

Financial Highlights

The Chinatrust logo is displayed in a large, light blue font against a background of a blurred office scene with people.

2004

Total Assets	20,199,315
Loans and Discounts (Net)	11,982,224
Deposits	12,204,439
Capital Accounts	4,147,370
Net Income	357,164
Return on Average Equity	8.74%
Return on Average Assets	1.84%
NPL Ratio	4.65%
NPL Cover	81%
Earnings per Share	1.90

Message from the Chairman

The global economy was extremely busy in 2004 as it carefully sought the delicate balance between growth and the scourge of inflation amid a political environment that was less than calm. With the major economies showing tangible signs of recovery and the developing countries riding on robust export growth, there was more optimism, albeit guarded, about medium-term prospects.

In Taiwan, the home country of Chinatrust Commercial Bank, financial reform continued to propel the banking consolidation that had taken root a few years ago. While the battle for market share has driven financial conglomerates to seek the size and scale

Management Bank in Taiwan, Best Domestic FX Bank in Taiwan), The Asian Banker Journal (Best Retail Bank in Taiwan), Global Finance (Best Foreign Exchange Bank in Taiwan, Best Corporate/Institutional Internet Bank in Taiwan, Best Consumer Internet Bank in Taiwan), and several other award-giving institutions.

In the Philippines, Chinatrust is proud to see its subsidiary, Chinatrust Philippines, make the necessary investments to build a strong retail banking franchise that will provide a good platform for sustainable growth in the long run. Going forward, this flagship business will be neatly complemented by the niche

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that will make them more competitive, the financial sector has been additionally confronted by an equally compelling challenge: the need to measure up to the fitness standards brought about by Basel II and the new International Accounting Standards.

Chinatrust ably responded to these challenges. While sustaining its growth and expansion, Chinatrust kept its record as the most profitable financial institution in Taiwan, registering pre-tax profits of US\$ 628 Million in 2004 and maintaining its dominant position in retail banking and in corporate finance. Its achievements reaped recognition once more from The Banker (Bank of the Year 2004 – Taiwan), FinanceAsia (Best Bank and Best Bond House in Taiwan, Top Ten Asia’s Best Companies), Euromoney (Best Bank in Taiwan), Asiamoney (Best Domestic Commercial Bank in Taiwan, Best Cash

businesses that we are cultivating in the Taiwanese market, treasury and corporate banking. In executing the Philippine business strategy, the management and staff of Chinatrust Philippines enjoy the full support and confidence of the Board and the shareholders.

In closing, I would like to pay tribute and express our heartfelt gratitude to our Honorary Chairman, Dr. Jeffrey L. S. Koo, who unselfishly served as Chairman of Chinatrust Philippines until early last year. His vision and leadership has inspired the directors, the executives and the staff of the Bank to strive for excellence and live the values that the Chinatrust organization stands for.



ERIC CHEN
Chairman



Letter from the President

“Politically and economically significant” would be a reasonable description of the year 2004. With several countries, including the United States, Russia, and the Philippines, holding presidential elections, the year saw global and domestic political issues come into sharp focus. Equally palpable were the alarm buttons that haunted many economies, including those of the First World, during the year: policy rate hikes, oil price movements, current account deficits, export quotas, currency re-alignments and banking consolidation.

In the Philippines, everybody’s attention was on the presidential election in May but quickly shifted to the nagging fiscal problem in the second half of the year. With confidence brittle and economic outlook shifting at every turn, to think strategic was quite a challenge. But think strategic we did, even as we had to adroitly deal with recurring volatility in the uncertain markets.

Investment is a consequence of strategic decisions. Because we strongly reaffirmed our business strategy in 2004, “Invest” became the theme of our story during the year. As this Annual Report shows, 2004 was a year of huge investments: in building sustainable businesses, in continuously raising the quality of our corporate governance, and in enhancing our value to the communities around us.

While our parent bank in Taiwan maintained a strong franchise as a financial supermarket, we in the Philippine subsidiary positioned ourselves as a specialist in four key areas: consumer finance, the trading of foreign exchange and fixed-income instruments, the delivery of financial services to Taiwanese companies, and segment-specific corporate lending.

Our strong foray into the consumer finance business has required substantial, long-gestating investments in infrastructure, distribution network, business partnerships, human resource development, and research. Thanks to our strong capitalization, we were able to set these investments in motion last year despite their potential short-term drag on profits. Our capital adequacy ratio has hovered around 30%, which has put us in an excellent position to make a huge investment, be it an acquisition or a deepening of our core competencies, without having to raise new capital in the market. Equally important are the two major projects we undertook last year to make our Bank a worthy corporate citizen. Firstly, we sustained our efforts to bring our corporate governance practices closer to the standards of the global best. Secondly, we harnessed the energy and creativity of our employees to help transform an erstwhile squatter enclave in Muntinlupa City into a respectable Gawad Kalinga community where decent housing, education, livelihood, and development opportunities are made available to the poor residents.

Notwithstanding these investments, we still registered pre-tax profits of P422 Million in 2004 and maintained our above-industry profitability, solvency, and asset quality ratios. We believe that our strategic investments will begin to pay off in 2005 as our core business builds up to a robust franchise. We therefore expect earnings to grow by twenty-five percent (25%) in 2005, making us a significant contributor to the growth profile of our parent bank – Taiwan’s most profitable and most awarded banking institution.

That we pulled through a stormy 2004 and are able to look forward with optimism is largely attributable to the support of our most important stakeholders: our customers, our employees, our shareholders, our business partners, our regulators, our communities, and the public at large. We are immensely grateful for this support.



Joey A. Bermudez
JOEY A. BERMUDEZ
President

Investing in Growth

Chinatrust emerged more dynamic, accessible, and technology-enabled, while remaining caring and customer-focused.

In many ways, 2004 was a busy transition year for Chinatrust, as it endeavored to build a strong engine for sustainable growth. The various operating units moved in conformance with the Bank's strategic directions. Their performance brought the Bank closer to its strategic vision and inspired confidence in the future of Chinatrust as it approached its 10th year in the Philippines.

Retail Banking

The Bank's acquisition of a consumer finance portfolio from a multinational bank, which took place in 2002, has since been parlayed into a fast-growing business that has now become the Bank's flagship business. As the major driver of revenue growth, the Salary Stretch Portfolio surged by 271.42% in 2004 and brought 27,954 new names into the Bank's customer base.

