Chinatrust
中國信託

NOTICE OF SPECIAL STOCKHOLDERS' MEETING

TO ALL STOCKHOLDERS:

NOTICE IS HEREBY GIVEN that the special meeting of the stockholders of **CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION** will be held on **Thursday, December 15, 2011, at 9:30 a.m. at the South A & B rooms, 25th floor of Tower One & Exchange Plaza, Ayala Triangle, Ayala Avenue corner Paseo de Roxas, Makati City.**

Agenda

The Agenda for the meeting will be as follows:

1. Call to order
2. Certification by the Corporate Secretary on the sending of notices and existence of a quorum
3. Approval to repurchase the Bank's outstanding shares through a tender offer in accordance with the rules of the PSE
4. Transaction of such other matters as may come before the meeting
5. Adjournment.

Registration starts at 8:30 o'clock a.m. Only stockholders of record at the close of business hours on **November 15, 2011** are entitled to notice of, and to vote at, this meeting.

Stockholders who do not expect to attend the meeting in person may send a duly signed and dated proxy to the Corporation at 19th Floor Fort Legend Towers, Third Avenue corner 31st Street, Bonifacio Global City, Taguig City, Philippines to undersigned. All proxies shall be received by the Corporation on or before **December 1, 2011.** Proxies submitted shall be validated by a Committee of Inspectors on **December 8, 2011 at 10:00 o'clock** in the morning at 19th Floor Fort Legend Towers, Third Avenue corner 31st Street, Bonifacio Global City, Taguig City. For corporate stockholders, the proxies should be accompanied by a Secretary's Certification on the appointment of the corporation's authorized signatory.

To avoid inconvenience in registering your attendance at the meeting, please bring identification paper(s) containing a photograph and signature, e.g. passport, driver's license, or credit card.

Taguig City, November 11, 2011.

ZIMAR B. MENDIOLA
2nd Assistant Corporate Secretary

COVER SHEET

A S O 9 5 0 0 8 8 1 4 A

S.E.C. Registration Number

C H I N A T R U S T (P H I L I P P I N E S)

C O M M E R C I A L B A N K C O R P O R A T I O N

Company's Full Name

Fort Legend Towers Third

Avenue corner 31st Street

Bonifacio Global City

Taguig City

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

Atty. Maritess Parilla-Elbinias

Contact Person

9889-287

Company Telephone Number

1 2	3 1	SEC20-IS (Definitive Information Statement) Approval to repurchase the Bank's outstanding shares through a tender offer in accordance with the rules of the PSE	0 5	4
Month	Day	Form Type	Month	Day
Fiscal Year			Annual Meeting	

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

sye/jps

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 17.1(b)
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

   ________ Preliminary Information Sheet
   ____X____ Definitive Information Sheet

2. Name of Registrant as specified in its Charter:

   CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION

3. Province, country and other jurisdiction or incorporation or organization:

   Philippines

4. SEC Identification Number: **AS-095-008814A**

5. BIR Tax Identification Code: **004-665-166**

6. Address of the Principal Office: Postal Code:

   Fort Legend Towers, **1634**
   Third Avenue corner 31st Street
   Bonifacio Global City, Taguig City

7. Registrant's telephone number, including area code: **(632) 9889 287**

8. Date, time and place of the meeting of security holders:

   Date : **15 December 2011 (Thursday)**
   Time : **9:30 a.m.**
   Place : **South A & B rooms, 25th floor of Tower One & Exchange Plaza, Ayala Triangle, Ayala Avenue corner Paseo de Roxas, Makati City.**

9. Approximate date of which the Information Statement is to be first sent or given to security holders: ***November 22, 2011***

10. Securities registered pursuant to Sections 4 and 8 of the RSA:

    a. Authorized Capital Stock PhP3,000,000,000

       Common Shares 300,000,000 (PhP10.00 par value)

    b. Number of Shares Outstanding as of 30 August 2011:

       Common Shares **247,968,731 shares**

c. Amount of Debt Outstanding as of December 31, 2010
(Total liabilities including deposits, bills payable, accrued expenses, etc.)
PhP18,675,485,172

11. Are any of the registrant's securities listed in the Philippine Stock Exchange

___X_____ Yes __________ No

The Bank's issued and outstanding **247,968,731** common shares are listed with the Philippine Stock Exchange.

INFORMATION REQUIRED IN INFORMATION STATEMENT

A. <u>GENERAL INFORMATION</u>

<u>WE ARE NOT ASKING FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY</u>

Item 1. *Date, Time and Place of Meeting of Security Holders.*

(a) Date : **December 15, 2011**
Time : **9:30 a.m.**
Place : **South A & B rooms, 25th floor of Tower One & Exchange Plaza, Ayala Triangle, Ayala Avenue corner Paseo de Roxas, Makati City.**

Principal Office: **Fort Legend Towers, Third Avenue corner 31st Street, Bonifacio Global City, Taguig City.**

(b) **APPROXIMATE DATE OF WHICH THE INFORMATION STATEMENT IS TO BE FIRST SENT OR GIVEN TO SECURITY HOLDERS: *<u>NOVEMBER 22, 2011</u>***

Item 2. *Dissenter's Right of Appraisal*

There is no matter that will be taken up at the meeting that will give rise to a possible exercise by security holders of their appraisal rights. However, in the instances mentioned by the Corporation Code of the Philippines, the stockholders of the Bank have the right of appraisal provided that the procedures and the requirements of Title X thereof governing the exercise of appraisal right is complied with.

Item 3. *Interest of Certain Persons in or Opposition to Matters to be Acted Upon*

(a) There is no substantial interest, direct or indirect, by security holdings or otherwise, of any director or officer of Chinatrust (Philippines) Commercial Bank Corporation ("Bank" or "Corporation" or "Issuer" or "Registrant" for brevity).

(b) The Bank is not aware of any director or security holder who intends to oppose any action to be taken by the registrant during the stockholders' meeting.

B. CONTROL AND COMPENSATION INFORMATION

Item 4. *Voting Securities and Principal Holders Thereof*

(a) Number of Shares Outstanding as of October 31, 2011:

Common Shares: **247,968,731 shares**

Number of Votes Entitled: **one (1) vote per share**

(b) **All stockholders of record at the close of business hours on November 15, 2011 are entitled to notice and to vote at the Annual Stockholders' Meeting.**

A copy of this SEC Form 20-IS shall likewise be distributed to stockholders of record as of **November 15, 2011** upon advice from our stock transfer agent.

(c) **Security Ownership of Certain Record and Beneficial Owners and Management as of October 31, 2011**

1. **Security Ownership of Certain Record and Beneficial Owners of More than 5%**

Title of Class	Name, address of record owner and relationship with issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Common	Chinatrust Commercial Bank, Ltd. 3 Sung Shou Road Taipei, Taiwan, R.O.C.	Chinatrust Commercial Bank, Ltd.	Taiwanese	246,495,812	99.41%

Chinatrust Commercial Bank, Ltd. through a resolution of the Board of Directors, may authorize the Bank's Chairman, or such other such person as it may deem fit to exercise the voting power over its shareholdings for and on its behalf.

Chinatrust Commercial Bank, Ltd. is wholly owned by Chinatrust Financial Holding Company, Ltd. (CFHC).

The following are the Top 10 stockholders of CFHC as August 30, 2011:

NAME	NUMBER OF SHARE	PERCENTAGE
1. Jeffrey L. S. Koo	677,438,358	6.79
2. Mega International Commercial Bank Co., Ltd. Acting as Custodian for the Investment Account of Morgan Stanley Formosa Holdings (Cayman) Limited	400,694,292	4.02
3. Yi Kao Investment Co., Ltd.	243,725,676	2.44
4. JPMorgan Chase Bank N.A. Taipei Branch in custody for Saudi Arabian Monetary Agency	215,358,430	2.16
5. Fidelity Funds	186,628,007	1.87
6. Fubon Life Insurance Co., Ltd.	156,813,140	1.57

7. Chinatrust Commercial Bank Trust Account for CFHC Employee Welfare Savings Committee	154,401,850	1.55
8. Vanguard Emerging Markets Stock Index Fund, A Series Of Vanguard International Equity Index Funds	143,236,159	1.44
9. Cathay Life Insurance Co., Ltd.	117,671,392	1.18
10. Government of Singapore	113,081,445	1.13

Information on beneficial owners of the corporate stockholders of CFHC and the complete list of the Top 20 stockholders is inaccessible considering that records are located in Taiwan.

2. **Security Ownership of Management as of October 31, 2011**

a**. Directors**

Title of Class	**Name of Beneficial Owner**	**Amount and Nature of Beneficial Ownership**	**Citizenship**	**Percent of Class**
Common	Jack Lee	1	Taiwanese	0%
Common	William B. Go	55	Filipino	0%
Common	Mark Chen	1	Taiwanese	0%
Common	Larry Hsu	1	Taiwanese	0%
Common	Eric Wu	1	Taiwanese	0%
Common	Edwin B. Villanueva	1	Filipino	0%
Common	Ng Meng Tam	1	Filipino	0%

b. **Executive Officers**

Title of Class	**Name of Beneficial Owner**	**Amount and Nature of Beneficial Ownership**	**Citizenship**	**Percent of Class**
Common	Mark Chen	1	Taiwanese	0%

c. **Directors and Officers**

The aggregate shareholding of the directors and executive officers amounted to 61 shares of the Bank's total outstanding shares.

Item 5. *Directors and Executive Officers as of October 31, 2011.*

(a) Directors and Executive Officers

Name	**Nationality**	**Age**	**Position**	**Period Served**
Jack Lee	Taiwanese	57	Chairman	Oct. 26, 2011 to present
William B. Go	Filipino	72	Vice-Chairman	Sep. 1995 to present
Mark Chen	Taiwanese	42	Director/President & CEO	Feb. 2, 2009 to present
Larry Hsu	Taiwanese	49	Director	April 26, 2006 to present
Eric Wu	Taiwanese	48	Director	Dec. 21, 2004 to present
Edwin B. Villanueva	Filipino	61	Independent Director	Nov. 25, 2002 to present
Ng Meng Tam	Filipino	65	Independent Director	Oct. 25, 2007 to present

C. <u>ISSUANCE AND EXCHANGE OF SECURITIES</u>

Item 9. *Authorization or Issuance of Securities Other than for Exchange*

On March 30, 2007, the Board of Directors of the Bank declared 15% stock dividends to be issued out of the Bank's unissued shares. The stock dividend declaration was approved by the shareholders during the Bank's annual shareholders' meeting held on June 28, 2007, and subsequently approved by the BSP on September 20, 2007. On November 20, 2007, an additional 32,343,734 common shares (representing 15% of the Bank's 215,624,997 then outstanding common shares) were listed with the Philippine Stock Exchange (PSE) and issued to the Bank's shareholders as of record date. The remaining 15.55 fractional shares were paid out as cash dividends. Nonetheless, there was no change in the proportional or percentage of ownership of the Issuer by any of the shareholders arising from the stock dividends.

The 32,343,734 stock dividends worth P323,437,340.00 were issued out of the Bank's unissued shares. Out of the Bank's authorized capital stock of P3,000,000,000.00 consisting of 300,000,000 common shares at P10 per share, a total of 247,968,731 common shares have been issued and are outstanding.

Recently, the PSE re-imposed its minimum public float requirement after amending its Rules on Minimum Public Ownership ("Public Float Rules"), taking effect on November 30, 2010. Said rules prescribe a 10% minimum public ownership for listed companies. By December 1, 2011, non-compliance shall subject the issuer to monetary penalties and will be the basis for involuntary delisting on the 36th month if minimum public ownership is not met. As of date of filing of this Information Statement, the Bank's publicly owned shares stood at only 0.59% of its issued shares.

The Board of Directors during its special meeting last October 7, 2011, approved the delisting of the Bank's common shares with the PSE and the buyback of all its publicly owned shares.

To comply with the requirements of PSE's Rule on Voluntary Delisting, it is necessary to make a tender offer to all the public shareholders.

On October 11, 2011, majority shareholder Chinatrust Commercial Bank, Ltd. which holds 99.41% of the Bank's outstanding shares, advised the Bank that it is not selling any of its shares in connection with the delisting and tender offer process referred to above. The Bank is therefore excluding Chinatrust Commercial Bank, Ltd. in the buy back and tender offer.

Moreover, for the Bank to make a tender offer, prior Monetary Board approval, and two-thirds (2/3) shareholders' approval should be obtained pursuant to Section 10 of the General Banking Law of 2000, and Section 10 (g) Article II of the By-laws of the Bank, respectively.

Upon obtainment of the said approvals, the Bank shall file a petition for delisting with the PSE.

Item 10. *Modification or Exchange of Securities* – NOT APPLICABLE

Item 11. ***Financial and Other Information***

(a) Statement of Management Responsibility for Financial Statements, attached as **<u>Annex "A"</u>**;
(b) Audited Financial Statements for the fiscal year ended as of December 31, 2010, attached hereto as **<u>Annex "B"</u>**;
(c) Unaudited Financial Statements as of the end of September 30, 2011, attached as **<u>Annex "B-1"</u>**;
(d) PSE Circular pertaining to Bank's disclosure of the Board's resolutions it issued on October 7, 2011 attached as **<u>Annex "C"</u>**;

D. <u>OTHER MATTERS</u>

Item 18. ***Other Proposed Actions***.

The following are the other proposed actions which will be submitted to the shareholders for action:

Repurchase of the Bank's outstanding shares in relation to the Bank's delisting from the Philippine Stock Exchange (PSE). Article II Section 10 (g) of the Bank's By-laws provide: "Without prejudice to the provisions of the Corporate Code allowing non-voting shares to vote on certain matters, the matters set forth below shall be decided only at an annual or special meeting of shareholders by the affirmative vote or consent of at least two-third (2/3) of the issued shares entitled to vote, unless a higher majority is required by law. xxx (g) the redemption or repurchase by the Bank of outstanding shares xxx".

The proposed resolutions for approval by the shareholders are attached here as **<u>Annex "D"</u>**.

Item 19. ***Voting Procedures.***

(a) **Vote required for approval**

Section 10 (g) of Article II of the By-Laws require the affirmative vote of at least two thirds (2/3) of the issued shares for the repurchase by the Bank of the outstanding shares as afore stated.

(b) **Method by which votes will be counted**

Straight and Cumulative Voting

In all items for approval, each share of stock entitles its registered owner to one vote.

Representatives of the Bank's stock transfer agent, Stock Transfer Service, Inc. shall be authorized to count the votes cast.

SIGNATURE PAGE

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES REGULATION CODE, THE ISSUER HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED HEREUNTO DULY AUTHORIZED.

After reasonable inquiry and to the best of our knowledge and belief, we certify that the information set forth in this report is true, complete and correct.

This report is signed in the City of Taguig on November 11, 2011.

CHINATRUST (PHILIPPINES)
COMMERCIAL BANK CORPORATION
Issuer
By:

MARK CHEN,
President and CEO

ATTY. MARITESS PARILLA- ELBINIAS, VP
Legal Department Head/Corporate Information Officer

UNDERTAKING

The Bank shall provide, without charge to any person upon a written request directed to ATTY. MARITESS PARILLA-ELBINIAS, Vice President and Legal Head at the 16th Floor, Fort Legend Towers, Third Avenue corner 31st Street, Bonifacio Global City, Taguig City, a copy of the registrant's annual report on SEC form 17A. At the discretion of the management, a charge may be made for exhibits, provided that such charge is limited to reasonable expenses incurred by the registrant in furnishing such exhibits.

ANNEX "A"

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Chinatrust
中國信託

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION** is responsible for all information and representations contained in the Financial Statements for the year ended December 2010. 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 systems 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 auditors:

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 control.

The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the company.

Sycip Gorres Velayo & co., the independent auditor appointed by the stockholders, has examined the financial statements of the company in accordance with the 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.

Signed under Oath:

WILLIAM B. GO
Vice Chairman

MARK CHEN
President

ANDRE P. PAYAWAL
First Vice-President
Chief Financial Officer/Comptroller/
Principal Accounting Officer

SUBSCRIBED AND SWORN to before me this 1st day of April 2011 affiants exhibiting to me their Government Issued I.D., as follows:

NAMES	PASSPORT/TIN NO.	DATE OF ISSUE	PLACE OF ISSUE
William B. Go	XX1371911	June 11, 2008	Manila
Mark Chen	132009522	January 28, 2002	Thailand
Andre P. Payawal	TIN# 150-031-779		

ATTY. MARY ANGELINE S. TOL
NOTARY PUBLIC FOR TAGUIG CITY
UNTIL DECEMBER 31, 2011
18/F Fort Legend Towers, Third Ave. corner 31st St.
Bonifacio Global City, Taguig City
APPT. NO. 205 / ROLL NO. 51630
PTR NO. A-1186917/01-07-11/TAGUIG CITY
IBP NO. 847005/01-07-11/CAVITE

Doc. No. 445;

Page No. 90;

Book No. II;

Series of 2011.

ANNEX “B”

AUDITED FINANCIAL STATEMENTS OF THE BANK AS OF 31 DECEMBER 2010

Chinatrust (Philippines) Commercial Bank Corporation

Financial Statements
December 31, 2010 and 2009, and January 1, 2009
and for the Years Ended December 31, 2010, 2009 and 2008

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

COVER SHEET

AS095008814

SEC Registration Number

CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION

(Company's Full Name)

19th Floor, Fort Legends Tower, 31st corner 3rd Avenue, Bonifacio Global City, Taguig City

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

Andre P. Payawal

(Contact Person)

840-1531

(Company Telephone Number)

12 31

Month *Day*

(Fiscal Year)

AAFS

(Form Type)

Month *Day*

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

SGV & Co
Ernst & Young

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-2

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Chinatrust (Philippines) Commercial Bank Corporation
19th Floor, Fort Legends Tower, 31st corner 3rd Avenue
Bonifacio Global City, Taguig City

Report on the Financial Statements

We have audited the accompanying financial statements of Chinatrust (Philippines) Commercial Bank Corporation, which comprise the statements of financial position as at December 31, 2010 and 2009, and January 1, 2009 and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2010, and a summary of significant accounting policies and other explanatory information.

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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 Chinatrust (Philippines) Commercial Bank Corporation as at December 31, 2010 and 2009, and January 1, 2009 and its financial performance and its cash flows for each of the three years in the period ended December 31, 2010 in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes and licenses in Note 28 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. The information is also not required by Securities Regulation Code Rule 68. Such information is the responsibility of the management of Chinatrust (Philippines) Commercial Bank Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Christian G. Lauron
Partner
CPA Certificate No. 95977
SEC Accreditation No. 0790-A
Tax Identification No. 210-474-781
BIR Accreditation No. 08-001998-64-2009,
June 1, 2009, Valid until May 31, 2012
PTR No. 2641531, January 3, 2011, Makati City

April 1, 2011

CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION
STATEMENTS OF FINANCIAL POSITION

	December 31, 2010	December 31, 2009 (As restated - Note 2)	January 1, 2009 (As restated - Note 2)
ASSETS			
Cash and Other Cash Items (Notes 12, and 16)	**₱334,084,617**	₱319,525,532	₱351,253,539
Due from Bangko Sentral ng Pilipinas (Notes 12 and 16)	**4,262,903,803**	1,909,190,000	3,536,491,101
Due from Other Banks (Notes 16 and 25)	**615,146,557**	1,855,613,683	1,457,052,884
Interbank Loans Receivable (Notes 16)	**2,640,002**	2,979,000	715,280,000
Financial Assets at Fair Value through Profit or Loss (Notes 6 and 16)	**675,479,270**	701,027,799	498,554,402
Available-for-Sale Investments (Notes 6 and 16)	**1,370,939,919**	1,521,450,054	1,086,684,504
Held-to-Maturity Investments (Notes 2, 6 and 16)	**255,357,743**	211,775,027	97,998,471
Loans and Receivables (Notes 7, 11, 16 and 25)	**16,113,468,432**	16,823,635,352	17,946,239,812
Property and Equipment (Notes 8 and 16)	**249,755,844**	187,760,710	197,279,769
Investment Properties (Notes 9 and 16)	**2,884,173**	3,379,509	2,456,539
Deferred Tax Assets (Notes 16 and 20)	**361,163,908**	440,025,959	448,397,791
Other Assets (Notes 10 and 16)	**174,754,649**	131,245,932	125,416,457
	₱24,418,578,917	₱24,107,608,557	₱26,463,105,269
LIABILITIES AND EQUITY			
LIABILITIES			
Deposit Liabilities (Notes 12 and 16)			
Demand	**₱4,849,431,949**	₱4,624,783,830	₱3,856,006,069
Savings	**2,434,664,132**	2,442,728,670	2,233,854,322
Time	**9,623,650,234**	9,900,645,770	12,814,129,876
	16,907,746,315	16,968,158,270	18,903,990,267
Bills Payable (Notes 13 and 16)	**569,920,000**	646,800,000	1,431,556,080
Outstanding Acceptances (Notes 16)	**17,247,342**	18,996,988	3,838,026
Manager's Checks (Notes 16)	**32,062,964**	40,161,695	53,990,478
Accrued Interest, Taxes and Other Expenses (Notes 14 and 16)	**268,744,697**	335,778,648	392,135,946
Income Tax Payable (Note 20)	**3,781,474**	9,677,155	948,458
Other Liabilities (Notes 15 and 16)	**875,982,380**	744,798,149	760,998,435
	18,675,485,172	18,764,370,905	21,547,457,690
EQUITY			
Common Stock (Note 17)	**2,479,687,310**	2,479,687,310	2,479,687,310
Additional Paid-in Capital (Note 17)	**53,513,675**	53,513,675	53,513,675
Surplus (Notes 17 and 22)	**3,230,548,188**	2,820,570,214	2,481,307,430
Cumulative Translation Adjustments	**(15,029,477)**	(6,442,775)	–
Net Unrealized Loss on Available-for-Sale Investments (Note 6)	**(5,625,951)**	(4,090,772)	(98,860,836)
	5,743,093,745	5,343,237,652	4,915,647,579
	₱24,418,578,917	₱24,107,608,557	₱26,463,105,269

See accompanying Notes to Financial Statements.

CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION
STATEMENTS OF INCOME

	Years Ended December 31		
	2010	2009 (As restated - Note 2)	2008 (As restated - Note 2)
INTEREST INCOME			
Loans and receivables (Notes 7 and 25)	**₱1,714,427,812**	₱1,838,872,754	₱1,623,803,294
Trading and investment securities (Note 6)	**159,908,823**	158,387,917	186,005,406
Deposits with other banks and others (Note 25)	**50,574,980**	64,081,387	63,963,749
Interbank loans receivable	**26,283,972**	28,776,564	70,842,561
	1,951,195,587	2,090,118,622	1,944,615,010
INTEREST EXPENSE			
Deposit liabilities (Note 12)	**390,014,069**	574,187,174	555,729,379
Bills payable and other borrowings (Note 13)	**5,204,360**	14,074,051	34,132,357
	395,218,429	588,261,225	589,861,736
NET INTEREST INCOME	**1,555,977,158**	1,501,857,397	1,354,753,274
Trading and securities gain (loss) - net (Note 6)	**250,672,326**	107,441,275	(60,176,921)
Service fees and commission income (Note 21)	**181,550,953**	204,527,373	110,571,792
Foreign exchange gain - net (Note 6)	**56,069,734**	53,715,619	75,723,787
Miscellaneous - net (Note 21)	**44,840,038**	50,425,394	49,500,893
TOTAL OPERATING INCOME	**2,089,110,209**	1,917,967,058	1,530,372,825
Compensation and fringe benefits (Notes 18 and 25)	**472,133,633**	490,894,324	463,195,886
Provision for credit losses (Note 11)	**286,954,125**	285,633,420	257,204,483
Occupancy and other equipment-related costs (Note 19)	**188,245,354**	148,635,601	128,697,229
Security, messengerial and janitorial expenses	**147,485,958**	159,412,884	172,326,788
Taxes and licenses (Note 20)	**141,185,440**	141,002,659	129,193,106
Depreciation and amortization (Notes 8 and 9)	**71,041,491**	56,266,761	59,058,571
Amortization of computer software costs (Note 10)	**19,485,106**	18,566,217	24,190,293
Miscellaneous (Note 21)	**180,714,794**	207,409,488	165,626,824
TOTAL OPERATING EXPENSES	**1,507,245,901**	1,507,821,354	1,399,493,180
INCOME BEFORE INCOME TAX	**581,864,308**	410,145,704	130,879,645
PROVISION FOR INCOME TAX (Note 20)	**171,886,334**	70,882,920	60,959,234
NET INCOME	**₱409,977,974**	₱339,262,784	₱69,920,411
Basic/Diluted Earnings Per Share (Note 27)	**₱1.65**	₱1.37	₱0.28

See accompanying Notes to Financial Statements.

CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPRORATION
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2010	2009 (As restated - Note 2)	2008 (As restated - Note 2)
NET INCOME FOR THE YEAR	**₱409,977,974**	₱339,262,784	₱69,920,411
OTHER COMPREHENSIVE INCOME (LOSS)			
Net unrealized gain (loss) on available-for-sale investments (Note 6)	**(1,535,179)**	94,770,064	(116,702,177)
Cumulative translation adjustment	**(8,586,702)**	(6,442,775)	–
	(10,121,881)	88,327,289	(116,702,177)
TOTAL COMPREHENSIVE INCOME (LOSS), NET OF TAX	**₱399,856,093**	₱427,590,073	(₱46,781,766)

See accompanying Notes to Financial Statements.

CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION
STATEMENTS OF CHANGES IN EQUITY

	Common Stock (Note 17)	Additional Paid-in Capital (Note 17)	Surplus (Notes 17 and 22)	Cumulative Translation Adjustments	Net Unrealized Gain (Loss) on Available-for-Sale Investments (Note 6)	Total
Balance at December 31, 2009	**₱2,479,687,310**	**₱53,513,675**	**₱2,820,570,214**	**(₱6,442,775)**	**(₱4,090,772)**	**₱5,343,237,652**
Total comprehensive income for the year	–	–	**409,977,974**	**(8,586,702)**	**(1,535,179)**	**399,856,093**
Balance at December 31, 2010	**₱2,479,687,310**	**₱53,513,675**	**₱3,230,548,188**	**(₱15,029,477)**	**(5,625,951)**	**₱5,743,093,745**
Balance at December 31, 2008	₱2,479,687,310	₱53,513,675	₱2,481,307,430	₱–	(₱98,860,836)	₱4,915,647,579
Total comprehensive income for the year	–	–	339,262,784	(6,442,775)	94,770,064	427,590,073
Balance at December 31, 2009 (As Restated)	₱2,479,687,310	₱53,513,675	₱2,820,570,214	(₱6,442,775)	(₱4,090,772)	₱5,343,237,652
Balance at December 31, 2007	₱2,479,687,310	₱53,513,675	₱2,411,387,019	₱–	₱17,841,341	₱4,962,429,345
Total comprehensive income for the year	–	–	69,920,411	–	(116,702,177)	(46,781,766)
Balance at December 31, 2008 (As Restated)	₱2,479,687,310	₱53,513,675	₱2,481,307,430	₱–	(₱98,860,836)	₱4,915,647,579

See accompanying Notes to Financial Statements.

CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION
STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2010	2009 (As restated - Note 2	2008 (As restated - Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱581,864,308**	₱410,145,705	₱130,879,645
Adjustments for:			
Foreign exchange revaluation on trading and investment securities	**68,420,490**	23,996,393	(211,697,937)
Amortization of premium (discount)	**(108,081,366)**	(65,776,721)	431,100,850
Provision for credit losses (Note 11)	**286,954,125**	285,633,420	257,204,483
Foreign exchange revaluation on bills payable	**(33,040,000)**	(34,110,720)	(185,683,267)
Depreciation and amortization (Notes 8 and 9)	**71,041,491**	56,266,761	59,058,571
Amortization of computer software costs (Note 10)	**19,485,106**	18,566,217	24,190,293
Loss (gain) on sale of property, plant and equipment	**6,172,564**	(86,590)	(2,942,716)
Gain on sale of foreclosed investment properties	**–**	–	2,273,085
Mark-to-market loss (gain) on trading securities (Note 6)	**(3,534,789)**	3,164,042	1,836,892
Dividend income (Note 21)	**(508,600)**	(508,200)	(511,050)
Amortization of deferred charges	**932,581**	810,757	254,738
Changes in operating assets and liabilities:			
Decrease (increase) in amounts of:			
Financial assets at fair value through profit or loss	**29,083,319**	(205,637,439)	221,360,107
Loans and receivables	**423,212,794**	836,971,040	(5,451,114,288)
Interbank loans receivable	**–**	–	–
Other assets	**6,634,693**	(1,647,405)	(8,840,146)
Increase (decrease) in amounts of:			
Deposit liabilities	**(60,411,955)**	(1,935,831,997)	6,065,901,736
Outstanding acceptances	**(1,749,646)**	15,158,962	(12,387,510)
Manager's checks	**(8,098,731)**	(13,828,783)	(1,929,967)
Accrued interest, taxes and other expenses	**(67,033,951)**	(56,357,299)	25,793,349
Other liabilities	**131,184,230**	(16,200,288)	(206,945,308)
Net cash generated from (used in) operations	**1,342,526,663**	(679,272,145)	1,137,801,560
Income taxes paid	**(98,919,963)**	(53,782,391)	(75,524,646)
Net cash provided by (used in) operating activities	**1,243,606,700**	(733,054,536)	1,062,276,914

(Forward)

	Years Ended December 31		
	2010	2009 (As restated - Note 2	2008 (As restated - Note 2)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Available-for-sale investments	**(₱4,145,318,390)**	(₱3,444,916,481)	(₱3,628,416,043)
Property and equipment (Note 8)	**(165,461,194)**	(54,785,363)	(41,746,495)
Held-to-maturity investments	**(94,971,142)**	(175,785,375)	(58,595,934)
Computer software costs	**(70,605,535)**	(24,948,403)	(14,281,056)
Proceeds from disposals of:			
Available-for-sale investments	**4,335,295,947**	3,145,267,368	3,473,885,832
Property and equipment (Note 8)	**26,791,778**	8,590,641	18,938,498
Investment properties (Note 9)	**–**	–	21,349,486
Proceeds from maturity of held-to-maturity investments	**41,460,000**	57,000,000	64,000,000
Dividends received	**508,600**	508,200	511,050
Net cash used in investing activities	**(72,299,936)**	(489,069,413)	(164,354,662)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of bills payable	**30,020,328,594**	9,193,400,000	12,447,197,769
Settlement of bills payable	**(30,064,168,594)**	(9,944,045,360)	(11,505,526,450)
Net cash provided by (used in) financing activities	**(43,840,000)**	(750,645,360)	941,671,319
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,127,466,764**	(1,972,769,309)	1,839,593,571
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items	**319,525,532**	351,253,539	188,751,714
Due from Bangko Sentral ng Pilipinas	**1,909,190,000**	3,536,491,101	3,443,045,304
Due from other banks	**1,855,613,683**	1,457,052,884	341,006,935
Interbank loans receivable	**2,979,000**	715,280,000	247,680,000
	4,087,308,215	6,060,077,524	4,220,483,953
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items	**334,084,617**	319,525,532	351,253,539
Due from Bangko Sentral ng Pilipinas	**4,262,903,803**	1,909,190,000	3,536,491,101
Due from other banks	**615,146,557**	1,855,613,683	1,457,052,884
Interbank loans receivable	**2,640,002**	2,979,000	715,280,000
	₱5,214,774,979	₱4,087,308,215	₱6,060,077,524

OPERATIONAL CASH FLOWS FROM INTEREST			
Interest received	**₱2,051,362,090**	₱2,127,769,974	₱1,876,555,779
Interest paid	**(476,934,425)**	(685,181,991)	(504,332,742)

See accompanying Notes to Financial Statements.

CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION
NOTES TO FINANCIAL STATEMENTS

1. General Information

Chinatrust (Philippines) Commercial Bank Corporation (the Bank) is a 99.41%-owned entity of Chinatrust Commercial Bank Ltd., Taipei (Chinatrust Taipei), a Taiwan-based commercial bank. The Bank was incorporated as a domestic commercial bank on September 7, 1995 under the name of Access Banking Corporation and started business operations on September 26, 1995. It was renamed as Chinatrust (Philippines) Commercial Bank Corporation in January 1996, and then was later listed in the Philippine Stock Exchange (PSE) in June 1999. The Bank was organized to provide commercial banking services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange, and trust services. In addition, the Bank is licensed to engage in regular financial derivatives as a means of reducing and managing the Bank's and its customers' foreign exchange exposure. The ultimate parent of the Bank is Chinatrust Financial Holding Company Ltd., which is incorporated in Taiwan.

The Bank's principal place of business is located at 19th Floor Forth Legend Towers, 31st Street corner 3rd Avenue, Bonifacio Global City, Taguig City.

The accompanying financial statements of the Bank were authorized for issue by the Board of Directors (BOD) of the Bank on April 1, 2011.

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared based on a historical cost basis except for financial assets at fair value through profit or loss (FVPL) and available-for-sale (AFS) financial assets, and derivative financial instruments that have been measured at fair value.

The accompanying financial statements of the Bank include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Unit (FCDU). The functional currency of the RBU and the FCDU is the Philippine Peso and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine Peso (see accounting policy on Foreign Currency Translation). The financial statements of these units are combined after eliminating inter-unit accounts.

Statement of Compliance
The financial statements of the Bank have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies and Disclosures

Changes in Accounting Policies

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

To align with the ultimate parent company, The Bank changed its accounting policy for its inventory costing method on its investment securities from the Weighted Average (WAVE) to First-In, First-Out (FIFO) effective August 2, 2010 as allowed under Philippine Accounting Standard (PAS) 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. Prior to August 2, 2010, the Bank used the WAVE method. In accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, the affected account balances as of December 31, 2009 and January 1, 2009 were restated for comparability. The change in accounting policy resulted in the following restatements:

	December 31, 2009				
	Held-to-Maturity Securities	Net Unrealized Loss	Retained Earnings, Beginning	Total Assets	Profit (Loss) Impact
Balance as previously reported	₱211,820,729	(₱1,708,123)	₱ 2,818,233,267	₱24,107,654,259	₱ 332,856,561
Net increase (decrease) in outstanding balances	(45,702)	(2,382,649)	2,336,947	(45,702)	6,406,223
	₱211,775,027	(₱4,090,772)	₱2,820,570,214	₱24,107,608,557	₱339,262,784

	January 1, 2009				
	Held-to-Maturity Securities	Net Unrealized Loss	Retained Earnings, End	Total Assets	Profit (Loss) Impact
Balance as previously reported	₱98,002,854	(₱102,925,729)	₱2,485,376,706	₱26,463,109,652	₱69,920,411
Net increase (decrease) in outstanding balances	(4,383)	4,064,893	(4,069,276)	(4,383)	–
	₱97,998,471	(₱98,860,836)	₱2,481,307,430	₱26,463,105,269	₱69,920,411

The change in accounting policy did not have any impact to other balances in the statements of financial position, statements of income and statements of comprehensive income for the years ended December 31, 2009 and 2008.

The Bank has presented a statement of financial position as at January 1, 2009 in compliance with the requirement of the revised PAS 1, *Presentation of Financial Statements*, which requires an entity to present a statement of financial position at the beginning of the earliest comparable period when it applies an accounting policy retrospectively.

The issuance of and amendments to the following standards and interpretations which became effective as January 1, 2010, did not have any significant impact on the accounting policies, financial position or performance of the Bank:

New Standards and Interpretations

- PFRS 2 Amendments - *Group Cash-settled Share-based Payment Transaction,* effective for annual periods beginning on or after January 1, 2010.
- PFRS 3, *Business Combinations* (Revised), effective for annual period beginning on and after July 1, 2009.
- PAS 27, *Consolidated and Separate Financial Statements* (Amended), effective for annual periods beginning on or after July 1, 2009
- PAS 39 Amendment - *Eligible Hedged Items*, effective for annual periods beginning on or after July 1, 2009
- Philippine Interpretation IFRIC-17, *Distributions of Non-cash Assets to Owners*, effective for annual periods beginning on or after July 1, 2009 with early application permitted

Improvements to PFRS

Improvements to PFRSs, an omnibus of amendments to standards, deal primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Bank.

Improvements to PFRSs 2008

The amendments arising from 2008 Improvements to PFRSs is effective for annual periods beginning on or after July 1, 2009.

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*: clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity retains a non-controlling interest after the sale transaction. The amendment is applied prospectively and has no impact on the financial position nor the financial performance of the Bank.

Improvements to PFRSs 2009

The amendments in the 2009 Improvements to PFRSs are effective for annual periods beginning on or after July 1, 2009 except for the amendments to PFRS 5, PFRS 8, PAS 1, PAS 7, PAS 17, PAS 36 and PAS 39 which are effective for annual periods beginning on or after January 1, 2010. The amendment to PAS 18 was effective from issue date of the standard in April 2009.

- PFRS 5, clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRSs only apply if specifically required for such non-current assets or discontinued operations. The amendment has no impact on the financial position or financial performance of the Bank.

- PFRS 8, *Operating Segments*, clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Bank's chief operating decision maker reviews segment assets and liabilities, the Bank has continued to disclose this information in Note 6.

- PAS 7, *Statement of Cash Flows*, states that only expenditure that results in recognizing an asset can be classified as a cash flow from investing activities. This amendment has no impact on the Bank's statements of cash flows.

- PAS 36, *Impairment of Assets*, The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Bank as the annual impairment test is performed before aggregation.

Other amendments resulting from the 2009 Improvements to PFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Bank.

- PFRS 2, *Share-based Payment*
- PAS 1, *Presentation of Financial Statements*
- PAS 17, *Leases*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- Philippine Interpretation IFRIC-9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC-16, *Hedge of a Net Investment in a Foreign Operation*

Significant Accounting Policies

RBU
As at reporting date, foreign currency monetary assets and liabilities of the RBU are translated in Philippine peso based on the Philippine Dealing System (PDS) closing rate prevailing at statement of financial position date foreign currency-denominated income and expenses, at the exchange rates as at the date of the transaction. Foreign exchange differences arising from restatements of foreign currency-denominated assets and liabilities in the RBU are credited to or charged against profit or loss in the year 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 is determined.

FCDU
As at the reporting date, the assets and liabilities of the FCDU are translated into the Bank's presentation currency (the Philippine Peso) at PDS closing rate prevailing at the statement of financial position date, and its income and expenses are translated using the exchange rates as at the dates of the transaction. Exchange differences arising on translation to the presentation currency are taken to the statement of comprehensive income under 'Cumulative translation adjustment'. Upon disposal of the FCDU or upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in the statement of comprehensive income is recognized in the statement of income. The Bank adopted this policy when the Bangko Sentral ng Pilipinas (BSP) issued Circular No. 601 on February 13, 2008. This Circular included a provision requiring Banks to use the USD as the functional currency of its FCDU. As of December 31, 2010 and 2009, the Bank recorded 'Cumulative translation adjustment' under equity amounting to ₱15.0 million and ₱6.4 million, respectively.

<u>Cash and Cash Equivalents</u>
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 with original maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value.

<u>Financial Instruments - Initial Recognition and Subsequent Measurement</u>
Date of recognition
Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace and derivative instruments are recognized on the settlement date (i.e., the date that the asset is delivered to or by the Bank) and trade date (i.e., the date that the Bank commits to purchase or sell the asset), respectively. Deposits, amounts due to banks and customers and loans are recognized when cash is received by the Bank or advanced to the borrowers.

Initial recognition of financial instruments
All financial assets and financial liabilities are initially recognized at fair value. Except for financial assets and financial liabilities at FVPL, the initial measurement of financial instruments includes transaction costs. The Bank classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS investments, and loans and receivables. Financial liabilities are classified as financial liabilities at FVPL and other financial liabilities carried at amortized cost. The classification depends on the purpose for which the financial instruments were acquired and whether they are quoted in an active market. Management determines the classification of its financial instruments at initial recognition and,

where allowed and appropriate, re-evaluates such designation at every statement of financial position date.

Determination of fair value
The fair value for financial instruments traded in active markets at the statement of financial position 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 ask prices are not available, the price of the most recent transaction is used since it 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 quoted in an active market, the fair value is determined by using appropriate valuation techniques incorporating as much as possible market desirable inputs. Valuation techniques include discounted cash flow methodologies, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

'Day 1' difference
Where the transaction price in a non-active market is different from 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 Bank recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in 'Trading and securities gain (loss) - net' in the statement of income unless it qualifies for recognition as some other type of assets. 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 Bank determines the appropriate method of recognizing the 'Day 1' difference amount.

Financial assets or financial liabilities at fair value through profit or loss
Financial assets or financial liabilities at FVPL include financial instruments that are held-for-trading purposes, financial instruments designated upon initial recognition as at FVPL, and derivative instruments. Included in this classification are debt securities which have been acquired principally for the purpose of selling or repurchasing in the near term as well as derivatives not designated as effective hedging instruments.

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value relating to the held-for-trading positions are recognized in 'Trading and securities gain (loss) - net' in the statement of income. Interest earned or incurred is recorded as 'Interest income' or 'Interest expense', respectively, while dividend income is recorded in 'Miscellaneous income' when the right to receive payment has been established.

Derivative financial instruments
The Bank is a counterparty to derivative contracts, such as foreign exchange contracts and cross currency swaps. These derivatives are entered into as a service to customers and as a means of reducing or managing the Bank's foreign exchange 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 and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as effective hedges) are taken directly to the statement of income and are included in 'Trading and securities gain (loss) - 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 2010 and 2009, the Bank did not apply hedge accounting treatment for any of its derivatives transactions.

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

HTM investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Bank's management has the positive intention and ability to hold to maturity. Where the Bank sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments and the Bank will be precluded from using the HTM investments account for the current period and for the next two succeeding periods from tainting date. After initial measurement, HTM investments are subsequently measured at amortized cost using the effective interest rate (EIR) 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 EIR. The amortization is included in 'Interest income' in the statement of income. Gains and losses are recognized in the statement of 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 credit losses'. The effects of translation of foreign currency-denominated HTM investments are recognized in the statement of income.

Loans and receivables
This accounting policy relates to 'Due from BSP', 'Due from other banks', 'Interbank call loans receivable' and 'Loans and receivables' accounts. These are non-derivative 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 designated as AFS investments or financial assets at FVPL.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the EIR method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. 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 credit losses' in the statement of income.

AFS investments
AFS investments are non-derivative financial assets which are designated as such or do not qualify to be classified as financial assets at 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. 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 (loss) on AFS investments' in the statement of comprehensive income. For AFS debt securities, impact of translation on foreign currency-denominated securities is reported in the statement of income. For AFS equity securities considered as non-monetary items, impact of translation on foreign currency-denominated securities is included in unrealized gains and losses taken in other comprehensive income.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured shall be measured at cost.

When the security is disposed of, the cumulative gain or loss previously recognized in other comprehensive income is recognized as 'Trading and securities gain (loss) - net' in the statement of income. Where the Bank holds more than one investment in the same security, these are deemed to be disposed of on a weighted average of inventory costing. Interest earned on holding AFS investments are reported as 'Interest income' using the EIR. Dividends earned on holding AFS investments are recognized in the statement of income as 'Miscellaneous income' when the right of payment has been established. Losses arising from impairment of such investments are recognized as 'Provisions on credit losses' in the statement of income.

Reclassification of Financial Assets
A financial asset is reclassified out of the FVPL category when the following conditions are met:
- the financial asset is no longer held for the purpose of selling or repurchasing it in the near term; and
- there is rare circumstance.

A financial asset that is reclassified out of the FVPL category is reclassified at its fair value on the date of reclassification. Any gain or loss already recognized in the statement of income is not reversed. The fair value of the financial asset on the date of reclassification becomes it new cost or amortized cost, as applicable.

For financial asset reclassified out of the AFS category to loans and receivables or HTM investments, any previous gain or loss on that asset that has been recognized in the statement of comprehensive income is amortized to profit or loss over the remaining life of the investment using the effective interest rate method. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of asset using effective interest rate method. If the asset is subsequently determined to be impaired then the amount recorded in the statement of comprehensive income is recycled to the statement of income.

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Bank did not reclassify any of its financial assets in 2010 and 2009.

Other financial liabilities
Issued financial instruments or their components, which are not designated at FVPL, are classified as other financial liability accounts, where the substance of the contractual arrangement results in the Bank 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, deposit liabilities, bills payable and similar financial liabilities not qualified and not designated as FVPL are subsequently measured at amortized cost using the EIR 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 EIR.

This accounting policy relates to the statement of financial position captions 'Deposit liabilities', 'Bills payable', 'Outstanding acceptances', 'Manager's checks', 'Accrued interest and other expenses' and 'Other liabilities'.

<u>Derecognition of Financial Assets and Liabilities</u>
Financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Bank 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
- the Bank 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 risks and rewards of the asset but has transferred the control of the asset.

Where the Bank 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 Bank'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 Bank could be required to repay.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or has 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 the statement of income.

Repurchase and Reverse Repurchase Agreements
Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the statement of financial position. The corresponding cash received, including accrued interest, is recognized on the statement of financial position as a loan to the Bank, reflecting the economic substance of such transaction.

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized on the statement of financial position. The corresponding cash paid, including accrued interest, is recognized on the statement of financial position 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.

Impairment of Financial Assets
The Bank assesses at each statement of financial position 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.

Financial assets carried at amortized cost
For financial assets carried at amortized cost such as loans and receivables, due from other banks and HTM investments, the Bank 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 there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, 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.

Financial assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective assessment for impairment.

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 EIR of the asset. The financial assets, 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 the Bank 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.

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

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 Bank to reduce any differences between loss estimates and actual loss experience.

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 credit losses'.

Financial assets carried at cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Restructured loans
This may involve extending the payment arrangements and agreement on 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 EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized in 'Provision for credit losses' in the statement of income.

AFS investments
For AFS investments, the Bank assesses at each statement of financial position 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 other comprehensive income 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 other comprehensive income.

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' in the statement of income. If, in subsequent year, the fair value of a debt instrument increased 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.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position 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 financial position.

Financial Guarantees
In the ordinary course of business, the Bank gives financial guarantees consisting of letters of credit, letters of guarantees, and acceptances. Financial guarantees are initially recognized in 'Other liabilities' in the statement of financial position at fair value. Subsequent to initial recognition, the Bank's liabilities under such guarantees are each measured at the higher of the initial fair value less, when appropriate, cumulative amortization calculated to recognize the fee in the statement of income in 'Service fees and commission income', over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of income in 'Provision for credit losses'. Any financial guarantee liability remaining is recognized in the statement of income in 'Service fees and commission income', when the guarantee is discharged, cancelled or expires.

Revenue Recognition
Revenue is recognized to the extent that it is probable that economic benefits will flow to the Bank 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 financial assets at FVPL and AFS investments, interest income is recorded at the EIR, 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), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. 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 using the original EIR applied to the new carrying amount.

Service fees and commission income
The Bank earns fee and commission income from diverse range of services it provides to its customers. Fees arising from negotiating or participating in the negotiation of a transaction for a third party - such as 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. These fees include corporate finance fees. Loan syndication fees are recognized in the statement of income when the syndication has been completed and the Bank retains no part of the loans for itself or retains part at the same effective interest rate as for the other participants. Service charges and penalties relating to loan receivable and deposit transactions are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collectability.

Dividends
Dividend income on AFS equity investments is recognized when the right to receive payment is established.

Trading and securities gain (loss) - net
Results arising from trading activities include all gains and losses from changes in fair value for financial assets and financial liabilities at FVPL and realized gains or losses on disposals of AFS investments.

Other income
Income from sale of services is recognized upon rendition of the service. Income from sale of properties is recognized upon completion of the earning process and the collectability of the sales price is reasonably assured.

Property and Equipment
Property and equipment are stated at cost less accumulated depreciation and amortization, and any impairment in value.

The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are charged against current operations in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any impairment in value are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Depreciation and amortization is calculated on a straight-line basis over the estimated useful lives of the depreciable assets. The estimated useful lives of the depreciable assets follow:

Bank premises	30 years
Transportation equipment	5 years
Furniture, fixtures and equipment	5 years
Computer equipment	3 years
Leasehold rights and improvements	3 - 5 years or the terms of the related leases, whichever is shorter

The useful life and the depreciation and amortization method are reviewed periodically to ensure that the period and the method 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.

<u>Investment Properties</u>
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. Fair value has been determined based on the valuations performed by experienced and competent appraisers as of the statement of financial position date. Foreclosed properties are classified under investment properties from foreclosure date.

Subsequent to initial recognition, investment properties are accounted for under the cost model approach. Depreciable investment properties are carried at cost less accumulated depreciation and impairment in value. Transaction costs including nonrefundable taxes such as capital gains tax and documentary stamp tax that were paid by the Bank are capitalized as part of cost.

Expenditures incurred after the investment properties have been put into operation, such as repairs and maintenance, are normally charged against current operations in the year in which the costs are incurred.

Depreciation is calculated on a straight-line basis over the estimated remaining useful life from the time of acquisition of the investment properties. The estimated useful lives of the Bank's investment properties range from 10 to 40 years.

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 gain or loss on the derecognition of an investment property is recognized in the statement of income in the year of retirement or disposal.

Transfers are made to investment properties when, and only when, there is a change in use 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 evidenced by commencement of owner occupation or commencement of development with a view to sale.

Computer Software Costs
Computer software costs (included under 'Other assets' in the statement of financial position) include costs incurred relative to the development of the Bank's software. Costs are amortized on a straight-line basis over 5 to 8 years and are included under 'Amortization of computer software costs' in the statement of income.

Costs associated with maintaining the computer software programs are recognized as expense when incurred.

Impairment of Property and Equipment and Investment Properties
At each reporting date, the Bank assesses whether there is any indication that its property and equipment and investment properties may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank 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 against current 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.

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.

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).

Bank as lessee
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.

Retirement Cost
The Bank's personnel are covered by a noncontributory defined benefit retirement plan.

The retirement cost of the Bank 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 year.

The asset recognized in the statement of financial position in respect of defined benefit pension plans is the fair value of plan assets at the financial position date less present value of the defined benefit obligation, 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 the statement of 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. Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Bank nor can they be paid directly to the Bank. Fair value is based on market price information and in the case of quoted securities it is the published bid price. The value of any plan asset recognized is restricted to the sum of any past service costs 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.

Provisions
Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event and where it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. 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 in the financial statements but are disclosed when an inflow of economic benefits is probable.

Income Taxes

Current taxes

Current taxes assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxing authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted at the statement of financial position date.

Deferred taxes

Deferred tax is provided, using the statement of financial position liability method, on all temporary differences at the statement of financial position 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. 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 corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carry forward of unused excess MCIT over RCIT and unused NOLCO can be utilized. Deferred 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 or loss.

The carrying amount of deferred tax assets is reviewed at each statement of financial position 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 tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each statement of financial position 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 financial position date.

Current tax and deferred tax relating to items recognized directly in equity in the statement of other comprehensive income 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.

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

The Bank does not have any dilutive potential common shares.

Dividends on Common Shares
Dividends on common shares are recognized as a liability and deducted from surplus when declared and approved by the shareholders of the Bank. Dividends for the year that are approved after the statement of financial position date are dealt with as an event after the statement of financial position date.

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

Segment Reporting
The Bank'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 23. The Bank's revenue producing assets 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 Bank acts in a fiduciary capacity such as nominee, trustee or agent.

Standards Issued but not Effective
Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. This listing is of standards and interpretations issued, which the Bank reasonably expects to be applicable at a future date. The Bank intends to adopt those standards when they become effective. Except as otherwise indicated, the Bank does not expect the adoption of these amended PFRS and Philippine Interpretation to have significant impact on its financial statement.

PAS 12, *Income Taxes* (Amendment) - *Deferred Tax: Recovery of Underlying Assets*
The amended standard is effective for annual periods beginning on or after January 1, 2012. The amendment provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will, normally, be through sale.

PAS 24 (Amended), *Related Party Disclosures*
The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

PAS 32, *Financial Instruments: Presentation* (Amendment) - *Classification of Rights Issues*
The amendment to PAS 32 is effective for annual periods beginning on or after February 1, 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

PFRS 7, *Financial Instruments: Disclosures (Amendments) - Disclosures - Transfers of Financial Assets*
The amendments to PFRS 7 are effective for annual periods beginning on or after July 1, 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

PFRS 9, *Financial Instruments: Classification and Measurement*
PFRS 9, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, hedge accounting and derecognition will be addressed. The completion of this project is expected in mid 2011. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Bank's financial assets. The Bank will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture of impact of adoption on the financial position or performance of the Bank.

Philippine Interpretation IFRIC-14 (Amendment) - *Prepayments of a Minimum Funding Requirement*
The amendment to Philippine Interpretation IFRIC-14 is effective for annual periods beginning on or after January 1, 2011, with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

Philippine Interpretation IFRIC-15, *Agreement for Construction of Real Estate*
This Interpretation, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

Philippine Interpretation IFRIC-19, *Extinguishing Financial Liabilities with Equity Instruments*
This Interpretation is effective for annual periods beginning on or after July 1, 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

Improvements to PFRSs 2010
Improvements to IFRSs are an omnibus of amendments to PFRSs. The amendments have not been adopted as they become effective for annual periods on or after either July 1, 2010 or January 1, 2011. The Bank, however, expects no impact from the adoption of the following amendments on its financial position or performance:

- PFRS 3, *Business Combinations*
- PFRS 7, *Financial Instruments: Disclosures*
- PAS 1, *Presentation of Financial Statements*
- PAS 27, *Consolidated and Separate Financial Statements*
- Philippine Interpretation IFRIC-13, *Customer Loyalty Programmes*

3. Significant Accounting Judgments and Estimate

The preparation of the financial statements in accordance with PFRS requires the Bank to make judgments and estimates 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 judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and 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 as of the date of the financial statements. While the Bank believes that the assumptions are reasonable and appropriate, actual results could differ from such estimates.

Judgments

(a) *Fair value of financial instruments*
Where the fair values of financial assets and financial liabilities recorded on the statement of financial position or disclosed in the notes cannot be derived from active markets, they are determined using a variety of valuation techniques acceptable to the market as alternative valuation approaches that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in estimating fair values. The evaluation includes considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

(b) *Determination of whether a financial instrument is quoted in an active market*
The Bank classifies financial instruments by evaluating, among others, whether the instrument 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 of whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions conducted on an arm's length basis.

(c) *HTM investments*
The classification to HTM investments requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than in certain specific circumstances - for example, selling a more than 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 in the year where tainting has occurred and for the next two succeeding reporting periods.

As of December 31, 2010 and 2009, the carrying value of HTM investments amounted to ₱255.4 million and ₱211.8 million, respectively (see Note 6).

(d) *Operating leases*
The Bank has entered into commercial property leases on its investment property portfolio. The Bank has determined based on the evaluation of the terms and conditions of the arrangements (i.e., the lease does not transfer the ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties which are leased out as operating leases.

(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.

(f) *Functional currency*
PAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the Group considers the following:

a) the currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);
b) the currency in which funds from financing activities are generated; and
c) the currency in which receipts from operating activities are usually retained.

<u>Estimates</u>

(a) *Credit losses of loans and receivables*
The Bank reviews its impaired loans and receivables at least semi-annually 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 Bank 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 any deterioration in the internal credit rating of the loan or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

As of December 31, 2010 and 2009, allowance for impairment and credit losses on loans and receivables of the Bank amounted to ₱1.2 billion and ₱1.5 billion, respectively (see Note 11). The carrying value of loans and receivables, net of allowance for credit losses, amounted to ₱16.1 billion and ₱16.8 billion as of December 31, 2010 and 2009, respectively (see Note 7).

(b) *Fair value of derivatives*
The fair value of derivatives that are not quoted in active markets is determined using appropriate valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by management. 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 practicable, models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

As of December 31, 2010 and 2009, derivative assets amounted to ₱9.1 million and ₱10.9 million, respectively (see Note 26).

