporation (NSC). On October 15, 2004, GIHI and GSII (SPV companies), and the NSC Creditors entered into an agreement which sets forth the terms and conditions upon which the NSC Creditors have agreed to accept zero-interest coupon notes in the aggregate amount of ₱12.3 billion to be issued by SPV companies in settlement of the liabilities of NSC. The zero-interest coupon notes were issued in two tranches, namely, (a) Tranche A Note in the principal amount of ₱2.0 billion and (b) Tranche B Note in the principal amount of ₱10.3 billion, which notes are secured by a first ranking mortgage and security interest over the NSC plant assets and stand-by letters of credit by the SPV companies in accordance with the schedule in the agreement. On October 15, 2004, the Parent Company received Tranche A Note at principal amount of ₱78.3 million and Tranche B Note at principal amount of ₱ 328.2 million in exchange of the outstanding receivable from NSC of ₱549.5 million. The Parent Company carried the subordinated notes at discounted values using a discount rate of 13.2%. The carrying value of such investments as of December 31, 2006 and 2005 amounted to ₱136.4 million and ₱200.8 million, respectively.

Also included under unquoted debt securities are structured notes that contain embedded derivatives which the Group has assessed to be closely related to the host debt investments. The Group has also assessed that these financial instruments are not quoted in an active market and these structures are mostly principal protected which have interest rate indices as underlying derivatives where the return on the structured notes will not result to at least twice what the market return would be for a contract with the same terms as the host contract and the initial rate of return on the host contract. Given that these structures are not quoted in an active market, their fair values are determined using valuation techniques utilizing generally accepted market valuation models.

Other receivables consist of the following financial assets:

	Consolidated		Parent Company	
	2006	2005	**2006**	2005
	(In Thousands)			
Notes receivable	**₱6,525,228**	₱–	**₱–**	₱–
Advances to subsidiaries, associates, retirement fund and officers (Note 19)	**1,698,034**	1,874,246	**10,992,906**	12,438,568
Accounts receivable	**1,975,312**	2,047,813	**2,767,649**	2,650,369
Accrued interest receivable	**2,213,869**	2,106,399	**2,042,208**	1,955,101
Sales contract receivable	**1,949,026**	1,347,821	**1,486,323**	1,322,273
Returned checks and other cash items	**193,198**	300,852	**190,005**	296,652
Rent receivable	**67,163**	67,163	**67,163**	67,163
Others	**121,365**	76,673	**6,012**	9,266
	₱14,743,195	₱7,820,967	**₱17,552,266**	₱18,739,392

Interest income on Loans and receivables consists of:

	Consolidated			Parent Company		
	2006	2005	2004	**2006**	2005	2004
	(In Thousand)					
Receivables from customers	**₱10,435,699**	₱10,044,900	₱9,167,976	**₱9,596,687**	₱9,897,930	₱8,455,505
Receivables from cardholders	**763,210**	1,088,440	731,310	**–**	–	–
Lease receivables	**646,750**	488,850	253,837	**–**	–	–
	₱11,845,659	₱11,622,190	₱10,153,123	**₱9,596,687**	₱9,897,930	₱8,455,505

BSP Reporting

The nonperforming loans (NPLs) were as follows:

	Consolidated		Parent Company	
	2006	2005	**2006**	2005
	(In Thousands)			
Secured	**₱6,686,703**	₱7,265,064	**₱7,283,303**	₱6,730,102
Unsecured	**4,174,359**	2,998,640	**3,109,450**	2,909,691
	₱10,861,062	₱10,263,704	**₱10,392,753**	₱9,639,793

Generally, NPLs refer to loans whose principal and/or interest is unpaid for thirty (30) days or more after due date or after they have become past due in accordance with existing BSP rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual, or annual installments, in which case, the total outstanding balance thereof shall be considered nonperforming.

In the case of receivables that are payable in monthly installments, the total outstanding balance thereof shall be considered nonperforming when three (3) or more installments are in arrears.

In the case of receivables that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered nonperforming at the same time that they become past due in accordance with existing BSP regulations, i.e., the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches ten percent (10%) of the total receivable balance.

Receivables are classified as nonperforming in accordance with BSP regulations, or when, in the opinion of management, collection of interest or principal is doubtful. Receivables are not reclassified as performing until interest and principal payments are brought current or the loans are restructured in accordance with existing BSP regulations, and future payments appear assured.

Restructured receivables which do not meet the requirements to be treated as performing receivables shall also be considered as NPLs.

Current bank regulations allow banks with no unbooked valuation reserves and capital adjustments required by the BSP to exclude from nonperforming classification those receivables from customers classified as Loss in the latest examination of the BSP which are fully covered by allowance for credit losses, provided that interest on said loans shall not be accrued. Accordingly, NPLs not fully covered by allowance for credit losses as of December 31, 2006 and 2005 follow:

	Consolidated		**Parent Company**	
	2006	2005	**2006**	2005
	(In Thousands)			
NPLs	**₱10,861,062**	₱10,263,704	**₱10,392,753**	₱9,639,793
Less NPLs fully provided with allowance for impairment losses	**3,167,612**	2,575,367	**2,821,816**	2,455,439
	₱7,693,450	₱7,688,337	**₱7,570,937**	₱7,184,354

Restructured loans of the Parent Company as of December 31, 2006 and 2005 amounted to ₱6.8 billion and ₱7.4 billion, respectively.

The Parent Company's loan portfolio includes non-risk loans, as defined under BSP regulations, totaling ₱ 15.6 billion and ₱19.8 billion as of December 31, 2006 and 2005, respectively.

As of December 31, 2006 and 2005, 66.2% and 65.7%, respectively, of the total loan receivable from customers of the Group are subject to periodic interest repricing. Remaining receivables from customers earn annual fixed interest rates ranging from 0.15% to 49.90% for peso denominated loans and from 1.75% to 10.5% for foreign currency-denominated loans in 2006 and from 2.0% to 49.9% for peso-denominated loans and from 1.7% to 11.0% for foreign currency-denominated loans in 2005.

The following table shows information relating to loans and receivables (at gross amounts) by collateral:

	Consolidated			
	2006		2005	
	Amount (In Thousands)	**%**	Amount (In Thousands)	%
Secured by:				
Real estate	**₱35,534,814**	**20.24**	₱31,484,283	20.43
Trust receipts	**15,912,498**	**9.06**	17,435,352	11.32
Bank deposits	**11,296,819**	**6.43**	14,335,478	9.30
Chattel	**10,241,457**	**5.83**	12,121,517	7.87
Shares of stock	**4,097,976**	**2.34**	2,232,489	1.45
Mortgage trust indenture	**4,074,573**	**2.32**	5,743,778	3.73
Others	**2,635,627**	**1.50**	4,045,117	2.63
Warehouse receipts	**6,060**	**0.00**	6,887	0.00
Marginal deposit	**–**	**0.00**	28,096	0.02
	83,799,824	**47.72**	87,432,997	56.75
Unsecured	**91,816,518**	**52.28**	66,644,014	43.25
	₱175,616,342	**100.00**	₱154,077,011	100.00

	Parent Company			
	2006		2005	
	Amount (In Thousands)	**%**	Amount (In Thousands)	%
Secured by:				
Real estate	**₱25,236,047**	**16.66**	₱26,645,105	18.64
Trust receipts	**15,912,498**	**10.50**	17,435,352	12.20
Bank deposits	**11,285,418**	**7.45**	14,128,463	9.89
Chattel	**2,942,340**	**1.94**	3,357,027	2.35
Mortgage trust indenture	**4,074,573**	**2.69**	5,660,445	3.96
Shares of stock	**4,096,910**	**2.70**	2,230,408	1.56
Margin deposits	**–**	**0.00**	28,096	0.02
Warehouse receipts	**6,060**	**0.00**	6,887	0.00
Others	**2,635,628**	**1.75**	4,045,117	2.83
	66,189,474	**43.69**	73,536,900	51.45
Unsecured	**85,325,359**	**56.31**	69,391,879	48.55
	₱151,514,833	**100.00**	₱142,928,779	100.00

Information on the concentration of credit (at gross amounts) as to economic activity and industry sub-sectors follow:

	Consolidated			
	2006		2005	
	Amount (In Thousands)	**%**	Amount (In Thousands)	%
Other community, social and personal services	**₱40,367,402**	**22.97**	₱17,924,759	11.63
Wholesale and retail	**27,863,210**	**15.87**	34,158,987	22.17
Financial intermediation, renting and business activities	**22,453,983**	**12.79**	25,316,420	16.43
Manufacturing:				
Consumer goods	**19,345,449**	**11.02**	14,572,055	9.46
Intermediate goods	**16,468,989**	**9.38**	14,538,767	9.44
Capital goods	**14,437,310**	**8.22**	12,020,224	7.80
Transport, storage and communications	**10,273,320**	**5.85**	10,999,100	7.14
Real estate	**8,760,621**	**4.99**	8,337,593	5.41
Electricity, gas and water	**6,895,365**	**3.93**	7,492,051	4.86
Agriculture, hunting and forestry	**2,332,286**	**1.33**	1,799,452	1.17
Construction	**1,430,494**	**0.81**	993,306	0.64
Mining and quarrying	**1,227,037**	**0.70**	1,723,624	1.12
Others	**3,760,876**	**2.14**	4,200,673	2.73
	₱175,616,342	**100.00**	₱154,077,011	100.00

	Parent Company			
	2006		2005	
	Amount (In Thousands)	**%**	Amount (In Thousands)	%
Financial intermediation, renting and business activities	**₱31,800,375**	**20.99**	₱25,399,334	17.77
Wholesale and retail	**25,901,904**	**17.10**	32,617,141	22.82
Manufacturing:				
Consumer goods	**19,090,434**	**12.60**	14,465,580	10.12
Intermediate goods	**13,804,691**	**9.11**	13,475,522	9.43
Capital goods	**13,745,331**	**9.07**	11,313,112	7.92
Other community, social and personal services	**16,144,668**	**10.65**	13,672,395	9.57
Real estate	**8,539,891**	**5.64**	8,063,609	5.64
Transport, storage and communications	**8,504,715**	**5.61**	9,311,319	6.51
Electricity, gas and water	**6,502,022**	**4.29**	7,290,709	5.10
Agriculture, hunting and forestry	**2,223,370**	**1.47**	1,749,660	1.22
Construction	**1,020,353**	**0.67**	682,040	0.48
Mining and quarrying	**1,011,640**	**0.67**	1,388,140	0.97
Others	**3,225,439**	**2.13**	3,500,218	2.45
	₱151,514,833	**100.00**	₱142,928,779	100.00

The BSP considers that credit concentration risk exists when the total loan exposure to a particular industry or economic sector exceeds 30% of the total loan portfolio.