The groundwork for this dramatic growth was laid by a series of carefully executed investments designed to support the Bank's focus on the consumer market. A new loan origination system was rolled out during the year, gearing up the Bank for exponential growth in transaction volumes. As the automated processing of loan applications drastically cut turnaround time, information technology was harnessed to make the back office equally efficient and responsive. A robust collection management system was put in place in the latter part of the year.



As important as the process improvements and technological investments was the year-round training of staff to tool them up for critical functions and raise their productivity.

Where necessary, the Bank's business partners were tapped to support backroom processes. Customer servicing was enhanced tremendously with the development of more channels for loan disbursements and the opening of customer windows on Saturdays. Likewise, a combination of promos for repeat customers, incentive programs for employees, nesting blitzes and merchandising initiatives provided added impetus to the regular efforts of the sales force.

Strengthening the Bank at the frontlines, the branch structure was improved, segregating the Sales function from the Service Delivery function. In addition, the branch network was rationalized. More sales officers were deployed and existing branches were either renovated or relocated to areas with higher growth potentials. The sales force concentrated successfully on building the highly profitable low-cost peso deposit business, which grew by 18.77% in 2004.

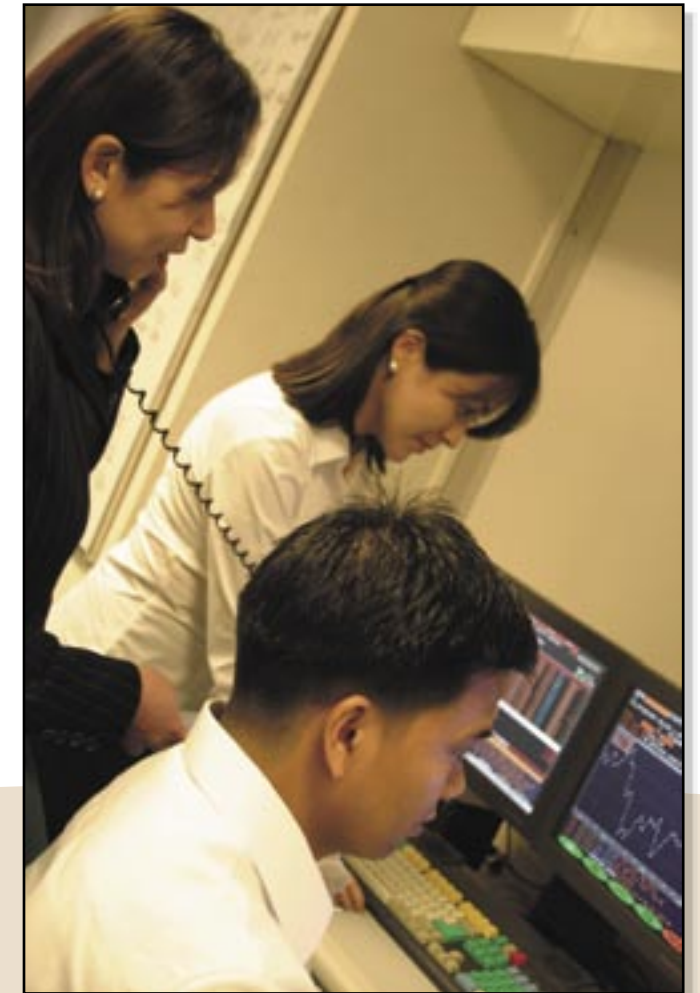


Reinforcing the Bank's deposit base and deepening the Bank's relationships especially with small and medium enterprises were new product offerings such as the Ultimate Check Writer, a user-friendly checking account bundled with a software that allowed the client to manage his payables and disbursements, and the Payroll Partner, a competitively priced payroll processing service.

All these efforts helped position Chinatrust as an institution that was not only dynamic but also more accessible and more technology-enabled, while remaining caring and customer-focused.

Treasury

The Bank's response to the rising interest rates in the U.S. and in the domestic market was a conservative trading stance, yet one that effectively capitalized on tactical opportunities. The trading portfolio was pruned to a level that would keep the Bank comfortably within its self-imposed prudential trading and risk thresholds.



To further sharpen its ability to respond to opportunities, the Treasury Group reorganized itself, creating a stronger Debt Capital Markets Team that combined the trading desks handling local and global markets. It also integrated dealership expertise among trading personnel to further enhance and deepen market participation and exposure.



Recognition for the Bank's proven strength in the trading of government securities came from the Bureau of Treasury, which named Chinatrust one of the ten (10) best government securities dealers for the second consecutive year.

Institutional Banking

Facing moderate to flat growth in a sluggish environment, the Institutional Banking Group focused on further improving portfolio quality, enhancing yields, and penetrating selected niches.

The total loan portfolio increased by a modest 2.12% over the previous year while the Taiwan desk grew by 13.9%. Even as total corporate deposits did not register growth, overall revenues from corporate deposits from the Taiwanese and non-Taiwanese customers grew vigorously by 200% due to better spreads.



Intensive workout and collection of non-performing loans as well as improved administration of the portfolio received a great deal of attention during the year.

While year-end NPL figures picked up to P533 Million, substantial progress was made in working out long-standing problem loans, giving the Bank a strong chance of bringing down its NPL ratio to 4% in the coming year.

Trust

The Trust Group continued to build on its already solid credentials with a hefty 115% increase in total Trust resources.



Participating in last year's Watson Wyatt Survey on Investment Performance, the Bank's Trust & Investment Services Division emerged second best among Investment Managers handling less than five funds in the survey. The participating Trust accounts generated an average return on investment of 10.88% during the survey period.



Human Resources

Behind this growing institution is an excellent team of 482 employees who proudly carry the core values of Chinatrust Philippines: teamwork, integrity, excellence, and service.

In 2004, the Bank continued to instill in its team a learning culture that aimed to bring out the best in them as individuals and support their total growth as professionals. Training programs conducted in-house honed the skills of some 1,979 trainees, while 121 employees attended local and international programs.

Yet another component of the Bank's thrust to professionalize its employee corps is a performance management system that ensures fair and accurate performance rating and compensates outstanding



performance accordingly. Jobs are properly analyzed and evaluated. In 2004, Chinatrust Philippines began the implementation of a three-year upgrade of its compensation and benefits programs.

Complementing these are employee activities designed to keep morale up and inspire fellowship and teamwork. These activities include not only the Annual Christmas and Bank Anniversary Programs, but also monthly birthday breakfasts with senior officers, sportsfests, the Ms. Chinatrust pageant, online trivia contests during special events, and recognition programs for outstanding employees who practice the Bank's core values. The Bank also encouraged employee involvement in community outreach programs such as the Gawad Kalinga movement.