(c) *Impairment of AFS equity investments*
The Bank 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 Bank treats 'significant' generally as 20.0% or more of the original cost of investment, and 'prolonged' as greater than 12 months. In addition, the Bank evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

As of December 31, 2010 and 2009, the carrying value of AFS equity investments amounted to ₱12.9 million and ₱13.1 million, respectively (see Note 6).

(d) *Recognition of deferred income taxes*
Deferred tax assets are recognized for all unused tax losses and future tax credits 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 Bank recognized deferred tax assets as of December 31, 2010 and 2009 amounting to ₱361.2 million and ₱440.0 million, respectively. Details of unrecognized temporary differences are discussed in Note 20.

(e) *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 6.0% in 2010 and 2009, was based on the average historical premium 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 financial position dates. As of December 31, 2010 and 2009, the present value of the retirement obligation of the Bank amounted to ₱72.9 million and ₱57.7 million, respectively (see Note 18).

As of December 31, 2010 and 2009, net retirement asset amounted to ₱2.4 million and ₱9.5 million, respectively (see Note 18).

(f) *Impairment of nonfinancial assets*
Property and equipment, chattel mortgage properties, intangible assets
The Bank assesses impairment on property and equipment and investment properties whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Bank considers important which could trigger an impairment review include the following:

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

The Bank recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount used is the value in use.

As of December 31, 2010, the carrying value of property and equipment and investment properties amounted to ₱249.8 million and ₱2.9 million, respectively. As of December 31, 2009, the carrying value of property and equipment and investment properties amounted to ₱187.8 million and ₱3.4 million, respectively (see Notes 8 and 9).

4. Financial Instruments and Fair Value Measurement

The following table presents a comparison of the carrying amounts and fair values of all of the Bank's financial assets and liabilities.

	2010		2009	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
FINANCIAL ASSETS				
Loans and receivables				
Cash and other cash items	**₱334,084,617**	**₱334,084,617**	₱319,525,532	₱319,525,532
Due from BSP	**4,262,903,803**	**4,262,903,803**	1,909,190,000	1,909,190,000
Due from other banks	**615,146,557**	**615,146,557**	1,855,613,683	1,855,613,683
Interbank loans receivable	**2,640,002**	**2,640,002**	2,979,000	2,979,000
Loans and discounts				
Institutional banking	**8,293,766,676**	**8,293,441,584**	8,288,418,162	8,287,917,742
Retail banking	**3,076,217,453**	**2,879,486,131**	3,410,251,428	3,132,698,776
Mortgage banking	**2,372,046,195**	**2,317,638,551**	2,438,208,971	2,429,967,761
Small business loans	**517,699,821**	**559,744,264**	386,383,559	386,383,559
Accrued interest receivable	**233,952,598**	**233,952,598**	334,119,101	334,119,101
Other receivables	**514,327,531**	**514,327,532**	573,415,057	573,415,058
Unquoted debt securities	**1,105,458,158**	**1,099,735,361**	1,392,839,073	1,380,733,650
Other assets	**42,765,329**	**42,765,329**	27,290,530	27,290,530
Subtotal	**21,371,008,740**	**21,155,866,329**	20,938,234,096	20,639,834,392
Financial assets at FVPL				
Held-for-trading				
Government debt	**666,375,419**	**666,375,419**	690,172,079	690,172,079
Derivative assets	**9,103,851**	**9,103,851**	10,855,720	10,855,720
Subtotal	**675,479,270**	**675,479,270**	701,027,799	701,027,799
AFS investments				
Government debt	**1,358,051,602**	**1,358,051,602**	1,508,334,904	1,508,334,904
Unquoted equity securities	**12,888,317**	**12,888,317**	13,115,150	13,115,150
Subtotal	**1,370,939,919**	**1,370,939,919**	1,521,450,054	1,521,450,054
HTM investments				
Government debt	**255,357,743**	**226,520,000**	211,775,027	216,467,550
	₱23,672,785,672	**₱23,428,805,518**	₱23,372,486,976	₱23,078,779,795

	2010		2009	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
FINANCIAL LIABILITIES				
Financial liabilities at FVPL				
Derivative liabilities	**₱4,596,627**	**₱4,596,627**	₱668,311	₱668,311
Other financial liabilities at amortized cost				
Deposit liabilities				
Demand	**4,849,431,949**	**4,849,431,949**	4,624,783,830	4,624,783,830
Savings	**2,434,664,132**	**2,434,664,132**	2,442,728,670	2,442,728,670
Time	**9,623,650,234**	**9,581,478,822**	9,900,645,770	9,800,834,999
Subtotal	**16,907,746,315**	**16,865,574,903**	16,968,158,270	16,868,347,499
Bills payable	**569,920,000**	**569,920,000**	646,800,000	646,800,000
Outstanding acceptances	**17,247,342**	**17,247,342**	18,996,988	18,996,988
Manager's checks	**32,062,964**	**32,062,964**	40,161,695	40,161,695
Accrued interest and other expenses	**262,008,647**	**262,008,647**	327,056,089	327,056,089
Other liabilities	**755,469,997**	**755,469,997**	653,701,067	653,701,067
	₱18,549,051,892	**₱18,506,880,480**	₱18,655,542,420	₱18,555,731,649

Due from BSP includes lending to the Bangko Sentral ng Pilipinas (BSP) under reverse repurchase agreement amounting to ₱2.5 billion and ₱0.2 billion as of December 31, 2010 and 2009, respectively.

The following ranges of discount rates were used in estimating the fair values of unquoted fixed-rate and floating-rate debt instruments:

	2010			
	USD		**PHP**	
	High	**Low**	**High**	**Low**
Unquoted debt securities	**2.9%**	**2.2%**	–	–
Loans and discounts	–	–	–	–
Institutional banking	–	–	**13.0%**	**13.0%**
Retail banking	–	–	**6.5%**	**4.6%**
Mortgage banking	–	–	**13.2%**	**8.8%**
Deposit liabilities – Time	**2.3%**	**2.1%**	**6.9%**	**2.9%**

	2009			
	USD		PHP	
	High	Low	High	Low
Unquoted debt securities	4.0%	2.9%	–	–
Loans and discounts				
Institutional banking	–	–	13.0%	13.0%
Retail banking	–	–	8.1%	6.8%
Mortgage banking	–	–	13.2%	8.8%
Deposit liabilities – Time	2.5%	1.9%	8.6%	5.8%

The following table shows financial instruments recognized at fair value, analyzed among those which fair value is based on:

- Level 1 - quoted market prices in active markets for identical assets or liabilities; when fair values of listed equity and debt securities, as well as publicly traded derivatives at the reporting date are based on quoted market prices or binding dealer price quotations, without any deduction for transaction costs, the instruments are included within Level 1 of the hierarchy.

- Level 2 - those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); for all other financial instruments, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other revaluation models; and

- Level 3 - those with inputs for the asset or liability that are not based on observable market data (unobservable inputs); instruments included in Level 3 are those for which there are currently no active market.

	2010				2009			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial Assets at FVPL								
Government debt	₱666,375	₱–	₱–	₱666,375	₱690,172	₱–	₱–	₱690,172
Derivative assets	–	9,104	–	9,104	–	10,856	–	10,856
AFS Investments								
Government debt	1,358,052	–	–	1,358,052	1,508,335	–	–	1,508,335
Clubshares	–	304	–	304	–	296	–	296
	₱2,024,427	₱9,408	₱–	₱2,033,835	₱2,198,507	₱11,152	₱–	₱2,209,659
Financial Liabilities at FVPL								
Derivative Liabilities	₱–	₱4,597	₱–	₱4,597	₱–	₱668	₱–	₱668

During 2010 and 2009, there were no transfers between Level 1 to Level 2 category and no transfers into and out of Level 3 fair value measurements.

5. Financial Risk and Capital Management Objectives and Policies

The Bank is in the business of creating value out of taking risks.

Financial risks arise primarily from the use of financial instruments which include:

- Credit risk
- Market risk
- Liquidity risk

The following principles summarize the Bank's overall approach to risk management:

- The BOD provides the overall direction and supervision of the Bank's risk management;
- The key risks faced by the Bank - both financial and non-financial - are managed by appropriate functional levels within the Bank;
- The risk management functions are independent of the businesses (also referred to as Front office) that take and assume risks; and
- Risk management involves managing the balance between risk and reward, to enable the Bank to fulfill its commitment to protect shareholder interest, as well as deliver value to the banking public, and comply with relevant regulations.

Risk management structure
The BOD is ultimately responsible for oversight of the Bank's risk management process which involves identifying, measuring, analyzing, monitoring and controlling risks. It created the Risk Management Committee, a board-level independent committee with explicit authority and responsibility for managing and monitoring risks. It has oversight role over the independent risk

functions of Institutional and Retail Credit Risk Management Group (ICRMG/ RCRMG) (credit risk), Market Risk Management Division (market risk) and the Risk Team (operational risk). The Risk Team is a multi-disciplinary group composed of the Chief Risk Officer, Chief Financial Officer, Internal Audit Head, Compliance Officer, Enterprise wide Risk Manager and Market Risk Manager. It conducts a regular Management Committee meeting that is devoted to a discussion of operational risk issues. These issues are identified by the business units through a self-assessment system which the team subsequently provides input and advice to the President in the conduct of the Operations Committee meetings.

Internal Audit's role is to assist the Bank's management, the Audit Committee and Risk Management Committee by examining, evaluating, reporting and recommending improvements on the adequacy and effectiveness of the organization's risk management and control processes. Internal Audit, acting in a consulting role, assists the Bank in identifying, evaluating and implementing risk management methodologies and controls to address those risks.

In 2010, the Bank further refined their risk management structure by institutionalizing the role of the Chief Risk Officer (CRO). As the Enterprise Wide Risk Management (EWRM) champion, the CRO facilitates the execution of EWRM processes and infrastructure as a key enabler to achieving the business objectives of the organization.

The CRO manages and develops a comprehensive process for assessing, identifying, monitoring and reducing pertinent business risks that could interfere with the company's objectives and goals. It is usually the chief risk officer's responsibility to ensure that the company is in substantial compliance with its internal operating policies and procedures and any external legal, regulatory or contractual requirements.

The following are the different Risk Groups governed by the CRO:

- Institutional Credit Risk Management Group (ICRMG)
- Retail Credit Risk Management Group (RCRMG)
- Market Risk Management Department (MRMD) - Market Risk , Liquidity Risk and IRRBB
- Enterprise-Wide Risk Management Department (EWRMD)
- Compliance Risk
- Information Security Unit (ISU) - Information Security Risk

Credit Risk

Credit risk is the risk that one party to a financial transaction will fail to honor an obligation and cause the Bank to incur a financial loss. Credit risk arises primarily from the Bank's corporate and retail loans (customer credit risk) and investment securities (counterparty credit risk).

With respect to customer credit risk (corporate), ICRMG is mainly responsible for the following:

(a) safeguard the quality of the Bank's institutional loan portfolio; and
(b) provide support services to the lending units of the Bank.

To safeguard the quality of the loan portfolio of the Bank, ICRMG performs the following functions:

(a) conduct pre-approval review of Credit proposals of lending units;
(b) assist in structuring appropriate credit facilities;
(c) provide policy guidelines to the lending units in order to standardize the credit process;
(d) coordinate with the lending units on the required post-approval requirements (i.e., Loan Review Report, Account Planning, etc.) in the management of existing accounts;

(e) conduct regular meetings to discuss problem accounts;
(f) review/endorse loan loss provisions for problematic accounts;
(g) handle problem accounts and disposal of foreclosed assets; and
(h) provide senior management with reports pertaining to the quality of the loan portfolio.

ICRMG also performs support activities, such credit documentation, custodianship of collaterals, credit limit set up and control, post lending monitoring and management of reports preparation among others.

The Bank manages customer credit risk on institutional loans by setting limits for institutional borrowers and groups of borrowers, and for geographical and industry segments. It has in place a comprehensive risk evaluation system that continually assesses the creditworthiness of institutional loans in terms of financial performance, market standing, management quality, product and industry position. The Obligor Risk Rating System (ORR) objectively rates the credit quality of all applicable borrowing accounts within the range of 17 grades. This is patterned after parent company's ORR but is tailor-fit to consider local market conditions. The ORR is prepared for all new institutional accounts and renewal of existing credit exposures.

The Bank also performs post-approval Portfolio Reviews which are undertaken semi-annually to evaluate accounts individually and on a per portfolio basis. This entails reviewing the accounts against bank policies on the basis of market definition, credit initiation, administration and documentation, disbursement and risk asset management. Thus, the credit quality of specific portfolios is assessed in addition to the individual account rating.

Past due/classified accounts are presented to the Credit Committee at least twice a month. These include accounts adversely classified following internal and BSP guidelines on account classification, categorized as Especially mentioned (I), Substandard (II) and Doubtful (III), and Loss (IV) following BSP definition. During the review, if there are signs of weaknesses or deterioration in the credit, the account is adversely classified; however, in cases of positive developments, the classification is upgraded. Further, lending officers prepare monthly reports covering all watch listed and adversely classified accounts and submit these to senior management. Loan loss provisions are established depending on management's assessment of the nature and extent of deterioration in the credit quality - such provisions are determined based on the impairment assessment and measurements rule of PAS 39. In addition, the Bank obtains collateral where appropriate.

On the Retail Banking side, risk is managed through the use of credit application scorecard for public retail personal loan application and rule-based criterion for individual loan borrowers of accredited companies for corporate salary loans and individual mortgage loans. In corporate salary loans, stringent accreditation criteria for companies availing of the product is in-place such that they are assessed for financial stability, credit experience, market potential and industry standing. For public retail personal loan individual borrowers, credit scoring is in place to capture the level of risk of every account. Application data pass through an automated application scorecard that evaluates their creditworthiness. For rule-based loan applications, the credit process follows a standard procedures framework that is based on sound credit policies designed to identify and mitigate risk.

The dynamic nature of retail loans requires thorough monitoring of asset quality, performance, and behavior on a portfolio level. The periodic review of portfolio performance and identification of risk groups that enable creation of new and enhancements in existing credit policies hedge the Bank from possible losses. Policies ensure that risks are identified and managed. Based on asset quality reviews of the portfolio, the Bank fine-tunes its rules and guidelines in the granting of credit as it sees fit using internal and external data through the use of established statistical methodologies or consultation with our parent bank credit counterparts with expertise in research and development, statistical analysis and database management.

Timely and accurate reports facilitate the decision-making process of management with regard to the identification, assessment and mitigation of risk. Review items included in these periodic reports are delinquency indicators, through-the-door profiling, industry segmentation, volume tracking, scorecard monitoring, population shift indexing, and computation of caps applicable to certain programs. Likewise, timely and comprehensive exchanges of analysis and recommendations are conducted to achieve a strong synergy among the groups within the retail banking business.

All the above measures are implemented in order to maintain a diversified and sound loan portfolio and to detect signs of weaknesses early on in order to protect the interests of the Bank.

Counterparty credit risk
Credit risk with respect to investment securities, including derivative financial instruments, is generally limited to the carrying values (positive fair values for derivatives) reported in the statement of financial position. Counterparty credit risk could arise as a result of counterparties defaulting on their obligations to pay the principal and coupon (positive fair value at maturity for derivatives).

Maximum exposure to credit risk before taking account of any collateral and other credit enhancements
The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives. The maximum exposure is gross, before the effect of mitigation through the use of master netting and collateral agreements but after allowance for discounts and impairment.

	2010	2009
Loans and receivables		
Due from BSP and other banks	**₱4,878,050,360**	₱3,764,803,683
Interbank loans receivable	**2,640,002**	2,979,000
Loans and discounts (Note 7)		
Institutional banking	**8,293,766,676**	8,288,418,162
Retail banking	**3,076,217,453**	3,410,251,428
Mortgage banking	**2,372,046,195**	2,438,208,971
Small business loans	**517,699,821**	386,383,559
Accrued interest receivable	**233,952,598**	334,119,101
Other receivables	**514,327,531**	573,415,057
Unquoted debt securities (Note 7)	**1,105,458,158**	1,392,839,073
Other assets (Note 10)	**42,765,329**	27,290,530
Subtotal	**21,036,924,123**	20,618,708,564
Financial assets at FVPL (Note 6)		
Held-for-trading government debt	**666,375,419**	690,172,079
Derivative assets	**9,103,851**	10,855,720
Subtotal	**675,479,270**	701,027,799

(Forward)

	2010	2009
Available-for-sale investments (Note 6)		
Government debt	**₱1,358,051,602**	₱1,508,334,904
Unquoted equity securities	**12,888,317**	13,115,150
Subtotal	**1,370,939,919**	1,521,450,054
Held-to-maturity investments (Note 6)		
Government debt	**255,357,743**	211,775,027
	23,338,701,055	23,052,961,445
Credit commitments and other credit related liabilities (Note 24)	**7,079,449,560**	4,579,545,339
	₱30,418,150,615	₱27,632,506,784

Other receivables include loans granted to employees, as well as interest and other receivables. Contingent assets consist primarily of standby letters of credit, while commitments pertain to undrawn loan commitments for which the Bank is contractually obliged to extend once the borrowers draw on such commitments.

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum credit risk that could arise in the future as a result of changes in values.

Credit-related commitments risks
The Bank extends guarantees, commitment facilities, letters of credit and other off-balance sheet credit-related commitments that may require the Bank to make payments on their behalf. Such transactions expose the Bank to credit risks similar to loans and receivables and are monitored and managed by the Bank using the same credit risk control and management processes and policies. Some consumer asset products under this nature are covered by documentations and drafts that are reviewed and prepared by its lawyers and compliance officers to ensure that it is within acceptable risk and standards. Guarantees carry clauses that are all with reference to applicable laws, regulations, and approved guidelines and policies with some carrying expiry periods or validity to ensure that it is time bound and flexible enough to control losses from changes in external environment to include, among others, changing market conditions such as interest rates or pricing, and monetary policies. See Note 24 for further details of these commitments.

Risk concentrations of the maximum exposure to credit risk
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 Bank's performance to developments affecting a particular industry or geographic location.

Concentrations of risk are managed by counterparty and by industry sector.

An industry sector analysis of both the on- and off-balance sheet exposures, before taking into account collateral held or other credit enhancements, is as follows (in thousands pesos):

	2010						
	Loans and Receivables		Other Financial Assets		Off-Balance Sheet Exposures		
	Amount	%	Amount	%	Amount	%	Total
Financial intermediaries*	₱2,202,510	13.67	₱7,169,579	99.23	₱807,373	11.21	₱10,179,462
Manufacturing	3,133,014	19.44	–	–	2,006,992	27.88	5,140,006
Wholesale and retail	1,696,431	10.53	–	–	1,159,032	16.10	2,855,463
Real estate, renting and business activities	1,278,256	7.93	–	–	759,205	10.55	2,037,461
Electricity, gas and water	441,977	2.74	–	–	1,245,272	17.30	1,687,249
Public administration and defense	454,140	2.82	–	–	845,860	11.75	1,300,000
Agriculture, hunting and forestry	1,179,405	7.32	–	–	42,175	0.59	1,221,580
Construction	93,018	0.58	–	–	155,756	2.16	248,774
Transport, storage and communications	132,895	0.82	–	–	39,590	0.55	172,485
Others**	6,771,720	42.03	55,654	0.77	18,195	1.91	6,845,569
Total	17,383,366	107.88	7,225,233	100.00	7,079,450	100.00	31,688,049
Allowance for credit losses	(1,192,228)	(7.40)	–	–	–	–	(1,192,228)
Unearned interest discount and capitalized interest	(77,670)	(0.48)	–	–	–	–	(77,670)
	₱16,113,468	100.00	₱7,225,233	100.00	₱7,079,450	100.00	₱30,418,151

* Financial intermediaries include investment in Landbank Bonds classified as 'Unquoted debt securities'.
** Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.

	2009						
	Loans and Receivables		Other Financial Assets		Off-Balance Sheet Exposures		
	Amount	%	Amount	%	Amount	%	Total
Financial intermediaries*	₱2,620,414	15.58	₱6,188,921	99.35	₱901,321	19.68	₱9,710,656
Manufacturing	2,442,311	14.52	–	–	1,090,165	23.81	3,532,476
Wholesale and retail	1,541,860	9.16	–	–	1,676,101	36.60	3,217,961
Real estate, renting and business activities	1,087,829	6.47	–	–	82,988	1.81	1,170,817
Electricity, gas and water	5,581	0.03	–	–	213,171	4.65	218,752
Public administration and defense	965,189	5.74	–	–	–	–	965,189
Agriculture, hunting and forestry	72,543	0.43	–	–	45,000	0.98	117,543
Construction	123,264	0.73	–	–	–	–	123,264
Transport, storage and communications	2,112,510	12.56	–	–	20,924	0.46	2,133,434
Others**	7,405,445	44.01	40,406	0.65	549,875	12.01	7,995,726
Total	18,376,946	109.23	6,229,327	100.00	4,579,545	100.00	29,185,818
Allowance for credit losses	(1,473,509)	(8.76)	–	–	–	–	(1,473,509)
Unearned interest discount and capitalized interest	(79,802)	(0.47)	–	–	–	–	(79,802)
	₱16,823,635	100.00	₱6,229,327	100.00	₱4,579,545	100.00	₱27,632,507

* Financial intermediaries include investment in Landbank Bonds classified as 'Unquoted debt securities'.
** Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.

The Bank generally considers concentration risk as excessive when the ratio of a particular segment's exposure (e.g., this may be an industry demographic attribute, or a program) to the total portfolio exceeds predetermined limits.

The Bank considers concentration risk to be present in its loans and receivables when the total exposure to a particular industry or sector exceeds 25% of the total loan portfolio. 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. As of December 31, 2010 and 2009, following both the Bank's policy and BSP regulations, the Bank does not have significant loan concentration to any particular industry.

The Bank manages concentration risk by gearing policies towards regular monitoring and periodic review of the set limits per predetermined segments. Annual updates to the policy include a review of the industry concentration limits and other segmental concentrations within the portfolio, Business intelligence reports sourced from internal and external parties are used as guide in setting up the limits yearly. Industries covered under the industry concentration limits are similarly reviewed to update classifications and coverage.

Credit quality per class of financial assets
The credit quality of financial assets is monitored and managed using external and internal ratings. The credit quality of investment securities is generally monitored by reference to the external ratings provided by accredited external credit assessment rating institutions, as follows:

- Moody's
- Standard and Poor's

In cognizance of the requirements of the BSP, the ORR was implemented to all applicable in corporate accounts of Institutional Banking Group of the Bank. The objectives of the system are the following:

(a) to have a standard system of credit rating;
(b) to be able to objectively quantify the credit quality of an account;
(c) to have a "benchmark" for credit/loan review; and
(d) to train and instill discipline in assessing credit risk among account officers and credit officers.

The rating system is an amalgamation of quantitative and qualitative factors. The quantitative factors include, among others, financial indicators on liquidity, leverage, and cash flows. The qualitative factors include among others the quality of management, length of establishment, market standing, reliability of financial statements, etc.

The ORR of each account shall be recorded together with other information such as the date the ORR was conducted, and the account officer who conducted the ORR. These data combined with other historical and future ORR data on the loan portfolio will be used to estimate the loan default rates associated with each rating grade.

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management to major potential risk and the comparison of credit exposures across all lines of business, demographic and products.

The table below shows the credit risk rating comprising each category of credit quality and the equivalent external grades for each internal credit risk rating applied only for comparison purposes.

	ORR Internal Credit Risk Ratings (Institutional Banking)	Internal Scoring and Ratings (Retail Banking)	Moody's Equivalent Grades**
High grade	1	Low Risk	Aa3
	2	-do-	Baa2
	3	-do-	Baa2
	4	-do-	Baa2
	5	-do-	Baa3
Standard grade	6	Medium Risk	Baa3
	7	-do-	Ba1
	8	-do-	Ba2
	9	-do-	Ba3
	10	-do-	Ba3
	11	-do-	B1
	12	-do-	B2
	13	-do-	B2
Substandard grade	14	High Risk -	B3
	15	-do-	*
	16	-do-	*
	17	-do-	*

* already equivalent to substandard status
** equivalent Standard and Poor's ratings apply

High grade receivables are those which have high probability of collection, as evidenced by counterparties having the ability to satisfy their obligations and that the collaterals used to secure the loans/receivables are readily enforceable. Standard grade receivables, on the other hand, are receivables where collections are probable due to the reputation and the financial ability to pay the counterparty but have been outstanding for a considerable length of time. Lastly, substandard grade receivables are those where the counterparties are not capable of honoring their financial obligations.

For Retail Banking, the Personal Loans (PL) portfolio is comprised of two products: Public and Corporate. Each product has its own set of risk rating based on indicators that exhibit good determinants for risk capability. Risk assessment is accomplished through segment profiling, historical performance review, analysis of attributes that ascertain risk and establishment of performance measures to ensure optimal asset quality. For Public portfolio, individual account behavior is forefront in determining portfolio performance while for corporate, the employer's repayment management and efficient observance and conformity to its performance criterion is salient to warrant adherence to the Bank's risk acceptance standards.

The tables below show the credit quality by class of the Bank's financial assets, including loans and receivables (gross of allowance for credit losses and unearned interest discount) (in thousands).

	2010						
	Neither Past Due nor Specifically Impaired				Past Due but not Specifically Impaired	Specifically Impaired	Total
	High Grade	Standard Grade	Substandard Grade	Unrated			
Loans and receivables							
Due from BSP	₱4,262,904	₱–	₱–	₱–	₱–	₱–	₱4,262,904
Due from other banks	615,147	–	–	–	–	–	615,147
Interbank loans receivable	2,640	–	–	–	–	–	2,640
Loans and discounts							
Institutional banking	784,899	7,484,285	32,979	–	–	74,478	8,376,641
Retail banking	1,264,950	1,314,967	131,621	–	278,266	1,066,581	4,056,385
Mortgage banking	1,492,770	712,459	56,544	23,166	16,884	92,195	2,394,018
Small business loans	–	512,845	–	48,671	–	–	561,516
Accrued interest receivable	1,545	31,218	638	189,391	–	11,161	233,953
Others receivables	–	–	–	614,327	–	–	614,327
Unquoted debt securities	1,146,526	–	–	–	–	–	1,146,526
Other assets	–	–	–	42,765	–	–	42,765
Subtotal	9,571,381	10,055,774	221,782	918,320	295,150	1,244,415	22,306,822
Financial assets at FVPL							
Held-for-trading government debt	666,375	–	–	–	–	–	666,375
Derivative assets	–	9,104	–	–	–	–	9,104
Subtotal	666,375	9,104	–	–	–	–	675,479
AFS investments							
Government debt	2,697	1,355,355	–	–	–	–	1,358,052
Unquoted equity securities	12,888	–	–	–	–	–	12,888
Subtotal	15,585	1,355,355					1,370,940
HTM investments							
Government debt	255,358	–	–	–	–	–	255,358
Total	₱10,508,699	₱11,420,233	₱221,782	₱918,320	₱295,150	₱1,244,415	₱24,608,599

	2009						
	Neither Past Due nor Specifically Impaired				Past Due but not Specifically Impaired	Specifically Impaired	Total
	High Grade	Standard Grade	Substandard Grade	Unrated			
Loans and receivables							
Due from BSP	₱1,909,190	₱–	₱–	₱–	₱–	₱–	₱1,909,190
Due from other banks	1,855,614	–	–	–	–	–	1,855,614
Interbank loans receivable	2,979	–	–	–	–	–	2,979
Loans and discounts							
Institutional banking	348,810	7,785,143	–	10,000	6,560	212,038	8,362,551
Retail banking	1,452,644	1,478,992	103,924	27	292,190	1,312,653	4,640,430
Mortgage banking	1,567,577	582,163	123,753	101,506	–	102,731	2,477,730
Small business loans	–	281,092	–	101,442	1,000	3,958	387,492
Accrued interest receivable	981	41,861	19,463	271,814	–	–	334,119
Others receivables	–	–	–	723,190	–	–	723,190
Unquoted debt securities	1,451,434	–	–	–	–	–	1,451,434
Other assets	–	–	–	27,291	–	–	27,291
Subtotal	8,589,229	10,169,251	247,140	1,235,270	299,750	1,631,380	22,172,020
Financial assets at FVPL							
Held-for-trading government debt	690,172	–	–	–	–	–	690,172
Derivative assets	–	10,856	–	–	–	–	10,856
Subtotal	690,172	10,856	–	–	–	–	701,028
AFS investments							
Government debt	2,379	1,505,956	–	–	–	–	1,508,335
Unquoted equity securities	13,115	–	–	–	–	–	13,115
Subtotal	15,494	1,505,956	–	–	–	–	1,521,450
HTM investments							
Government debt	95,320	116,455	–	–	–	–	211,775
Total	₱9,390,215	₱11,802,518	₱247,140	₱1,235,270	₱299,750	₱1,631,380	₱24,606,273

The table below shows the aging analysis of past due but not specifically impaired loans and receivables by class (in thousands).