9. Property and Equipment

The composition of and movements in this account follow:

	Consolidated 2006				
	At Appraised Value	At Cost			
	Land	Buildings	Leasehold Improvements	Furniture, Fixtures and Equipment	Total
			(In Thousands)		
Cost/Appraised Value					
Balance, January 1, 2006	**₱4,500,557**	**₱4,335,489**	**₱464,830**	**₱7,632,313**	**₱12,432,632**
Additions	**–**	**99,198**	**7,513**	**1,568,648**	**1,675,359**
Disposals	**(87,881)**	**(492,117)**	**(3,618)**	**(365,707)**	**(861,442)**
Balance, December 31, 2006	**4,412,676**	**3,942,570**	**468,725**	**8,835,254**	**13,246,549**
Accumulated Depreciation and Amortization					
Balance, January 1, 2006	**–**	**1,948,536**	**–**	**5,200,468**	**7,149,004**
Depreciation and amortization	**–**	**117,898**	**114,935**	**910,868**	**1,143,701**
Disposals/Adjustments	**–**	**(804,047)**	**(3,951)**	**676,387**	**(131,611)**
Balance, December 31, 2006	**–**	**1,262,387**	**110,984**	**6,787,723**	**8,161,094**
Net Book Value, December 31, 2006	**₱4,412,676**	**₱2,680,183**	**₱357,741**	**₱2,047,531**	**₱5,085,455**

	Consolidated 2005				
	At Appraised Value	At Cost			
	Land	Buildings	Leasehold Improvements	Furniture, Fixtures and Equipment	Total
			(In Thousands)		
Cost/Appraised Value					
Balance, January 1, 2005	₱4,447,904	₱3,974,279	₱448,776	₱7,894,939	₱12,317,994
Additions	133,928	384,117	133,329	449,690	967,136
Disposals	(81,275)	(22,907)	(18,467)	(712,316)	(753,690)
Balance, December 31, 2005	4,500,557	4,335,489	563,638	7,632,313	12,531,440
Accumulated Depreciation and Amortization					
Balance, January 1, 2005	–	1,777,047	–	5,117,303	6,894,350
Depreciation and amortization	–	173,926	106,479	608,227	888,632
Disposals	–	(2,437)	(7,671)	(525,062)	(535,170)
Balance, December 31, 2005	–	1,948,536	98,808	5,200,468	7,247,812
Net Book Value, December 31, 2005	**₱4,500,557**	**₱2,386,953**	**₱464,830**	**₱2,431,845**	**₱5,283,628**

	Parent Company 2006				
	At Appraised Value	At Cost			
	Land	Buildings	Leasehold Improvements	Furniture, Fixtures and Equipment	Total
			(In Thousands)		
Cost/Appraised Value					
Balance, January 1, 2006	**₱4,406,236**	**₱3,675,001**	**₱341,251**	**₱6,282,280**	**₱10,298,532**
Additions	**–**	**89,528**	**34,969**	**572,896**	**697,393**
Disposals	**–**	**(4,283)**	**(3,571)**	**(301,693)**	**(309,547)**
Balance, December 31, 2006	**4,406,236**	**3,760,246**	**372,649**	**6,553,483**	**10,686,378**
Accumulated Depreciation and Amortization					
Balance, January 1, 2006	**–**	**1,817,510**	**–**	**3,786,784**	**5,604,294**
Depreciation and amortization	**–**	**112,247**	**99,706**	**671,622**	**883,575**
Disposals/Adjustments	**–**	**(749,435)**	**(3,951)**	**590,836**	**(162,550)**
Balance, December 31, 2006	**–**	**1,180,322**	**95,755**	**5,049,242**	**6,325,319**
Net Book Value, December 31, 2006	**₱4,406,236**	**₱2,579,924**	**₱276,894**	**₱1,504,241**	**₱4,361,059**

	Parent Company				
	2005				
	At Appraised Value	At Cost			
	Land	**Buildings**	**Leasehold Improvements**	**Furniture, Fixtures and Equipment**	**Total**
			(In Thousands)		
Cost/Appraised Value					
Balance, January 1, 2005	₱4,406,236	₱3,581,118	₱393,103	₱6,427,176	₱10,401,397
Additions	–	105,749	64,417	531,364	701,530
Disposals	–	(11,866)	(17,610)	(676,260)	(705,736)
Balance, December 31, 2005	4,406,236	3,675,001	439,910	6,282,280	10,397,191
Accumulated Depreciation and Amortization					
Balance, January 1, 2005	–	1,708,822	–	3,816,540	5,525,362
Depreciation and amortization	–	111,126	106,479	640,675	858,280
Disposals	–	(2,438)	(7,820)	(670,431)	(680,689)
Balance, December 31, 2005	–	1,817,510	98,659	3,786,784	5,702,953
Net Book Value, December 31, 2005	**₱4,406,236**	**₱1,857,491**	**₱341,251**	**₱2,495,496**	**₱4,694,238**

The cost of land of the Parent Company, ECN and ESB amounted to ₱2.5 billion, ₱76.5 million and ₱9.0 million, respectively.

10. Investments in Subsidiaries and Associates

This account consists of investments in:

	Consolidated		Parent Company	
	2006	2005	**2006**	2005
		(In Thousands)		
At equity:				
Acquisition cost of:				
Wholly and majority-owned (Note 2)				
ESB	**₱–**	₱–	**₱2,981,049**	₱2,981,049
PCI Leasing	**–**	–	**1,854,073**	1,854,073
PCI Capital	**–**	–	**1,719,483**	1,719,483
ESHC	**–**	–	**1,351,654**	1,351,654
EBCII	**–**	–	**1,203,225**	500,000
ECN	**–**	–	**736,250**	736,250
PCIB Properties	**–**	–	**891,692**	891,692
Express Padala HK	**–**	–	**215,282**	215,282
JEFC	**–**	–	**50,000**	50,000
Equimark	**–**	–	**44,997**	44,997
Maxicare	**–**	–	**43,593**	43,593
EDCI	**–**	–	**40,000**	40,000
PCIB Securities	**–**	–	**39,177**	39,177
EPCI Cayman	**–**	–	**38,399**	38,399
PCI Realty	**–**	–	**33,510**	33,510
PCIB S.p.A.	**–**	–	**32,921**	32,921
Express Padala L.A.	**–**	–	**26,494**	26,494
EPHK	**–**	–	**27,956**	27,956
PCI Insurance	**–**	–	**7,800**	7,800
PCI Automation	**–**	–	**7,443**	7,443
Others	**–**	–	**3,320**	3,320

(Forward)

	Consolidated		Parent Company	
	2006	2005	**2006**	2005
	(In Thousands)			
Significantly owned:				
Jardine Land, Inc. (JLI) (20%)	**₱232,000**	₱232,000	**₱232,000**	₱232,000
Taal Land, Inc. (33%)	**170,382**	170,382	**170,382**	170,382
Medilink Network, Inc. (40%)	**–**	3,000	**–**	–
PCI Travel Corporation (35%)	**4,424**	4,424	**–**	–
Unicorn First Properties (UFP) (35%)	**3,500**	3,500	**3,500**	3,500
	410,306	413,306	**11,754,200**	11,050,975
Accumulated equity in net losses:				
Balance at beginning of year	**(122,534)**	(123,096)	–	–
Equity in net income for the year	**22,739**	562	–	–
Balance at end of year	**(99,795)**	(122,534)	–	–
	310,511	290,772	**11,754,200**	11,050,975
Less allowance for impairment losses (Note 13)	**106,284**	–	**3,255,871**	2,085,391
	₱204,227	₱290,772	**₱8,498,329**	₱8,965,584

On January 18, 2005, the BOD of PCI Leasing approved the declaration of cash dividends at ₱0.20 per share or ₱196.6 million in favor of stockholders of record as of February 1, 2005 and 12.0% stock dividends equivalent to ₱1.2 billion in favor of stockholders of record as of March 23, 2005. Such declaration was approved by SEC on March 10, 2005.

On January 18, 2005, the BOD of PCI Capital approved the declaration of 19.05% stock dividends amounting to ₱200.0 million. Such declaration was approved by BSP on March 10, 2005.

On January 24, 2005, the BOD of ECN declared stock dividends amounting to ₱475.0 million and cash dividends of ₱20 per share or ₱300.0 million to all stockholders of record as of February 1, 2005.

On March 31, 2006 and April 25, 2006, the BOD of PCI Capital approved the declaration of cash dividends in favor of stockholders of record as of March 31, 2006 and April 25, 2006, respectively at ₱0.40 per share or ₱500.0 million, approved by BSP on May 25, 2006 and paid on June 29, 2006, and ₱0.12 per share or ₱150.0 million approved by BSP on November 2, 2006 payable on December 20, 2006, respectively.

On April 4, 2006, the BOD of ECN approved the declaration of cash dividends amounting to ₱400.0 million or ₱20.25 per share paid in two tranches, 50% on May 15, 2006 and the balance on June 15, 2006, in favor of stockholders of record as of December 31, 2005.

On January 17, 2006 the BOD of EIBI approved the declaration of cash dividends at ₱33.33 per share or ₱ 20.0 million to be distributed to stockholders of record as of January 17, 2006 and to be paid equally in April 17, 2006 and June 30, 2006. On April 25, 2006, the BOD of EIBI approved the declaration of additional cash dividends at ₱83.33 per share or ₱50.0 million to be distributed to stockholders of record as of December 31, 2005 to be paid as follows: ₱15.0 million on May 2, 2006, ₱15.0 million on July 14, 2006 and ₱20.0 million on August 15, 2006.

11. Investment Properties

The composition and movements in this account follow:

	Consolidated					
	2006			2005		
	Land	**Buildings and Improvements**	**Total**	**Land**	**Buildings and Improvements**	**Total**
	(In Thousands)					
Cost						
Balance at beginning of year	**₱13,438,147**	**₱6,277,774**	**₱19,715,921**	₱14,430,391	₱6,151,376	₱20,581,767
Additions	**599,600**	**273,739**	**873,339**	585,684	328,547	914,231
Transfers/disposals	**(1,193,555)**	**(438,154)**	**(1,631,709)**	(1,577,928)	(202,149)	(1,780,077)
Balance at end of year	**12,844,192**	**6,113,359**	**18,957,551**	13,438,147	6,277,774	19,715,921
Accumulated depreciation and amortization						
Balance at beginning of year	–	**737,299**	**737,299**	–	625,689	625,689
Depreciation and amortization	–	**205,000**	**205,000**	–	206,253	206,253
Transfers/disposals	–	**(71,923)**	**(71,923)**	–	(94,643)	(94,643)
Balance at end of year	–	**870,376**	**870,376**	–	737,299	737,299
Allowance for impairment losses (Note 13)	–	**211,972**	**211,972**	–	542,260	542,260
Net Book Value	**₱12,844,192**	**₱5,031,011**	**₱17,875,203**	₱13,438,147	₱4,998,215	₱18,436,362

Buildings and improvements of the Group include properties held by SPV.

	Parent					
	2006			2005		
	Land	**Buildings and Improvements**	**Total**	**Land**	**Buildings and Improvements**	**Total**
	(In Thousands)					
Cost						
Balance at beginning of year	**₱11,335,855**	**₱5,264,637**	**₱16,600,492**	₱12,271,443	₱5,217,707	₱17,489,150
Additions	**725,419**	**203,513**	**928,932**	467,608	209,052	676,660
Transfers/disposals	**(1,118,848)**	**(314,069)**	**(1,432,917)**	(1,403,196)	(162,122)	(1,565,318)
Balance at end of year	**10,942,426**	**5,154,081**	**16,096,507**	11,335,855	5,264,637	16,600,492
Accumulated depreciation and amortization						
Balance at beginning of year	**–**	**667,541**	**667,541**	–	486,006	486,006
Depreciation and amortization	**–**	**180,192**	**180,192**	–	181,535	181,535
Transfers/disposals	**–**	**(39,479)**	**(39,479)**	–	–	–
Balance at end of year	**–**	**808,254**	**808,254**	–	667,541	667,541
Allowance for impairment losses (Note 13)	–	**123,112**	**123,112**	–	–	–
Net Book Value	**₱10,942,426**	**₱4,222,715**	**₱15,165,141**	₱11,335,855	₱4,597,096	₱15,932,951

The details of the net book value follow:

	Consolidated		Parent Company	
	2006	2005	**2006**	2005
	(In Thousands)			
Real estate properties acquired in settlement of loans and receivables	**₱14,665,907**	₱15,171,105	**₱11,955,845**	₱12,667,694
Bank premises leased to third parties and held for capital appreciation	**3,209,296**	3,265,257	**3,209,296**	3,265,257
	₱17,875,203	₱18,436,362	**₱15,165,141**	₱15,932,951

Investment properties include investment property sold by ESB to LNC on April 12, 2005 amounting to ₱ 98.0 million.

The aggregate fair values of the investment properties of the Group and the Parent Company are ₱19.0 billion and ₱16.1 billion, respectively, as of December 31, 2006 and ₱19.7 billion and ₱16.6 billion, respectively, as of December 31, 2005.

The fair values of the Group's investment property have been arrived at on the basis of recent sales of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made.