Perhaps the most objective testimony to Chinatrust's record as employer came from the Work Philippines survey on Employee Attitude, conducted by Watson Wyatt. The Bank scored high marks – even better than the local market and the Asia Pacific region – in Job Satisfaction (by 11%), Communications (by 11%), and Leadership & Management Effectiveness (by 12%). Overall, the results revealed that Chinatrust employees were satisfied with their employer, aware of their work objectives, appreciative of their leaders, and proud of their jobs.

Financial Summary

FY 2004 Compared to FY 2003

Total Assets of the Bank stood at PHP20.2B as of year-end 2004, 2% higher than the year-end figure of PHP19.9B in 2003. The growth is attributable to the 10% increase in net loan portfolio by 10%, primarily driven by the 272% growth in consumer loans and moderate increases in the Taiwanese, Filipino-Chinese and local top-tier loans.

The Bank's NPL Ratio (the ratio of non-performing loans to total portfolio) stood at 4.65%, slightly higher than the 4.11% ratio of the previous year. This is still less than a third of the banking industry's 12.86% ratio. Meanwhile, NPL cover was at 81%, much better than the industry's 64.22%. The NPL cover is a measure of a bank's preparedness to absorb losses from its non-performing loans. The higher the ratio, the better prepared the bank is to absorb the potential losses.

The Bank has managed to keep its NPA Ratio at 5% (the ratio of non-performing loans and foreclosed assets to total assets), way below the industry's ratio of 34.11%. The NPA Cover was at 60% as of year-end 2004 versus 61% in 2003.

The total deposit level as of end of December stood at PHP12.20B, 5% lower than the same period last year of PHP12.81B.

For the year ending December 31, 2004, net income was PHP357.165MM. This is lower than the net income for the previous year. The lower net income was a consequence of the Bank's conscious move to execute a new business strategy in the Philippines, undertake long-gestating expenditures and investments in support of this new business strategy, accelerate preparations for its compliance with IAS and BSP-initiated banking reforms, as well as aggressively trim down its trading portfolio in anticipation of the forthcoming rise in domestic and overseas interest rates. The Bank's new business strategy calls for very sharp focus on four key areas: the personal loans business as flagship business, the trading of peso and foreign currency fixed-income instruments, the delivery of financial services to the Taiwanese community, and the expansion of the SME-based deposit business. As early as 2004, this new strategy had begun to handsomely pay off in terms of a triple digit growth in the personal loan portfolio and a 34% increase in net interest revenues.

Return on average equity (ROAE) and return on average assets (ROAA) stood at 8.74% and 1.84%, respectively, still better than the industry ratios.

The Bank's capital adequacy ratios (CAR) as of December 31, 2004 and 2003 were at 31.55% and 28.45%, respectively. At these CAR levels, the Bank is strongly positioned for a hefty expansion in its balance sheet and even a mid-sized acquisition without need of capital infusion. Of late, some local banks have resorted to Tier 2 issuances to beef up their capital position. Chinatrust Philippines finds absolutely no reason to consider a Tier 2 issuance given its excellent capital adequacy.

During the year, the Bank was again cited by the National Treasury as one of the best-performing government securities dealers in the country. Likewise, its status as a Superbrand was affirmed by the international organization Superbrands International in recognition of the significant impact it has had on the local mortgage market due to its innovative Five@Zero home loan product.

Investing in Communities

Banking is about investment. We invest in endeavors that promise a reasonable reward. We invest with a view to securing our future.

At Chinatrust, we believe that the path to a secure future is not limited to financial investments alone. Investing in society is a responsibility of any legitimate enterprise. Corporate social responsibility is driven by a pragmatic view of business and society. A bad society is bad for business. Therefore, every corporation must strive to enhance society so that the conditions for its own survival as an enterprise in the long run can be secured. A future that is progressive and peaceful takes more to build. It takes heart, compassion, and inspiration. It demands commitment to give of oneself, recognizing that one cannot exist in isolation – now or in the future – if one aspires to live a life with meaning.

“Less for self, more for others, enough for all.”

Like its parent bank in Taiwan which has been recognized for its corporate citizenship initiatives in the island nation, Chinatrust has chosen to do its work in the Philippines quietly, away from the glare of cameras and the glitz of press conferences that typically highlight philanthropic projects driven by public relations objectives. It is not widely known that Chinatrust was among the earliest institutions, if not the first bank, to become part of the highly credible, internationally respected Gawad Kalinga (GK) movement, a wholistic, integrated community development program providing shelter, education, health, and livelihood support to poor families. Today, the movement has built almost 12,000 homes in 470 communities in the Philippines and in five other countries. Its vision is to build 700,000 homes in 7,000 communities in 7 years.

In characteristic low-key manner and with a great deal of encouragement from its shareholders, the Bank decided to partner with the GK team that had started a lot of work in a blighted community in Magdaong Drive, Barangay Poblacion, Muntinlupa City. This site, called GK Sison, was chosen because Muntinlupa City hosts one of the most successful Chinatrust branches. While its GK partners provided housing and undertook community development activities, the Bank built what is now known as the Chinatrust Sibol School and provided scholarships to the children of the poor families in the area.

The school project mirrored the paramount importance given by the Bank to child development and education. Building the future, after all, begins with nurturing the young. In addition, the school would subsequently become the platform for many other activities that the Bank would undertake to help breathe hope into the community.



As interesting as the Bank's immersion in the project is the manner in which the involvement of every Chinatrust employee was enlisted for this GK project. When the project was launched, all the employees were invited to a general meeting where the objectives of the project were discussed. After the meeting, several employees asked the Bank to deduct specific sums from their payroll accounts to augment the financial contribution that the Bank was about to make to the community. The funds raised from these voluntary payroll deductions alone matched the contribution that the Bank had planned to make. In addition, the employees enthusiastically formed themselves into teams that would take turns going to the community to assist in the construction of houses, participate in the youth activities, help in the feeding programs, and support the weekend enrichment activities. From day one, therefore, the employees took ownership of the project and assumed responsibility for its outcome.

The relationship that developed between Chinatrust and the GK Sison community was mutually beneficial. While helping enrich the lives of the GK Sison families, the Bank's employees found another rallying point, another compelling reason to work as a team, and another unique platform for unleashing their innate human compassion and creativity. The following stories demonstrate how the GK experience has become an integral part of life in Chinatrust and how the Bank's employees have begun to think, breathe, and feel GK:

- It was a Chinatrust practice to host a birthday breakfast at the beginning of each month for all its employees who were celebrating their birthdays during that month. The breakfast came with the usual birthday gifts, songs, candles, cake and games. When it was the turn of the December celebrators to be honored, they decided to give up their breakfast so they could instead host a party for all the children in GK Sison who were celebrating their birthday in December. The affair brought so much joy to the children in the community.