	2010			2009		
	Less than 30 days	**31 to 90 days**	**Total**	Less than 30 days	31 to 90 days	Total
Loans and discounts						
Retail banking	**₱233**	**₱278,033**	**₱278,266**	₱193,006	₱99,184	₱292,190
Mortgage Banking	**16,884**	**–**	**16,884**	–	–	–
Institutional banking	**–**	**–**	**–**	6,560	–	6,560
Small business loans	**–**	**–**	**–**	1,000	–	1,000
Total	**₱17,117**	**₱278,033**	**₱295,150**	₱200,566	₱99,184	₱299,750

The above aging analysis already excludes accounts that have been assessed to be specifically impaired. Further, the definition of past due follows that of PFRS 7, which states that a financial asset is past due when the counterparty has failed to make a principal or interest payments when due.

See Note 11 for the detailed information with respect to the Bank's allowance for impairment and credit losses on loans and receivables.

Included in specifically impaired financial assets are the Bank's restructured loan receivables. The table below shows the carrying amounts of restructured loan receivables by class (in thousands):

	2010	2009
Institutional banking		
Performing	**₱40,471**	₱–
Non-performing	**–**	55,513
Small business loans		
Performing	**2,453**	3,958
Mortgage banking		
Performing	**2,623**	2,275
	₱45,547	₱61,746

Restructured performing and non-performing loans (NPLs) of the Bank, net of specific impairment allowances as determined by PAS 39, as of December 31, 2010 and 2009, amounted to ₱35.2 million and ₱50.9 million, respectively.

Nonperforming Loans

The Bank monitors its NPLs ratio as part of its credit risk monitoring and reporting to the BSP. Shown below are the Bank's NPL:

	2010	2009
Secured	**₱47,017,847**	₱169,863,540
Unsecured	**1,187,037,419**	1,446,232,187
	₱1,234,055,266	₱1,616,095,727

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 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.

Collateral and credit risk mitigation techniques
The amount and type of collateral required depends on the assessment of the credit risk of the borrower or counterparty. The Bank follows guidelines on the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained for loans and receivables are as follows:

- For Institutional lending - cash, guarantees, securities, physical collaterals (e.g., real estate, chattels, inventory, etc.); as a general rule, commercial, industrial and residential lots are preferred
- For Retail lending - mortgages on residential properties and vehicles financed

Management regularly monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement. The existing market value of collateral is considered during the review of the adequacy of the allowance for impairment and credit losses. For unsecured lending, the Bank performs comprehensive credit evaluation process before each loan is approved.

The following table shows information relating to loan receivables (at gross amounts) broken down into secured and unsecured, with types of collateral being shown for the secured portion:

	2010		2009	
	Amount	**%**	Amount	%
Secured by:				
Real estate	**₱2,864,163,787**	**16.48%**	₱2,871,154,109	15.62%
Government guarantee	**1,494,177,271**	**8.60%**	2,384,836,832	12.98%
Hold-out on deposits	**514,407,406**	**2.96%**	363,685,058	1.98%
Mortgage trust indenture	**78,182,028**	**0.45%**	221,774,072	1.21%
Chattel	**13,640,737**	**0.08%**	33,257,703	0.18%
Special deposit account	**12,800,000**	**0.07%**	11,069,317	0.06%
Shares of stock	**1,837,964**	**0.01%**	2,141,489	0.01%
Standby letter of credit	**–**	**–**	45,329,504	0.25%
	4,979,209,193	**28.65%**	5,933,248,084	32.29%
Unsecured	**12,404,156,588**	**71.35%**	12,443,698,564	67.71%
	₱17,383,365,781	**100.00%**	₱18,376,946,648	100.00%

For past due and impaired loans and discounts, the fair values of collaterals held follow:

	2010	2009
Type of collateral	Fair Value	
Real Estate	**₱107,906,309**	₱288,802,743
Chattel	–	61,230,000
Standby letter of credit	–	42,000,000
Hold-out on deposits	–	1,000,000

Fair values were determined by the Bank's internal appraisers, or by accredited external appraisers. Normally, there are three approaches available to the Bank in arriving at the fair value of collateral (i.e., real estate, and chattel). These are the Cost approach, Market Data approach and the Income approach.

The Cost approach takes into consideration the current cost of reproducing a property less depreciation from all sources (i.e., deterioration, functional and economic obsolescence). On the other hand, the Market Data approach takes into consideration the value indicated by recent sales of comparable properties in the market. Lastly, the Income approach takes into consideration the value which the property's net earning power will support based upon a capitalization of net income.

In most cases, the Bank utilizes all three approaches. However, it may believe that the value indication from one approach will be more significant than from the other two, yet it will use all three as a check against each other, and to test its own judgment.

The fair value of collaterals subjected to repurchase and reverse repurchase agreements with BSP as of the year ended December 31, 2010 and 2009 amounted to ₱2.5 billion and ₱0.2 billion, respectively.

Liquidity Risk and Funding Management

Liquidity risk is the risk of loss to earnings or capital due to the inability to meet funding requirements within a reasonable period of time at a reasonable price.

The Bank applies a liquidity risk management strategy of maintaining sufficient cash and marketable securities, ensuring the availability of funding through an adequate amount of committed credit facilities and having the ability to close out market positions.

The table below shows the maturity profile of the Bank's financial liabilities, based on undiscounted contractual cash flows (in millions):

	2010				
	On demand	1 to 3 months	6 to 12 months	Greater than 1 year	Total
Deposit liabilities					
Demand	₱4,849	₱–	₱–	₱–	₱4,849
Savings	2,435	–	–	–	2,435
Time	–	8,280	798	546	9,624
Bills and acceptances payable	–	570	–	17	587
Manager's checks	32	–	–	–	32
Accrued interest and other expenses	262	–	–	–	262
Other liabilities	755	–	–	–	755
	8,333	8,850	798	563	18,544
Future interest payments	63	22	98	59	242
	8,584	8,872	896	622	18,974
Financial liabilities at FVPL					
Forward contract payable	840	–	–	–	840
Forward contract receivable	(840)	–	–	–	(840)
	–	–	–	–	–
	₱8,584	₱8,872	₱896	₱605	₱18,957

	2009				
	On demand	1 to 3 months	6 to 12 months	Greater than 1 year	Total
Deposit liabilities					
Demand	₱4,625	₱–	₱–	₱–	₱4,625
Savings	2,443	–	–	–	2,443
Time	–	6,727	1,987	1,186	9,900
Bills and acceptances payable	–	647	–	19	666
Manager's checks	40	–	–	–	40
Accrued interest and other expenses	327	–	–	–	327
Other liabilities	654	–	–	–	654
	8,089	7,374	1,987	1,205	18,655
Future interest payments	43	34	215	181	473
	8,132	7,408	2,202	1,386	19,128
Financial liabilities at FVPL					
Forward contract payable	1,154	–	–	–	1,154
Forward contract receivable	(1,153)	–	–	–	(1,153)
	1	–	–	–	1
	₱8,133	₱7,408	₱2,202	₱1,386	₱19,129

The above maturity table shows the undiscounted cash flows whose expected maturities are not the same as the asset-liability gap. The Bank does not expect all depositors to require repayment on the earliest date the Bank could be required to pay. Further, the maturity table does not reflect expected cash flows based on deposit behavior and historical retention rate.

The tables below further show the contractual expiry by maturity of the Bank's off-balance sheet commitments (in thousands).

	2010					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
Commitments	₱2,618,921	₱1,021,169	₱1,886,357	₱1,242,409	₱–	₱6,768,856
Contingent liabilities	65,333	199,130	–	–	–	264,463
Others	46,131	–	–	–	–	46,131
Total	₱2,730,385	₱1,220,299	₱1,886,357	₱1,242,409	₱–	₱7,079,450

	2009					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
Commitments	₱274,628	₱210,940	₱2,378,225	₱1,454,703	₱7,584	₱4,326,080
Contingent liabilities	55,172	167,718	462	27,970	–	251,322
Others	2,144	–	–	–	–	2,143
Total	₱331,944	₱378,658	₱2,378,687	₱1,482,673	₱7,584	₱4,579,545

To ensure that adequate liquidity is maintained at all times, the Bank's Liquidity and Balance Sheet Management Unit diversifies funding sources and evaluates cash flows and future funding needs on a daily basis. This involves projecting the bank's liquidity position under current market conditions and stress scenarios. In addition to its core deposit base, the bank maintains a portfolio of marketable assets that can be readily liquidated in the event of an unforeseen interruption of cash flows. Additional funding may be secured from the interbank market by tapping the Bank's credit facilities. Further, the Bank maintains with the BSP liquidity reserves and statutory reserves of its non-FCDU deposits.

Liquidity risk control entails primarily the setting of risk limits, which define management's tolerance for liquidity risk. Specifically, limits are set on the maximum cumulative outflow (MCO) and ratio of interbank borrowing to loans. Liquidity risk is also monitored through the use of liquidity ratios. One of the more important liquidity ratios is the ratio of net liquid assets to total deposits. Net liquid assets consist of cash, due from banks, interbank loans, securities held for trade and available for sale less interbank borrowings. The ratios for the year 2010 and 2009 were as follows:

	2010	2009
31 December	**40%**	33%
Average during the period	**38%**	36%
Highest	**42%**	43%
Lowest	**30%**	31%

Further, the Bank performs a funding gap analysis using estimated cash flows (in thousands). Shown below is the Bank's asset-liability gap:

	2010								
	Up to 1 month	1 to 3 Months	3 to 6 months	6 to 12 months	2 years	3 years	4 years	Greater than 5 years	Total
Assets									
Loans and receivables									
Cash and other cash items	₱334,085	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱334,085
Due from BSP	3,237,904	1,025,000	–	–	–	–	–	–	4,262,904
Due from other banks	615,147	–	–	–	–	–	–	–	615,147
Interbank loans receivable	2,640	–	–	–	–	–	–	–	2,640
Loans and discounts - gross	2,794,757	2,133,726	1,648,580	887,641	2,427,037	3,066,932	383,694	4,040,999	17,383,366
Other assets	28,778	–	–	–	13,987	–	–	–	42,765
Subtotal	7,013,311	3,158,726	1,648,580	887,641	2,441,024	3,066,932	383,694	4,040,999	22,640,907
Financial assets at FVPL	9,104	–	–	–	44	–	49,711	616,620	675,479
AFS investments	12,888	–	–	–	–	–	–	1,358,052	1,370,940
HTM investments	29,900	18,122	–	5,885	40,182	1,069	48,767	111,433	255,358
Total financial assets	7,065,203	3,176,848	1,648,580	893,526	2,481,250	3,068,001	482,172	6,127,104	24,942,684
Liabilities									
Financial liabilities at FVPL									
Derivative liabilities	4,597	–	–	–	–	–	–	–	4,597
Other financial liabilities at amortised cost									
Deposit liabilities	11,828,443	4,424,335	222,210	221,376	106,551	31,657	73,025	150	16,907,747
Bills payable	438,400	131,520	–	–	–	–	–	–	569,920
Outstanding acceptances	17,247	–	–	–	–	–	–	–	17,247
Manager's checks	32,063	–	–	–	–	–	–	–	32,063
Accrued interest and other expenses	262,009	–	–	–	–	–	–	–	262,009
Other liabilities	755,470	–	–	–	–	–	–	–	755,470
Total financial liabilities	13,338,229	4,555,855	222,210	221,376	106,551	31,657	73,025	150	18,549,053
Asset-liability gap	(₱6,273,026)	(₱1,379,007)	₱1,426,370	₱672,150	₱2,374,699	₱3,036,344	₱409,147	₱6,126,954	₱6,380,504

	2009								
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	2 years	3 years	4 years	Greater than 5 years	Total
Assets									
Loans and receivables									
Cash and other cash items	₱319,526	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱319,526
Due from BSP	989,190	920,000	–	–	–	–	–	–	1,909,190
Due from other banks	1,855,614	–	–	–	–	–	–	–	1,855,614
Interbank loans receivable	2,979	–	–	–	–	–	–	–	2,979
Loans and discounts - gross	3,521,051	463,692	1,355,990	518,455	1,747,157	4,923,838	1,419,222	4,427,542	18,376,947
Other assets	13,111	–	–	–	14,180	–	–	–	27,291
Subtotal	6,701,471	1,383,692	1,355,990	518,455	1,761,337	4,923,838	1,419,222	4,427,542	22,491,547
Financial assets at FVPL	10,856	21,237	12,804	89	72,016	170	12	583,844	701,028
AFS investments	13,115	–	–	–	–	–	–	1,508,335	1,521,450
HTM investments	30,105	–	11,519	–	21,530	32,166	–	116,501	211,821
Total financial assets	6,755,547	1,404,929	1,380,313	518,544	1,854,883	4,956,174	1,419,234	6,636,222	24,925,846
Liabilities									
Financial liabilities at FVPL									
Derivative liabilities	668	–	–	–	–	–	–	–	668
Other financial liabilities at amortised cost									
Deposit liabilities	11,800,343	4,014,670	516,026	276,258	137,315	106,797	31,861	84,889	16,968,159
Bills payable	646,800	–	–	–	–	–	–	–	646,800
Outstanding acceptances	18,997	–	–	–	–	–	–	–	18,997
Manager's checks	40,162	–	–	–	–	–	–	–	40,162
Accrued interest and other expenses	327,056	–	–	–	–	–	–	–	327,056
Other liabilities	653,701	–	–	–	–	–	–	–	653,701
Total financial liabilities	13,487,727	4,014,670	516,026	276,258	137,315	106,797	31,861	84,889	18,655,543
Asset-liability gap	(₱6,732,180)	(₱2,609,741)	₱864,287	₱242,286	₱1,717,568	₱4,849,377	₱1,387,373	₱6,551,333	₱6,270,303

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, equity prices and other market changes. The Bank's market risk originates from its holdings in its foreign exchange instruments, debt securities, equities and derivatives.

The Bank classifies exposures to market risk into either trading or non-trading portfolios. It is exposed to the potential loss in its trading portfolio because the values of its trading positions are sensitive to changes in the market prices and rates. Similarly, it is also exposed to market risk in its non-trading portfolio.

The Bank sets its market risk limits by considering market predictions, capital and annual budgets. It takes into account the correlation among different market risk factors to estimate potential loss using Value-at-Risk (VaR) approach and also determines if this potential loss is appropriate in light of the size of its annual budget. The Bank also determines its market risk limits by considering the experience of its risk-taking units and its risk appetite.

The Bank utilizes market risk factor sensitivities as a tool to manage market risk. Market risk factor sensitivities of a position are defined as a change in the value of a position caused by a unit shift in a given market factor. Market risk factor sensitivities include interest rate and foreign exchange factor sensitivities. The calculation of the factor sensitivities is obtained by measuring the effect of a one (1) unit increase in current interest rates or current foreign exchange rates upon various product types.

The Bank uses the VaR methodology in managing probable losses arising from potential changes in the market price of underlying assets. In deriving the VaR, the Bank employs the historical simulation approach, which estimates potential losses by assuming that future price movements will mimic historical trends.

Objectives of the VaR methodology
The VaR is a statistical estimate based on a historical simulation approach and generated from a historical database. It is important to note that VaR is only a forecast of probable loss. It is usually based on historical data which may not necessarily replicate itself in the future. As such, VaR cannot predict losses with 100% confidence.

The model's validity is assessed daily via back-testing. This involves determining whether the VaR figure actually represents the "maximum" potential loss for a given confidence level (e.g., 99%). If the VaR is a valid estimate of maximum potential loss, then the actual loss from holding on to the currency position for one day should be less than the VaR 99% of the time. Another way of stating this is that the actual loss would be greater than VaR for at most one day for every 100 days.

Market risk positions are also subject to daily stress tests to ensure the bank could withstand an extreme event. Historical events considered for stress testing represent crises - political or economic - which impacted greatly and adversely the financial markets.

VaR assumptions/parameters
The VaR will be based on a 1-day holding period, a level of confidence of 99% and a time series equivalent to 500 days (or 2 years). The level of confidence can be adjusted in response to heightened volatility in the market. The following are the VaR statistics (in millions):

	2010			
	Foreign Exchange	**Peso Fixed Income**	**Dollar Fixed Income**	**Total VaR**
December 31, 2010	**₱0.2**	**₱2.7**	**₱3.5**	**₱4.0**
2010-Average Daily	**3.2**	**11.6**	**17.4**	**21.1**
2010-Highest	**10.8**	**35.0**	**36.0**	**40.1**
2010-Lowest	**0.1**	**0.1**	**1.8**	**4.0**

	2009			
	Foreign Exchange	Peso Fixed Income	Dollar Fixed Income	Total VaR
December 31, 2009	₱0.6	₱0.9	₱26.0	₱25.6
2009-Average Daily	3.2	16.1	10.7	20.4
2009-Highest	8.5	51.3	26.9	52.0
2009-Lowest	0.2	0.9	–	6.7

The highs and lows of the total portfolio may not equal the sum of the individual components as the highs and lows of the individual portfolios may have occurred on different trading days. The VaR for foreign exchange is the foreign exchange risk throughout the Bank. The Bank, when aggregating the foreign exchange VaR and interest VaR, considers the correlation effects between the two risks.

Annually, the BOD sets the VaR limit for the trading books to which compliance is reviewed daily by local and foreign management.

Foreign Exchange Risk

The table below summarizes the Bank's exposure to foreign exchange risk as of December 31, 2010 and 2009. Included in the tables are the Bank's assets and liabilities at carrying amounts, categorized by currency (in thousands):

	2010			2009		
	USD	**Others**	**Total**	USD	Others	Total
Assets						
Loans and receivables						
Cash and other cash items	**₱5**	**₱–**	**₱5**	₱5	₱–	₱5
Due from BSP and other banks	**37,821**	**₱15,599**	**53,420**	1,342,429	18,226	1,360,655
Loans and discounts - net	**11,213**	**7,734**	**18,947**	20,821	–	20,821
Other assets	**–**	**198,541**	**198,541**	–	109,596	109,596
Total assets	**49,039**	**221,874**	**270,913**	1,363,255	127,822	1,491,077
Liabilities						
Other financial liabilities at amortised cost						
Deposit liabilities	**–**	**30,339**	**30,339**	–	302	302
Other liabilities	**–**	**19**	**19**	–	–	–
Total liabilities	**–**	**30,358**	**30,358**	–	302	302
Net exposure	**₱49,039**	**₱191,516**	**₱240,555**	₱1,363,255	₱127,520	₱1,490,775

As of December 31, 2010 and 2009, the Bank has no foreign exchange risk exposure from its financial assets at FVPL, AFS and HTM investments, and interbank loans receivable.

Information relating to the Bank's currency derivatives is contained in Note 26. The Bank has outstanding foreign currency spot transactions (in equivalent peso amounts) of ₱1.03 billion (sold) and ₱1.03 billion (bought) as of December 29, 2010, and ₱1.2 billion (sold) and ₱1.2 billion (bought) as of December 29, 2009.

Foreign exchange risk exposures in the banking book arising from market price fluctuations are transferred to the trading book on a monthly basis.

Foreign exchange factor sensitivities ("FX Delta") represent the change in the net present value of the foreign exchange portfolios caused by a unit shift of 100% of the underlying currency's exchange rate. The FX Delta risk comes from the FX exposure of derivatives, the hedging of foreign exchange positions and foreign currency cash positions.

The Bank's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines.

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

Outside the FCDU, the Bank has additional foreign currency assets and liabilities in the RBU representing trade assets and corresponding foreign currency borrowings.

Interest Rate Risk

Interest rate risk is the risk to future earnings or equity arising from the movement of interest rates. Changes in interest rates affect (1) the Bank's earnings by changing its net interest income and the level of other interest rate-sensitive income; and (2) the underlying economic value of the bank's assets, liabilities and off-balance sheet instruments by means of reducing the present value of future cash flows (and in some cases, the cash flows themselves).

As the primary interest rate risk management unit, the Liquidity and Balance Sheet Management Unit adjusts the repricing structure of assets and liabilities to ensure that interest rate risk exposure stays within a controllable range. Limits on the change in one-year earnings (delta NII) and economic value of equity (EVE) given a one basis point change in interest rates are also established.

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows and fair values of financial instruments. Interest rate factor sensitivities (the present value of one basis point, or "PVBP") represent the change in the net present value of the interest rate portfolios caused by a parallel unit shift of 0.01% (1 basis point) in the interest rates in various yield curves affecting a portfolio. The Bank is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities. Accordingly, limits on interest rate gaps for stipulated periods have been established by management.

The tables below show the sensitivity of the Bank's one-year earnings and economic value of equity to possible changes in interest rates. The effect of the assumed interest rate changes on one-year earnings per currency is measured based on rate sensitive non-trading assets and liabilities as of December 31, 2010 and 2009. The sensitivity of equity to interest rate movements is the present value of future cash flows discounted at the market rate.

2010

Currency	Increase in bps	Sensitivity of net interest income	Sensitivity of Equity 1 month	3 months	6 months	1 year	2 years	5 years	7 years	10 years up	Total
						(In Thousand Pesos)					
PHP	15	₱4,211	₱5,527	₱1,929	(₱5,063)	₱3,292	₱1,846	(₱493)	₱3	₱22	₱7,062
(in 000s)	20	5,615	7,369	2,752	(6,751)	4,390	2,461	(658)	3	29	9,417
	25	7,019	9,212	3,215	(8,438)	5,487	3,077	(822)	4	36	11,771
USD	15	(92)	(2,080)	(2,404)	(239)	(62)	–	181	109	1,065	(3,430)
(in 000s)	20	(123)	(2,773)	(3,206)	(319)	(83)	–	241	145	1,420	(4,574)
	25	(153)	(3,467)	(4,007)	(398)	(103)	–	301	182	1,775	(5,717)

Currency	Decrease in bps	Sensitivity of net interest income	Sensitivity of Equity 1 month	3 months	6 months	1 year	2 years	5 years	7 years	10 years up	Total
						(In Thousand Pesos)					
PHP	-15	(₱4,211)	(₱5,527)	(₱1,929)	₱5,063	(₱3,292)	(₱1,846)	₱493	(₱3)	(₱22)	(₱7,062)
(in 000s)	-20	(5,615)	(7,369)	(2,572)	6,751	(4,390)	(2,461)	658	(3)	(29)	(9,417)
	-25	(7,019)	(9,212)	(3,215)	8,438	(5,487)	(3,077)	822	(4)	(36)	(11,771)
USD	-15	92	2,080	2,404	239	62	–	(181)	(109)	(1,065)	3,430
(in 000s)	-20	123	2,773	3,206	319	83	–	(241)	(145)	(1,420)	4,574
	-25	153	3,467	4,007	398	103	–	(301)	(182)	(1,775)	5,717

2009

Currency	Increase in bps	Sensitivity of net interest income	Sensitivity of Equity 1 month	3 months	6 months	1 year	2 years	5 years	7 years	10 years up	Total
						(In Thousand Pesos)					
PHP	15	₱617	₱1,501	₱532	(₱2,506)	₱3,090	₱1,986	(₱590)	–	₱22	₱4,035
(in 000s)	20	823	2,001	709	(3,342)	4,121	2,648	(787)	–	29	5,379
	25	1,029	2,502	886	(4,177)	5,151	3,310	(983)	–	36	6,725
USD	15	(30)	(661)	(2,138)	1,920	(2,688)	135	424	385	620	(2,003)
(in 000s)	20	(40)	(881)	(2,851)	2,560	(3,584)	180	565	514	827	(2,670)
	25	(50)	(1,101)	(3,563)	3,200	(4,479)	225	707	642	1,033	(3,336)

Currency	Decrease in bps	Sensitivity of net interest income	Sensitivity of Equity: 1 month	3 months	6 months	1 year	2 years	5 years	7 years	10 years up	Total
						(In Thousand Pesos)					
PHP	-15	(₱617)	(₱1,501)	(₱532)	₱2,506	(₱3,090)	(₱1,986)	₱590	₱–	(₱22)	(₱4,035)
(in 000s)	-20	(823)	(2,001)	(709)	3,342	(4,121)	(2,648)	787	–	(29)	(5,379)
	-25	(1,029)	(2,502)	(886)	4,177	(5,151)	(3,310)	983	–	(36)	(6,725)
USD	-15	30	661	2,138	(1,920)	2,688	(135)	(424)	(385)	(620)	2,003
(in 000s)	-20	40	881	2,851	(2,560)	3,584	(180)	(565)	(514)	(827)	2,670
	-25	50	1,101	3,563	(3,200)	4,479	(225)	(707)	(642)	(1,033)	3,336

The following table sets forth the repricing gap position of the Bank (in thousands):

	2010					
	Up to 1 month	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Beyond 1 year**	**Total**
Financial Assets						
Loans and receivables						
Cash and other cash items	**₱334,085**	**₱–**	**₱–**	**₱–**	**₱–**	**₱334,085**
Due from BSP and other banks	**3,853,050**	**1,025,000**	–	–	–	**4,878,050**
Interbank loans receivable	**2,640**	–	–	–	–	**2,640**
Loans and discounts - gross	**10,428,356**	**2,227,143**	**3,148,054**	**1,394,661**	**185,152**	**17,383,366**
Other Assets	**28,778**	–	–	–	**13,987**	**42,765**
Financial assets at FVPL						
Government debt	–	–	–	–	**666,375**	**666,375**
Derivatives	**9,104**	–	–	–	–	**9,104**
AFS investments	–	–	–	–	**1,370,940**	**1,370,940**
HTM investments	**29,900**	**18,122**	–	**5,885**	**201,451**	**255,358**
Total financial assets	**14,685,913**	**3,270,265**	**3,148,054**	**1,400,546**	**2,437,905**	**24,942,683**
Financial Liabilities						
Financial liabilities at FVPL						
Derivative liabilities	**4,597**	–	–	–	–	**4,597**
Other financial liabilities at amortised cost						
Deposit liabilities						
Demand	**4,849,432**	–	–	–	–	**4,849,432**
Savings	**2,434,664**	–	–	–	–	**2,434,664**
Time	**4,345,651**	**4,405,523**	**222,210**	**221,376**	**428,891**	**9,623,651**
Bills payable and outstanding acceptances	**2,692,247**	**1,025,000**	–	–	–	**3,717,247**
Manager's checks	**32,063**	–	–	–	–	**32,063**
Accrued interest and other expenses	**275,459**	–	–	–	–	**275,459**
Other liabilities	**755,147**	–	–	–	–	**755,147**
Total financial liabilities	**15,389,260**	**5,430,523**	**222,210**	**221,376**	**428,891**	**21,692,260**
Repricing gap	**(₱703,347)**	**(₱2,160,258)**	**₱2,925,844**	**₱1,179,170**	**₱2,009,014**	**₱3,250,423**
Cumulative gap	**(₱703,347)**	**(₱2,863,605)**	**₱62,239**	**₱1,241,409**	**₱3,250,423**	**₱–**

	2009					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
Financial Assets						
Loans and receivables						
Cash and other cash items	₱319,526	₱–	₱–	₱–	₱–	₱319,526
Due from BSP and other banks	2,844,804	920,000	–	–	–	3,764,804
Interbank loans receivable	2,979	–	–	–	–	2,979
Loans and discounts - gross	9,694,560	2,408,938	4,572,111	1,519,029	182,309	18,376,947
Other Assets	13,111	–	–	–	14,180	27,291
Financial assets at FVPL						
Government debt	–	21,237	12,804	89	656,042	690,172
Derivatives	10,856	–	–	–	–	10,856
AFS investments	–	–	–	–	1,521,450	1,521,450
HTM investments	30,105	–	11,519	–	170,197	211,821
Total financial assets	12,915,941	3,350,175	4,596,434	1,519,118	2,544,178	24,925,846

(Forward)

	2009					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
Financial Liabilities						
Financial liabilities at FVPL						
Derivative liabilities	₱668	₱–	₱–	₱–	₱–	₱668
Other financial liabilities at amortised cost						
Deposit liabilities						
Demand	4,624,784	–	–	–	–	4,624,784
Savings	2,442,729	–	–	–	–	2,442,729
Time	4,505,221	3,968,588	516,026	276,358	634,453	9,900,646
Bills payable and outstanding acceptances	665,797	–	–	–	–	665,797
Manager's checks	40,162	–	–	–	–	40,162
Accrued interest and other expenses	327,056	–	–	–	–	327,056
Other liabilities	653,701	–	–	–	–	653,701
Total financial liabilities	13,260,118	3,968,588	516,026	276,358	634,453	18,655,543
Repricing gap	(₱344,177)	(₱618,413)	₱4,080,408	₱1,242,760	₱1,909,725	₱6,270,303
Cumulative gap	(₱344,177)	(₱962,590)	₱3,117,818	₱4,360,578	₱6,270,303	₱–

The following table sets forth, for the period indicated, the impact of the range of reasonably possible changes in the interest rates (accounting perspective) on the profit or loss and equity.