12. Other Assets

This account consists of:

	Consolidated		Parent Company	
	2006	2005	**2006**	2005
	(In Thousands)			
Deferred tax assets - net (Note 24)	**₱5,298,287**	₱5,781,329	**₱4,950,985**	₱5,427,283
Real estate properties	**4,522,600**	4,700,608	**583,041**	459,262
Interoffice float items - net	**2,247,833**	3,310,905	**2,125,288**	3,211,309
Prepayments	**267,631**	341,278	**150,622**	284,877
Net pension asset (Note 20)	**54,596**	112,643	–	61,416
Assets held for sale	**51,362**	206,295	–	167,229
Other investments	**15,252**	19,972	**6,388**	11,719
Receivables from SPVs	–	–	**3,336,056**	3,336,056
Miscellaneous (Note 29)	**2,815,624**	2,259,217	**1,649,772**	1,313,095
	15,273,185	16,732,247	**12,802,152**	14,272,246
Less allowance for impairment losses (Note 13)	**3,125,290**	2,363,878	**3,567,008**	2,669,732
	₱12,147,895	***₱14,368,369***	*₱9,235,144*	***₱11,602,514***

As of December 31, 2006 and 2005, interoffice float items outstanding for more than 180 days (net debit balance) for which a full provision has been established amounted to ₱1.8 billion and ₱164.1 million, respectively. Management believes that no material unreserved losses will be incurred by the Parent Company on interoffice float items.

In 2005, the Parent Company entered into joint ventures for the development of foreclosed assets to generate profit upon completion of the project. As of December 31, 2006 and 2005, these joint ventures are in the initial stage of development. Properties invested in joint ventures are included under Real estate properties.

Other investments include exchange trading rights. Under the PSE rules, all exchange trading rights are pledged at its full value to the PSE to secure the payment of all debts due to other members of the PSE arising out of or in connection with the present or future members' contracts.

The carrying values of the investment in PSE shares and the exchange trading right in the accounts of PCIB Securities and Armstrong Securities were as follows:

	2006	2005
	(In Thousands)	
AFS investments - PSE shares	**₱28,000**	₱15,000
Exchange trading rights	**7,835**	7,835
	₱35,835	₱22,835

As of December 31, 2006 and 2005, the latest transacted price of the exchange trading right (as provided by the PSE) amounted to ₱5.0 million and ₱3.5 million, respectively. As of December 31, 2006, the market value of the PSE shares based on quoted price is ₱280 per share.

Management believes that adequate allowance for impairment losses has been made on Other Assets and does not anticipate any material adverse effect on the financial statements upon the realization of these assets.

Receivables from SPVs represent the amount due from sale of certain nonperforming assets (NPAs) of the Parent Company to SPVs.

The Parent Company entered into sale and purchase agreements (SPA) under the provisions of Republic Act (RA) No. 9182, "The Special Purpose Vehicle (SPV) Act of 2002," for the sale of its loans and Real and Other Properties Acquired (ROPA) as follows:

Loans and receivables sold to PIO amounted to ₱8.3 billion on November 26, 2004 and ROPA to PIT amounted to ₱2.2 billion on December 15, 2004. On March 15, 2005 and March 28, 2005, the Closing Certificate was signed between the Parent Company and PIO and Parent Company and PIT, respectively, to implement and make effective the SPA on loans and receivables and ROPA. In exchange for the loans and receivables and ROPA, the Parent Company received SPV notes and cash of ₱1.0 billion and ₱100 million, respectively, for loans and receivables; and ₱1.8 billion and ₱350 million, respectively, for ROPA. The SPV Notes are payable over ten years in accordance with the accounts arrangement included in the SPA.

Loans and receivables sold to CGAM amounted to ₱4.8 billion on April 1, 2005. On June 24, 2005, the Closing Certificate was signed between the Parent Company and CGAM to implement and make effective the SPA on loans and receivables. In exchange for the loans, the Parent Company received SPV Notes and cash of ₱560.0 million and ₱325.0 million, respectively.

The more significant terms of the sale are as follows:

a. Certain NPAs of the Parent Company were purchased by the SPV for a total consideration of ₱4.1 billion.

b. The agreed purchase price of the NPAs was as follows:

i. An initial amount of ₱0.5 billion, booked as part of Accounts Receivable under Other Assets in 2004, was subsequently paid in the same year. For the NPAs sold in 2005, cash of ₱0.3 billion was received.

ii. The balance of ₱3.3 billion, through issuance of SPV Notes (the Notes), which shall be paid based on a cash flow waterfall arrangement and interest rate of 20% and 50% per annum on the ₱2.7 billion and ₱0.6 billion, respectively, was received.

13. **Allowance for Impairment and Credit Losses**

Changes in the allowance for impairment losses follow:

	Consolidated		Parent Company	
	2006	2005	**2006**	2005
	(In Thousands)			
Balance at beginning of year				
AFS investments	**₱443,388**	₱–	**₱182,434**	₱–
HTM investments	**12,469**	17,696	–	15,645
Loans and receivables	**11,426,679**	11,528,181	**9,046,546**	11,263,087
Investments in subsidiaries and associates	–	–	**2,085,391**	1,288,849
Investment properties	**542,260**	–	–	–
Other assets	**2,363,878**	4,045,310	**2,669,732**	1,371,731
	14,788,674	***15,591,187***	*13,984,103*	***13,939,312***
Provisions for impairment and credit losses	**4,127,322**	2,857,922	**4,096,631**	1,996,690
Accounts written off	**(1,144,216)**	(1,334,369)	**(285,884)**	(54,163)
Reversals and other adjustments	**(1,656,696)**	(2,326,066)	**(1,090,526)**	(1,897,736)
Balance at end of year				
AFS investments	**1,176,227**	443,388	**140,000**	182,434
HTM investments (Note 7)	**–**	12,469	**–**	–
Loans and receivables (Note 8)	**11,495,311**	11,426,679	**9,618,333**	9,046,546
Investments in subsidiaries and associates (Note 10)	**106,284**	–	**3,255,871**	2,085,391
Investment properties (Note 11)	**211,972**	542,260	**123,112**	–
Other assets (Note 12)	**3,125,290**	2,363,878	**3,567,008**	2,669,732
	₱16,115,084	₱14,788,674	**₱16,704,324**	₱13,984,103

With the foregoing level of allowance for impairment losses, management believes that the Group has sufficient allowance to cover any losses that the Group may incur from the noncollection or nonrealization of its loans and receivables and other risk assets.

14. **Deposit Liabilities**

This account consists of:

	Consolidated		Parent Company	
	2006	2005	**2006**	2005
	(In Thousands)			
Demand	**₱15,950,754**	₱11,755,328	**₱15,844,053**	₱11,675,256
Savings	**175,780,755**	142,339,247	**169,781,795**	139,346,953
Time	**48,367,741**	52,569,670	**46,337,580**	51,131,946
	₱240,099,250	₱206,664,245	**₱231,963,428**	₱202,154,155

Of the total deposit liabilities of the Group as of December 31, 2006 and 2005, 51.8% and 53.4%, respectively, are subject to periodic interest repricing. Remaining deposit liabilities earn annual fixed interest rates ranging from 0.5% to 4.0% in 2006 and 2005.

Under existing BSP regulations, non-FCDU deposit liabilities of the Parent Company are subject to liquidity reserve equivalent to 11% starting July 15, 2005 (under BSP Circular 491) and statutory reserve equivalent to 10%. In addition, ESB, a thrift bank, is subject to liquidity and statutory reserves equivalent to 2% and 6%, respectively, on its deposit liabilities. As of
December 31, 2006 and 2005, the Parent Company and ESB are in compliance with such regulations.

The total liquidity and statutory reserves, as reported to BSP, are as follows:

	Consolidated		Parent Company	
	2006	2005	**2006**	2006
	(In Thousands)			
Cash	*₱7,295,508*	***₱6,446,396***	*₱7,155,192*	***₱6,348,612***
Due from BSP	**23,262,456**	7,232,106	**22,611,472**	6,917,169
HTM investments	**7,214,041**	15,734,486	**7,199,228**	15,601,911
	₱37,772,005	₱29,412,988	**₱36,965,892**	₱28,867,692

15. Bills Payable

This account consists of borrowings from:

	Consolidated		Parent Company	
	2006	2005	**2006**	2005
	(In Thousands)			
Local banks	**₱5,075,842**	₱2,500,818	**₱–**	₱–
Senior notes	**4,877,178**	5,254,791	**4,877,178**	5,254,791
Foreign banks	**4,542,462**	16,258,421	**4,542,462**	16,258,421
BSP	**791,441**	827,070	**791,441**	827,070
Others	**4,868,934**	4,864,635	**4,114,039**	4,857,885
	₱20,155,857	***₱29,705,735***	*₱14,325,120*	***₱27,198,167***

Interbank borrowings with foreign and local banks are mainly short-term borrowings. Peso borrowings are subject to annual fixed interest rates ranging from 4.6% to 12.7% in 2006 and 5.0% to 13.0% in 2005; for foreign denominated borrowings, annual fixed interest rates range from 4.0% to 5.7% in 2006 and 1.9% to 7.0% in 2005.

Interest Expense on Bills payable, borrowings and others consists of:

	Consolidated			Parent Company		
	2006	2005	2004	**2006**	2005	2004
	(In Thousands)					
Bills payable	**₱1,068,438**	₱1,203,030	₱988,403	**₱825,390**	₱847,246	₱927,162
Borrowings	**318,758**	329,206	–	**318,758**	329,206	–
Others (Note 16)	**1,035,615**	1,340,718	1,733,599	**1,035,615**	1,560,056	1,733,599
	₱2,422,811	₱2,872,954	₱2,722,002	**₱2,179,763**	₱2,736,508	₱2,660,761

Bills payable - BSP mainly represent term borrowings availed through normal open market transactions with the BSP. These are collateralized by eligible receivables from customers. Bills payable - others mainly represent funds obtained from DBP, LBP and SSS, which the Parent Company relends to borrowers availing of certain financing programs of these institutions.

On November 23, 2004, the Parent Company's BOD approved the issuance of senior bonds. Relative to this, on February 18, 2005 the Parent Company issued US$100 million, 6.5% senior notes due 2008. The issuance of the bonds under the terms approved by the BOD was approved by the BSP on January 31, 2005.

Among the significant terms and conditions of the issuance of the senior notes are:

a. Issue price at 99.3% of the principal amount;

b. The senior notes bear interest at the rate of 6.5% per annum from and including February 18, 2005 to but excluding February 19, 2008. Interest will be payable semi-annually in arrears on February 19 and August 19 of each year, commencing August 19, 2005, except that the first payment of interest will be in respect of the period from and including February 18, 2005 but excluding August 19, 2005;

c. The senior notes will constitute direct, senior, unconditional, and unsecured obligations of the Parent Company and claims in respect of the notes shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Parent Company under the senior notes shall at all times rank at least equally with all other present and future unsecured and unsubordinated obligations of the Parent Company, including liabilities in respect of deposits;

d. The Parent Company may redeem the senior notes in whole but not in part at redemption price equal to 100% of the principal amount of the Notes together with accrued and unpaid interest to the date fixed for redemption upon the occurrence of certain changes affecting taxation in the Philippines, as more particularly specified in the covering offering circular;

e. The 2008 senior notes are not guaranteed or insured by the PDIC and are not deposit liabilities of the Parent Company.

16. Subordinated Notes Payable

On October 15, 2002, the Parent Company's BOD approved the raising of Lower Tier 2 capital through the issuance in the international capital market of subordinated bonds maturing in 10 years but with a call option exercisable after 5 years subject to the provisions of BSP Circular No. 280. The bonds bear a coupon rate of 9.4% per annum with provision for step-up after five (5) years.

The issuance of the foregoing subordinated notes under the terms approved by the BOD was approved by the BSP under Monetary Board (MB) Resolution No. 1660 dated November 12, 2002, as amended by MB Resolution No. 753 dated May 29, 2003.

Relative to this, on May 16, 2003 and June 5, 2003, the Parent Company issued US$130.0 million and US$70.0 million, respectively, 9.4% subordinated notes due 2013. Among the significant terms and conditions of the issuance of the subordinated notes are:

a. Issue price at 98.7% and 101.5% of their principal amount;

b. The subordinated notes bear interest at the rate of 9.4% per annum from and including May 23, 2003 to but excluding July 1, 2008. Unless the call option is exercised, the interest rate from and including July 1, 2008 to but excluding July 1, 2013 will be reset at the U.S. Treasury rate plus 10.8% per annum. Interest will be payable semi-annually in arrears on January 1 and July 1 of each year, commencing July 1, 2003;

c. The subordinated notes will constitute direct, unconditional, unsecured and subordinated obligations of the Parent Company and will at all times rank *pari passu* and without any preference among themselves but in priority to the rights and claims of holders of all classes of equity securities of the Parent Company including holders of preference shares (if any);

d. The Parent Company may redeem the subordinated notes in whole but not in part at redemption price equal to 100% of the principal amount of the subordinated notes together with accrued and unpaid interest on July 1, 2008, subject to the prior consent of the BSP and the compliance by the Parent Company with the prevailing requirements for the granting by the BSP of its consent therefore;

e. Each noteholder by accepting a 2013 subordinated note will irrevocably agree and acknowledge that (i) it may not exercise or claim any right of set-off in respect of any amount owed to it by the Parent Company arising under or in connection with the subordinated notes and (ii) it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off; and

f. The subordinated notes are not deposits of the Parent Company and are not guaranteed or insured by the Parent Company or any party related to the Parent Company or the Philippine Deposit Insurance Corporation (PDIC) and they may not be used as collateral for any loan made by the Parent Company or any of its subsidiaries or affiliates. Also, the subordinated notes may not be redeemed at the option of the noteholders.