- A senior officer won a refrigerator in a golf raffle. He decided to send the refrigerator straight to the GK Sison community for use in the Chinatrust Sibol School.

- A group of employees, after happily receiving their performance bonus, pooled some funds and bought four electric fans and a corkboard for the school.

- Children from GK Sison were brought to the Chinatrust Head Office in Makati to serenade the Bank's customers, sing Christmas carols to the employees, and spend a whole day ogling at the skyscrapers of Makati while sharing a good meal.

- A group of employees conducted a T-shirt campaign, asking everyone to clean up their closets and give up their old but functional T-shirts for use by the families in GK Sison.

- With their infectious enthusiasm, some employees brought the GK advocacy to their clients and convinced many of them to support the project. Today, some of the Bank's wealthy clients in the Alabang villages have themselves become benefactors of GK Sison.



Our Partner in Nation-Building

To be sure, GK Sison has not been Chinatrust's only legacy to society. In the past, the Bank had collaborated with the Federation of Filipino-Chinese Chambers of Commerce to build public school houses in two depressed communities in Bulacan. It was also one of the earliest banking institutions to participate in the Small Business Guarantee Corporation's project of transplanting the Grameen concept of mutual guarantee into Philippine soil by supporting the lending programs of two teachers' cooperatives. Be it in disaster relief, promotion of women's rights, help for the aged, or education for the poor, Chinatrust has been an earnest participant.



However, nothing compares to the life-changing and transforming nature of a sustained project like GK Sison. GK Sison is a microcosm of the total Gawad Kalinga movement that has earned global acclaim, recognition, respect, and support. But what truly makes the success of Gawad Kalinga meaningful is not the magnitude of the financial resources it has attracted but the profound inspiration that it has touched off in so many individual lives. This is the kind of transformation that Chinatrust invests in. And this is the kind of investment that pays off over the long term in lasting dividends of higher quality of life, solid values, and strong communities.

GK donors are normally focused on donating houses. This is understandable because they can associate their donations directly with the names and faces of the families being helped. Chinatrust, on the other hand, came to us asking how they could help. After their management team studied various partnership options with GK Sison, they chose to donate the school and a significant financial support to the ongoing operations of the school such as the salary of the teachers, school supplies, etc. Chinatrust chose to invest in the future and in building a better nation. With their support and encouragement, we were able to accomplish our strategy. GK Sison has been consistently commended for having started in the right way. Our beneficiaries are as cohesive as they were at the start and still growing in their sense of community, volunteerism, and self-empowerment.

Going beyond the initial donation, Chinatrust never let go. Through their encouragement and "walking-the-talk", the senior management team rallied their employees to support GK Sison in every way. They donated financially through salary deduction. They contributed and continue to contribute in kind – garbage bags, electric fans, cork boards, T-shirts, etc. Most of all, they "donated" their presence. They helped in the construction. Their employees took turns helping with the weekly youth activities. Their presence gave dignity to the poor and hope for the future for the underprivileged.

Chinatrust has also drummed up support for GK Sison among their clients. Already, we received a donation for a house from one of their clients. We know that this is just the start.

We honor Chinatrust for the support they have given us, for their vision of rebuilding this nation, for inspiring us to keep up despite difficulties, and for understanding when we slip up once in a while.

Chinatrust is the anchor of GK Sison!

Rene Evidente
Cluster Head, Couples for Christ

Investing in Good Governance

Good corporate governance inspires confidence, an element that is so vital to a business that is built on trust. As a banking institution, Chinatrust continually strives to earn the confidence and respect of its various stakeholders, namely its customers, its employees, its shareholders, its business partners, its regulators, its communities, and the society at large. The Bank's relationship with its various constituencies must therefore be founded on the time-honored principles of honesty, transparency, fairness, accountability, and integrity. In fulfillment of these principles, the Bank has instituted systems and processes that uphold good governance as a compass for managing its affairs.

The Bank has a working Board that collectively formulates and reviews the corporate strategic direction. There are two independent directors in the Board. Two of the incumbent directors are Fellows of the Institute of Corporate Directors, a respected private sector advocacy group that promotes good governance practice among Philippine corporations. As a matter of policy and practice, each director is asked to serve as Chairman or an active member of at least two Board Committees. These Board Committees include the Audit Committee, the Executive Committee, the Nomination and Review Committee, the Risk Management Committee, the Executive Committee and the Trust Committee. Each Board Committee meets regularly and reports its accomplishments to the entire Board during the latter's regular meeting. Executives who perform oversight and control tasks or those whose roles require independence from Management, report directly to the Board and not to the President. These include the Head of Internal Audit, the Head of Compliance, the Trust Officer, and the Head of Risk Management.

Regular Board Meetings are held bi-monthly. To ensure that Board Meetings are focused on strategic issues and are not trivialized, each meeting is dedicated to a specific subject that has strategic significance. The February Board Meeting tackles strategic human resource issues. The April Board Meeting assesses the Bank's senior talent pool. The June Board Meeting evaluates the Bank's first half performance. The August Board Meeting is an offsite two-day retreat where the directors and senior executives review the Bank's business strategy. The October Board Meeting discusses the operating budget and financial plan for the following year. Finally, the December Board Meeting reviews the whole-year performance of the Bank.

With the help of the Institute of Corporate Directors, the Board has gone through a self-assessment exercise. It has also participated actively in the annual self-assessment cycles of the Securities and Exchange Commission and in the governance training initiatives of the Bangko Sentral ng Pilipinas. Annually, the Board collectively reviews the performance of the President. The Board and the Management Team adhere to a comprehensive Code of Corporate Governance that is fully compliant with regulatory standards.

The execution of the Bank's business strategy is entrusted by the Board to the Management Team headed by the President. The Management Team collaborates with the Heads of Internal Audit, Compliance, and Risk Management to foster a culture of compliance and risk awareness within the Bank. A Management Committee (Mancom) made up of the senior executives of the Bank assists the

President in tackling major operating issues and formulating decisions. It meets weekly. Like the Board Meetings, each Mancom meeting focuses on a specific major subject. The first week's Mancom meeting reviews the financial performance of the Bank in the immediately preceding month. The second week's Mancom meeting discusses operational risk issues. The third week's Mancom meeting looks into human resource issues. Finally, the fourth week's Mancom meeting discusses marketing and information technology issues. The President exercises credit, administrative, and expenditure authority that is clearly defined and delegated by the Board. These authority limits are reviewed annually. Likewise, the President, with the approval of the Board, delegates some of his credit, administrative, and expenditure authority to specific officers of the Bank.