	Impact to Profit or Loss		**Impact to Equity**	
	2010	2009	**2010**	2009
PHP interest rates				
Increase by 15 bps	**₱518,711**	₱5,275,071	**(₱29,899)**	(₱22,954)
Increase by 20 bps	**711,885**	7,033,428	**(39,777)**	(30,542)
Increase by 25 bps	**915,029**	8,791,785	**(49,611)**	(38,099)
Decrease by 15 bps	**(425,360)**	(5,275,071)	**30,303**	23,242
Decrease by 20 bps	**(545,916)**	(7,033,428)	**40,495**	31,054
Decrease by 25 bps	**(655,680)**	(8,791,785)	**50,732**	38,899
USD interest rates				
Increase by 15 bps	**₱4,390,192**	₱4,739,293	**(₱307,143)**	(₱13,388,369)
Increase by 20 bps	**5,853,939**	6,319,058	**(408,206)**	(17,815,542)
Increase by 25 bps	**7,317,858**	7,898,822	**(508,618)**	(22,225,054)
Decrease by 15 bps	**(4,388,581)**	(4,739,293)	**313,183**	13,550,529
Decrease by 20 bps	**(5,851,075)**	(6,319,058)	**418,944**	18,103,833
Decrease by 25 bps	**(7,313,383)**	(7,898,822)	**525,397**	22,675,519

The Bank has exposures to other currencies that are not material.

The following table provides for the average effective interest rates by period of maturity or repricing of the Bank:

	2010		
	Less than 3 months	**3 months to 1 year**	**Greater than 1 year**
Peso-denominated			
Financial assets			
Due from BSP	**3.0%**	–	–
Due from other banks	**0.2%**	–	–
Financial assets at FVPL	**3.1%**	**3.9%**	**6.3%**
AFS investments	–	–	**7.6%**
HTM investments	**3.4%**	**5.3%**	**6.6%**
Loans and receivables	**5.3%**	**8.0%**	**13.5%**

(Forward)

	2010		
	Less than 3 months	**3 months to 1 year**	**Greater than 1 year**
Financial liabilities			
Deposit liabilities	**1.6%**	**3.4%**	**5.5%**
Bills payable	**3.1%**	–	–
Foreign currency-denominated			
Financial assets			
Due from other banks	**0.1%**	–	–
Financial assets at FVPL	–	–	**5.9%**
AFS investments	–	–	**5.3%**
HTM investments	–	–	**5.3%**
Loans and receivables	**3.6%**	**3.2%**	**3.9%**
Financial liabilities			
Deposit liabilities	**0.8%**	**1.7%**	**1.4%**
Bills payable	**1.0%**	–	–

	2009		
	Less than 3 months	3 months to 1 year	Greater than 1 year
Peso-denominated			
Financial assets			
Due from BSP	3.5%	–	–
Due from other banks	2.2%	–	–
Financial assets at FVPL	5.1%	6.7%	7.3%
AFS investments	–	–	9.6%
HTM investments	6.8%	5.1%	6.8%
Loans and receivables	6.7%	7.9%	13.5%
Financial liabilities			
Deposit liabilities	2.2%	4.5%	6.9%
Bills payable	6.9%	–	–
Foreign currency-denominated			
Financial assets			
Due from other banks	0.1%		
Financial assets at FVPL	–	–	6.7%
AFS investments	–	–	6.6%
HTM investments	–	–	4.7%
Loans and receivables	2.7%	2.6%	3.7%
Financial liabilities			
Deposit liabilities	1.2%	2.6%	2.3%
Bills payable	1.3%	–	–

Prepayment Risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall. The Bank has exposures in consumer, e.g., salary loans, mortgage loans. These activities generate market risk since these loan products are inherently sensitive to changes in the level of market interest rates.

The impact on the Bank's profitability of mortgage loan prepayment risk is deemed negligible as actual prepayments were small relative to the loan portfolio.

Equity Price Risk

Equity price risk is the risk that the fair values of equity investments decrease as a result of changes in the levels of equity indices and the value of individual stocks (whether traded or not). The Bank has no significant exposure to equity price risk.

Capital Management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains a strong credit standing and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Bank considers its paid-in capital and unappropriated surplus as its capital.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

Regulatory Qualifying Capital

The BSP, under BSP Circular 538 dated August 4, 2006 has prescribed guidelines in implementing the revised risk-based capital adequacy framework for the Philippine banking system to conform to Basel II Accord recommendations. The new BSP guidelines took effect on July 1, 2007.

The Bank's regulatory capital consists of Tier 1 (core) capital, which comprises share capital and retained earnings including current year profit less required deductions such as deferred income tax and unsecured credit accommodations to directors, officers, stockholders and related interests (DOSRI). Certain adjustments are made to PFRS - based results and reserves, as prescribed by the BSP. General loan loss provision is added back to Tier 2 supplementary capital, which is the other component of regulatory capital. The risk-based capital ratio of the Bank is expressed as a percentage of qualifying capital to risk-weighted assets, which are computed based on BSP regulations.

Risk-weighted assets are determined by assigning defined risk weights to amounts of on-balance sheet exposures and to the credit equivalent amounts of off-balance sheet exposures. Certain items are deducted from risk-weighted assets, such as the excess of general loan loss provision over the amount permitted to be included in Tier 2 capital. The risk weights vary from 0% to 150% depending on the type of exposure, with the risk weights of off-balance sheet exposures being subjected further to credit conversion factors.

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's "unimpaired capital" (regulatory net worth) as reported to the BSP, which is determined on the basis of regulatory accounting policies, which differ from PFRS in some aspects. The combined capital accounts of the Bank should not be less than an amount equal to ten percent (10%) of its risk assets. As of December 31, 2010 and 2009, the capital adequacy ratio of the Bank, as reported to the BSP, is 25.3% and 22.9%, respectively.

As of December 31, 2010 and 2009, the Bank has complied with the minimum capital requirements of the BSP.

BSP issued Circular No. 639 dated January 15, 2009 covering the Internal Capital Adequacy Assessment Process (ICAAP) which supplements the BSP's risk-based capital adequacy framework under the BSP Circular No. 538. This mandated the use of ICAAP by all universal and commercial banks to determine their minimum required capital relative to their business risk exposures. In December 18, 2009, BSP issued Circular No. 677 which extends the effectivity of BSP Circular No. 639 from January 1, 2010 to January 1, 2011. In this regard, the Bank has engaged the services of a consultant to assist in the implementation of ICAAP.

In October 2009, the Bank made a presentation to BSP the initial stage of ICAAP implementation covering progress on compliance with ICAAP, overview of risk identification and measurement and capital management framework. Based on the results of the presentation, as per recommendations of BSP, the Bank is working on further enhancement of its ICAAP.

In December 2010, the Risk Management Committee and the Board approved the Bank's latest ICAAP methodologies and processes for the Stage 2 high level dialogue and discussion with BSP relating to the detailed technical aspects of risks and capital assessment.

Last January 18, 2011, the draft ICAAP document was submitted to BSP for their initial evaluation. In January 26, 2011, the Bank presented and held a high level dialogue (stage 2) with BSP and submitted its final ICAAP document by January 31, 2011.

A letter from the Central Point of Contact of BSP dated February 02, 2011 was received advising the Bank that the ICAAP document submitted and Stage 2 presentation/ dialogue with BSP has been found to be acceptable with just some specific comments/ observations enjoining the Bank to take into consideration to enhance Bank's ICAAP.

The Bank's ICAAP representations shall still undergo further verification under Stage 3 of BSP's three-stage Pilot ICAAP review process, which will coincide with the next scheduled regular examination of the Bank.

Shown below are the Bank's minimum capital-to-risk assets ratio as reported to the BSP as of December 31, 2010 and 2009 (in millions).

	2010	2009
Tier 1 Capital	**₱5,249**	₱4,823
Tier 2 Capital	**148**	194
Gross Qualifying Capital	**5,397**	5,017
Less: Required deductions	**20**	20
Total qualifying capital	**₱5,377**	₱4,997
Risk weighted assets	**₱21,228**	₱21,767
Tier 1 capital ratio	**24.7%**	22.2%
Tier 2 capital ratio	**0.7%**	0.9%
Risk-based capital adequacy ratio	**25.3%**	22.9%

6. Trading and Investment Securities

Financial assets at FVPL consist of the following:

	2010	2009
Held-for-trading		
Government debt	**₱666,375,419**	₱690,172,079
Derivative assets (Note 26)	**9,103,851**	10,855,720
	₱675,479,270	₱701,027,799

Net unrealized gain (loss) in 2010 and 2009 on revaluation to market of financial assets at FVPL amounting to (₱0.8 million) and (₱3.2 million), respectively, are included under 'Trading and securities gain (loss) - net' in the statement of income.

AFS investments consist of the following:

	2010	2009
Government debt	**₱1,358,051,602**	₱1,508,334,904
Unquoted equity securities	**12,888,317**	13,115,150
	₱1,370,939,919	₱1,521,450,054

Unquoted equity securities include investments in BANCNET, Philippine Clearing House Corporation (PCHC), Banker's Association of the Philippines (BAP), Philippine Long Distance Company (PLDT) preferred shares and clubshares from Orchard Gold and Country Club and Subic Bay Yacht Club Corporation.

The movements of net unrealized gains (losses) on AFS investments follow:

	2010	2009	2008
Balance at the beginning of the year	**(₱4,090,772)**	(₱98,860,836)	₱17,841,341
Unrealized gains (losses) recognized in equity	**(84,486,149)**	17,405,781	(109,629,740)
Amount realized in profit or loss	**82,950,970**	77,364,283	(7,072,437)
Balance at end of the year	**(₱5,625,951)**	(₱4,090,772)	(₱98,860,836)

In 2010, 2009 and 2008, the effective interest rates of Philippine government securities range from 3.7% to 7.2%, from 5.4% to 7.6% and from 5.6% to 8.7%, respectively.

Effective interest rates range from 7.0% to 7.2% and from 3.7% to 6.4% for peso-denominated and foreign currency-denominated AFS investments, respectively, in 2010. Effective interest rates range from 6.2% to 9.2% and from 5.2% to 8.0% for peso-denominated and foreign currency-denominated AFS investments, respectively, in 2009. Effective interest rates range from 5.4% to 7.9% and from 5.3% to 11.4% for peso-denominated and foreign currency-denominated AFS investments, respectively, in 2008.

HTM investments consist of Philippine government treasury notes that bear nominal annual interest rates ranging from 2.4% to 8.0%, from 3.8% to 10.6% and from 10.0% to 13.8% in 2010, 2009 and 2008, respectively.

Interest income on trading and investment securities consists of:

	2010	2009	2008
Financial assets at FVPL	**₱84,617,352**	₱77,348,814	₱82,486,302
AFS investments	**65,438,500**	74,947,876	97,534,491
HTM investments	**9,852,971**	6,091,227	5,984,613
	₱159,908,823	₱158,387,917	₱186,005,406

Trading and securities gain (loss) - net consists of:

	2010	2009	2008
Financial assets at FVPL	**₱167,721,356**	₱29,432,356	(₱67,249,358)
AFS investments	**82,950,970**	77,364,283	7,072,437
Unquoted debt securities	–	644,636	–
	₱250,672,326	₱107,441,275	(₱60,176,921)

Net gain (loss) on derivative transactions amounting to (₱1.8 million), ₱9.9 million, and 8.3 million in 2010, 2009 and 2008, respectively, are included under 'Foreign exchange gain - net' in the statement of income (Note 26).

7. Loans and Receivables

This account consists of:

	2010	2009
Loans and discounts		
Institutional banking	**₱8,376,641,149**	₱8,362,551,278
Retail banking	**4,056,384,578**	4,640,429,739
Mortgage banking	**2,394,018,350**	2,477,730,216
Small business loans	**561,516,123**	387,491,911
Accrued interest receivable	**233,952,598**	334,119,101
Other receivables	**614,326,589**	723,189,984
	16,236,839,387	16,925,512,229
Unquoted debt securities	**1,146,526,394**	1,451,434,419
	17,383,365,781	18,376,946,648
Unearned interest discount and capitalized interest	**(77,669,709)**	(79,802,273)
	17,305,696,072	18,297,144,375
Allowance for impairment and credit losses (Note 11)	**(1,192,227,640)**	(1,473,509,023)
	₱16,113,468,432	₱16,823,635,352

Other receivables include amounts due from Integrated Credit and Corporate Services (ICCS) representing impaired loans secured by real properties transferred to ICCS with carrying values, net of impairment, amounting to ₱209.5 million and ₱208.2 million as of December 31, 2010 and 2009, respectively.

Other receivables also include sales contract receivables amounting to ₱80.7 and ₱39.4 million as of December 31, 2010 and 2009, respectively, which bear fixed interest rates per annum ranging from8.5% to 12.0% and from 9.0% to 12.8% in 2010 and 2009, respectively.

Institutional loans include domestic bills purchased amounting to ₱142.9 million and ₱195.0 million as of December 31, 2010 and 2009, respectively (Note 15).

Unquoted debt securities represent private and government bonds not quoted in an active market. These investments are classified as loans and receivables in accordance with PAS 39.

The effective interest rates of 'Loans and discounts', 'Unquoted debt instruments' and 'Sales contract receivables' range from 3.4% to 4.6% in 2010 and from 3.1% to 4.0% in 2009 for foreign currency-denominated receivables and from 13.3% to 14.5% in 2010 and from 13.0% to 14.0% in 2009 for peso-denominated receivables.

The Bank's loan portfolio includes non-risk loans, as defined under BSP regulations, totaling ₱1.0 billion and ₱1.3 billion as of December 31, 2010 and 2009, respectively.

As of December 31, 2010 and 2009, 57.6% and 67.8%, respectively, of the total loans of the Bank are subject to periodic interest repricing. Remaining loans earn annual fixed interest rates ranging from 3.97% to 39.2% and from 6.0% to 39.5% in 2010 and 2009, respectively, for peso-denominated loans and from 0.67% to 5.0% and 13.0% for foreign currency-denominated loans, respectively.

Interest income accrued on loans and receivables includes unwinding of the allowance for impairment and credit losses amounting to ₱3.47 million and ₱13.5 million as of December 31, 2010 and 2009, respectively.

8. Property and Equipment

The composition of and movements in this account in 2010 and 2009 follow:

	2010					
	Bank Premises	**Computer Equipment**	**Transportation Equipment**	**Furniture, Fixtures and Equipment**	**Leasehold Rights and Improvements**	**Total**
Cost						
Balance at beginning of year	**₱98,616,397**	**₱131,358,980**	**₱68,896,691**	**₱74,140,278**	**₱204,582,995**	**₱577,595,341**
Additions	**1,600,000**	**26,193,881**	**22,857,627**	**23,756,590**	**91,097,533**	**165,505,631**
Disposals and reclassifications	**(31,582,037)**	**(155,731)**	**(18,337,811)**	**(5,761,472)**	**(199,507)**	**(56,036,558)**
Balance at end of year	**68,634,360**	**157,397,130**	**73,416,507**	**92,135,396**	**295,481,021**	**687,064,414**
Accumulated Depreciation and Amortization						
Balance at beginning of year	**29,131,522**	**112,343,739**	**26,430,792**	**57,639,793**	**164,288,785**	**389,834,631**
Depreciation and amortization	**3404,412**	**12,659,805**	**14,153,145**	**8,109,156**	**32,219,637**	**70,546,155**
Disposals and reclassifications	**(9,283,475)**	**(125,017)**	**(10,167,230)**	**(3,496,494)**	**–**	**(23,072,216)**
Balance at end of year	**23,252,459**	**124,878,527**	**30,416,707**	**62,252,455**	**196,508,422**	**437,308,570**
Net Book Value at end of year	**₱45,381,901**	**₱32,518,603**	**₱42,999,800**	**₱29,882,941**	**₱98,972,599**	**₱249,755,844**

	2009					
	Bank Premises	Computer Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Total
Cost						
Balance at beginning of year	₱98,587,158	₱117,468,987	₱68,274,148	₱67,908,278	₱196,271,268	₱548,509,839
Additions	29,239	15,929,103	23,517,371	6,997,923	8,311,727	54,785,363
Disposals and reclassifications	–	(2,039,110)	(22,894,828)	(765,923)	–	(25,699,861)
Balance at end of year	98,616,397	131,358,980	68,896,691	74,140,278	204,582,995	577,595,341
Accumulated Depreciation and Amortization						
Balance at beginning of year	25,215,306	104,223,522	27,143,046	51,883,898	142,764,298	351,230,070
Depreciation and amortization	3,916,216	10,159,285	13,703,420	6,521,963	21,499,487	55,800,371
Disposals and reclassifications	–	(2,039,068)	(14,415,674)	(766,068)	25,000	(17,195,810)
Balance at end of year	29,131,522	112,343,739	26,430,792	57,639,793	164,288,785	389,834,631
Net Book Value at end of year	₱69,484,875	₱19,015,241	₱42,465,899	₱16,500,485	₱40,294,210	₱187,760,710

9. Investment Properties

The Bank's investment properties consist of buildings and improvements. Movements in this account in 2010 and 2009 follow:

	2010	2009
Cost		
Balance at beginning of year	**₱5,995,370**	₱4,606,010
Additions	–	1,389,360
Balance at end of year	**5,995,370**	5,995,370
Accumulated Depreciation		
Balance at beginning of year	**2,615,861**	2,149,471
Depreciation	**495,336**	466,390
Balance at end of year	**3,111,197**	2,615,861
Net Book Value at End of Year	**₱2,884,173**	₱3,379,509

The aggregate fair value of the investment properties of the Bank amounted to ₱6.5 million as of December 31, 2010 and 2009. The fair value of the Bank's investment properties has been arrived at on the basis of recent sales of similar properties in the same areas and taking into account the economic conditions prevailing at the time the valuations were made.

It is the Bank's policy to dispose assets acquired in an orderly fashion. The proceeds of the sale of the foreclosed assets (classified as 'Investment properties') are used to reduce or repay the outstanding loan balance. The Bank does not occupy repossessed properties for business use.

10. Other Assets

This account consists of:

	2010	2009
Computer software costs - net	**₱97,011,227**	₱45,935,235
Rental deposit	**33,067,704**	23,676,873
Prepaid expenses and other charges	**28,849,794**	27,542,665
Net retirement asset (Note 18)	**2,439,622**	9,450,203
Returned checks and other cash items	**1,298,702**	1,457,458
Miscellaneous	**12,087,600**	23,183,498
	₱174,754,649	₱131,245,932

Miscellaneous assets include documentary stamps on hand, stationery and office supplies, and investment in a subsidiary. As of December 31, 2010 and 2009, the investment in a subsidiary is non-operational and is in the process of liquidation.

The movements in computer software costs follow:

	2010	2009
Cost		
Balance at beginning of year	**₱231,114,809**	₱207,223,242
Additions	**70,605,535**	24,948,403
Disposals	**(36,850)**	(1,056,836)
Balance at end of year	**₱301,683,494**	231,114,809
Accumulated Amortization		
Balance at beginning of year	**185,179,574**	167,670,193
Amortization	**19,485,106**	18,566,217
Disposals	**7,587**	(1,056,836)
Balance at end of year	**204,672,267**	185,179,574
	₱97,011,227	₱45,935,235

11. Allowance for Credit Losses

Movements in the allowance for credit losses of loans and receivables follow:

	2010					
	Institutional Banking	**Mortgage Banking**	**Small Business Loans**	**Retail Banking**	**Other Receivables**	**Total**
Balance at beginning of year	**₱70,016,413**	**₱22,431,020**	**₱1,108,352**	**₱1,230,178,311**	**₱149,774,927**	**₱1,473,509,023**
Provisions for credit losses	**29,735,115**	**21,456,072**	**11,642**	**234,050,173**	**1,701,123**	**286,954,125**
Accounts charged off and others	**(34,307,248)**	**(70,790)**	**651,863**	**(484,061,359)**	**(50,447,974)**	**(568,235,508)**
Balance at end of year	**₱65,444,280**	**₱43,816,302**	**₱1,771,857**	**₱980,167,125**	**₱101,028,076**	**₱1,192,227,640**

	2009					
	Institutional Banking	Mortgage Banking	Small Business Loans	Retail Banking	Other Receivables	Total
Balance at beginning of year	₱339,846,107	₱13,847,826	₱15,901,032	₱1,004,103,964	₱131,424,769	₱1,505,123,698
Provisions for (recovery from) credit losses	3,526,129	8,553,155	(35,772)	226,074,347	47,515,561	285,633,420
Accounts charged off and others	(273,355,823)	30,039	(14,756,908)	–	(29,165,403)	(317,248,095)
Balance at end of year	₱70,016,413	₱22,431,020	₱1,108,352	₱1,230,178,311	₱149,774,927	₱1,473,509,023

Impairment Assessment

The Bank recognizes impairment losses based on the results of its specific (individual) and collective assessment of its credit exposures. Impairment has taken place when there is a presence of known difficulties in the servicing of cash flows by counterparties, a significant credit rating downgrade takes place, infringement of the original terms of the contract has happened, or when there is an inability to pay principal or interest overdue beyond a certain threshold (e.g., 90 days). These and other factors, either singly or in tandem with other factors, constitute observable events and/or data that meet the definition of an objective evidence of impairment.

The two methodologies applied by the Bank in assessing and measuring impairment include:

a. Specific (individual) assessment
   The Bank assesses each individually significant credit exposure or advances for any objective evidence of impairment, and where such evidence exists, accordingly calculates the required impairment.

The Bank's process of specific impairment follows the incurred loss method when recognizing loss on impaired financial asset, consistent with the requirement of PAS 39. Impairment is identified when an objective evidence of a specific loss event has been observed. Observable data that will trigger an impairment may include any of the following: (a) significant financial difficulty of the issuer or obligor, (b) default or delinquency in interest or principal payments, (c) probability that the borrower may enter into bankruptcy or other financial reorganization, (d) disappearance of an active market for that asset because of financial difficulties, (e) and other factors that may result to losses. In general but not limited to, loans that are adversely classified, past due, items in litigation, and restructured, are also subjected to impairment. The impairment of the account is calculated by the comparison of the discounted estimated future cash flows against the carrying value of the loan. If the sum of all discounted estimated future cash flows is less than the carrying value of the asset, then the asset would have to be written down to its total discounted future cash flows. Nevertheless, if the impaired account is found to be not specifically impaired, then it will collectively be assessed for impairment according to its risk grouping.The impairment allowances, if any, are evaluated semi-annually or as the need arise in view of favorable or unfavorable developments.

b. Collective assessment
Impaired loans that are not individually assessed for impairment as well as loans, which are individually assessed for impairment not found to be impaired, shall be included in a relevant portfolio for collective impairment testing. The collective impairment is prepared using the historical loss rates approach for mortgage loans and institutional loans and the decay rate methodology for personal loans. A monthly portfolio review is performed to determine the appropriate allowances.

For the mortgage and institutional loans, the historical loss rates are calculated by economic industry, which is the average ratio of the loss reserves applied against the outstanding loans with a minimum three-year period.

For the personal loans, decay rate methodology estimates the percentage of accounts that will eventually flow to 181 days or more past due, which is considered the tipping point when the account becomes a total loss. The decay rate is computed based on historical period of data observation, which is representative of the quality of the current portfolio of the Bank.

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

Below is the breakdown of provision for credit losses by type of loans and receivable:

	2010			2009		
	Specific Impairment	**Collective Impairment**	**Total**	Specific Impairment	Collective Impairment	Total
Loan and discounts	**₱53,877,537**	**₱232,404,483**	**₱286,282,020**	₱12,921,816	₱225,196,043	₱238,117,859
Other receivables	**880,192**	**(208,087)**	**672,105**	30,401,482	17,114,079	47,515,561
Total	**₱54,757,729**	**₱232,196,396**	**₱286,954,125**	₱43,323,298	₱242,310,122	₱285,633,420

BSP Reporting
Loan provisioning under the BSP regulation hinges on the qualitative appraisal and classification of the loan. Aside from classifying loans to past due and current, these are also grouped as unclassified or classified.

These classified loans are further grouped depending on the likelihood of losses the Bank will incur. A specific percentage of outstanding balance of the loan based on its classification is set up as allowance for probable losses. The list of classifications and allowance for losses percentage include: (a) Especially mentioned (5%), (b) Substandard - secured (10%) and unsecured (25%), (c) Doubtful (50%), (d) Loss (100%). Definitions of each classification are as follows:

I - Especially Mentioned - These are loans or portions thereof where there is an evidence of weakness in the borrower's financial condition or creditworthiness, or which are subject to an unrealistic repayment program or inadequate source of funds or where there is a lack of adequate collateral, credit, information or documentation.

II - Substandard - These are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to the institution because of unfavorable record or unsatisfactory characteristics. The normal repayment of these loans may be in jeopardy by reason of severely adverse trends or development of a financial, managerial, economic or political nature or important weakness in collateral/security position. Prompt corrective action is required to strengthen the Bank's position or to reduce its exposure and to assure that adequate remedial measures are taken by the borrower.

III - Doubtful - These are loans or portions thereof the full liquidation of which, on the basis of available information, appears questionable and suggests a degree of eventual loss may be incurred but not yet determinable as to the amount. Positive and vigorous action is required to avert or minimize loss. Non-accrual of interest is mandatory; however, memorandum tracking of interest due must be maintained. Reserves are required to be considered.

IV - Loss - These are loans or portions thereof which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted, notwithstanding the fact that the loans may have some recovery or salvage value. The amount of loan recovery is difficult to measure and it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be obtained in the future.

In addition to the allowance for probable losses on classified loans, BSP requires a general provision to be set up on unclassified loans considered as non risk under existing guidelines, as follows: five percent (5%) allowance on the restructured loans that are unclassified and one percent (1%) general loan loss provision on all other unclassified loans.

Current bank regulations allow banks with no unbooked valuation reserves and capital adjustments required by the BSP to exclude from nonperforming classification those loans that are fully provided with allowance for credit losses, provided that interest on said loans shall not be accrued. Accordingly, NPLs not fully covered by allowance credit losses follow:

	2010	2009
NPLs	**₱1,234,055,265**	₱1,616,095,727
Less NPLs fully provided with allowance for credit losses	**952,593,587**	1,163,242,683
	₱281,461,678	₱452,853,044

12. Deposit Liabilities

As of December 31, 2010 and 2009, 1.3% and 1.6%, respectively, of the total deposit liabilities of the Bank are subject to periodic interest repricing, while 0.1% of the total deposits are noninterest-bearing. The remaining deposit liabilities earn annual fixed interest rates ranging from 0.25% to 5.17% and from 0.5% to 10.3% in 2010 and 2009, respectively.

Under existing BSP regulations, non-FCDU deposit liabilities of the Bank are subject to liquidity reserve equivalent to 11% and statutory reserve equivalent to 8%. As of December 31, 2010 and 2009, the Bank is in compliance with such regulations.