As of December 31, 2006 and 2005, the Parent Company was in compliance with the terms and conditions upon which the subordinated notes have been issued.

17. **Other Liabilities**

This account consists of:

	Consolidat		*Parent Co*	
	2006	2005	**2006**	2005
				(In Thousa
Bills purchased - contra	*₱11,977,501*	***₱13,496,370***	*₱11,952,514*	***₱13,476,833***
Accounts payable	**3,607,344**	2,902,767	**2,174,173**	1,718,790
Deposits on lease contracts	**1,531,877**	1,332,267	**–**	–
Payment order payable	**867,659**	792,788	**867,659**	792,788
Unearned income and other deferred credits	**712,835**	2,843,981	**111,396**	490,638
Sundry and other credits	**334,580**	284,043	**333,619**	283,201
Margin deposits	**168,084**	222,682	**168,084**	222,682
Withholding tax payable	**160,510**	171,784	**104,912**	113,244
Due to Bangko Sentral ng Pilipinas	**142,887**	51,570	**140,676**	48,845
Derivative liability	**113,112**	397,480	**113,112**	397,480
Deferred tax liability (Note 24)	**111,671**	57,139	–	–
Net pension liability (Note 20)	**39,288**	5,650	**27,177**	–
Miscellaneous	**1,401,205**	516,716	**1,218,636**	1,475,261
	₱21,168,553	₱23,075,237	**₱17,211,958**	₱19,019,762

18. **Maturity Profile of Assets and Liabilities**

The following tables present the assets and liabilities by contractual maturity and settlement dates as of December 31, 2006 and 2005:

	Consolidated					
	2006			2005		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
			(In Thousands)			
Financial Assets						
Cash and other cash items	**₱8,663,488**	**₱–**	**₱8,663,488**	₱7,541,236	₱–	₱7,541,236
Due from BSP	**23,262,456,**	**–**	**23,262,456**	7,232,106	–	₱7,232,106
Due from other banks	**6,520,845**	**–**	**6,520,845**	4,676,319	–	4,676,319
IBLR and SPURA	**26,428,229**	**1,144,033**	**27,572,262**	16,637,243	1,562,381	18,199,624
Securities at FVPL	**15,533,191**	**7,228,228**	**22,761,419**	10,313,484	15,748,398	26,061,882
AFS investments	**5,766,872**	**5,030,091**	**10,796,963**	3,503,952	14,048,208	17,552,160
HTM investments (Note 7)	**6,703,454**	**23,199,920**	**29,903,374**	16,339,358	16,157,056	32,496,414
Unquoted debt securities classified as loans (Note 8)	**340,493**	**9,674,007**	**10,014,500**	86,582	2,648,270	2,734,852
Loans and receivables - gross (Note 8)	**125,449,373**	**40,152,469**	**165,601,842**	108,231,222	43,110,935	151,342,157
Investments in subsidiaries and associates	**–**	**310,511**	**310,511**	**–**	290,772	290,772
Other assets:						
Interoffice float items - net (Note 12)	**2,247,833**	**–**	**2,247,833**	3,310,905	–	3,310,905
	220,916,234	**86,739,259**	**307,655,493**	177,872,407	93,566,020	271,438,427
Nonfinancial Assets						
Property and equipment	**1,161,446**	**8,336,685**	**9,498,131**	858,280	8,925,905	9,784,185
Investment properties (Note 11)	**205,000**	**17,882,175**	**18,087,175**	181,535	18,797,087	18,978,622
Goodwill	**–**	**15,680,124**	**15,680,124**	**–**	15,680,124	15,680,124
Other assets - gross (Note 12)	**13,025,352**	–	**13,025,352**	13,421,342	–	13,421,342
	14,391,798	**41,898,984**	**56,290,782**	14,461,157	43,403,116	57,864,273
Less: Allowance for impairment and credit losses (Note 13)			**16,115,084**			14,788,674
Unearned interest and discounts			**2,689,366**			2,462,440
			18,804,450			17,251,114
	₱235,308,032	**₱128,638,243**	**₱345,141,825**	₱192,333,564	₱136,969,136	₱312,051,586

	Consolidated					
	2006			2005		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
	(In Thousands)					
Financial Liabilities						
Deposit liabilities (Note 14)	**₱232,220,116**	**₱7,879,134**	**₱240,099,250**	₱194,733,210	₱11,931,035	₱206,664,245
Bills payable (Note 15)	**11,538,389**	**8,617,468**	**20,155,857**	19,774,196	9,931,539	29,705,735
Deposit on lease contracts	**424,097**	**1,107,780**	**1,531,877**	268,303	1,063,964	1,332,267
Outstanding acceptances	**960,980**	–	**960,980**	615,944	–	615,944
Manager's checks and demand drafts outstanding	**1,422,304**	–	**1,422,304**	912,091	–	912,091
Accrued interest payable	**1,051,145**	–	**1,051,145**	794,639	–	794,639
Subordinated notes payable	–	**9,691,113**	**9,691,113**	–	10,474,797	10,474,797
Other liabilities (Note 17):						
Bills purchased - contra	**11,977,501**	–	**11,977,501**	13,496,370	–	13,496,370
Accounts payable	**3,603,122**	**4,222**	**3,607,344**	2,902,767	–	2,902,767
Derivative liability	**113,112**	–	**113,112**	397,480	–	397,480
Payment order payable	**867,659**	–	**867,659**	792,788	–	792,788
Sundry and other credits	**334,580**	–	**334,580**	284,043	–	284,043
Margin deposits	**168,084**	–	**168,084**	222,682	–	222,682
Due to BSP	**142,887**	–	**142,887**	51,570	–	51,570
	264,823,976	**27,299,717**	**292,123,693**	235,246,083	33,401,335	268,647,418
Nonfinancial Liabilities						
Accrued taxes and other expenses	**3,111,319**	–	**3,111,319**	2,311,484	–	2,311,484
Other Liabilities	**2,313,838**	**111,671**	**2,425,509**	3,538,131	57,139	3,595,270
	₱270,249,133	**₱27,411,388**	**₱297,660,521**	₱241,095,698	₱33,458,474	₱274,554,172

	Parent Company					
	2006			2005		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
	(In Thousands)					
Financial Assets						
Cash and other cash items	**₱8,381,197**	**₱–**	**₱8,381,197**	₱7,199,793	₱–	₱7,199,793
Due from BSP	**22,611,472**	**–**	**22,611,472**	6,917,169	–	6,917,169
Due from other banks	**3,801,286**	**–**	**3,801,286**	3,842,373	–	3,842,373
IBLR and SPURA	**26,588,229**	**1,144,033**	**27,732,262**	16,637,243	1,562,381	18,199,624
Securities at FVPL	**15,393,517**	**7,228,228**	**22,621,745**	10,172,633	15,748,398	25,921,031
AFS investments	**3,799,319**	**4,168,697**	**7,968,016**	1,678,429	13,862,062	15,540,491
HTM investments (Note 7)	**6,441,625**	**23,111,082**	**29,552,707**	16,326,331	15,874,633	32,200,964
Unquoted debt securities classified as loans	**328,508**	**9,330,640**	**9,659,148**	252,769	1,832,084	2,084,853
Loans and receivables - gross (Note 8)	**112,051,475**	**29,804,211**	**141,855,686**	89,035,708	51,808,219	140,843,927
Investments in subsidiaries and associates	**–**	**11,754,200**	**11,754,200**	–	11,050,975	11,050,975
Other assets: (Note 12)						
Interoffice float items - net	**2,125,288**	**–**	**2,125,288**	3,211,309	–	3,211,309
Receivables from SPVs	**–**	**3,336,056**	**3,336,056**	–	3,336,056	3,336,056
	201,521,916	**89,877,147**	**291,399,063**	155,273,757	115,074,808	270,348,565
Nonfinancial Assets						
Investment property (Note 11)	**180,192**	**15,108,061**	**15,288,253**	181,535	15,751,416	15,932,951
Property and equipment	**883,575**	**7,883,720**	**8,767,295**	858,280	8,242,194	9,100,474
Goodwill	**–**	**15,680,124**	**15,680,124**	–	15,680,124	15,680,124
Other assets - gross (Note 12)	**7,340,808**	**–**	**7,340,808**	7,724,881	–	7,724,881
	8,404,575	**38,671,905**	**47,076,480**	8,764,696	39,673,734	48,438,430
Less: Allowance for impairment and credit losses (Note 13)			**16,704,324**			13,984,103
Unearned interest and discounts			**951,382**			1,291,855
			17,655,706			15,275,958
	₱209,926,491	**₱128,549,052**	**₱320,819,837**	₱164,038,453	₱154,748,542	₱303,511,037

	Parent Company					
	2006			2005		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Financial Liabilities						
Deposit liabilities (Note 14)	**₱226,557,311**	**₱5,406,117**	**₱231,963,428**	₱192,142,998	₱10,011,157	₱202,154,155
Bills payable (Note 15)	**5,698,032**	**8,627,088**	**14,325,120**	17,266,628	9,931,539	27,198,167
Outstanding acceptances	**960,980**	**–**	**960,980**	615,944	–	615,944
Manager's checks and demand drafts outstanding	**1,293,530**	**–**	**1,293,530**	891,704	–	891,704
Accrued interest payable	**620,818**	**–**	**620,818**	526,999	–	526,999
Subordinated notes payable	**–**	**9,691,113**	**9,691,113**	–	10,474,797	10,474,797
Other liabilities: (Note 17)						
Bills purchased - contra	**11,952,514**	**–**	**11,952,514**	13,476,833	–	13,476,833
Accounts payable	**2,169,951**	**4,222**	**2,174,173**	1,718,790	–	1,718,790
Payment order payable	**867,659**	**–**	**867,659**	792,788	–	792,788
Sundry and other credits	**333,619**	**–**	**333,619**	283,201	–	283,201
Margin Deposits	**168,084**	**–**	**168,084**	222,682	–	222,682
Due to BSP	**140,676**	**–**	**140,676**	48,845	–	48,845
Derivative liability	**113,112**	**–**	**113,112**	397,480	–	397,480
	250,876,286	**23,728,540**	**274,604,826**	228,384,892	30,417,493	258,802,385
Nonfinancial Liabilities						
Accrued taxes and other expenses	**1,851,859**	**–**	**1,851,859**	1,580,717	–	1,580,717
Other Liabilities	**1,462,121**	**–**	**1,462,121**	2,079,143	–	2,079,143
	₱254,190,266	**₱23,728,540**	**₱277,918,806**	₱232,044,752	₱30,417,493	₱262,462,245

19. **Equity**

The Parent Company's capital stock consists of:

	2006	2005	2004
		(In Thousands)	
Common stock - ₱10 par value			
Authorized - 1,000,000,000 shares			
Issued - 727,003,345 shares	**₱7,270,033**	₱7,270,033	₱7,270,033

The Parent Company shares are listed in the PSE.

As of December 31, 2006 and 2005, surplus reserves consist of (in thousands):

	2006	2005	2004
Reserve for trust business	**₱325,219**	₱277,672	₱229,631
Contingencies	**261,428**	261,428	261,428
Self-insurance	**15,000**	15,000	15,000
Other surplus reserves	**4,296**	4,296	4,297
Total	**₱605,943**	₱558,396	₱510,356

Surplus reserves for self-insurance represents the amount set aside to cover for losses due to fire, defalcation by and other unlawful acts of the Parent Company's personnel or third parties.