Risk Management. The Bank has an independent Market Risk Management unit that provides the Board and the Mancom relevant, timely, and accurate reports covering market and liquidity risks, such as those for treasury transactions. These reports include value-at-risk, trading limits monitoring, liquidity, and repricing gaps. In addition, standard reports are regularly submitted to the Parent Bank, which takes an active interest in risk monitoring and control. Local policies and procedures undergo stringent review by the Parent Bank and the Board. This approval process raises the quality of the Bank's risk management policies and procedures as close as possible to global best practices.

Compliance. The Bank uses the Unit Regulation Guide (URG), a comprehensive and localized approach to managing the different compliance risks of the banking units. The Bank's compliance system is designed around each personnel and banking unit. By decentralizing compliance at the employee level, the Bank ensures that apart from just being aware of regulatory policies, employees remain vigilant in conducting their daily business. Thus, they achieve a balance between meeting targets and ensuring the interest of stakeholders.

Complementing the URG is the Compliance Handbook, which employees use as reference for regulations and other frequently asked questions affecting the Bank and their work. In addition, the Compliance Unit disseminates updates on Bangko Sentral circulars and conducts training courses on the compliance function as well as special regulatory concerns such as anti-money laundering.

The Bank is examined annually by four different groups, namely, the internal audit team, the Bangko Sentral audit team, the external audit team, and the Parent Bank audit team.

The Bank was among the earliest institutions to have complied with the Bangko Sentral requirement to have its directors attend a workshop on Corporate Governance.

In Watson Wyatt's WorkPhilippines 2004 Survey, an Asia Pacific study on workplace attitudes conducted among anonymous respondents, eighty-nine percent (89%) of respondent-employees from Chinatrust said that their Bank conducts its business activities with honesty and integrity. The rating was eleven (11) points higher than the Local Market Norm and seventeen (17) points higher than the Asia Pacific Norm.

In the same survey, eighty-one percent (81%) of the respondent-employees from Chinatrust said that they have confidence in the job being done by the senior management of their company. This score was fourteen (14) points higher than the Local Norm and twenty-four (24) points higher than the Asia Pacific Norm.

As an institution that intends to optimally partake of the fruits of global commerce, Chinatrust is committed to continuously build the infrastructure, processes, systems, and mechanisms that will bring its standards to the level of the global best, in the process earning for itself a respected place in the international community of well-governed corporate enterprises.

Directors and Senior Executives of the Bank

Directors:

ERIC CHEN, Taiwanese, is the Chairman of the Board. He became Director on April 9, 2004. He obtained his Master's degree in Business Administration from the University of Missouri in 1980. He is currently the President of Chinatrust Financial Holding Company. He was President of Chinatrust Commercial Bank, Ltd. (Taiwan) in 2004. He also worked with Citigroup (Taiwan) as Capital Market Head in 1989, CFO Asia Pacific in 1998, and Country Officer in 2001 up to 2003. He is 51 years old.

WILLIAM B. GO, Filipino, received a Bachelor of Science degree from the University of the East and a Masters degree in Business Administration from the University of Missouri. He is Chairman of Investors Securities and Gama Enterprises Inc. He is Chairman and President of Big Blue Realty Corporation and President of Serico, Inc. He is also a Director of Sunvar Realty Development Corporation. He served as the President of Philippine Bank of Communication from 1985 to 1995. Mr. Go has been with the Bank since 1995 and was President and Director until October 15, 2001 when he resigned as President, and was elected as Vice-Chairman. He is 65 years old.

JOEY A. BERMUDEZ, Filipino, obtained his Bachelor of Science in Commerce (Major in Accountancy) from the University of Santo Tomas and his Master's degree in Business Economics from the University of Asia and the Pacific. Before joining Chinatrust (Phils.), he was Senior Executive Vice-President, Director and Chief Operating Officer of the Philippine Savings Bank (PSBank), the retail and consumer banking arm of the Metrobank Group. He had previously worked with Standard Chartered Bank as Country Consumer Banking Head for the Philippines and with the Philippine Commercial International Bank (PCI Bank). He assumed his functions as President and Director on October 15, 2001. He is 49 years old.

JOHN LI, Taiwanese, obtained his Master's degree in Business Administration from the George Washington University in 1992. He is currently Senior Executive Vice President of Chinatrust Commercial Bank, Ltd. (Taiwan) and Director of both Chinatrust Securities Corporation and Taiwan Forex Inc. He was Managing Director of Citibank from 1994 to 2003. He is 42 years old.

ERIC WU, a.k.a. Hsin-Hao Wu, Taiwanese, became Director on December 21, 2004. He graduated with a Bachelor's degree in Business Administration from the National Taiwan University in 1986. He is currently Senior Vice President of Chinatrust Commercial Bank, Ltd. (Taiwan). He was Senior Vice President of McDonalds Restaurants, Taiwan from 1991 to 2003. He is 42 years old.

Independent Directors:

YUNG FANG YANG, Taiwanese, has been a stockholder of KK Converter Philippines since 1998 and is currently its Vice President. He also served as a Production Manager of CITC in Penang, Malaysia from 1995 to 1998. He joined Chinatrust (Phils.) in 1999 and has been a Director since then. He is 50 years old.

EDWIN B. VILLANUEVA, Filipino, holds a Bachelor's degree in Management Engineering from the Ateneo De Manila University and a Master's degree in Business Administration from the Wharton School at the University of Pennsylvania. He is the Chairman of VFL Advisors, Inc. and a Senior Partner of Argosy Advisers. He joined Chinatrust (Phils.) on November 25, 2002. He is 54 years old.

Executive Officers:

ROLANDO R. AVANTE, Filipino, obtained his Bachelor of Science degree in Commerce, major in Marketing Management, from De La Salle University. Among the positions he held prior to joining Chinatrust (Phils.) were: First Vice-President of Domestic Funds Management of Philippine Commercial International Bank (PCI Bank) from 1995 to 1999; Senior Vice-President/Treasurer of Urban Bank in 1994; Vice-President, Local Currency Head of Citytrust Banking Corporation from 1988 to 1994; and Senior Manager of Philippine Commercial Capital, Inc. from 1983 to 1988. He has been with the Bank since December 1999. He is 44 years old.