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

	2010	2009
Cash	**₱319,975,015**	₱295,319,687
Due from BSP	**1,747,025,036**	1,158,264,054
	₱2,067,000,051	₱1,453,583,741

Interest expense on deposit liabilities consists of:

	2010	2009	2008
Time	**₱319,168,187**	₱487,531,364	₱459,054,393
Demand	**61,695,580**	76,966,900	82,965,206
Savings	**9,150,302**	9,688,910	13,709,780
	₱390,014,069	₱574,187,174	₱555,729,379

13. Bills Payable

This account consists of borrowings from banks and other financial institutions amounting to ₱0.6 billion as of December 31, 2010 and 2009.

The Bank is an accredited Participating Financial Institution (PFI), as a conduit bank for Official Development Assistance Wholesale Lending Facilities managed by various government or sovereign lending institutions. Borrowings are used for project financing as it carries fixed interest rates, with medium to long-term tenors.

Peso-denominated interbank borrowings are subject to annual fixed interest rates ranging from 0.8% to 0.9% and 0.6% to 1.5% for the years ended December 31, 2010 and 2009, respectively.

Interest expense on bills payable amounted to ₱5.2 million, ₱14.1 million and ₱34.1 million in 2010, 2009 and 2008, respectively.

14. Accrued Interest, Taxes and Other Expenses

This account consists of:

	2010	2009
Accrued interest	**₱ 114,097,531**	₱195,813,526
Accrued taxes and other expenses	**154,647,166**	139,965,122
	₱268,744,697	₱335,778,648

Accrued taxes and other expenses refer to various payables for taxes and licenses, payroll, utilities and other expenses.

15. Other Liabilities

This account consists of:

	2010	2009
Accounts payable	**₱678,550,932**	₱519,299,013
Bills purchased - contra (Note 7)	**142,933,957**	195,042,223
Withholding taxes payable	**37,849,371**	19,640,399
Derivative liabilities (Note 26)	**4,596,627**	668,311
Payment order payable	**3,449,842**	7,297,820
Miscellaneous	**8,601,651**	2,850,383
	₱875,982,380	₱744,798,149

16. Maturity Analysis of Assets and Liabilities

The following tables present the assets and liabilities as of December 31, 2010 and 2009 analyzed according to when they are expected to be recovered or settled within one year and beyond one year from statement of financial position date (amounts in thousand pesos):

	2010			2009		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Financial Assets						
Loans and receivables						
Cash and other cash items	₱334,085	₱–	₱334,085	₱319,526	₱–	₱319,526
Due from BSP	4,262,904	–	4,262,904	1,909,190	–	1,909,190
Due from other banks	615,146	–	615,146	1,855,614	–	1,855,614
Interbank loans receivable	2,640	–	2,640	2,979	–	2,979
Loans and receivables - gross (Note 7)	7,464,703	9,918,663	17,383,366	5,859,189	12,517,758	18,376,947
Other assets	28,778	13,987	42,765	13,111	14,179	27,290
Subtotal	12,708,256	9,932,650	22,640,906	9,959,609	12,531,937	22,491,546
Financial assets at FVPL	9,104	666,375	675,479	44,986	656,042	701,028
AFS investments	12,888	1,358,052	1,370,940	13,115	1,508,335	1,521,450
HTM investments	53,907	201,451	255,358	41,578	170,197	211,775
	12,784,155	12,158,528	24,942,683	10,059,334	14,866,511	24,925,799
Nonfinancial Assets						
Property and equipment	–	249,756	249,756	–	187,761	187,761
Investment properties - gross (Note 9)	–	2,884	2,884	–	3,380	3,380
Deferred tax assets	–	361,164	361,164	–	440,026	440,026
Other assets	17,454	114,536	131,990	56,656	47,298	103,954
	17,454	728,340	745,794	56,656	678,465	735,121
	12,801,609	12,886,868	25,688,477	10,115,990	15,544,977	25,660,920
Less: Allowance for impairment and credit losses (Note 11)			(1,192,228)			(1,473,509)
Unearned discount and capitalized interest (Note 7)			(77,670)			(79,802)
	₱12,801,609	₱12,886,868	₱24,418,579	₱10,115,990	₱15,544,977	₱24,107,609

(Forward)

	2010			2009		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Financial Liabilities						
Financial liabilities at FVPL						
Derivative liabilities	₱4,597	₱–	₱4,597	₱668	₱–	₱668
Other Financial liabilities at amortized cost						
Deposit liabilities	16,696,363	211,383	16,907,746	16,607,297	360,861	16,968,158
Bills payable	569,920	–	569,920	646,800	–	646,800
Outstanding acceptances	17,247	–	17,247	18,997	–	18,997
Manager's checks	32,063	–	32,063	40,162	–	40,162
Accrued interest and other expenses	258,818	–	258,818	327,056	–	327,056
Other liabilities	755,147	–	755,147	653,701	–	653,701
	18,337,669	211,383	18,545,538	18,294,681	360,861	18,655,542
Nonfinancial Liabilities						
Accrued interest, taxes and other expenses	9,927	–	9,927	8,723	–	8,723
Income tax payable	3,781	–	3,781	9,677	–	9,677
Other liabilities	116,239	–	116,239	90,429	–	90,429
	129,367	–	129,947	108,829	–	108,829
	₱18,467,036	₱211,383	₱18,675,485	₱18,403,510	₱360,861	₱18,764,371

17. Equity

Capital stock consists of the following (in thousands):

	Shares	Amount
Common stock - ₱10 par value		
Authorized	300,000	
Issued and outstanding		
Balance at beginning and end of the year	247,969	₱2,479,687

The shares of the Bank are listed in the PSE.

In December 2000, Chinatrust Taipei substantially increased its equity in the Bank through the acquisition of shares held by a minority group. As a result of this acquisition, Chinatrust Taipei controlled approximately 91.0% of the Bank's capital stock compared to 57.0% prior to the acquisition. The General Banking Law of 2000 allows foreign banks to own up to 100.0% of Philippine incorporated banks, compared to 60.0% under the previous law. A further acquisition of shares held by the public representing approximately 4.0% of the Bank's equity was made by Chinatrust Taipei in January 2001 through a tender offer at a price of ₱19.0 per share, the same price at which the shares from the minority group was acquired. In May 2001, Chinatrust Taipei purchased another 4.0% of the outstanding shares at a price of ₱18.3 per share.

At the regular meeting of the BOD held on April 23, 2010, the BOD approved the restriction of the retained earnings for the following purposes:

i.) to meet the minimum capital requirement set by the BSP to become a universal bank, and
ii.) to comply with the requirements of the ICAAP pursuant to BSP Circular 639 which took effect on January 1, 2010.

In October 28, 2010, Securities and Exchange Commission has approved the reinstatement of and amendments to the Rule on Minimum Public Ownership under Section 3, Article XVIII on the Continuing Listing Requirements of the Listing and Disclosure Rules. The amended rules on Minimum Public Ownership shall take effect on November 30, 2010. Under the rules of the PSE, the Bank, being a stock exchange-listed entity, is required, among others, to maintain a minimum ownership reserved to the public equivalent to at least 20.0% of its outstanding capital stock.

As discussed in Note 5, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank'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 (10.0%) of its risk assets.

As of December 31, 2010 and 2009, the number of holders of the Bank's outstanding common shares is 102 and 160, respectively.

18. Retirement Plans

The Bank 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 date of the last actuarial valuation is December 31, 2010.

The principal actuarial assumptions used in determining retirement liability/asset for the Bank's retirement plan are shown below:

	January 1	
	2010	2009
Retirement age	**60 years**	60 years
Average remaining working life	**27.2 years**	27.6 years
Discount rate	**10.5%**	11.2%
Expected rate of return on assets	**6.0%**	6.0%
Future salary increases	**5.0%**	5.0%

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 net retirement asset recognized in the Bank's statement of financial position is as follows:

	2010	2009
Fair value of plan assets	**₱79,900,678**	₱74,197,903
Present value of funded obligation	**(72,885,702)**	(57,711,181)
Surplus	**7,014,976**	16,486,722
Unrecognized actuarial losses	**(4,575,354)**	(7,036,519)
Net retirement asset	**₱2,439,622**	₱9,450,203

Movements in accumulated unrecognized actuarial gains of the Bank follow:

	2010	2009
Balance at beginning of year	**₱7,036,519**	₱2,514,963
Actuarial losses (gains) on the present value of the defined benefit obligation	**(2,461,165)**	4,521,556
Balance at end of year	**₱4,575,354**	₱7,036,519

The movements in the retirement asset recognized in the Bank's statement of financial position follow:

	2010	2009
Balance at beginning of year	**₱9,450,203**	₱9,947,208
Retirement expense	**(12,488,498)**	(13,571,018)
Contribution paid	**5,477,917**	13,074,013
Balance at end of year	**₱2,439,622**	₱9,450,203

The actual return on plan assets amounted to ₱8.1 million, ₱10.8 million and (₱2.2 million) in 2010, 2009 and 2008, respectively.

The movements in the present value of funded obligation recognized follow:

	2010	2009
Balance at beginning of year	**₱57,711,181**	₱77,533,774
Current service cost	**10,429,287**	12,470,180
Interest cost	**6,440,568**	8,288,360
Benefits paid	**(7,828,501)**	(38,235,249)
Actuarial losses (gains)	**6,133,167**	(2,345,884)
Balance at end of year	**₱72,885,702**	₱57,711,181

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

	2010	2009
Balance at beginning of year	**₱74,197,903**	₱88,544,338
Expected return on plan assets	**4,381,357**	4,557,823
Contributions paid	**5,477,917**	13,074,013
Benefits paid	**(7,828,501)**	(38,235,249)
Actuarial gains	**3,672,002**	6,256,978
Balance at end of year	**₱79,900,678**	₱74,197,903

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

	2010	2009
Debt instruments	**39.8%**	55.0%
Equity instruments	**12.7%**	13.9%
Other assets	**47.5%**	31.1%

The amounts included in 'Compensation and Fringe Benefits' in the Bank's statement of income follow:

	2010	2009
Current service cost	**₱10,429,287**	₱12,470,180
Interest cost	**6,440,568**	8,288,360
Expected return on plan assets	**(4,381,357)**	(4,557,823)
Amortization of transition liability	–	2,585,820
Effect of asset limit	–	(1,134,213)
Actuarial gains recognized during the period	–	(4,081,306)
	₱12,488,498	₱13,571,018

Information on the Bank's retirement plan follows:

	2010	2009	2008	2007	2006
Fair value of plan assets	**₱79,900,678**	₱74,197,903	₱88,544,338	₱95,859,747	₱81,422,941
Present value of funded obligation	**(72,885,702)**	(57,711,181)	(77,533,774)	(103,232,036)	(127,051,172)
(Surplus) deficit	**7,014,976**	16,486,722	11,010,564	(7,372,289)	(45,628,231)
Experience adjustments on plan liabilities	**(190,318)**	1,429,901	(112,500)	1,789,692	(5,547,552)
Experience adjustments on plan assets	**3,672,002**	6,256,978	(7,793,612)	(950,949)	3,356,593

19. Leases

The Bank leases a portion of the equipment and premises of its head office and branches. The lease contracts are for periods ranging from 1 to 10 years and are renewable at the Bank's option under certain terms and conditions. Various lease agreements include escalation clauses, most of which bear an annual rent increase of 5.0% to 10.0%. The lease agreements do not have contingent rent provisions.

Rent expense (included under 'Occupancy and other equipment-related costs' in the statement of income) incurred by the Bank amounted to ₱107.4 million, ₱82.4 million and ₱79.1million in 2010, 2009 and 2008, respectively.

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

	2010	2009
Within one year	**₱65,901,127**	₱41,562,803
After one year but not more than five years	**190,377,694**	58,210,807
After more than five years	**181,810,136**	3,466,006
	₱438,088,957	₱103,239,616

20. Income and Other Taxes

Under Philippine tax laws, the RBU of the Bank is 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 (GRT) and documentary stamp taxes (DST). Income taxes include the corporate income tax, as discussed below, and final taxes paid at the rate of 20.0%, which is a final withholding tax on gross interest income from government securities and other deposit substitutes. Taxes and licenses incurred by the Bank amounted to ₱141.2 million, ₱141.0 million and ₱129.2 million in 2010, 2009 and 2008, respectively.

Republic Act (RA) No. 9337, *An Act Amending National Internal Revenue Code*, provides that starting January 1, 2009, the RCIT rate shall be 30.0%. Interest expense allowed as a deductible expense is reduced by 42.0% starting November 1, 2005 until December 31, 2008. Starting January 1, 2009, interest expense allowed as a deductible expense shall be reduced by 33.0% of interest income subjected to final tax.

In addition, current tax regulations provide for the ceiling on the amount of entertainment and representation (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 Bank is limited to the actual EAR paid or incurred but not to exceed 1.0% of net revenue. EAR of the Bank amounted to ₱2.7 million, ₱2.1 million and ₱3.1 million (included under 'Miscellaneous Expenses' in the statement of income) in 2010, 2009 and 2008, respectively (Note 21).

The regulations also provide for MCIT of 2.0% on modified gross income and allow a NOLCO. The Bank's MCIT and NOLCO may be applied against the Bank's income tax liability and taxable income, respectively, over a three-year period from the year of inception.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is subject to 10.0% income tax. With respect to other loan-related income, which are not in the nature of interest, but are considered part of the loan transaction, these shall also be exempt from tax in accordance with Section 3(b) of Revenue Regulations (RR) 14-77. The FCDU's other income, those that are not classified as onshore or offshore under R.A. 9294 such as non-loan related income, is subject 30.0% RCIT based on net taxable income (or 2.0% MCIT based on gross income, if applicable). 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 10.0% income tax.

Provision for income tax consists of:

	2010	2009	2008
Final	**₱65,588,046**	₱50,296,043	₱56,301,068
MCIT	**23,404,637**	–	–
RCIT	**4,031,599**	12,215,045	14,205,354
	93,024,282	62,511,088	70,506,422
Deferred	**78,862,052**	8,371,832	(9,547,188)
	₱171,886,334	₱70,882,920	₱60,959,234

Components of the recognized net deferred tax assets follow:

	2010	2009
Allowance for impairment and credit losses	**₱356,403,803**	₱437,770,315
Unamortized past service costs	**3,466,099**	4,441,490
Accumulated depreciation of investment properties	**2,533,374**	2,122,845
Unrealized mark-to-market gain on derivatives	**(1,239,368)**	(4,308,691)
	₱361,163,908	₱440,025,959

The Bank did not recognize deferred tax assets on the following temporary differences:

	2010	2009
NOLCO	**₱92,917,368**	₱–
Excess of MCIT over RCIT	**23,404,637**	–
Accrued rent expense - PAS 17	**2,210,740**	2,561,723
	₱118,532,745	₱2,561,723

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

A reconciliation between the statutory income tax to provision for income tax follows:

	2010	2009	2008
Statutory income tax rate	**30.00%**	30.00%	35.00%
Tax effects of:			
Tax-paid and tax-exempt income	**(4.55)**	(6.25)	(22.09)
FCDU income	**(9.42)**	(11.90)	(6.68)
Nondeductible interest expense	**2.83**	5.00	26.34
Net unrecognized tax asset	–	–	12.91
Others	**10.68**	0.70	1.10
Effective income tax rate	**29.54%**	17.55%	46.58%

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

NOLCO:

Inception Year	Amount	Used/Expired	Balance	Expiry Year
2010	₱92,917,368	₱–	₱92,917,368	2013

Excess MCIT over RCIT:

Inception Year	Amount	Used/Expired	Balance	Expiry Year
2010	₱23,404,637	₱–	₱23,404,637	2013

21. Income and Expenses

Service fees and commission income consist of:

	2010	2009	2008
Credit-related	**₱112,080,889**	₱134,858,859	₱33,795,900
Deposit-related	**32,375,083**	30,656,563	31,822,174
Miscellaneous	**37,094,981**	39,011,951	44,953,718
	₱181,550,953	₱204,527,373	₱110,571,792

Miscellaneous income consist of:

	2010	2009	2008
Income from trust division	**₱11,479,585**	11,201,289	18,073,534
Profit from assets sold/exchanged	**5,159,274**	₱19,440,207	₱2,942,716
Income (loss) from assets acquired	**5,071,954**	(1,247,579)	(2,273,085)
Rent income - safety deposit box	**570,500**	551,592	636,517
Dividend income	**508,600**	508,200	511,050
Recovery on charged-off assets	**113,789**	–	3,010,000
Unrealized gain from nonfinancial assets	–	270,393	–
Other income	**21,936,336**	19,701,292	26,600,161
	₱44,840,038	₱50,425,394	₱49,500,893

Other income consists of long-outstanding unreconciled items and mark-up on auxiliary services.

Miscellaneous expenses for the years ended December 31, 2010, 2009 and 2008 consist of:

	2010	2009	2008
Insurance	**₱41,503,534**	₱43,875,524	₱40,202,639
Management and professional fees	**32,173,315**	25,789,881	22,774,073
Telecommunications	**18,212,613**	16,220,880	14,578,975
Litigation	**11,990,310**	32,429,592	14,143,096
Office supplies	**9,485,568**	10,267,633	3,967,392
Postage and cable	**9,274,300**	8,859,427	8,974,674
Banking and supervision fees	**7,968,249**	10,278,143	10,426,162
Travel and transportation	**6,340,490**	4,976,000	6,234,025
Advertising	**6,101,483**	23,939,100	17,111,100
Bank charges	**4,823,394**	3,113,855	2,885,480
Entertainment and representation (Note 20)	**2,709,289**	2,138,995	3,137,820
Membership dues	**2,318,517**	2,248,168	2,449,702
Freight	**1,929,590**	1,700,265	2,252,580
Fuel and lubricants	**643,646**	587,669	1,093,015
Other expenses	**25,240,496**	20,984,356	15,396,091
	₱180,714,794	₱207,409,488	₱165,626,824

Other expenses consist of fees paid for periodicals, VISA and check processing.

22. Trust Operations

Securities and other properties held by the Bank in fiduciary or agency capacity for its customers are not included in the accompanying statement of financial position since these items are not assets of the Bank. As of December 31, 2010 and 2009, total assets held by the Bank's Trust Department amounted to ₱3.6 billion and ₱3.7 billion, respectively (Note 24).

In connection with the trust operations of the Bank, government securities with carrying value of ₱57.0 million (face value of ₱57.0 million) and ₱57.7 million (face value of ₱57.0 million) as of December 31, 2010 and 2009, respectively, are deposited with the BSP in compliance with existing banking regulations relative to the trust functions of the Bank.

In compliance with existing BSP regulations, 10.0% of the Bank's income from trust business is appropriated to surplus reserve. This yearly appropriation is required until the surplus reserve for trust functions equals 20.0% of the Bank's regulatory net worth. No part of such surplus reserve shall at any time be paid out as dividends, but losses accruing in the course of business may be charged against such surplus. As of December 31, 2010, the reserve for trust functions amounted to ₱4.4 million.

23. Segment Information

Business Segments

The Bank is organized based on the products and services that it offers and operates three principal areas namely: Treasury, Institutional banking and Retail Banking.

Treasury - principally provides money market, trading and treasury services, as well as the management of the Bank's funding operations by use of government securities and placements and acceptances with other banks.

Institutional banking - principally handles loans, trade finance and other credit facilities and deposit and current accounts for institutional customers.

Retail Banking - addresses the individual and retail markets. It covers deposit taking and servicing, consumer lending such as home mortgages and personal loans.

Others - principally handling supportive roles which are performed by Operations, Finance and Corporate Affairs Group, Credit Risk Management and Credit Cycle Group and other divisions under the direct stewardship of the Office of the President.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Interest income is reported net as management primarily relies on the net interest income as performance measure, not the gross income and expense.

The Bank has no significant customers which contributes 10.0% or more of the total revenue, net of interest expense.

Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to business segments based on a pool rate which approximates the cost of funds. The following table presents revenue and income information of operating segments presented in accordance with PFRS as of and for the years ended December 31, 2009, 2008 and 2007 (amounts in thousand pesos):

			2010		
	Treasury	Institutional Banking	Retail Banking	Others	Total
Net interest income					
Third party	₱163,622	₱340,968	₱1,051,381	₱20	₱1,555,991
Intersegment	136,818	(122,430)	(14,291)	(97)	–
	300,440	218,538	1,037,090	(77)	1,555,991
Non-interest income	297,485	85,922	141,327	8,386	533,120
Revenue - net of interest expense	597,925	304,460	1,178,417	8,309	2,089,111
Non-interest expenses	112,947	169,960	736,738	487,871	1,507,516
Income (loss) before provision for income tax	484,978	134,500	441,679	(479,562)	581,595
Provision for income tax	39,230	13,697	118,181	778	171,886
Net income (loss)	₱445,748	₱120,803	₱323,498	(₱480,340)	₱409,709
Depreciation and amortization	₱1,395	₱6,012	₱34,059	₱29,081	₱70,547
Provision for impairment and credit losses	₱382	₱27,075	₱259,497	₱–	₱286,954

	2009				
	Treasury	Institutional Banking	Retail Banking	Others	Total
Net interest income					
Third party	(₱635)	₱490,167	₱1,010,825	₱1,499	₱1,501,856
Intersegment	264,460	(273,866)	(9,000)	18,406	–
	263,825	216,301	1,001,825	19,905	1,501,856
Non-interest income	158,488	128,172	125,826	3,624	416,110
Revenue - net of interest expense	422,313	344,473	1,127,651	23,529	1,917,966
Non-interest expenses	129,605	160,598	783,578	434,040	1,507,821
Income (loss) before provision for (benefit from) income tax	292,708	183,875	344,073	(410,511)	410,145
Provision for (benefit from) income tax	8,486	86,714	(26,371)	2,054	70,883
Net income (loss)	₱284,222	₱97,161	₱370,444	₱(412,565)	₱339,262
Depreciation and amortization	₱1,701	₱1,917	₱31,271	₱20,911	₱55,800
Provision for impairment and credit losses	₱–	₱36,407	₱249,226	₱–	₱285,633

	2008				
	Treasury	Institutional Banking	Retail Banking	Others	Total
Net interest income					
Third party	₱16,038	₱431,984	₱905,329	₱1,402	₱1,354,753
Intersegment	(16,313)	(177,054)	161,414	31,953	–
	(275)	254,930	1,066,743	33,355	1,354,753
Non-interest income	13,528	17,860	141,499	2,732	175,619
Revenue - net of interest expense	13,253	272,790	1,208,242	36,087	1,530,372
Non-interest expenses	116,627	80,370	794,545	407,951	1,399,493
Income (loss) before provision for (benefit from) income tax	(103,374)	192,420	413,697	(371,864)	130,879
Provision for (benefit from) income tax	30,842	74,302	(51,793)	7,608	60,959
Net income (loss)	(₱134,216)	₱118,118	₱465,490	(₱379,472)	₱69,920
Depreciation and amortization	₱2,498	₱1,254	₱30,247	₱25,059	₱59,058
Provision for impairment and credit losses	₱–	(₱10,084)	₱267,288	₱–	₱257,204

Segment information for the statement of financial position are as follows (amounts in thousand pesos):

	Treasury		Institutional banking		Retail Banking		Others		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Segment assets	₱5,322,984	₱4,865,902	₱9,345,777	₱9,081,234	₱9,098,450	₱9,526,074	₱651,367	₱634,444	₱24,418,578	₱24,107,654
Segment liabilities	₱595,116	₱4,852,406	₱7,686,921	₱3,497,309	₱10,051,008	₱10,201,366	₱342,439	₱213,290	₱18,675,484	₱18,764,371
Capital expenditures	₱3,830	₱3,024	₱3,789	₱1,727	₱41,118	₱21,522	₱116,769	₱28,512	₱165,506	₱54,785

The Bank does not have geographical information to disclose since all operations are within the Philippines.

24. Commitments and Contingent Assets and Liabilities

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

For regulatory reporting purposes, the following is a summary of the commitments and contingent liabilities at their equivalent peso contractual amounts (amounts in thousands):

	2010	2009
Credit commitments	**₱6,768,856**	₱4,326,080
Trust department accounts (Note 22)	**3,569,581**	3,676,611
Inward bills for collection	**2,542,167**	1,434,851
Unused commercial letters of credit	**264,463**	251,322
Outward bills for collection	**79,767**	15,640
Others	**46,131**	2,143

The Bank has received Letter Notices and Preliminary Assessment Notices for its FCDU covering taxable years 1998, 1999, 2000 and 2002 on various dates after April 28, 2004. The Bank also received a Formal Assessment Notice for taxable year 2001 and had, through its tax counsel contested the said assessment in the Court of Tax Appeals. The Bank has availed of the Tax Abatement by the Bureau of Internal Revenue (BIR) under Revenue Regulations 15-2007, to settle its 2001 tax assessment pending before the Court of Tax Appeals. It has also filed a tax amnesty return with the BIR under Republic Act 9480, which covers the assessed taxable years 1998, 1999, 2000 and 2002.

Last July 9, 2008, the Bank received four (4) Final Decision on Disputed Assessment on its FCDU Documentary Stamp Tax (DST) assessment for the years 1998, 1999, 2000 and 2002 with total deficiency tax amounting to Php 39,067,142 exclusive of interest and penalties. The BIR claimed that said tax assessment is not covered by the tax amnesty in accordance with RMC 69-07 which clarifies issues concerning the tax amnesty program under RA 9480. According to said RMC, withholding tax and taxes passed-on and already collected from customers (in this case, DST), is not covered by the tax amnesty and should therefore be remitted to the BIR. The Bank's tax counsel filed a Petition for Review before the Court of Tax Appeals (CTA) in reply to the Final Decision on Disputed Assessment. The Bank management, through their tax counsel, is contesting the assessments on certain grounds which, if considered, will not give rise to material tax deficiencies.

On April 23, 2009, CTA, upon motion of the bank's tax counsel, commissioned Ms. Katherine O. Constantino, CPA, a partner in Constantino, Guadalquiver and Co. as an Independent Certified Public Accountant for the purpose of performing audit functions as the CTA may direct in relation to the aforesaid CTA case. The final report was submitted to the CTA last July 07, 2009. Thereafter, on August 25, 2009, the Bank's counsel filed with the CTA its Formal Offer of Evidence.

During the August 4, 2010 scheduled hearing, the BIR presented its witness, the revenue officer who conducted the examination of the Bank's books and records for the taxable years in question.

The BIR filed its Memorandum with the CTA on January 4, 2011, and the Bank's Memorandum was filed on January 14, 2011. The case is submitted for decision of the Court. To date, CTA has not yet rendered a decision on the case.

25. 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. The Bank treats other subsidiaries and branch offices of the Parent Company as related parties (referred to below as affiliates). Related parties may be individuals or corporate entities. Transactions between related parties are based on terms similar to those offered to nonrelated parties.

In the ordinary course of business, the Bank has loans transactions with investees and with certain 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 Bank. 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 and other credit accommodations as reported to the BSP classified as DOSRI accounts under regulations existing prior to said circular, and new DOSRI loans, other credit accommodations and guarantees granted under BSP circular No. 423 as of December 31, 2010 and 2009:

In accordance with existing BSP regulations, the reported DOSRI performing loans exclude loans extended to certain borrowers before these borrowers became DOSRI.

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, 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 on 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 late.

	2010	2009
Total outstanding non-DOSRI accounts granted prior to BSP Circular No. 423	₱–	₱–
Percent of unsecured non-DOSRI accounts granted prior to BSP Circular No. 423 to total loans	–	–
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	–	–

The significant account balances with respect to related parties included in the financial statements (after appropriate eliminations have been made) follow:

			Elements of Transactions			
		Nature of	Statement of Financial Position		Statement of Income	
Related Party	Relationship	Transaction	**2010**	2009	**2010**	2009
Officers and employees	Officers and employees	Loans and receivable	**₱17,168,938**	₱17,916,758	**₱–**	₱–
		Interest income	**–**	–	**1,710,962**	1,803,437
Chinatrust-New York	Affiliate	Due from other banks	**39,745,834**	40,900,490	**–**	–
Chinatrust-Taipei	Affiliate	Due from other banks	**12,344,960**	27,584,893	**–**	–
		Bills payable	**569,920,000**	415,800,000	**–**	–
		Interest income	**–**	–	**–**	6,042
		Interest expense	**–**	–	**1,837,967**	131,250
Chinatrust-Hongkong	Affiliate	Due from other banks	**5,954,703**	6,893,825	**–**	–
Chinatrust-Tokyo	Affiliate	Due from other banks	**998,614**	5,045,270	**–**	–

Accounts with Chinatrust-New York, Chinatrust-Hongkong and Chinatrust-Tokyo under 'Due from other banks' are current deposit accounts that do not earn interest.