Parent Company Shares Held by a Subsidiary account represents 78,807,098 shares of the Parent Company purchased by EBCII, its investment house subsidiary. These are carried at acquisition cost of ₱7.47 billion. In the Parent Company financial statements, such shares are shown as advances to subsidiaries and are carried at the same amount. In its letter dated October 25, 2005, the BSP required EBCII to sell the EPCIB shares or consider the reversal of the accounting entries in the books of EPCIB and EBCII pertaining to these transactions as options for retiring the shares. On March 31, 2006, the Parent Company's BOD approved the reversal of the accounting entries in the books of the Parent Company 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 Parent Company the shares held by its subsidiary against a corresponding elimination of the Parent Company's advances to EBCII. On August 31, 2006, EBCII accepted the binding offer of Ms. Teresita T. Sy on behalf of the Sy Family and/or their nominees in keeping with the intent of the Parent Company to have the shares sold as early as possible in a manner that assures fairness and transparency, and in compliance with the directive of the BSP. The sale of 78,807,098 common shares of the Parent Company at ₱92.00 per share or a total consideration of ₱7,250,253,016 is payable in cash as follows:

Downpayment on closing date	10%	₱725,025,301.60
8 months from closing date	10%	725,025,301.60
16 months from closing date	10%	725,025,301.60
24 months from closing date	70%	5,075,177,111.20

On September 19, 2006, the Parent Company's BOD accepted the binding offer of Ms. Teresita T. Sy. On September 25, 2006, EBCII entered into a Sale and Purchase of Shares Agreement with SM Investments Corporation, in concert with its affiliates covering the 78,807,098 common shares of the Parent Company. On October 2, 2006, the closing date, subject shares were cross-sold in the PSE subject to the terms approved by the respective BODs of EBCII and the Parent Company.

On November 6, 2006, the respective BOD of the Parent Company and Banco de Oro, Inc. (BDO) approved and endorsed to their respective shareholders a Plan of Merger for the merger of the Parent Company and BDO with BDO as the surviving entity. The merger shall be effected through a swap of shares whereby BDO shall issue 1.8 of its share for each Parent Company's share. The Merged Bank will be known as Banco de Oro - EPCI, Inc.

The Plan of Merger was approved by the respective shareholders of the Parent Company and BDO in separate meetings on December 27, 2006. Thereafter, the Plan of Merger and related documents shall be submitted to SEC and BSP for approval. The Parent Company expects the legal merger to be effected within the first quarter of 2007.

In 2005, ESB's 2004 financial statements were restated to charge against the 2004 beginning Surplus the following: (a) capital deficiency of MDB as of December 31, 2003 amounting to ₱764.0 million (and include the 2004 restated results of operations amounting to ₱293.5 million in the 2004 results of operations of the merged entity); and (b) unamortized capitalized losses of MDB in 2004 amounting to ₱198.6 million (and reverse the amortization of such capitalized net losses in 2004 amounting to ₱39.7 million).

On January 18, 2005, the Parent Company's BOD approved the declaration of cash dividends at the rate of sixty centavos (₱0.60) per share or ₱436.2 million. Such declaration was approved by BSP on April 1, 2005.

The determination of the Parent Company's compliance with regulatory requirements and ratios is based on the amount of the Parent Company's unimpaired capital (regulatory capital) as reported to the BSP, which is determined on the basis of regulatory accounting practices which differ from PFRS in some respects.

Specifically, under existing banking regulations, the combined capital accounts of each commercial bank should not be less than an amount equal to ten percent (10%) of its risk assets. Risk assets is defined as total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the MB of the BSP.

Under BSP Circular No. 360, effective July 1, 2003, the capital-to-risk assets ratio (CAR) is to be inclusive of a market risk charge. Using this formula, the CAR of the Group was 15.5% and 11.3% as of December 31, 2006 and 2005, respectively, while that of the Parent Company was 11.2% and 10.0% (as restated), respectively.

In compliance with BSP regulations, 10% of the Parent Company's profit from trust business is appropriated to surplus reserve. This annual appropriation is required until the surplus reserves for trust business equals 20% of the Parent Company's authorized capital stock.

20. Retirement Plans

The Group has separate funded noncontributory defined benefit retirement plans covering substantially all its officers and regular employees. Under these retirement plans, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements.

The Group's annual contribution to the retirement plan consists of a payment covering the current service cost, amortization of the unfunded actuarial accrued liability and interest on such unfunded actuarial liability.

The following table shows the actuarial valuation results of the Parent Company and some of its subsidiaries as of January 1, 2006 and 2005:

		January 1, 2006				
		Actuarial Assumptions				
	Date of Actuarial Valuation Report	Average Remaining Working Life	Expected Return on Assets	Salary Rate Increase	Discount Rate	Future Pension Increases
Parent Company	January 1, 2006	15	9%	5%	11%	–
PCI Leasing	January 1, 2006	15	9%	5%	11%	–
ECN	January 1, 2006	26	9%	12%	12%	–
ESB	January 1, 2006	14	9%	5%	11%	–
PCI Capital	January 1, 2006	14	9%	5%	11%	–
EIBI	January 1, 2006	14	9%	5%	11%	–
PCIB Securities	January 1, 2006	11	9%	5%	11%	–
PCI Automation	January 1, 2006	14	9%	5%	11%	–
EDCI	January 1, 2006	15	9%	5%	11%	–
Maxicare	January 1, 2006	30	11%	13%	12%	–

		January 1, 2005				
		Actuarial Assumptions				
	Date of Actuarial Valuation Report	Average Remaining Working Life	Expected Return on Assets	Salary Rate Increase	Discount Rate	Future Pension Increases
Parent Company	January 1, 2005	15	9%	5%	14%	–
PCI Leasing	January 1, 2006	15	9%	5%	14%	–
ECN	January 1, 2006	26	11%	10%	12%	–
ESB	January 1, 2006	14	9%	5%	14%	–
PCI Capital	January 1, 2006	14	9%	5%	14%	–
EIBI	January 1, 2006	15	9%	5%	14%	–
PCIB Securities	January 1, 2006	11	9%	5%	14%	–
PCI Automation	January 1, 2006	14	9%	5%	14%	–
EDCI	January 1, 2006	15	9%	5%	14%	–
Maxicare	January 1, 2006	30	11%	13%	12%	–

Discount rates used to arrive at the present value of the obligation of the Parent Company and some of its subsidiaries as of December 31, 2006 and 2005 are as follows:

	December 31	
	2006	2005
Parent Company	*7%*	11%
PCI Leasing	**7%**	11%
ECN	**8%**	12%
ESB	**7%**	11%
PCI Capital	**7%**	11%
EIBI	**7%**	11%
PCIB Securities	**7%**	11%
PCI Automation	**7%**	11%
EDCI	**7%**	11%
Maxicare	**7%**	12%

The overall expected rate of return on plan assets is determined based on the market prices prevailing on that date applicable to the period over which the obligation is to be settled.

The prepaid retirement cost recognized in the Group and the Parent Company's statement of condition is as follows (in thousands):

	Consolidated		Parent	
	2006	2005	**2006**	2005
Present value of funded obligation	**₱3,370,883**	₱1,691,015	**₱3,053,866**	₱1,478,560
Fair value of plan assets	**(1,474,584)**	(1,189,181)	**(1,183,969)**	(950,039)
	1,896,299	501,834	**1,869,897**	528,521
Unrecognized transition liability	**(416,806)**	(555,654)	**(416,460)**	(555,279)
Unrecognized actuarial losses	**(1,503,510)**	(58,692)	**(1,426,260)**	(34,658)
Unrecognized actuarial assets due to ceiling test	**8,709**	5,519	–	–
Net pension liability (asset)	**(₱15,308)**	(₱106,993)	**₱27,177**	(₱61,416)

Net pension liability (asset) is included in the statement of condition as follows (in thousands):

	Consolidated		Parent	
	2006	2005	**2006**	2005
Net pension asset	**(₱54,596)**	(₱112,643)	**(₱–)**	(₱61,416)
Net pension liability	**39,288**	5,650	**27,177**	–
	(₱15,308)	(₱106,993)	**₱27,177**	(₱61,416)

The movements in the prepaid retirement cost recognized in the Group and the Parent Company's statement of condition follow (in thousands):

	Consolidated		Parent	
	2006	2005	**2006**	**2005**
Balance at beginning of year	**(₱106,993)**	(₱48,831)	**(₱61,416)**	₱–
Retirement expense	**348,856**	363,960	**318,757**	349,147
Contribution paid	**(257,171)**	(422,122)	**(230,164)**	(410,563)
Balance at end of year	**(₱15,308)**	(₱106,993)	**₱27,177**	(₱61,416)

Changes in the present value of the defined benefit obligation are as follows (in thousands):

	Consolidated		Parent	
	2006	2005	**2006**	2005
Balance at beginning of year	**₱1,691,015**	₱1,384,391	**₱1,478,560**	₱1,253,712
Interest cost	**186,972**	193,815	**162,641**	175,520
Current service cost	**127,127**	99,496	**102,799**	85,172
Benefits paid	**(216,398)**	(192,524)	**(205,169)**	(166,483)
Actuarial loss	**1,582,167**	205,837	**1,515,035**	130,639
Balance at end of year	**₱3,370,883**	₱1,691,015	**₱3,053,866**	₱1,478,560

The movements in the fair value of plan assets recognized follow (in thousands):

	Consolidated		Parent	
	2006	2005	**2006**	2005
Balance at beginning of year	*₱1,189,181*	***₱771,396***	*₱950,039*	***₱559,613***
Expected return on plan assets	**108,046**	70,985	**85,503**	50,365
Contribution paid by employer	**257,171**	422,122	**230,164**	410,563
Benefits paid	**(216,398)**	(192,524)	**(205,169)**	(166,483)
Actuarial gains	**136,584**	117,202	**123,432**	95,981
Balance at end of year	**₱1,474,584**	₱1,189,181	**₱1,183,969**	₱950,039

The Group and the Parent Company expects to contribute ₱581.8 million and ₱553.4 million, respectively, to its defined benefit pension plan in 2007.

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	Consolidated		Parent	
	2006	2005	**2006**	2005
Debt instruments	**73%**	71%	**71%**	70%
Investments in real estate	**11%**	14%	**14%**	18%
Equity instruments	**10%**	7%	**10%**	7%
Other assets	**6%**	8%	**5%**	5%

The Group and the Parent Company opted to adopt the prospective approach in accounting for transition liability of ₱694.3 million and ₱694.1 million, respectively, when it adopted PAS 19 in 2005. Such amount is being amortized over five (5) years beginning January 1, 2005.

The amounts included in Compensation and Fringe Benefits in the Group and Parent Company's statements of income are as follows (in thousands):

	Consolidated		Parent	
	2006	2005	**2006**	2005
Current service cost	**₱127,127**	₱99,496	**₱102,799**	₱85,172
Interest cost	**186,972**	193,815	**162,641**	175,520
Expected return on plan assets	**(108,046)**	(70,985)	**(85,503)**	(50,365)
Amortization of transition liability	**138,850**	138,850	**138,820**	138,820
Net actuarial gain (loss) recognized during the year	**764**	(703)	**–**	–
Effect of asset ceiling test	**3,189**	3,487	**–**	–
	₱348,856	₱363,960	**₱318,757**	₱349,147
Actual return on plan assets	**₱243,690**	₱188,188	**₱208,936**	₱146,346

Amounts for the current and previous years are as follows (in thousands):

	Consolidated		Parent	
	2006	2005	**2006**	2005
Present value of funded obligation	**₱3,370,883**	₱1,691,015	**₱3,053,866**	₱1,478,560
Fair value of plan assets	**(1,474,584)**	(1,189,181)	**(1,183,969)**	(950,039)
Deficit	**1,896,299**	501,834	**1,869,897**	528,521
Experience adjustment on plan assets	**(136,584)**	(117,202)	**(123,432)**	(95,981)
Experience adjustment on plan liabilities	**526,439**	(184,967)	**530,713**	(212,336)

21. Lease Contracts

The Parent Company leases the premises occupied by some of its branches, including those of its subsidiaries. The lease contracts are for periods ranging from 1 to 20 years and are renewable at the Group's option under certain terms and conditions. Various lease agreements include escalation clauses, most of which bear an annual rent increase of 5% to 10%. As of December 31, 2006 and 2005, the Group has no contingent rent payable.