MARTIN T. LEE, Filipino, earned his Bachelor of Science in Business Administration, major in Economics and Finance, from the University of the East. He is presently a candidate for a Master's degree in Business Administration at the Ateneo Graduate School of Business. He is also presently attending the Strategic Business Economics Program at the University of Asia and the Pacific leading to a degree of Master of Business Economics. Before joining Chinatrust (Phils.) on April 10, 2002, he worked with Global Banking Corporation as Head of Account Management Group as well as the Special Account and Remedial Management Group with the rank of First Vice President. Prior to that, he was connected with Asian Banking Corporation, PCIBank, and Insular Bank of Asia and America. He is 53 years old.

ROGERIO B. PANLASIGUI, Filipino, holds a Bachelor's degree in Liberal Arts from the Ateneo de Manila University and a Master's degree in Business Economics from the University of Asia and the Pacific. Prior to joining the Bank in April 2005, he held the following positions: Senior Vice President of Asiatrust Bank from September 2002, Executive Vice President and Chief Operating Officer of Active Bank from October 1994, Vice President of Pilipinas Bank from 1984, and Manager of Rizal Commercial Banking Corporation from 1980. He is 48 years old.

ROBERTO R. REYES, Filipino, received a Bachelor of Arts degree in Economics from the Ateneo de Manila University and attended the International Business Program of Boston University. Prior to joining Chinatrust (Phils.), he held the following positions: Director of Operations of Asian Finance and Investment Corp., Ltd. from 1990 to 1996, and Vice President and Profit Center Head of Institutional Bank, Citibank, N.A. Cebu from 1982. He has been with the Bank since 1996. He is 64 years old.

ANTHONY T. ROBLES, Filipino, obtained his Bachelor's degree in Commerce, Major in Accountancy, from the University of Santo Tomas and his Master's Degree in Business Administration from the Ateneo Graduate School of Business. Prior to joining the Bank in October 2004, he held the following positions: Assistant Vice President for Special Accounts at PCIBank in 1988, Vice President for Special Accounts at Union Bank in 1990, First Vice President for Retail Finance at Union Bank in 1992, Senior Vice President for Retail Finance at Union Bank in 1996, Senior Vice President for Retail Banking at Union Bank in 1999, President of Union Properties, Inc. in 1998, General Manager for Wealth Management at Standard Chartered Bank in 2003, and Executive Vice President of Planters Development Bank in September 2004. He is 50 years old.

HUNTLEY S. UY, Filipino, received a Bachelor of Science degree in Mathematics from the Ateneo De Manila University. Prior to joining the Bank in July 2003, he held the following positions: Vice President of Standard Chartered Bank from 1998, Assistant Vice President of Security Bank from 1997, Assistant Vice President of Citytrust Banking Corporation from 1991, Systems Analyst at the Development Bank of the Philippines in 1989, and Assistant Manager of Citibank in 1988. He is 39 years old.

Board Committees

1. Nomination and Review Committee

Playing a vital role in determining the Board's composition and effectiveness, the Nomination and Review Committee reviews and evaluates the qualifications of nominees to the Board and to positions requiring appointment by the Board. It also adopts procedures that may be required in the nomination and retention of independent directors. The Committee assesses the performance of the Board, its Committees, and Executive Management, emphasizing competence, candor, attendance, preparedness, and participation.

Eric Chen, Chairman
William B. Go, Member
Edwin B. Villanueva, Member
Yung Fang Yang, Member

2. Audit Committee

Assisting the Board in fulfilling its oversight responsibilities, the Audit Committee reviews the financial information, the systems of internal controls and risk management, the audit process, and the process for monitoring compliance with legal, ethical, and regulatory requirements, including the Code of Ethics. While remaining flexible enough to best react to changing conditions and circumstances, the Committee must ensure that the Bank's internal controls and accounting and financial reporting practices meet all legal requirements and are of the highest quality.

Edwin B. Villanueva, Chairman
Eric Chen, Member
Yung Fang Yang, Member

3. Trust Committee

Exercising the authority to review and approve the investment and divestment of the trust assets of the bank, the Trust Committee oversees transactions between trust and/or fiduciary accounts and determines whether to retain or dispose of the trust or fiduciary assets. The Committee also approves the banks, financial institutions, and investment outlets for the trust funds, ensuring that the assets under the Bank's custody are safeguarded and well-managed to create value for the clients.

Eric Wu, Chairman
Joey A. Bermudez, Member
William B. Go, Member
Edlyn L. Quiroz, Trust Officer

4. Executive Committee

Usually authorized to act on urgent matters on behalf of the full Board between the latter's regular meetings (except those explicitly requiring Board authority such as DOSRI loans, etc.), the Executive Committee also reviews and approves credit proposals that are beyond the authority of Management.

William B. Go, Chairman
John Li, Member
Joey A. Bermudez, Member

5. Risk Management Committee

Safeguarding the Bank from losses and minimizing the impact of losses when they occur, the Risk Management Committee identifies and evaluates exposures, develops risk management strategies, implements the risk management plan, and revises the plan as needed for continued relevancy, comprehensiveness, and effectiveness. The Committee oversees the system of limits to discretionary authority that the Board delegates to Management, ensures that the limits are observed, and enforces immediate corrective actions whenever limits are breached.

John Li, Chairman
Eric Wu, Member
Joey A. Bermudez, Member

Statement of Management's Responsibility

FOR FINANCIAL STATEMENTS

The management of CHINATRUST (PHILS.) COMMERCIAL BANK CORPORATION is responsible for all information and representations contained in the financial statements for the year ended December 31, 2004. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

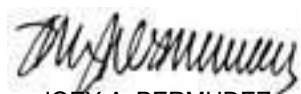
In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition, and liabilities are recognized. The management likewise discloses to the company's audit committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

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

Laya Mananghaya & Co., the independent auditors appointed by the stockholders, has examined the financial statements of the company in accordance with generally accepted auditing standards in the Philippines and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the Board of Directors and stockholders.



WILLIAM B. GO
Vice-Chairman



JOEY A. BERMUDEZ
President



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

Report of Independent Auditors

The Board of Directors and Stockholders

Chinatrust (Philippines) Commercial Bank Corporation

3/F Tower 1, Ayala Triangle, Ayala Avenue cor. Paseo de Roxas, Makati City

We have audited the accompanying statements of condition of Chinatrust (Philippines) Commercial Bank Corporation as of December 31, 2004 and 2003, and the related statements of income, changes in capital funds and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits. The statements of income, changes in capital funds and cash flows for the year ended December 31, 2002 were audited by other auditors whose reports thereon dated January 13, 2003, expressed unqualified opinion on those statements.