In 2010 and 2009, borrowings availed and settled within the year from affiliates amounted to ₱3.5 billion and ₱5.1 billion, respectively. There are no other transactions with affiliates and other related parties other than those described above.

The remuneration of directors and other members of key management personnel follows:

	2010	2009	2008
Short-term benefits	**₱33,794,220**	₱53,470,436	₱64,092,472
Post-employment benefits	**2,569,325**	17,375,455	13,752,889
Other long-term benefits	**150,781**	3,614,873	5,778,667
	₱36,514,326	₱74,460,764	₱83,624,028

In accordance with the Bank's by laws, profit share of officers and employees is computed at 10.0% of net income after tax.

26. Derivative Financial Instruments

The table below shows the fair values of derivative financial instruments entered into by the Bank, 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, 2010 and 2009 and are not indicative of either market risk or credit risk (amounts in thousands).

	2010		
	Assets	**Liabilities**	**Notional Amount**
Freestanding derivatives			
Currency forwards and swaps			
BUY:			
USD/PHP	**₱34**	**₱4,178**	**USD1,460**
SELL:			
USD/PHP	**8,694**	**419**	**USD15,500**
USD/EUR	**376**	**–**	**USD1,993**
	₱9,104	**₱4,597**	

	2009		
	Assets	Liabilities	Notional Amount
Freestanding derivatives			
Currency forwards and swaps			
BUY:			
USD/PHP	₱–	₱668	USD 240
SELL:			
USD/PHP	10,856	–	USD 24,500
	₱10,856	₱668	

The Bank entered into currency forwards and swap contracts to manage its foreign exchange risks. Currency forwards are contractual agreements to buy or sell a specified currency at a specific price and date in the future.

The net movements in fair value changes of all derivative instruments follow (in thousands):

	2010	2009	2008
Net derivative asset (liability) at beginning of year	**₱10,188**	₱660	(₱3,261)
Net changes in fair value of derivatives	**(1,776)**	9,882	8,279
Fair value of settled instruments	**(3,905)**	(354)	(4,358)
Net derivative asset at end of year	**₱4,507**	₱10,188	₱660

27. **Financial Performance**

EPS amounts attributed to equity holdings of the Bank were computed as follows:

	2010	2009	2008
a. Net income	**₱409,977,974**	₱ 339,262,785	₱69,920,411
b. Weighted average number of outstanding common shares	**247,968,731**	247,968,731	247,968,731
c. Basic/Diluted EPS (a/b)	**₱1.65**	₱1.37	₱0.28

* After retroactive adjustment for stock dividends in 2007 (Note 17).

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

	2010	2009	2008
a.) Net income	**₱409,977,974**	₱339,262,785	₱69,920,411
b.) Average total equity	**5,620,490,540**	5,105,087,127	4,904,363,424
Return on average equity (a/b)	**7.3%**	6.6%	1.4%
c.) Net income	**₱409,977,974**	₱339,262,785	₱69,920,411
d.) Average total assets	**24,968,141,364**	25,371,719,606	23,112,153,070
Return on average assets (c/d)	**1.6%**	1.3%	0.3%
e.) Net interest income	**₱1,555,977,158**	₱1,501,857,397	₱1,354,753,274
f.) Average interest earning assets	**22,032,164,137**	24,808,878,346	22,464,166,738
Net interest margin on average earning assets (e/f)	**7.1%**	6.1%	6.0%

Note: Average balances were determined as the average of the month-end balances of the respective statement of financial position accounts for the period.

28. Supplementary Information Required Under Revenue Regulations 15-2010

On November 25, 2010, the Bureau of Internal Revenue issued Revenue Regulations (RR) No. 15-2010 for the amendments in certain provisions of RR No. 21-2002, as *Amended, Implementing Section 6(H) of the Tax Code of 1997, Authorizing the Commissioner of Internal Revenue to Prescribe Additional Procedural and/or Documentary Requirements in Connection with the Preparation and Submission of Financial Statements Accompanying the Tax Returns.*

In compliance with the above RR, the Bank presents information on taxes, duties and license fees paid or accrued during the taxable years.

The details of taxes and licenses account follow:

Gross receipt tax	₱110,631,756
Business licenses	6,373,612
Community Tax Certificate	10,500
Real Property Tax	108,638
Annual Registration Fee	15,500
Business Taxes	33,080
Company car registration	190,727
Documentary stamp tax	23,821,627
	₱141,185,440

The NIRC of 1997 provides for the imposition of GRT on gross receipts derived by banks from sources within the Philippines. Accordingly, the Bank's gross receipts are subject to GRT as reimposed in RA No. 9238 beginning January 1, 2004.

Details of the GRT remitted in 2010 follow:

	Tax base	Total remittances	Balance
Income subject to 5%	₱1,383,462,710	₱63,612,724	₱5,560,411
Income subject to 1%	136,624,254	1,303,692	62,550
Other income subject to 7%	617,604,517	40,259,356	2,972,960
	₱2,137,691,481	₱105,175,772	₱8,595,921

The difference in the recorded expense for GRT and the total remittances and balance amounting to ₱3.1 million is attributed to pre-termination of loans in which the adjustment to GRT is shouldered by the customer.

Withholding taxes
Details of total remittances of withholding taxes as of December 31, 2010 follow:

	Total remittances	Balance
Withholding taxes on compensation and benefits	₱83,956,947	₱10,742,718
Final withholding tax on interest on deposits	37,499,389	3,170,255
Expanded withholding taxes	19,789,161	1,540,401
	₱141,245,497	₱15,453,374

Outstanding amount of withholding taxes are included in 'Other liabilities' account in the statements of condition.

The Bank has no value-added-tax and excise tax transaction and importation made in 2010.

The Bank has received Letter Notices and Preliminary Assessment Notices for its FCDU covering taxable years 1998, 1999, 2000 and 2002 on various dates after April 28, 2004. The Bank also received a Formal Assessment Notice for taxable year 2001 and had, through its tax counsel contested the said assessment in the Court of Tax Appeals. The Bank has availed of the Tax Abatement by the Bureau of Internal Revenue (BIR) under Revenue Regulations 15-2007, to settle its 2001 tax assessment pending before the Court of Tax Appeals. It has also filed a tax amnesty return with the BIR under Republic Act 9480, which covers the assessed taxable years 1998, 1999, 2000 and 2002.

Last July 9, 2008, the Bank received four (4) Final Decision on Disputed Assessment on its FCDU Documentary Stamp Tax (DST) assessment for the years 1998, 1999, 2000 and 2002 with total deficiency tax amounting to Php 39,067,142 exclusive of interest and penalties. The BIR claimed that said tax assessment is not covered by the tax amnesty in accordance with RMC 69-07 which clarifies issues concerning the tax amnesty program under RA 9480. According to said RMC, withholding tax and taxes passed-on and already collected from customers (in this case, DST), is not covered by the tax amnesty and should therefore be remitted to the BIR. The Bank's tax counsel filed a Petition for Review before the Court of Tax Appeals (CTA) in reply to the Final Decision on Disputed Assessment. The Bank management, through their tax counsel, is contesting the assessments on certain grounds which, if considered, will not give rise to material tax deficiencies.

On April 23, 2009, CTA, upon motion of the bank's tax counsel, commissioned Ms. Katherine O. Constantino, CPA, a partner in Constantino, Guadalquiver and Co. as an Independent Certified Public Accountant for the purpose of performing audit functions as the CTA may direct in relation to the aforesaid CTA case. The final report was submitted to the CTA last July 07, 2009. Thereafter, on August 25, 2009, the Bank's counsel filed with the CTA its Formal Offer of Evidence.

During the August 4, 2010 scheduled hearing, the BIR presented its witness, the revenue officer who conducted the examination of the Bank's books and records for the taxable years in question.

The BIR filed its Memorandum with the CTA on January 4, 2011, and the Bank's Memorandum was filed on January 14, 2011. The case is submitted for decision of the Court. To date, CTA has not yet rendered a decision on the case.

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BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Chinatrust (Philippines) Commercial Bank Corporation
19th Floor, Fort Legends Tower, 31st corner 3rd Avenue
Bonifacio Global City, Taguig City

We have audited, in accordance with Philippine Standards on Auditing, the financial statements of Chinatrust (Philippines) Commercial Bank Corporation (the Bank) for each of the three years in the period ended December 31, 2010 and have issued our report thereon dated April 1, 2011. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of retained earnings available for dividend declaration as of December 31, 2010 is the responsibility of the Bank's management. This schedule is presented for the purpose of complying with SEC Memorandum Circular No. 11, Series of 2008 and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Christian G. Lauron
Partner
CPA Certificate No. 95977
SEC Accreditation No. 0790-A
Tax Identification No. 210-474-781
BIR Accreditation No. 08-001998-64-2009,
June 1, 2009, Valid until May 31, 2012
PTR No. 2641531, January 3, 2011, Makati City

April 1, 2011

CHINATRUST (PILIPPINES) COMMERCIAL BANK CORPORATION
19th Floor, Fort Legends Tower, 31st corner 3rd Avenue
Bonifacio Global City, Taguig City

RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION DECEMBER 31, 2010

Unappropriated retained earnings, as adjusted to available for dividend declaration, beginning		₱2,204,086,903
Net income during the year closed to retained earnings		409,977,974
Less: Non-actual/ unrealized income net of tax		
Equity in net income of associate/ joint venture	–	
Unrealized foreign exchange gain-net (except those attributable to cash and cash equivalents)	(9,664,537)	
Unrealized actuarial gain	–	
Fair value adjustment (marking to market gains)	(830,865)	
Provision for deferred tax asset	(78,862,052)	
Fair value adjustment of Investment Property/AR- ICCS resulting in gain	25,710,843	
Adjustment due to deviation from PFRS/ GAAP - gain	–	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under PFRS	6,372,163	(57,274,448)
Add: Non-actual losses		
Depreciation on revaluation increment (after tax)	–	
Adjustment due to deviation from PFRS/ GAAP - loss	–	
Loss on fair value adjustment of investment property (after tax)	–	–
Net income actually earned during the year		467,252,422
Add/Less:		
Dividend declaration during the period	–	
Appropriations of Retained Earnings during the period	199,722	
Reversal of appropriations	–	
Effects of prior period adjustments	–	
Treasury shares	–	199,722
Total retained earnings, available for dividend declaration, ending		**₱2,671,539,047**

SGV & Co
Ernst & Young

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BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Chinatrust (Philippines) Commercial Bank Corporation
19th Floor, Fort Legends Tower, 31st corner 3rd Avenue
Bonifacio Global City, Taguig City

We have audited in accordance with Philippine Standards of Auditing, the financial statements of Chinatrust (Philippines) Commercial Bank Corporation as at December 31, 2010 and 2009 and for each of the three years in the period ended December 31, 2010, included in this Form 17-A, and have issued our report thereon dated April 1, 2011. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Financial Statements and Supplementary Schedules are the responsibility of the Bank's management. These schedules are presented for purposes of complying with the Securities Regulation Code Rule 68.1 and SEC Memorandum Circular No. 11, Series of 2008 and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Christian G. Lauron
Partner
CPA Certificate No. 95977
SEC Accreditation No. 0790-A
Tax Identification No. 210-474-781
BIR Accreditation No. 08-001998-64-2009,
June 1, 2009, Valid until May 31, 2012
PTR No. 2641531, January 3, 2011, Makati City

April 1, 2011

ANNEX “B-1”

INTERIM UNAUDITED FINANCIAL STATEMENT
AS OF SEPTEMBER 30, 2011

SEC Number AS095-008814A
File Number ________

CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORP.
Sixteenth to Nineteenth Floors, Fort Legend Towers,
31st St. corner 3rd Avenue, Bonifacio Global City, Taguig City
(Company's Full Name)

988-9287
(Telephone Number)

2011 December 31
(Fiscal Year Ending)
(Month & Day)

SEC FORM 17-Q
Quarterly Report
Form Type

Amendment Designation
(If Applicable)

September 30, 2011
Period Ended Date

(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17- Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended September 30, 2011

2. Commission identification number AS095-008814A

3. BIR Tax Identification No. 004-665-166

4. Exact name of registrant as specified in its charter
Chinatrust (Philippines) Commercial Bank Corporation

5. Province, country or other jurisdiction of incorporation or organization

6. Industry Classification Code (SEC Use Only)

7. Address of registrant's principal office — Postal Code

   Sixteenth to Nineteenth Floors, Fort Legend Towers, 31st St. corner 3rd Avenue, Bonifacio Global City, Taguig City — 1634

8. Registrant's telephone number, including area code (02) 988-9287

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

   Not applicable

10. Securities registered pursuant to Sections 4 and 8 of the RSA

Title of each Class		Number of shares common stock outstanding and amount of debt outstanding
Common	₱10.00 par value	247,968,731 shares ₱2,479,687,310

11. Are any or all of the securities listed on a Stock Exchange?

11. Are any or all of the securities listed on a Stock Exchange?

Yes [/] No [ ]

Stock Exchange	**Classes of Securities**
Philippine Stock Exchange	Common Stocks

12. Indicate by check mark whether the registrant:

(a) Has filed all reports required by Section 17 of the Code and SRC Rule 17 thereunder or Sections 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 the registrant was required to file such reports).

Yes [/] No [ ]

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

Yes [/] No [ ]

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

(Refer to Attached Financial Statements)

Item 2. Management Discussion and Analysis of Financial Condition and Results of Operation

Chinatrust's pre-tax income for the nine-months ending September 30, 2011 posted an 8% growth to Php544M as compared to the same period last year of Php503M while net income after tax stood at Php341M. This translates to an ROE and ROA of 7.59% and 1.94%, respectively. Increase in trading gains on securities of 21% from Php227M last year to Php275M this year contributed to the higher net income before tax partly offset by a decrease in net interest income on account of lower average volume of loans and lower commission earned from credit related transactions. However, interest expenses on deposit liabilities slid by 42% as the Bank's low-cost deposits average daily balance (ADB) rose by 6.6% to Php7.3B from Php7.1B in the same period of 2010. This enabled the Bank to lower its average cost of funds to 0.75% per annum from last year's 0.99% per annum.

Provisions for impairment improved by 63% or Php139M lower than last year due to reversals of specific impairment due to full settlement of loan accounts and improvement in credit quality. Income Tax Provision increased by Php104M on account of the reversal of deferred income tax relating to the write-off of certain fully provided loan and receivable accounts.

Total resources stood at Php22.1B level, reflecting a 9% decrease compared to December 2010 level. Total deposits as of September 30, 2011 amounted to Php14B, 15% lower compared to 2010 year-end level of Php16.9B as funds were shifting to BSP's special deposit accounts (SDAs).

Non-performing loans (NPL) ratio as of September 30, 2011 stood at 1.61% as compared to 1.66% as of December 2010. The Bank's capital adequacy ratio (CAR) remains high versus the industry at 28.66% as of September 30, 2011, better than year-end 2010 CAR of 25.33% and way above the regulatory requirement of 10%.

Key Financial Indicators

The following ratios are used to assess the performance of the Bank presented on a comparable basis:

	September 30, 2011	September 30, 2010
Return on Average Equity (ROE)	7.59%	9.57%
Return on Average Assets (ROA)	1.94%	2.14%
Cost-to-Income Ratio	61.07%	55.43%

	September 30, 2011	December 31, 2010
Non-Performing Loan Ratio (NPL)	1.61%	1.66%
Non Performing Loan Cover	42%	48%
Capital Adequacy Ratio	28.66%	25.33%

The manner by which the Bank calculates the above indicators is as follows:

- Return on Average Equity ---- Net Income divided by average total capital funds for the period indicated
- Return on Average Assets ---- Net Income divided by average total resources for the period indicated
- Cost to income ratio --- Total Operating expenses divided by the sum of net interest income plus other income
- Non-Performing Loan Ratio --- Total non-performing loans divided by gross loan portfolio
- Non-Performing Loan Cover --- Total allowance for probable loan losses divided by total non-performing loans
- Capital Adequacy Ratio --- Total capital divided by risk-weighted assets

Additional Management Discussion and Analysis (for those with variances of more than 5% September 30, 2011 vs. December 31, 2010)

Balance Sheet –

Cash and Other Cash Item declined by 23% from Php334M to Php256M on account of lower levels of cash in vault and in ATMs.

Due from Bangko Sentral ng Pilipinas dropped by 29% from Php4.3B to Php3.0B brought about by lower loans to BSP under reverse repurchase (RRP) agreement.

Due from other banks increased by 44% from Php615.1M to Php883.9M mainly due to higher levels of due from foreign banks.

Interbank term loans increased from Php2.6M to Php529M due to higher levels of foreign currency interbank loans.

Financial assets at FVPL increased by 114% due to the increase in the volume of both peso and foreign currency held-for-trading (HFT) – treasury notes. On the other hand, available for sale investments went down by 43% mainly attributable to lower volume of both peso and foreign currency available for sale securities.

Held-to-Maturity investments went up by 6% mainly due to higher peso held-to-maturity securities.

Loans and Receivables – net dropped by 12% from Php16.1B to Php14.2B on account of corporate pay downs and settlements.

Investment Properties went up by 51% due to newly foreclosed properties for the period. Deferred Income Tax (DIT) declined by 30% due to reversal of DIT in relation to the write-off of fully provided loans and receivables.

Other assets grew by 11% owing to higher prepaid expenses and software licenses as compared last year partly offset by rent deposits.

Total deposits slid by 15% from Php16.9B to Php14.3B attributable to the decrease in time deposits brought by the shift to the higher yielding special deposit accounts (SDAs) with BSP.

Bills payable rose by 15% from Php570M to Php655.8M on account of increase in foreign currency interbank borrowings.

Outstanding Acceptances decreased by 97% due to the lower volume of foreign currency acceptances. Also, Manager's Checks went down by 12% from Php32.1M to Php29.7M.

Accrued Interest, Taxes, and Other Expenses decreased by 12% due to lower accrued interest payable this year as compared last year. On the other hand, Accrued Income Tax Payable increased by 183%.

Income Statement (variance analysis for September 30, 2011 vs. September 30, 2010)

Interest income on loans and receivables went down by 12.4% compared last year due to the lower average volume of peso earning loans.

Interest income on deposits with other banks went down by 61.1% mainly attributable to lower average volume on due from BSP.

Interest income on interbank loans went up by 194.2% due to the increase in the average volume of both peso and foreign currency interbank loans receivable.

Interest expense on deposits declined by 42.23% from Php303.13M to Php175.11M mainly owing to lower average volume of both peso and foreign currency high cost deposits while interest expense on borrowings posted a 41.19% increase from Php3.8M to Php5.3M mainly due to increase in average volume of foreign currency bills payable.

Service charges and commission income amounted to Php129.6M, 5.17% lower as compared last year due to lower commission earned from credit related transactions. On the other hand, trading gain posted a 20.88% to Php275M this year as compared last year and partly offset by lower foreign exchange gains of Php18M from Php50.1M last year. Miscellaneous income as of September 30, 2011 totaled Php37.8M, a 30.8% increase as compared to the same period last year attributable to higher trust and ATM fee income.

Compensation and fringe benefits as of September 30, 2011 totaled Php436.7M reflecting a 22% increase as compared to the same period last year. Occupancy and other equipment - related costs decreased by 6.87% year on year mainly contributed by lower expenses on rent – bank premises and was offset by higher depreciation and amortization of 29.51% owing to the relocation of Head Office premises last 2nd half of 2010.

Provision for impairment and credit losses as of September 30, 2011 totaled Php81M, reflecting 63.19% improvement versus same period last year due to the fair value gains from foreclosed assets of Php31.1M**.**

Taxes, licenses, and documentary stamps used (DST) is lower by 7.1% this year as compared last year brought about by lower DST due to lower high cost peso deposit volume.

Amortization of software licenses went up by 55.95% from Php12.6M to Php20M due to depreciation of new software licenses acquired in the latter part of 2010.

Furthermore, Income Tax Provision increased by 105.76% caused by the reversal of deferred income tax relating to written off loan and receivable accounts.

Material Events and Uncertainties:

There are no known trends, demand, commitments, events or uncertainties that will have material impact on the Bank's liquidity. There are also no known material commitments for capital expenditures as of reporting date. There are no known trends, events, uncertainties that had or reasonably expected to have a material favorable or unfavorable impact on income from continuing operations. There are no significant elements of income or loss that did not arise from the banks continuing operations. Likewise, there are no seasonal aspects that had material effect on the financial condition or results of operations.

There are no known events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation. Also, there are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Bank with unconsolidated entities or other persons created as of the reporting date.

PART II – OTHER INFORMATION

(none)

SIGNATURES

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

Issuer	**Chinatrust (Philippines) Commercial Bank Corporation**
Signature (Title)	**MR. ANDRE P. PAYAWAL** First Vice President Finance and Corporate Affairs Group
Date	**October 28, 2011**
Signature (Title)	**ATTY. MARITESS PARILLA-ELBINIAS** Corporate Information Officer
Date	**October 28, 2011**

CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION
STATEMENT OF CONDITION

(With Comparative Figures for December 31, 2010)
(in Php)

	September 30, 2011 (Unaudited)	December 31, 2010 (Audited)
RESOURCES		
Cash and Other Cash Items	256,503,101	334,084,617
Due from Bangko Sentral ng Pilipinas	3,043,796,954	4,262,903,803
Due from Other Banks	883,939,410	615,146,557
Interbank Loans Receivable	529,031,235	2,640,002
Financial Assets at Fair Value through Profit or Loss	1,443,325,079	675,479,270
Available-for-Sale Investments	777,517,599	1,370,939,919
Held-to-Maturity Investments	271,307,844	255,357,743
Loans and Receivables - net	14,248,871,352	16,113,468,432
Property and Equipment - net	244,303,744	249,755,844
Investment Properties	4,367,755	2,884,173
Deferred Income Tax	251,202,561	361,163,908
Other Resources - net	193,964,965	174,754,649
	22,148,131,600	24,418,578,917
LIABILITIES AND CAPITAL FUNDS		
Liabilities		
Deposit Liabilities		
Demand	4,768,820,617	4,849,431,949
Savings	2,194,349,223	2,434,664,132
Time	7,327,619,944	9,623,650,234
	14,290,789,784	16,907,746,315
Bills Payable	655,800,000	569,920,000
Outstanding Acceptances	581,011	17,247,342
Manager's Checks	29,743,214	32,062,964
Accrued Interest, Taxes and Other Expenses	236,598,606	268,744,697
Income Tax Payable	10,715,613	3,781,474
Other Liabilities	853,000,313	875,982,380
	16,077,228,541	18,675,485,172
Capital Funds		
Common Stock	2,479,687,310	2,479,687,310
Additional Paid-in Capital	53,513,675	53,513,675
Surplus	3,571,585,452	3,230,548,188
Cumulative FX Translation Adjustment	(8,274,138)	(15,029,477)
Net Unrealized Gain (Loss) on Available-for-Sale Investments	(25,609,240)	(5,625,951)
	6,070,903,059	5,743,093,745
	22,148,131,600	24,418,578,917

CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION
STATEMENTS OF INCOME
(With Comparative Figures for September 30, 2010)
(in Php)

	January to September		July to September	
	2011	**2010**	**2011**	**2010**
INTEREST INCOME				
Loans and receivables	**1,134,313,061**	1,294,667,964	**374,294,871**	412,645,531
Trading and investment securities	**138,809,515**	134,034,796	**46,409,210**	39,344,436
Deposits with other banks and others	**15,437,030**	39,682,246	**5,159,117**	12,840,652
Interbank loans receivable	**25,087,133**	8,526,761	**9,086,871**	4,554,346
	1,313,646,738	1,476,911,767	**434,950,070**	469,384,966
INTEREST EXPENSE				
Deposit liabilities	**175,111,822**	303,132,600	**50,692,209**	97,071,074
Bills payable and other borrowings and others	**5,309,594**	3,760,569	**1,655,931**	727,112
	180,421,416	306,893,169	**52,348,140**	97,798,187
NET INTEREST INCOME	**1,133,225,322**	1,170,018,598	**382,601,930**	371,586,779
Service charges, handling fees and commission income	**129,614,460**	136,675,008	**45,478,151**	48,556,998
Trading and securities gain - net	**275,033,180**	227,529,081	**177,030,165**	158,068,619
Foreign exchange gain - net	**17,953,981**	50,125,673	**(19,844,608)**	(12,498,578)
Miscellaneous - net	**49,388,454**	37,759,368	**21,218,451**	17,873,022
TOTAL OPERATING INCOME	**1,605,215,397**	1,622,107,727	**606,484,090**	583,586,840
Compensation and fringe benefits	**436,712,838**	357,928,349	**157,126,598**	121,147,304
Occupancy and other equipment-related costs	**228,721,578**	245,601,673	**80,467,177**	81,899,133
Provision for (recovery from) impairment and credit losses	**80,985,232**	220,025,735	**38,601,012**	79,431,029
Taxes, licenses and documentary stamps used	**101,036,247**	108,727,173	**38,537,480**	39,573,269
Depreciation and amortization	**64,977,264**	50,171,243	**21,997,204**	18,220,164
Insurance	**31,861,906**	31,213,564	**9,552,623**	10,611,396
Amortization of software license	**19,659,125**	12,605,938	**6,938,354**	4,226,676
Miscellaneous	**97,340,316**	92,903,175	**33,351,460**	40,843,702
TOTAL OPERATING EXPENSES	**1,061,294,505**	1,119,176,850	**386,571,909**	395,952,674
INCOME BEFORE INCOME TAX	**543,920,892**	502,930,877	**219,912,181**	187,634,166
PROVISION FOR INCOME TAX	**202,883,628**	98,600,807	**134,344,441**	85,563,355
NET INCOME	**341,037,264**	404,330,070	**85,567,740**	102,070,810
Basic/Diluted Earnings Per Share *	**1.38**	1.63	**0.35**	0.41

* Net income/ weighted average number of outstanding common shares (247,968,731).

CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME
(With Comparative Figures for September 30, 2010)
(in Php)

	January to September		July to September	
	2011	**2010**	**2011**	**2010**
NET INCOME	**341,037,264**	**404,330,070**	**85,567,740**	**102,070,810**
OTHER COMPREHENSIVE INCOME (LOSS)				
Net Fair Value Change on Available-for-Sale Investments	**(19,983,289)**	47,573,031	**(10,135,218)**	**36,573,172**
Cumulative Translation Adjustment	**6,755,339**	-	**4,806,466**	**-**
	(13,227,950)	47,573,031	**(5,328,752)**	36,573,172
TOTAL COMPREHENSIVE INCOME (LOSS), NET OF TAX	**327,809,314**	451,903,101	**80,238,988**	138,643,982

CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION
STATEMENTS OF CHANGES IN EQUITY
(in Php)

	Common Stock	Additional Paid-in Capital	Surplus	Cumulative Translation Adjustments	Net Unrealized Gain on Available-for-Sale Investments	Total
Balance at December 31, 2010	**2,479,687,310**	**53,513,675**	**3,230,548,188**	**(15,029,477)**	**(5,625,951)**	**5,743,093,744**
Net income for the year	-	-	341,037,264	-	-	341,037,264
Cumulative Translation Adjustments	-	-	-	6,755,339	-	6,755,339
Net unrealized gain on available-for-sale (AFS) investments	-	-	-	-	(19,983,289)	(19,983,289)
Total Comprehensive Income for the year	-	-	341,037,264	6,755,339	(19,983,289)	327,809,314
Balance at September 30, 2011	**2,479,687,310**	**53,513,675**	**3,571,585,452**	**(8,274,139)**	**(25,609,240)**	**6,070,903,058**
Balance at December 31, 2009 (as restated)	**2,479,687,310**	**53,513,675**	**2,820,570,213**	**(6,442,775)**	**(4,090,772)**	**5,343,237,652**
Net income for the year	-	-	404,330,070		-	404,330,070
Cumulative Translation Adjustments						
Net unrealized gain on available-for-sale (AFS) investments	-	-	-		47,573,031	47,573,031
Total Comprehensive Income for the year	-	-	404,330,070		47,573,031	451,903,101
Balance at September 30, 2010	**2,479,687,310**	**53,513,675**	**3,224,900,283**	**(6,442,775)**	**43,482,260**	**5,795,140,753**
Balance at December 31, 2009 (as restated)	**2,479,687,310**	**53,513,675**	**2,820,570,213**	**(6,442,775)**	**(4,090,772)**	**5,343,237,652**
Net income for the year	-	-	409,977,974	-	-	409,977,974
Cumulative Translation Adjustments	-	-	-	(8,586,702)	-	(8,586,702)
Net unrealized gain on available-for-sale (AFS) investments	-	-	-	-	(1,535,179)	(1,535,179)
Total Comprehensive Income for the year	-	-	409,977,974	(8,586,702)	(1,535,179)	399,856,093
Balance at December 31, 2010	**2,479,687,310**	**53,513,675**	**3,230,548,188**	**(15,029,477)**	**(5,625,951)**	**5,743,093,744**

CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION
STATEMENT OF CASH FLOWS

(in Php)

	For the nine-month ended September 30	
	2011	**2010**
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**543,920,892**	502,930,877
Adjustments for:		
Provision for (recovery from) impairment and credit losses	**80,985,232**	220,025,735
Depreciation and amortization	**64,977,264**	50,171,243
Amortization of computer software	**19,659,125**	12,605,938
Amortization of deferred charges	**170,708**	170,708
(Gain) / loss on sale of property and equipment	**(394,036)**	6,035,327
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets at fair value through profit and loss	**(767,845,810)**	(637,400,855)
Loans and Receivables	**1,783,611,849**	(760,473,663)
Interbank loans receivable	**-**	-
Other assets	**(39,040,149)**	(28,119,968)
Increase (decrease) in:		
Deposit liabilites	**(2,616,956,531)**	(349,389,866)
Manager's checks	**(2,319,750)**	(1,167,654)
Accrued interest and other expenses	**(32,146,091)**	(33,045,305)
Other liabilities	**(22,982,067)**	(19,563,335)
Net cash generated from (used in) operations	**(988,359,365)**	(1,037,220,817)
Income taxes paid	**(85,988,142)**	(74,928,891)
Net cash provided by (used in) operating activities	**(1,074,347,507)**	(1,112,149,709)
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in:		
Available-for-sale securities	**580,194,370**	304,143,120
Investment in bonds and other debt instruments	**(15,950,100)**	(43,445,380)
Investment in an associate		
Additions to property and equipment	**(65,038,120)**	(120,612,892)
Proceeds from disposals of property and equipment	**6,008,515**	24,847,838
Additions to investment properties	**(1,585,104)**	(0)
Net cash provided by (used in) investing activities	**503,629,560**	164,932,686
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in:		
Bills payable	**85,880,000**	(10,540,000)
Outstanding Acceptances	**(16,666,332)**	(11,357,320)
Payment of dividends	**-**	-
Net cash provided by (used in) financing activities	**69,213,668**	(21,897,320)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(501,504,279)**	(969,114,343)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and other cash items	**334,084,617**	319,525,532
Due from Bangko Sentral ng Pilipinas	**4,262,903,803**	1,909,190,000
Due from other banks	**615,146,557**	1,855,613,683
Interbank loans receivable	**2,640,002**	2,979,000
Total	**5,214,774,978**	4,087,308,216
CASH AND CASH EQUIVALENTS AT END OF YEAR PER CASH FLOWS	**4,713,270,700**	3,118,193,873
CASH AND CASH EQUIVALENTS, END		
Cash and other cash items	**256,503,101**	238,827,909
Due from Bangko Sentral ng Pilipinas	**3,043,796,954**	2,319,407,532
Due from other banks	**883,939,410**	557,264,682
Interbank loans receivable	**529,031,235**	2,693,750
Total	**4,713,270,700**	3,118,193,873
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest received	**1,357,260,617**	1,531,703,178
Interest paid	**(233,191,423)**	(364,692,627)
	1,124,069,194	1,167,010,551

Notes to Financial Statements Required Under SRC Rule 68.1

1. Diluted Earnings per share as of September 30, 2011 Php1.38.

2. The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the Philippines. The Bank's financial statements as of September 30, 2011 are prepared in compliance with new Philippine Financial Reporting Standards (PFRS):

1) The same accounting policies and methods of computation are followed in these interim financial statements as compared with the most recent annual financial statements.

2) Seasonal or cyclical events and/or conditions do not significantly affect the interim operations of the bank.

3) Trading gains as of September 30, 2011 amounted to Php275M, compared to Php228M of the same period last year.

4) There are no changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years.

5) There are no issuances, repurchases, and repayments of debt and equity securities.

6) There are no cash dividends paid separately for ordinary shares and other shares.

7) Segment information for the period ended September 30, 2011 and 2010 are as follows:

	TREASURY GROUP		CORPORATE BANKING		RETAIL BANKING		OTHERS		TOTAL	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Results of operations										
(in thousands)										
Net interest income	**279,395**	230,390	**150,609**	157,395	**703,311**	782,150	**(90)**	83	**1,133,225**	1,170,019
Non-interest income	**283,921**	271,039	**60,091**	80,675	**121,044**	93,580	**6,934**	6,795	**471,990**	452,089
Total revenue	**563,316**	501,430	**210,699**	238,070	**824,355**	875,730	**6,845**	6,878	**1,605,215**	1,622,108
Noninterest expense	**90,961**	77,093	**100,042**	119,510	**472,298**	562,541	**397,992**	360,033	**1,061,294**	1,119,177
Income (loss) before incom	**472,355**	424,336	**110,657**	118,560	**352,057**	313,189	**(391,147)**	(353,155)	**543,921**	502,931
Income tax provision (benef	**66,198**	30,141	**18,392**	13,565	**118,157**	54,720	**136**	176	**202,884**	98,601
Net income (loss)	**406,157**	394,196	**92,265**	104,996	**233,900**	258,469	**(391,284)**	(353,331)	**341,037**	404,330
YTD Average (in Php millions)		-		-		-				
Total assets	**4,204**	3,522	**9,444**	10,722	**8,645**	9,777	**764**	986	**23,056**	25,007
Total liabilities	**2,399**	2,498	**5,813**	5,984	**8,634**	10,443	**480**	726	**17,326**	19,652

8) At the Regular Meeting of the Board of Directors held on 23 April 2010, the Board of Directors approved the restriction of the retained earnings for the following purposes:

i.) to meet the minimum capital requirement set by the Bangko Sentral Ng Pilipinas (BSP) to become a universal bank, and ii.) to comply with the requirements of the Internal Capital Adequacy Assessment Process (ICAAP) pursuant to BSP Circular 639 which took effect on January 1, 2010.

9) On October 7, 2011, The Bank's Board of Directors has issued the following resolutions:

i) Resolved, that the Bank is hereby authorized to file a petition for voluntary delisting with the Philippine Stock Exchange (PSE), and to notify the Bangko Sentral ng Pilipinas (BSP) of such;

ii) Resolved, further, that the Bank is hereby authorized to purchase the outstanding shares through a tender offer in accordance with the rules of the PSE, subject to prior regulatory approval;

iii) Resolved, further, that the tender offer shall be set at a reasonable price in accordance with the valuation to be made by an independent third party duly accredited by the PSE;

iv) Resolved, lastly, that the Bank's President and CEO or any of his designates are hereby authorized to do such acts, and execute such documents necessary and incidental to implement the foregoing resolutions.

There are no material events subsequent to the end of the interim period that has not been reflected in the financial statements.

10) There are no changes in the composition of the issuer during the interim period including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructuring and discontinuing operations.

11) Summary of the Bank's commitments and contingent liabilities:

	As of September 30, 2011	**As of December 31, 2010**
Trust department		
Investment management accounts	Php4,602,322,747	Php2,798,394,865
Trust and other fiduciary accounts	767,670,674	771,185,932
	5,369,993,421	3,569,580,797
Forward Securities Purchased	Php762,961,710	Php118,917,791
Forward Securities Sold	1,164,701,505	40,800,312
Inward Bills for collection	6,705,778	2,542,166,781
Unused commercial letters of credit	813,927,446	384,411,307
Outstanding Guarantees	44,338,075	43,840,000
Outward bills for collection	26,232	79,767,462
Others	8,622,576	1,153,449

12) There are no other material contingencies and any other events or transactions that are material to an understanding of the current interim period.

3. After careful consideration of the result of its impact evaluation, the Bank has decided not to early adopt either PFRS 9 (2009) or PFRS 9 (2010) for its 2011 annual financial reporting. Therefore, the interim financial statements as at

September 30, 2011 do not reflect the impact of the said Standard. Also, the decision not to early adopt PFRS 9 is consistent with the Parent Bank's initiative to adopt IFRS 9 on its scheduled mandatory effective date.

The Bank shall conduct within the first half of 2012 another impact evaluation using the outstanding balances of financial statements as of December 31, 2011.

Once adopted, PFRS 9 will primarily affect the Bank's investment securities classified as Available-for-Sale (AFS) investments and Held-to-Maturity (HTM) investments. Under PAS 39, AFS investments are remeasured at fair value at every reporting period, with fair value changes lodged in Other Comprehensive Income in Equity. HTM investments are carried at amortized cost. Upon adoption of PFRS 9, these accounts will be reclassified according to the Bank's business models in managing its financial assets and contractual cash flow characteristics.

CHINATRUST (PHILS.) COMMERCIAL BANK
Aging of Loans and Receivables
As of September 30, 2011

Type of Accounts Receivable	Total	1 Month	2 - 3 Mos.	4 - 6 Mos.	7 to 11 Mos.	1 - 2 Years	3 - 5 Years	5 Years - Above	Past Due Accounts & Items in Litigation
a) Trade Receivables									
1) CLIB-PESO	-	-	-	-	-	-			
2) DBTR	373,929,910	104,952,177	209,484,441	47,641,656	-	-			11,851,636
3) IBTR- PESO	1,255,553,130	28,269,497	41,541,557	45,548,170	1,137,128,200	-			3,065,707
4) IBTR- USD	636,788	-	-	636,788	-	-			-
5) CLUA	581,011	-	581,011	-	-	-			-
6) EBP	23,676,139	14,009,212	5,081,756	4,585,171	-	-			
Subtotal	1,654,376,978	147,230,887	256,688,764	98,411,785	1,137,128,200	-	-	-	14,917,343
Less: Allow. For Doubtful Acct.	1,414,958								
Net Trade Receivable	1,652,962,020	147,230,887	256,688,764	98,411,785	1,137,128,200	-	-	-	14,917,343
b) Non - Trade Receivables									
1 BILLS DISCOUNTED - REG -CLEAN	40,000,000	36,000,000	4,000,000	-	-	-	-	-	
2 BILLS DISCOUNTED - REG - HO DEP	350,982,030	24,170,000	18,995,833	53,658,329	238,200,091	11,158,000	4,799,776	-	
3 BILLS DISCOUNTED - REG - RM/CM/OT	1,708,333	-	-	-	1,708,333	-	-	-	
4 BILLS DISCOUNTED - CHK DISC - CLEAN	105,418,040	71,113,286	34,304,754	-	-	-	-	-	
5 BILLS DISC-CHK DISC-REM/CHM/OTHS	974,800	974,800	-	-	-	-	-	-	
6 TIME LOAN - ST CLEAN	1,971,248,135	1,418,218,614	135,584,283	157,861,905	9,583,333	-	250,000,000	-	
7 TIME LOAN - SALARY LOAN	3,037,035,065	441,269,221	417,985,055	511,756,745	571,566,580	1,094,457,464	-	-	
8 TIME LOAN - ST - HOLD-OUT DEP	30,900,000	-	-	500,000	-	30,400,000	-	-	
9 TIME LOAN - CTS	27,226,820	-	1,061,746	-	26,165,073	-	-		
10 TIME LOAN - ST - REM/CHM/OTHS	155,168,197	48,254,000	54,700,000	27,960,000	500,000	23,754,197	-	-	
11 TIME LOAN - MT - CLEAN	62,888,615	-	-	45,918,918	-	16,969,697	-	-	
12 TIME LOAN - MT - HOLD-OUT DEP	104,231,450	-	-	-	-	-	104,231,450	-	
13 TIME LOAN - MT - REM/CHM/OTHS	24,923,348	-	-	24,923,348	-	-	-	-	
14 TIME LOAN - LT - CLEAN	41,196,061	1,256,667	-	-	19,333,333	20,606,061	-	-	
15 TIME LOAN - MORTAGE MANAGER	1,801,240,833	40,562,786	56,248,998	100,994,681	178,557,827	575,074,198	805,469,659	44,332,684	
16 TL-DREAM LOAN-CASHBACK	42,365,454	-	-	-	-	137,572	-	42,227,882	
17 TIME LOAN - LT - REM/CHM/OTHS	20,230,000	-	-	20,230,000	-	-	-	-	
18 TIME LOAN - DREAM HOME LOAN	64,756,417	-	-	-	-	30,241,362	4,331,066	30,183,990	
19 TIME LOAN - DHL - FIVE@ZERO	94,294,064	-	-	-	-	-	-	94,294,064	
20 TIME LOAN - LT - HOLD-OUT DEP	42,893,000	34,273,000	-	6,000,000	-	2,620,000	-	-	
21 OFFICERS AND STAFF LOANS	21,871,711	3,727,458	5,504,888	2,566,078	4,266,673	3,240,335	2,566,279	-	
22 L & D - FX - RES - HO DEP	41,993,060	18,471,700	-	12,525,780	1,049,280	9,946,300	-	-	
23 L & D - FX - RES - CLEAN	935,436,573	664,902,986.67	88,433,901.19	182,099,685.15					
24 L & D - FX - NRES - CLEAN-OFFSHORE	501,322,667	-	-	-	-	-	501,322,667	-	
25 L & D - FX - RES - REM/CHM/OTH	21,860,000	21,860,000	-	-	-	-	-	-	
26 L & D - FX - RES - CLEAN - OFFSHORE	1,233,166,320	140,166,320	-		131,160,000	961,840,000	-	-	
27 PD - DREAM HOME LOAN	2,946,783								2,946,783
28 PD - SALARY LOAN	790,019,074								790,019,074
29 PD - OFFICERS AND STAFF LOANS	360,165								360,165
30 PD - L & D - DOM - TL - RE - HFC	5,033,468								5,033,468
31 PAST DUE - MORTGAGE MGR	16,733,026								16,733,026
32 ITL - L & D - DOM- NDOSRI	42,026,072								42,026,072
33 ITL - MORTGAGE MGR	2,987,209								2,987,209
34 ITL - DREAM HOME LOAN	12,861								12,861
35 ITL - CTS	36,476,976								36,476,976
36 RESTRUC LOANS - DOM - NDOSRI	7,416,823	-	-	-	5,969,874	-	1,446,949	-	
37 RESTRUCTURED LOAN - MORTGAGE LOANS	2,644,217	-	-	-	374,985	269,468	1,999,764	-	
38 DBP - CLEAN - NDOSRI	151,263,629	151,263,629							
Subtotal	11,833,251,295	3,116,484,467	816,819,459	1,146,995,469	1,188,435,385	2,780,714,653	1,676,167,609	211,038,620	896,595,633
Add: Unamortized Transaction cost	45,004,706								
Less: Allow. For Doubtful Acct.	762,534,477								
Net Non - Trade Receivable	11,115,721,524	3,116,484,467	816,819,459	1,146,995,469	1,188,435,385	2,780,714,653	1,676,167,609	211,038,620	896,595,633

Accounts Receivables	553,427,477
Accrued Interest Receivables	190,338,719
Unqouted Debt Securities	852,631,422
Dividends Receivable	4,278,630
	1,600,676,247
Less: Allowance for impairment	67,515,667
	1,533,160,580
Net Receivables (a + b)	**14,301,844,124**
Less: Unearned Interest and Discounts	52,972,772
	14,248,871,352

Notes: If the Company's collection period does not match with the above schedule and revision is necessary to make the schedule not misleading, the proposed collection period in this schedule may be changed to appropriately reflect the Company's actual collection period.

ANNEX "C"

PSE CIRCULAR PERTAINING TO BANK'S DISCLOSURE OF THE BOARD'S RESOLUTIONS IT ISSUED ON OCTOBER 7, 2011

CIRCULAR

T h e P h i l i p p i n e S t o c k E x c h a n g e, I n c.

X	Disclosures	X	Stockholders' Meeting	Others:	**Trading Halt**
	Dividend Notice		SEC / Gov't Issuance		
	Stock Rights Notice		Transfer Agent's Notice		

To : **THE INVESTING PUBLIC AND TRADING PARTICIPANTS**

Company : **CHINATRUST (PHILS.) COMMERCIAL BANK CORPORATION**
Trading Halt

Date : **October 7, 2011**

Chinatrust (Phils.) Commercial Bank Corporation ("CHTR" or the "Bank") submitted to the Exchange the attached disclosure dated October 7, 2011 pertaining to the results of the special meeting of its Board of Directors. In its disclosure, the Bank stated, among others, that:

> Please be advised that the Board of Directors ("Board") in its special meeting today has issued the following resolutions:
>
> "**Resolved,** that the Bank is hereby authorized to file a petition for voluntary delisting with the Philippine Stock Exchange (PSE), and to notify the Bangko Sentral ng Pilipinas (BSP) of such;
>
> **Resolved further,** that the Bank is hereby authorized to purchase the outstanding shares through a tender offer in accordance with the rules of the PSE, subject to prior regulatory approval;
>
> **Resolved further,** that the tender offer price shall be set at a reasonable price in accordance with the valuation to be made by an independent third party duly accredited by the PSE;
>
> . . . .
>
> The above resolutions were issued for the reason that:
>
> The recent requirement to increase public float to 10% has given the Bank the opportunity to evaluate its long-term strategic goals and objectives and further align them with the Parent Bank's other foreign branches and subsidiaries. As such, the Bank believes that, with its strong capital position, it will be able to pursue seamlessly its strategic objectives and deliver enhanced value to its stakeholders and valued clients without being a publicly listed entity,
>
> . . . .

Also included in the Bank's disclosure are the following matters approved by the Board:

1. Special Stockholders' Meeting to be held on December 15, 2011 with record date of November 15, 2011; and

2. Creation of Committee Inspectors, designation of dates for submission of proxies and for validation of proxies.

Further, the Bank furnished the Exchange the attached copy of its Press Release entitled "Chinatrust intends to go private".

Please be advised that the resolution approved by the Bank's Board to file a petition for the delisting of its shares from the Official Registry of the Exchange is subject to the following Rule on Voluntary Delisting:

VOLUNTARY DELISTING

The Exchange will allow the delisting of the security upon the request of the company if the following are complied with:

(a) The delisting must be approved by a majority of the Company's incumbent directors.

(b) All security holders must be notified, in a form satisfactory to the Exchange, of the proposed delisting prior to the filing of the petition.

(c) A petition for delisting must be filed with the Exchange together with proposed tender offer terms and conditions at least sixty (60) days in advance of the date when delisting shall become effective.

(d) A tender offer to all stockholders of record must be made. The Company must submit a fairness opinion or valuation report, stating that from a financial point of view of the person making such opinion/report, based upon certain procedures followed and assumptions made, the terms and conditions of the tender offer are fair.

(e) The person(s) proposing the delisting must show to the Exchange that following the acquisition of the tendered shares, said person(s) have obtained a total of at least ninety-five (95%) of the issued and outstanding

CIRCULAR

The Philippine Stock Exchange, Inc.

X	Disclosures	X	Stockholders' Meeting	Others:	**Trading Halt**
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	Stock Rights Notice		Transfer Agent's Notice		

shares of the Company. However, if at the time the petition for delisting is filed, the person(s) proposing the delisting are already the beneficial owners of ninety-five (95%) of the issued and outstanding shares of the Company, said person(s) shall still be required to make a tender offer to all other stockholders of record.

(f) The listed company applying for delisting must not have any unpaid fees or penalties.

The Order of delisting shall be prepared if after evaluation of the petition and required documents, the Exchange finds that the delisting will not prejudice the interests of the investors.

. . . .

In order for the investing public to digest the material information disclosed by the Bank, the Exchange will implement a one-hour trading halt on CHTR shares on Monday, October 10, 2011, which will commence at 9:00 a.m. and will be lifted at 10:00 a.m.

The Exchange will inform the Trading Participants and the investing public of further developments on the matter.

For the information and guidance of the investing public.

(Original Signed)
MARSHA M. RESURRECCION
Head, Issuer Regulation Division

Noted by:

(Original Signed)
HANS B. SICAT
President & CEO

Chinatrust
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7 October 2011

The Philippine Stock Exchange, Inc.
3F Philippine Stock Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines 1226

Attention : **Janet A. Encarnacion**
Head, Disclosure Department

Madam:

Please be advised that the Board of Directors ("Board") in its special meeting today has issued the following resolutions:

"**Resolved,** that the Bank is hereby authorized to file a petition for voluntary delisting with the Philippine Stock Exchange (PSE), and to notify the Bangko Sentral ng Pilipinas (BSP) of such;

Resolved further, that the Bank is hereby authorized to purchase the outstanding shares through a tender offer in accordance with the rules of the PSE, subject to prior regulatory approval;

Resolved further, that the tender offer price shall be set at a reasonable price in accordance with the valuation to be made by an independent third party duly accredited by the PSE;

Resolved lastly, that the President and CEO or any of his designates are hereby authorized to do such acts, and execute such documents necessary and incidental to implement the foregoing resolutions."

The above resolutions were issued for the reason that:

The recent requirement to increase public float to 10% has given the Bank the opportunity to evaluate its long-term strategic goals and objectives and further align them with the Parent Bank's other foreign branches and subsidiaries. As such, the Bank believes that, with its strong capital position, it will be able to pursue seamlessly its strategic objectives and deliver enhanced value to its stakeholders and valued clients without being a publicly listed entity.

In the same meeting, the Board also approved the following:

Setting the special stockholders' meeting on **15 December 2011** mainly for the purpose of obtaining the approval for the Bank to purchase the outstanding shares through a tender offer in accordance with the rules of the PSE, subject to prior regulatory approval. The

Chinatrust
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setting of the special shareholders' meeting is in accordance with Section 10 (g) Article II of the By-laws requiring the affirmative vote of at least two-third (2/3) of the issued shares of the repurchase by the Bank of the outstanding shares.

a. Setting the record date to November 15, 2011, Tuesday.

b. Creation of Committee of Inspectors, designation of dates for submission of proxies, and for validation of proxies, as follows:

   1. Members of the Committee of Inspectors:
      i. Atty. Regina P. Geraldez or her authorized representative
      ii. Zimar B. Mendiola
      iii. Representative from Stock Transfer Services, Inc.
      iv. Representative from the Bank's Internal Audit Division
   2. Last day for submission of proxies: December 1, 2011
   3. Validation date of proxies: December 8, 2011

c. Venue: South A & B rooms, 25th Floor of Tower One & Exchange Plaza, Ayala Triangle, Ayala Avenue corner Paseo de Roxas, Makati City.

The Corporation shall file the petition for voluntary delisting in due course.

Very truly yours,

For the Board of Directors:

Mark Chen, President and CEO

Maritess P. Elbinias

Atty. Maritess Parilla-Elbinias, VP
Legal Department Head and CIO

Chinatrust (Philippines) Commercial Bank Corporation
Fort Legend Towers, Third Avenue corner 31st Street, Bonifacio Global City, Taguig City, 1634
(632) 9889-CTP www.chinatrust.com.ph

Chinatrust
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7 October 2011

The Philippine Stock Exchange, Inc.
3rd Floor, Philippine Stock Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines 1226

Attention: **Ms. Janet A. Encarnacion**
Head, Disclosure Department

Re : **Press Release: "Chinatrust intends to go private"**

Madam:

We are pleased to furnish you a copy of the Bank's Press Release entitled "Chinatrust intends to go private", the full text of which is hereto attached as Annex "A".

Thank you and best regards.

Very truly yours,

Therese Marie C. Arnaldo-Marin, VP
Head, Marketing Communications & Services Department

Encl.: a/s

Chinatrust (Philippines) Commercial Bank Corporation
16th to 19th Floors, Fort Legend Towers, 31st Street corner 3rd Avenue, Bonifacio Global City, Taguig City 1634
(632) 9889-CTP www.chinatrust.com.ph

ANNEX "A"

NEWS RELEASE

For inquiries, contact:
Therese Marie Arnaldo-Marin
(02) 9889-287 local 8579
therese.marin@chinatrust.com.ph

Chinatrust intends to go private

Chinatrust Philippines, a subsidiary of Chinatrust Commercial Bank (CTCB) - the largest private commercial bank in Taiwan, earlier disclosed its intention of going fully private as its Board of Directors has resolved to purchase the outstanding shares through a tender offer in accordance with the rules of the Philippine Stock Exchange (PSE), subject to prior regulatory approval. The Bank will file a petition for voluntary delisting with the PSE and notify the Bangko Sentral ng Pilipinas (BSP) of such.

Chinatrust Philippines further disclosed that the resolutions were issued for the reason that the recent requirement to increase public float to 10 percent has given the Bank the opportunity to evaluate its long-term strategic goals and objectives, and further align them with the Parent Bank's foreign branches and subsidiaries. As such, the Bank believes that, with its strong capital position, it will be able to pursue seamlessly its strategic objectives and deliver enhanced value to its stakeholders and valued clients without being a publicly listed entity.

"With a more simplified ownership structure and strong parent bank support, the Bank can now execute its growth strategies faster and focus its resources and attention toward strengthening its foothold in its chosen markets, paying particular attention to improving profitability through efficient processes and channels, mitigating risk and leveraging on the benefits of its global network," said Mark Chen, president and CEO of Chinatrust Philippines. "The intended acquisition of the remaining market float will also further allow our parent bank better flexibility in coordinating resources across all its subsidiaries to create operational synergy, implement growth strategies, and strengthen brand value."

Opened as a full-service commercial Bank in the latter part of 1995, Chinatrust Philippines has one of the largest branch networks among foreign banks in the country and is also deemed to be one of the most successful among commercial banks that opened in that year.

# # #

ANNEX "D"

PROPOSED SHAREHOLDERS' RESOLUTIONS

"**Whereas,** the Bank's Board of Directors in its resolutions issued during its special meeting held last October 7, 2011 authorized the Bank to do the following: (i.) file a petition for voluntary delisting with the Philippine Stock Exchange (PSE) and to notify the Bangko Sentral ng Pilipinas (BSP) of such; (ii.) purchase the outstanding shares through a tender offer in accordance with the rules of the PSE, subject to prior regulatory approval; (iii.) set the tender offer price at a reasonable price in accordance with the valuation to be made by an independent third party duly accredited by the PSE;

Whereas, Chinatrust Commercial Bank, Ltd., which owns 99.41% of the outstanding shares advised that it will not sell any of its shares in connection with the delisting;

Resolved, that the Bank is hereby authorized to do the following:

1.) to file a petition for voluntary delisting at the PSE;

2.) to repurchase its outstanding shares constituting 0.59% of its outstanding capital stock through a tender offer in accordance with the rules of the PSE, subject to prior regulatory approval;

3.) to set the tender offer price at a reasonable price in accordance with the valuation to be made by an independent third party duly accredited by the PSE;

Resolved further, that the President and CEO or any of his designates are hereby authorized to do such acts, and execute such documents necessary and incidental to implement the foregoing resolutions.

Resolved further, that the Board of Directors is hereby authorized to amend, modify, and/or revise the foregoing resolutions, and adopt such other resolutions, and do such acts necessary and incidental for the Bank to be in compliance with the Securities Regulation Code and its amendments, and the relevant requirements of the Bangko Sentral Ng Pilipinas and the Securities and Exchange Commission, the Philippine Stock Exchange and other regulatory agencies."