Total rent expense (included under Occupancy and other equipment-related expenses) incurred by the Group amounted to ₱702.2 million ₱603.1 million and ₱581.5 million in 2006, 2005 and 2004, respectively, of which ₱521.5 million, ₱502.1 million and ₱495.5 million in 2006, 2005 and 2004, respectively, was incurred by the Parent Company.

Future minimum lease rentals payable under non-cancelable operating leases follow:

	Consolidated		Parent Company	
	2006	2005	**2006**	2005
		(In Thousands)		
Within one year	**₱299,142**	₱267,120	**₱271,613**	₱251,085
After one year but not more than five years	**838,684**	853,559	**833,314**	836,591
After more than five years	**219,564**	233,367	**182,739**	233,367
	₱1,357,390	***₱1,354,046***	*₱1,287,666*	***₱1,321,043***

The Group has entered into commercial property leases on the Group's surplus offices. These non-cancelable leases have remaining non-cancelable lease terms of between 1 and 15 years.

Total rent income earned (included under Other operating income) by the Group amounted to ₱124.6 million, ₱110.2 million and ₱128.1 million in 2006, 2005 and 2004, respectively, of which ₱141.5 million, ₱128.2 million and ₱138.0 million in 2006, 2005 and 2004, respectively, were earned by the Parent Company.

Future minimum rentals receivable under non-cancelable operating leases are as follows:

	Consolidated		Parent Company	
	2006	2005	**2006**	2005
	(In Thousands)			
Within one year	**₱97,990**	₱99,551	**₱94,597**	₱95,393
After one year but not more than five years	**137,860**	145,993	**137,860**	137,043
After more than five years	**7,459**	7,612	**7,459**	7,612
	₱243,309	₱253,156	*₱239,916*	***₱240,048***

22. Other Operating Income

This account consists of:

	Consolidated			Parent Company		
	2006	2005	2004	**2006**	2005	2004
	(In Thousands)					
Gain on disposal of investment properties	**₱926,181**	₱487,459	₱83,394	**₱848,215**	₱389,649	₱82,895
Trust fees (Note 25)	**621,243**	629,570	724,335	**621,243**	629,570	724,335
Rent of investment properties and equipment (Note 21)	**571,714**	599,095	128,140	**141,536**	128,221	137,996
Gain on sale of property and equipment	**106,953**	90,961	34,085	**89,355**	85,809	26,947
Dividends	**100,457**	150,163	61,479	**1,120,052**	460,635	1,156,607
Rent from safety deposit boxes	**25,688**	19,401	19,831	**24,911**	19,401	19,831
Others	**1,071,172**	861,482	1,642,870	**78,754**	461,553	494,523
	₱3,423,408	₱2,838,131	₱2,694,134	**₱2,924,066**	₱2,174,838	₱2,643,134

23. Other Expenses

This account consists of:

	Consolidated			Parent Company		
	2006	2005	2004	**2006**	2005	2004
	(In Thousands)					
Transaction dues	**₱474,337**	₱386,981	₱458,219	**₱174,621**	₱178,744	₱174,561
Insurance - PDIC	**422,581**	398,752	376,991	**407,350**	378,603	354,417
Litigation and assets acquired	**376,679**	327,131	360,982	**321,718**	298,283	297,357
Professional fees	**382,341**	263,906	254,204	**174,614**	146,220	152,071
Communication	**342,045**	364,903	373,567	**235,857**	274,259	261,825
Entertainment, amusement and recreation (EAR) (Note 24)	**291,031**	198,787	170,872	**262,787**	174,431	148,876
(Forward)						

	Consolidated			Parent Company		
	2006	2005	2004	**2006**	2005	2004
			(In Thousands)			
Freight	**₱286,177**	₱140,863	₱28,672	**₱263,265**	₱128,269	₱20,791
Traveling	**220,107**	216,037	199,442	**137,810**	128,502	120,153
Advertising	**219,676**	570,121	486,507	**69,195**	81,708	52,979
Stationery and Office Supplies	**207,409**	193,792	174,061	**127,738**	126,054	93,060
Fuel and Lubricant	**187,103**	182,563	165,253	**142,144**	138,936	126,839
Assessment Fees	**141,417**	147,571	138,932	**141,206**	147,351	138,708
Others	**1,553,563**	575,584	508,465	**918,456**	388,528	371,349
	₱5,104,466	₱3,966,991	₱3,696,167	**₱3,376,761**	₱2,589,888	₱2,312,986

24. Income and Other Taxes

Under Philippine tax laws, the RBU of the Parent Company and its domestic subsidiaries are subject to percentage and other taxes (presented as Taxes and Licenses in the statement of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax or GRT and documentary stamp taxes. Income taxes include the corporate income tax, as discussed below, and final taxes paid at the rate of 20%, which is a final withholding tax on gross interest income from government securities and other deposit substitutes.

Under current tax regulations, the Regular Corporate Income Tax (RCIT) rate is 32%. Interest allowed as a deductible expense is reduced by an amount equivalent to 38% of interest income subjected to final tax. In addition, current tax regulations provide for the ceiling on the amount of EAR that can be claimed as a deduction against taxable income. Under the regulation, EAR allowed as deductible expense for a service company like the Parent Company is limited to the actual EAR paid or incurred but not to exceed 1% of net revenue. The regulations also provide for Minimum corporate Income Tax (MCIT) of 2% on modified gross income and allow net operating loss carry over (NOLCO). The Parent Company and Group MCIT and NOLCO may be applied against the Parent Company's and Group's income tax liability and taxable income, respectively, over a three-year period from the year of inception.

RA No. 9337, An Act Amending National Internal Revenue Code, provides that the RCIT rate shall be 35% until December 31, 2008. Starting January 1, 2009 the RCIT rate shall be 30%. The interest allowed as a deductible expense is reduced by 42% (formerly 38%) of interest income subjected to final tax under the 35% corporate tax regime and 33% under the 30% corporate tax regime. It also provides for the change in GRT rate from 5% to 7%. However, such amendments were the subject of a temporary restraining order by the Supreme Court. On October 8, 2005, the Supreme Court ruled that RA No. 9337 is constitutional and effective on November 1, 2005.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is subject to 10% income tax. In addition, interest income on deposit placements with other FCDUs and offshore banking units (OBUs) is taxed at 7.5%. RA No. 9294, which became effective in May 2004, provides that the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10% income tax.

Provision for (benefit from) income tax consists of:

	Consolidated			Parent Company		
	2006	2005	2004	**2006**	2005	2004
	(In Thousands)					
Current*	**₱1,052,770**	₱664,896	₱768,759	**₱569,363**	₱493,068	₱366,524
Deferred	**503,115**	1,511,540	(1,844,489)	**476,298**	1,210,387	(1,924,393)
	₱1,555,885	₱2,176,436	(₱1,075,730)	**₱1,045,661**	₱1,703,455	(₱1,557,869)

* Includes income taxes of foreign subsidiaries and branches

Components of the net deferred tax assets (included in Other Assets) follow:

	Consolidated		*Parent Company*	
	2006	2005	**2006**	2005
	(In Thousands)			
Credited to operations				
Tax effects of:				
Allowance for impairment losses	**₱4,811,267**	₱4,103,747	**₱4,571,780**	₱3,817,815
NOLCO	**766,849**	1,933,046	**634,508**	1,828,595
Unamortized past service costs	**308,637**	297,067	**302,655**	292,580
Capitalized interest	**(100,133)**	(102,904)	**(100,133)**	(102,904)
Lease income/expense differential	**97,965**	(35,344)	**78,641**	93,475
Investment properties	**22,602**	(159,105)	**104,357**	(159,105)
Others	**(47,313)**	135,909	**(62,416)**	48,357
MCIT	**16,820**	187,320	–	186,877
	5,876,694	6,359,736	**5,529,392**	6,005,690
Charged against equity				
Revaluation increment in property	**(578,407)**	(578,407)	**(578,407)**	(578,407)
	₱5,298,287	₱5,781,329	**₱4,950,985**	₱5,427,283

Components of the net deferred tax liabilities (included in Other Liabilities) follow:

	Consolidated		*Parent Company*	
	2006	2005	**2006**	2005
	(In Thousands)			
Credited to operations				
Tax effects of:				
Lease income/expense differential	**₱148,581**	₱128,839	**₱–**	₱–
Allowance for impairment losses	**(91,140)**	(74,712)	**–**	–
Unamortized past service costs	**(1,008)**	(223)	**–**	–
Fair value increase of investment properties	**(1,317)**	–	**–**	–
Others	**10,674**	(8,187)	–	–
	65,790	45,717	**–**	–
Charged against equity			**–**	–
AFS unrealized gain	**45,881**	11,422	**–**	–
	₱111,671	₱57,139	**₱–**	₱–

The Parent Company and certain subsidiaries did not recognize deferred tax assets on the following temporary differences:

	Consolidated		*Parent Company*	
	2006	2005	**2006**	2005
		(In Thousands)		
NOLCO	**₱6,289,722**	₱2,449,625	**₱5,697,607**	₱2,143,843
Allowance for impairment losses	**1,930,428**	368,174	**–**	–
Accrued leave credits	**374,501**	349,501	**374,501**	349,501
MCIT	**233,896**	6,213	**217,156**	–
Others	**–**	71,653	**–**	71,653
	₱8,828,547	₱3,245,166	**₱6,289,264**	₱2,564,997

Management believes that it is not likely that these temporary differences will be realized in the future.

A reconciliation between the statutory income tax and provision for (benefit from) income tax follows:

	Consolidated			**Parent Company**		
	2006	2005	2004	**2006**	2005	2004
Statutory income tax	**35.00%**	32.50%	32.00%	**35.00%**	32.50	32.0
Tax effects of:						
Nondeductible expenses	**27.62**	6.28	7.77	**61.27**	7.72	27.46
FCDU income	**(28.73)**	(20.96)	(51.90)	**(50.41)**	(25.77)	(93.35)
Tax-exempt and tax-paid income	**(25.90)**	(12.55)	(32.55)	**(54.22)**	(15.43)	(47.35)
Nondeductible interest expense	**4.60**	3.48	17.89	**8.08**	4.28	13.86
Others - net	**18.51**	35.00	(48.01)	**36.98**	38.80	(127.45)
Provision for (benefit from) income tax	**31.10%**	43.75%	(74.80	**36.70%**	42.10	(194.8

Income tax payable included under Accrued Taxes and Other Expenses amounted to ₱344.6 million and ₱302.3 million for the Group and ₱76.6 million and ₱89.9 million for the Parent Company as of December 31, 2006 and 2005, respectively. Allowable EAR of the Parent Company for tax deduction amounted to ₱188.5 million and ₱175.8 million (included in Other expenses in the statement of income) in 2006 and 2005, respectively.

The details of the Group's NOLCO and MCIT follow:

Inception Year	Amount	Used/Expired	Balance	Expiry Year
		(In Thousands)		
NOLCO				
2003	₱1,211,421	₱1,211,421	₱–	2006
2004	316,198	–	316,198	2007
2005	3,193,948	–	3,193,948	2008
2005	3,910,006	–	3,910,006	2010
2006	1,320,592	–	1,320,592	2009
	₱9,952,165	₱1,211,421	₱8,740,744	

(Forward)

Inception Year	Amount	Used/Expired	Balance	Expiry Year
		(In Thousands)		
MCIT				
2003	₱28,316	₱28,316	₱–	2006
2004	80,503	–	80,503	2007
2005	84,714	–	84,714	2008
2006	85,499	–	85,499	2009
	₱279,032	₱28,316	₱250,716	

The details of the Parent Company's NOLCO and MCIT follow:

Inception Year	Amount	Used/Expired	Balance	Expiry Year
		(In Thousands)		
NOLCO				
2003	₱1,182,806	₱1,182,806	₱–	2006
2004	94,530	–	94,530	2007
2005	2,670,856	–	2,670,856	2008
2005	3,910,006	–	3,910,006	2010
2006	1,137,242	–	1,137,242	2009
	₱8,995,440	₱1,182,806	₱7,812,634	
MCIT				
2003	₱27,694	₱27,694	₱–	2006
2004	73,385	–	73,385	2007
2005	72,809	–	72,809	2008
2006	70,962	–	70,962	2009
	₱244,850	₱27,694	₱217,156	

25. Trust Operations

Securities and other properties (other than deposits) held by the Parent Company in fiduciary or agency capacities for clients (and beneficiaries) are not included in the accompanying statement of condition since these are not assets of the Parent Company.