We conducted our audits in accordance with auditing standards generally accepted in the Philippines. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principle used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2004 and 2003 financial statements referred to above present fairly, in all material respects, the financial position of Chinatrust (Philippines) Commercial Bank Corporation as of December 31, 2004 and 2003, and the result of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the Philippines.



January 28, 2005
Makati City, Metro Manila

Statement of Condition

Years Ended December 31

ASSETS	2004	2003
Cash and Other Cash Items	P121,590,003	P112,960,234
Due from Bangko Sentral ng Pilipinas (Note 10)	716,808,358	742,698,271
Due from Other Banks (Note 10)	491,311,769	249,925,815
Interbank Loans Receivable (Note 10)	1,007,877,839	1,278,478,000
Trading and Investment Securities - net (Notes 3, 5 and 10)	4,279,002,249	5,001,042,215
Receivables from customers - net (Note 4, 5, 10 and 17)	11,982,223,616	10,797,856,678
Property and Equipment - net (Note 6)	171,209,460	175,880,126
Equity Investments (Note 7)	36,719,546	36,230,317
Other Assets - net (Notes 5 and 8)	1,392,572,435	1,496,971,583
	P20,199,315,275	P19,892,043,239
LIABILITIES AND CAPITAL FUNDS		
Deposit Liabilities (Note 10)		
Demand	P1,643,903,363	P1,459,377,278
Savings	2,135,842,731	5,996,382,367
Time	8,424,693,346	5,355,353,980
	12,204,439,440	12,811,113,625
Bills Payable (Note 10)	3,158,291,585	2,701,277,751
Outstanding Acceptances (Note 10)	198,474,299	162,961,612
Manager's Checks	30,359,770	27,810,706
Margin Deposits	-	1,575,517
Accrued Interest, Taxes and Other Expenses	153,266,216	252,194,242
Other Liabilities (Note 9)	307,113,630	144,904,439
	16,051,944,940	16,101,837,892
Capital Funds (Note 11)		
Capital stock	1,875,000,000	1,875,000,000
Additional paid-in capital	53,513,675	53,513,675
Surplus	2,218,856,660	1,861,691,672
	4,147,370,335	3,790,205,347
	P20,199,315,275	P19,892,043,239
See Notes to Financial Statements.		

Statement of Changes in Capital Funds

Years Ended December 31

	2004	2003	2002
CAPITAL STOCK - P10 par value			
Authorized - 300,000,000 shares			
Issued - 187,500,000 shares (Note 11)	P1,875,000,000	P1,875,000,000	P1,875,000,000
ADDITIONAL PAID-IN CAPITAL	53,513,675	53,513,675	53,513,675
SURPLUS (Note 11)			
Balance at beginning of year	1,861,691,672	1,358,945,520	948,051,112
Net income for the year	357,164,988	502,746,152	410,894,408
Balance at end of year	2,218,856,660	1,861,691,672	1,358,945,520
	P4,147,370,335	P3,790,205,347	P3,287,459,195
See Notes to Financial Statements.			

Statement of Income

Years Ended December 31

	2004	2003	2002
INTEREST INCOME ON			
Receivables from customers	P1,127,047,788	P884,313,940	P667,801,262
Trading and investment securities	367,016,216	325,884,457	453,910,666
Due from other banks	11,090,944	9,288,968	10,565,282
Interbank loans receivable	21,307,481	7,762,860	35,105,255
	1,526,462,429	1,227,250,225	1,167,382,465
INTEREST EXPENSE ON			
Deposit liabilities	477,880,808	444,563,113	401,212,533
Bills payable and other borrowings	123,054,288	84,391,860	72,442,404
Interbank loans payable	3,401,541	8,142,528	111,328
	604,336,636	537,097,501	473,766,265
NET INTEREST INCOME	922,125,793	690,152,724	693,616,200
PROVISION (RECOVERY OF ALLOWANCE) FOR PROBABLE LOSSES (Note 5)	(22,084,513)	135,000,000	307,969,478
NET INTEREST INCOME AFTER PROVISION FOR PROBABLE LOSSES	944,210,306	555,152,724	385,646,722
OTHER INCOME			
Trading and securities gain - net	123,297,834	441,563,822	585,748,462
Service charges, fees and commissions	59,426,255	54,740,452	33,577,936
Foreign exchange gain - net	23,175,864	19,468,467	42,473,242
Miscellaneous - net (Note 7)	26,324,895	41,771,726	148,453
	232,224,849	557,544,467	661,948,093
OTHER EXPENSES			
Compensation and fringe benefits (Note 16)	343,259,897	263,536,517	251,206,179
Occupancy and equipment-related expenses (Notes 6 and 12)	198,610,096	158,597,099	150,686,219
Taxes and licenses (Note 13)	65,761,252	29,770,024	48,142,634
Miscellaneous	146,674,024	104,733,068	158,690,186
	754,305,269	556,636,708	608,725,218
INCOME BEFORE INCOME TAX	422,129,885	556,060,483	438,869,597
PROVISION FOR INCOME TAX (Note 13)	64,964,897	53,314,331	27,975,189
NET INCOME	P357,164,988	P502,746,152	P410,894,408
Earnings Per Share (Note 15)	P1.90	P2.68	P2.19
See Notes to Financial Statements.			

Statement of Cash Flows

Years Ended December 31

	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	P422,129,885	P556,060,483	P438,869,597
Adjustments for:			
Interest income	(1,526,462,429)	(1,227,250,225)	(1,167,382,465)
Interest expense	604,336,636	537,097,501	473,766,265
Provision for probable losses	(22,084,513)	135,000,000	307,969,478
Depreciation and amortization	43,839,323	40,376,231	35,160,306
Amortization of software license and preoperating expenses	22,538,619	20,912,440	29,611,449
Equity in net losses of investee company	(489,229)	(642,686)	(1,019,033)
Operating income (loss) before working capital changes			
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Receivables from customers	(1,162,282,425)	(1,515,132,407)	(2,182,196,643)
Trading account securities	546,371,638	(174,696,220)	98,839,997
Other assets	129,452,523	(85,975,648)	(219,200,327)
Increase (decrease) in:			
Deposit liabilities	(606,674,185)	2,036,122,570	188,242,733
Manager's checks	2,549,064	(194,792)	8,990,298
Margin deposits	(1,575,517)	(11,798,147)	8,387,710
Accrued interest, taxes and other expenses	(44,775,686)	5,660,358	80,746,913
Other liabilities	162,209,191	(172,694,957)	230,728,336
Cash generated from (used in) operations	(1,430,917,105)	142,844,501	(1,668,485,386)
Interest received	1,478,870,435	1,214,447,875	1,220,047,496
Interest paid	(661,449,138)	(544,951,319)	(465,179,231)
Income taxes paid	(62,004,734)	(49,008,456)	(104,039,216)
Net cash provided by (used in) operating activities	(675,500,542)	763,332,601	(1,017,656,337)