Government securities with total face value of ₱808.7 billion and ₱981.8 million as of December 31, 2006 and 2005, respectively, are deposited with the BSP in compliance with existing banking regulations relative to the trust functions of the Parent Company. The carrying values of the government securities with the BSP amounted to ₱827.2 billion and ₱986.2 million as of December 31, 2006 and 2005.

Additionally, a certain percentage of the Parent Company's trust income is transferred to Surplus Reserve until such reserve for trust functions amounts to 20% of the Parent Company's authorized capital stock. No part of such Surplus Reserve shall at any time be paid out as dividends.

Also, in accordance with BSP regulations, the common trust funds managed by the Parent Company's trust department maintain reserve deposit account with the BSP and government securities to meet the reserve requirement on peso-denominated common trust funds and other similarly managed funds. As of December 31, 2006 and 2005, the balance of the BSP reserve deposit account amounted to ₱78.0 million and ₱2.7 billion, respectively, while government securities amounted to ₱22.1 million and ₱3.0 billion, respectively.

26. **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 fund 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 against or credited to business segments based on a pool rate, which approximates the marginal cost of funds.

Segment information of the Group for the year ended December 31, 2006, 2005 and 2004 follows:

	2006						
	Consumer and Retail Banking	Commercial Banking	Corporate Banking	Investment Banking	Treasury	Others	Total
Gross income	₱7,987,313	₱5,246,980	₱3,640,728	₱440,851	₱10,260,664	₱4,552,176	₱32,128,712
Segment result	₱4,534,605	₱919,902	₱1,030,771	₱299,885	₱3,528,486	₱441,466	₱10,755,115
Unallocated costs							5,775,637
Profit from operations							4,979,478
Equity in net income of associates							22,739
Income before tax							5,002,217
Income tax expense							(1,555,885)
Minority interest							(181,153)
Net income for the year attributable to the parent company							₱3,265,179
Other Information							
Segment assets	₱46,323,463	₱54,133,155	₱53,963,305	₱3,077,024	₱111,857,861	₱50,657,824	₱320,012,632
Intra-segment assets							4,850,617
Investments in associates							204,227
Unallocated assets							20,074,349
Total assets							₱345,141,825
Segment liabilities	₱43,412,080	₱48,340,215	₱43,566,943	₱2,970,873	₱112,087,482	₱47,282,928	₱297,660,521
Other Segment Information							
Depreciation and amortization	₱789,190	₱40,034	₱7,420	₱5,745	₱54,653	₱502,095	₱1,399,137

	2005						
	Consumer and Retail Banking	Commercial Banking	Corporate Banking	Investment Banking	Treasury	Others	Total
Gross income	₱7,459,910	₱5,450,925	₱3,214,859	₱477,074	₱7,931,032	₱4,074,487	₱28,608,287
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 attributable to the parent company							₱2,698,385
Other Information							
Segment assets	₱45,362,395	₱58,662,288	₱48,732,627	₱2,906,429	₱90,754,073	₱38,696,397	₱285,114,209
Intra-segment assets							3,310,904
Investments in associates							290,772
Unallocated assets							23,335,701
Total assets							₱312,051,586
Segment liabilities	₱43,865,620	₱55,192,788	₱39,590,955	₱2,494,470	₱93,630,618	₱39,779,721	₱274,554,172
Other Segment Information							
Depreciation and amortization	₱685,945	₱36,917	₱7,558	₱5,795	₱58,069	₱532,642	₱1,326,926

	2004						
	Consumer and Retail Banking	Commercial Banking	Corporate Banking	Investment Banking	Treasury	Others	Total
Gross income	₱7,855,150	₱4,895,093	₱2,923,139	₱500,796	₱4,601,389	₱3,660,155	₱24,435,722
Segment result	₱1,670,258	₱1,152,074	₱557,852	₱262,597	₱1,647,054	₱2,102,419	₱7,392,254
Unallocated costs							5,932,394
Profit from operations							1,459,860
Equity in net income of associates							(21,748)
Income before tax							1,438,112
Income tax benefit							1,075,730
Minority interest							(101,762)
Net income for the year attributable to the parent company							₱2,412,080
Other Information							
Segment assets	₱47,774,060	₱58,585,980	₱56,602,288	₱1,798,903	₱74,226,071	₱36,218,402	₱275,205,704
Intra-segment assets							2,387,584
Investments in associates							4,660,552
Unallocated assets							23,270,007
Total assets							₱305,523,847
Segment liabilities	₱45,980,876	₱55,215,867	₱45,874,590	₱1,747,559	₱81,353,909	₱32,795,181	₱262,967,982
Other Segment Information							
Depreciation and amortization	₱571,570	₱12,533	₱6,966	₱5,212	₱57,748	₱672,517	₱1,326,546

27. Commitments and Contingent Liabilities

In the normal course of business, the Group enters into various commitments and incurs contingent liabilities that are not presented in the accompanying financial statements. The Group does not anticipate any material losses as a result of these commitments and contingent liabilities.

The following is a summary of the commitments and contingent liabilities at their equivalent peso contractual amounts as of December 31, 2006 and 2005:

	Consolidated		Parent Company	
	2006	2005	**2006**	2005
	(In Thousands)			
Trust department accounts (Note 25)	₱73,226,292	**₱109,694,557**	₱73,226,292	**₱109,694,557**
Unused commercial letters of credit	**9,884,944**	8,182,676	**9,884,944**	8,167,676
Inward bills for collection	**9,803,298**	3,078,970	**9,803,298**	3,078,970
Guarantees issued	**2,668,030**	443,320	**2,668,030**	443,320
Committed credit line	**1,043,326**	625,603	**1,043,326**	625,603
Late deposits/payments received	**647,541**	665,908	**638,260**	660,259
Outward bills for collection	**514,647**	846,962	**512,988**	846,777
Traveler's check unsold	**123,003**	136,590	**123,003**	136,590
Confirmed export letters of credit	**25,445**	22,791	**25,445**	22,791
Others	**63,159**	3,526	**60,642**	404

The Group has pending claims and/or is a defendant in legal actions arising from normal business activities including sale of a subsidiary. Management and its legal counsel believe that these actions are without merit or that the ultimate liability, if any, resulting from such actions will not materially affect the Group's financial position.

The Parent Company has received tax assessments from the Bureau of Internal Revenue on two industry issues. In addition, the Parent Company has pending tax assessments from the BIR on FCDU taxation, which is also an industry issue. The Parent Company, through its tax counsels, is contesting these assessments and pre-assessments on the ground that the factual situations were not considered which, if considered, will not give rise to material tax deficiencies.

28. Related Party Transactions

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 individuals or corporate entities. Transactions between related parties are based on terms similar to those offered to non-related parties.

In the ordinary course of business, the Group has loan transactions with investees and with certain directors, officers, stockholders and related interests (DOSRI). Existing banking regulations limit the amount of individual loans to DOSRI, 70% of which must be secured, to the total of their respective deposits and book value of their respective investments in the Group. In the aggregate, loans to DOSRI generally should not exceed the respective total regulatory capital or 15% of total loan portfolio, whichever is lower.

BSP Circular No. 423 dated March 15, 2004 amended the definition of DOSRI accounts. The following table shows information relating to the loans, other credit accommodations and new guarantees classified as DOSRI accounts under regulations existing prior to said circular, and new DOSRI loans, other credit accommodations granted under said circular as of December 31, 2006 and 2005 (amounts in thousands):

	Consolidated		Parent Company	
	2006	2005	**2006**	2005
Total outstanding DOSRI accounts	**₱905,635**	₱1,037,822	**₱905,635**	₱1,037,822
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**0.25%**	0.58%	**0.29%**	0.62%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	**0.26%**	0.10%	**0.30%**	0.10%
Percent of DOSRI accounts to total loans	**0.52%**	0.67%	**0.60%**	0.73%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**19.37%**	16.96%	**19.37%**	16.96%
Percent of past due DOSRI accounts to total DOSRI accounts	**–**	–	**–**	–
Percent of nonaccruing DOSRI accounts to total DOSRI accounts	**17.87%**	15.32%	**17.87%**	15.32%

On January 31, 2007, BSP Circular No. 560 was issued providing the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said circular, the total outstanding exposures to each of the bank' s subsidiaries and affiliates shall not exceed 10% of bank' s net worth, the unsecured portion of which shall not exceed 5% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20% of the net worth of the lending bank. BSP Circular No. 560 is effective February 15, 2007.

The following table shows information relating to the loans, other credit accommodations and guarantees, as well as availments of previously approved loans and committed credit lines not considered DOSRI accounts prior to the issuance of said circular but are allowed a transition period of two years from the effectivity of said circular or until said loan, other credit
accommodations and guarantees become past due, or are extended, renewed or restructured, whichever comes later (amounts in thousands):

	Consolidated		Parent Company	
	2006	2005	**2006**	2005
Total outstanding non-DOSRI accounts granted prior to BSP Circular No. 423	**₱11,384,258**	₱15,151,472	**₱11,384,258**	₱15,151,472
Percent of unsecured non-DOSRI accounts granted prior to BSP Circular No. 423 to total loans	**6.48%**	9.83%	**7.51%**	10.60%
Percent of past due non-DOSRI accounts granted prior to BSP Circular No. 423 to total loans	–	–	**–**	–
Percent of nonaccruing non-DOSRI accounts granted prior to BSP Circular No. 423 to total loans	**6.01%**	8.27%	**6.97%**	8.92%

Other related party transactions entered into under the normal course of business include the availment of computer services, securities and currency trading, insurance brokerage and management contract services rendered by certain member companies of the Group.

The significant intercompany transactions and outstanding balances of the Group were eliminated in consolidation.

Total interest income on DOSRI loans amounted to ₱120.2 million, ₱193.0 million and ₱1.8 million in 2006, 2005 and 2004, respectively.

Deposit liabilities of associates and other related parties amounted to ₱31.4 million and ₱31.7 million as of December 31, 2006 and 2005, respectively. Related interest expense amounted to ₱0.1 million both in 2006 and 2005.

The retirement fund of the Parent Company's employees amounting to ₱1,111.3 million and ₱950.0 million as of December 31, 2006 and 2005, respectively, is being managed by the Parent Company's Trust Banking Group.

The following table shows the related party transactions included in the consolidated financial statements:

			Elements of Transaction				
Related Party	Relationship	Nature of Transaction	Statement of Condition Amount		Statement of Income Amount		
			2006	2005	**2006**	2005	2004
			(In Thousands)				
Gratuity Fund	Retirement Fund	Advances to subsidiaries, associates and related parties	**₱11,952**	₱4,530	**₱–**	₱–	₱–
JLI	Associate	Loans receivable	**6,034**	36,204	**–**	–	–
		Accrued interest receivable	**88**	538	**–**	–	–
		Interest income	**–**	–	**521**	5,384	5,446

The remuneration of directors and other members of key management of the Group and Parent Company are as follows:

	Consolidated			**Parent Company**		
	2006	2005	2004	**2006**	2005	2004
	(In Thousands)					
Short-term benefits	**₱267,267**	₱228,464	₱207,330	**₱201,411**	₱172,417	₱157,597
Post-employment benefits	**35,280**	40,654	17,735	**32,050**	38,990	7,130
	₱302,547	₱269,118	₱225,065	**₱233,461**	₱211,407	₱164,727

29. Derivative Financial Instruments

The table below shows the fair values of derivative financial instruments, recorded as derivative assets or derivative liabilities, together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as of December 31, 2006 and 2005 and are not indicative of either market risk or credit risk.

	2006			
	Assets	**Liabilities**	**Average Forward Rate**	**Notional Amount**
	(In Thousands)			(In Thousands)
Freestanding derivatives:				
Currency forwards*				
BOUGHT:				
JPY				
GBP				
USD				
EUR				
Others				
SOLD:				
USD				
JPY				
EUR				
Others				
Interest rate swap**				
Embedded derivatives***				

	2005			
	Assets	Liabilities	Average Forward Rate	Notional Amount
	(In Thousands)			(In Thousands)
Freestanding derivatives:				
Currency forwards*				
BOUGHT:				
JPY				
USD				
EUR				
GBP				
Others				
SOLD:				
USD				
JPY				
GBP				
Others				
Interest rate swap**				
Embedded derivatives***				

* The notional amounts pertain to the original currency except for the 'Others', which represent the equivalent US$ amounts of other currencies.

** Under the swap agreement, the Parent Company pays a fixed swap rate of 9.85% and receives a floating rate based on an interest benchmark. As of December 31, 2006 and 2005, the outstanding notional amount is ₱30.0 million, with an insignificant fair value.

*** These include credit default swaps and optionalities with no close economic relationship with the host structured debt instruments. As of December 31, 2006 and 2005, the outstanding notional amounts of these derivatives amounted to ₱20.0 million and US$90.0 million, respectively, with underlying instruments such as credit linkage to reference entities and interest rate indices.

Embedded derivatives of hybrid instruments that are classified or designated as at FVPL are not bifurcated. Where the hybrid instruments are not classified or designated as at FVPL, but the embedded derivatives are deemed to be clearly and closely related to the economic risks and characteristics of the host contracts, no bifurcation of the derivatives is applied.

30. Financial Performance

EPS amounts attributed to equity holdings of the Parent Company were computed as follows (in thousands, except EPS):

	2006	2005	2004
a. Net income attributable to equity holders of the Parent Company	₱3,265,179	₱2,698,385	₱2,412,080
b. Weighted average number of outstanding common shares of the Parent Company	**668,060**	648,196	648,196
c. Basic EPS (a/b)	₱4.89	₱4.16	₱3.72

As of 2006, 2005 and 2004, there were no shares of stocks that have a dilutive effect on the basic EPS of the Group.

The following basic ratios measure the financial performance of the Group:

	2006	2005	2004
Where average equity and average asset include revaluation increment and goodwill, respectively			
Return on average equity (ROE)	**8.22%**	6.40%	5.84%
Return on average assets (ROA)	**1.01%**	0.83%	0.83%
Where average equity and average asset exclude revaluation increment and goodwill, respectively			
ROE	**14.40%**	10.57%	11.65%
ROA	**1.06%**	0.88%	1.04%
Net interest margin on average earning assets	**4.31%**	4.35%	4.21%

For purposes of computing ROE and ROA, average of month-end balances of equity and assets, respectively, were used.

31. Notes to Cash Flows Statements

The following is a summary of certain non-cash investing activities that relate to the analysis of the statement of cash flows:

	Consolidated			Parent Company		
	2006					
			(In Thousands)			
Unrealized gain (loss) on AFS	**₱697,814**	₱563,563	₱54,560	**₱596,517**	₱548,127	(₱5,979)
Additions to investment properties in settlement of loans	**864,694**	914,231		**920,287**	676,660	–

The amount of IBLR and SPURA considered as cash and cash equivalents follows:

	Consolidated			Parent Company		
	2006		2004			
			(In Thousands)			
IBLR and SPURA	**₱27,572,262**	₱18,199,624	₱17,364,767	**₱27,732,262**	₱18,199,624	₱19,858,767
Less IBLR and SPURA not considered as cash and cash equivalents	**1,144,033**	2,093,001	12,053,935	**1,144,033**	2,093,001	12,053,935
	₱26,428,229	₱16,106,623	₱5,310,832	**₱26,588,229**	₱16,106,623	₱7,804,832

32. Other Matters

The BODs of ESB and MDB approved the Plan of Merger of ESB and MDB (with ESB as the surviving corporation) on November 23, 2004 and November 18, 2004, respectively. Thereafter, the shareholders of ESB and MDB approved such Plan of Merger on November 23, 2004 and December 6, 2004, respectively. Under the Plan of Merger, owing to the capital deficiency of MDB, ESB will not issue any shares of stock to the shareholders of MDB.

On December 28, 2004, the BSP approved the merger between ESB and MDB subject to certain administrative conditions, which include, among others, submission to the BSP of the Philippine Deposit Insurance Corporation's (PDIC's) written consent to the merger. Among others, the incentives approved by the BSP follow:

a. Conversion of the MDB Head Office and the 13 MDB branches closed in 2004 into ESB branches and their relocation within a period of one year from date of merger;

b. Transfer of all rights, privileges, immunities, permits, licenses, franchises and powers of MDB to ESB except for (a) the FCDU license, which has been revoked by BSP effective March 7, 2004 and (b) the trust license provided that the merged bank should comply first with all the prerequisites under Circular No. 348 dated August 20, 2002;

c. ESB will retain MDB's trust license with the required trust duties of at least ₱500,000 in MDB's name on deposit with BSP to be transferred to ESB;

d. Amortization of all merger costs, including retrenchment costs for a period not exceeding five years;

e. Capital infusion by the Parent Company of ₱1.0 billion into ESB;

f. Conversion of the Parent Company's outstanding interbank call loans and advances granted to MDB into ESB common shares subject to compliance with the procedural requirements and various bank regulatory ceilings and subject to the SEC approval;

g. Temporary relief for six months from the compliance with the prescribed capital adequacy ratio and the 20% ceiling on the nonperforming loans to total loans ratio if such ratios are not complied with as a result of the merger;

h. Revaluation of bank premises, improvements and bank equipment, with the appraisal increment forming part of capital provided that the merged bank will meet the existing capital requirement after all the adjustments are taken up in the books of accounts of the merged bank but before considering appraisal increments;

i. Access to rediscounting window up to a ceiling of 150% of adjusted capital accounts for a period of one year, reckoned from the date of merger, provided the merged bank meets the required net worth to risk assets ratio and all of the other requirements for rediscounting; and

j. Any right or privilege granted to MDB under its Rehabilitation Plan previously approved by the Monetary Board (MB) or under any special authority granted by the MB shall continue to be in effect.

On December 29, 2004, the SEC approved the Articles and Plan of Merger of MDB and ESB.

On January 19, 2005, the PDIC gave consent to the merger of ESB and MDB subject to the following conditions:

a. MDB shall submit a certification to PDIC within 30 days from PDIC notification of its consent to the merger, that its depositors and creditors have been given notice of the i) merger proposal; ii) full implications of ESB's absorption of MDB's deposits liabilities; iii) depositors' option to either withdraw their deposits from MDB or maintain their accounts with ESB as surviving entity; and

b. Letter of Guaranty from the Parent Company, which wholly owns ESB, that part of the committed fresh capital infusion in the amount of ₱1.0 billion would be immediately infused into ESB to assure funding for any withdrawal of MDB deposits and payment of MDB's other liabilities as they fall due.

Pursuant to the Plan of Merger, the effective date of merger was December 29, 2004, the date the SEC approved the Articles and Plan of Merger. The merger constituted a tax-free reorganization and has been accounted for under the pooling of interest method.

On April 7, 2006, the Board Audit Committee of ESB, pursuant to the specific authority granted to it by its BOD, approved the equity restructuring of ESB. Equity restructuring is available to a non-distressed corporation seeking to eliminate the deficit in its capital account by applying against it a portion of capital paid in excess of par value equivalent to the deficit.

On April 20, 2006, the MB of the BSP in its Resolution No. 513, decided to interpose no objection to the request of ESB for equity restructuring of its capital accounts, subject to the following conditions:

1. The equity restructuring must be disclosed in all subsequent financial statements of ESB for a period of at least three (3) years; and
2. ESB shall submit to the BSP the SEC's approval of the equity restructuring, within five banking days from ESB's receipt thereof.

On June 26, 2006, the SEC approved the equity restructuring wiping out ESB's deficit as of December 31, 2005 amounting to ₱731.6 million against the Capital Paid in Excess of Par Value amounting to ₱1,671.7 million. Provided, that the remaining ₱940.1 million Capital in Excess of Par Value shall not be used to wipe out losses that may be incurred in the future without prior approval of the SEC.

33. Subsequent events

On January 23, 2007, the Parent Company's BOD resolved to fold its subsidiary, ECN, into the Parent Company or into the surviving entity resulting from the merger between the Parent Company and BDO, as may be appropriate, for reasons of cost efficiency and economies of scale.

On February 22, 2007, the Parent Company's BOD granted Management the authority and discretion to determine the manner and time of the implementation of the following corporate actions, taking into consideration the best interest of the Parent Company and subject to applicable statutory and regulatory requirements:

1. The sale or disposal of the Parent Company's equity investments in certain publicly listed and non-listed corporations, the engagement of the services of a broker to handle the equity placement of the listed shares, and the engagement of the services of an investment/portfolio manager to implement the sale and disposition of the non-listed shares;
2. The sale or dissolution of certain non-operating non-stock companies;
3. The consolidation, integration or merger of its two (2) IT company subsidiaries, PCI Automation and EDCI, with the latter as the surviving entity;

4. The consolidation, integration, or merger of Equitable Exchange, Inc. with its parent company EBC Investments, Inc., once the merger between BDO and the Parent Company receives approval from the appropriate regulatory bodies; and
5. The consolidation, integration, or merger of PCI Capital and EBC Capital Corporation with the merged Banco de Oro-EPCI Inc., after the latter receives the necessary approvals from the appropriate regulatory bodies.

Also, on February 2, 2007, the BOD of ECN approved the declaration of cash dividends amounting to ₱846.0 million or ₱42.84 per share, payable on or before April 15, 2007 to all stockholders of record as of December 31, 2006.

Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Affiliates)

Name and Designation of Debtor	Balance at at the end of period (12/31/2005)	Additions	Collections	Balance at at the end of period (12/31/2006)
BACSAIN AGRI BUSINESS, INC *(Marilie Bacsain, Sales Head of Iriga Br. is the dspouse of Aurelio Bacsain - VP of the Corp and daugther-in-law of the stockholder who holds more than 20% shares.)*	450,000.00	0.00	(188,524.91)	261,475.09
BERNAD SECURITIES *(Salustiano S. Wong, Chairman, President & GM, holds more than 20% stock of Bernad Sec., is the father-in-law of VP Jonathan Go.)*	5,500,000.00	0.00	(5,500,000.00)	0.00
EQUITABLE CARD NETWORK INC. *(Subsidiary Company of Parent Equitable PCI Bank)*	437,088,487.09	14,129,870.37	(37,680,896.56)	413,537,460.90
ISI MARKETING *(Co. President, Irman Itaas is the husband of Bank officer Conchitina Ita-as.)*	150,000.00	0.00	(150,000.00)	0.00
ITA-AS GEN SERVICES *(Co. President, Irman Itaas is the husband of Bank officer Conchitina Ita-as.)*	2,000,000.00	0.00	(2,000,000.00)	0.00
LA ESTRELLA DE ILOILO, INC. *(Ms. Lily Ho, a stockholder of LEDI, is the mother of Bryan Ho, SAM-AO of Combank)*	64,000,000.00	0.00	(500,000.00)	63,500,000.00
SEDGEWICK TRADERS, INC. *(George Go who owns more than 20% of Sedgewick, is the father of VP Patrick Go)*	6,901,666.73	0.00	(2,019,999.96)	4,881,666.77
UY, ALBERTO/LUISA *(Parents of Marianne Uy Chua, AM of Bay City Mall Batangas Branch)*	2,015,567.17	709,146.86	(1,674,714.03)	1,050,000.00
ADVANCES - SUBSIDIARIES	63,877,687.27	26,712,579.14	(30,076,013.07)	60,514,253.34
A/R - SUBSIDIARIES	2,946,947.40	7,757,383.88	(4,206,407.78)	6,497,923.50
CAR LOAN	66,440,245.61	0.00	(42,230,730.97)	24,209,514.64
HOUSING LOAN	386,390,918.20	0.00	(55,240,699.11)	331,150,219.09
SALARY LOAN	60,708.41	0.00	(28,273.76)	32,434.65
TOTAL PESO LOANS	1,037,822,227.88	49,308,980.25	(181,496,260.15)	905,634,947.98
TOTAL FCDU LOANS (JPY)	0.00	0.00	0.00	0.00

* Fully paid as of June 14, 2006
** Fully paid as of March 6, 2006
*** Fully paid as of June 13, 2006