See Notes to Financial Statements

Years Ended December 31

	2004	2003	2002
CASH FLOWS FROM INVESTING ACTIVITIES			
Net additions to property and equipment	(P39,168,657)	(P29,388,520)	(P103,083,250)
Decrease (increase) in:			
Investment in bonds and other debt instruments	175,668,328	(228,359,416)	795,486,510
Equity investments			(500,000)
Net cash provided by (used in) investing activities	136,499,671	(257,747,936)	691,903,260
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase (decrease) in:			
Bills payable	457,013,834	488,622,270	295,995,096
Outstanding acceptances	35,512,687	119,870,672	29,242,417
Net cash provided by financing activities	492,526,520	608,492,942	325,237,513
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(46,474,351)	1,114,077,607	(515,564)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items	112,960,234	143,325,081	110,216,195
Due from Bangko Sentral ng Pilipinas	742,698,271	423,791,280	278,848,025
Due from other banks	249,925,815	223,582,352	258,056,057
Interbank loans receivable and securities purchased under agreement to resell	1,278,478,000	479,286,000	623,380,000
	2,384,062,320	1,269,984,713	1,270,500,277
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items	121,590,003	112,960,234	143,325,081
Due from Bangko Sentral ng Pilipinas	716,808,358	742,698,271	423,791,280
Due from other banks	491,311,769	249,925,815	223,582,352
Interbank loans receivable and securities purchased under agreement to resell	1,007,877,839	1,278,478,000	479,286,000
	P2,337,587,969	P2,384,062,320	P1,269,984,713

See Notes to Financial Statements

Notes to Financial Statements

1. Organization

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 Access Banking Corporation. The Bank started business operations on September 26, 1995. It was renamed as Chinatrust (Philippines) Commercial Bank Corporation in January 1996, then later, was 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 Bank's principal place of business is located at the 3rd Floor, Tower I, Ayala Triangle, Ayala Avenue corner Paseo de Roxas, Makati City. As of December 31, 2004 and 2003, the Bank had 482 and 374 employees, respectively.

2. Summary of Significant Accounting Policies

The Bank's financial statements have been prepared in conformity with the accounting principles generally accepted in the Philippines (Philippine GAAP) for the banking industry, which generally follows the historical cost convention, as modified by the revaluation of certain investment securities and derivative instruments. The significant accounting policies followed by the Bank are as follows:

Basis of Presentation

The accompanying financial statements of the Bank reflect the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU) after eliminating certain significant inter-unit accounts.

The books of accounts of the Bank are maintained in Philippine Pesos and various foreign currencies. For financial reporting purposes, foreign currency denominated assets and liabilities and income and expenses are translated into their equivalents in Philippine pesos based on the Philippine Dealing System weighted average rates (PDSWAR) prevailing at Statement of Condition date (for assets and liabilities) and the average PDSWAR for the year (for income and expenses). Translation gain or loss of assets and liabilities are reflected in the Statements of Income.

Use of Estimates

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

Adoption of New Accounting Standards

The Bank adopted the following Statements of Financial Accounting Standards/International Accounting Standards (SFAS/IAS), which became effective in 2004 and 2003:

**SFAS 12/IAS 12, Income Taxes (2004);
SFAS 17/IAS 17, Leases (2004);
SFAS 10/IAS 10, Events After the Balance Sheet Date(2003);
SFAS 37/IAS 37, Provisions, Contingent Liabilities and Contingent Assets (2003); and
SFAS 38/IAS 38, Intangible Assets (2003).**

The adoption of the new financial accounting standards in 2004 and 2003 had no material effect on the assets, liabilities and capital funds, results of operations and cash flows of the Bank.

New Accounting Standards Effective January 1, 2005

The Accounting Standards Council (ASC) has approved the following Philippine Accounting Standards (PAS), which will be effective on January 1, 2005:

**PAS 19/IAS 19, Employee Benefits;
PAS 21/IAS 21, The Effects of Changes in Foreign Exchange Rates;
PAS 30/IAS 30, Disclosures in the Financial Statements of Banks and Similar Institutions;
PAS 32/IAS 32, Financial Instruments; and
PAS 39/IAS 39, Financial Instruments: Recognition and Measurement.**

The ASC has also approved the following Philippine Financial Reporting Standards (PFRS) / International Financial Reporting Standards (IFRS) which will be effective for financial statements covering the periods beginning on or after January 1, 2005 and which the Bank will adopt in 2005 relevant to its operations:

**PFRS 1/IFRS 1, First-time adoption of International Reporting Standards; and
PFRS 5/IFRS 5, Noncurrent Assets Held for Sale and Discontinued Operations**

Based on current circumstances, except for PAS 30/IAS 30, PAS 32/IAS 32 and PAS 39/IAS 39, management believes that the effects of the adoption of these new standards will not be material to the financial statements.

Income Recognition

Interest on receivables from customer, other interest-bearing placements and securities are recognized based on the accrual method of accounting, except in the case of non-performing receivables, where interest income on these loans is recognized only to the extent of cash collections received.

Service charges and penalties are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collectibility.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from Bangko Sentral ng Pilipinas (BSP) and other banks and interbank loans receivable with maturities of three months or less from dates of placements.

Investment Securities

Trading Account Securities (TAS) consist of government and private debt securities purchased and held principally with the intention of selling them in the near term. These securities are carried at fair market value; realized and unrealized gains and losses on these instruments are recognized as trading and securities gain or loss in the Statements of Income. Interest earned on debt instruments is reported as interest income. Quoted market prices, when available, are used to determine the fair value of trading instruments. If quoted market prices are not available, then fair values are estimated using quoted prices of instruments with similar characteristics.

Investments in Bonds and Other Debt Instruments (IBODI) are debt securities where the Bank has the positive intent and ability to hold to maturity.

These securities are carried at cost adjusted for amortization of premiums and accretion of discounts and reduced by estimated allowance for permanent decline in value, if any.

Receivables from Customers

Receivables from customers are stated at the outstanding principal balance reduced by unearned discounts and allowance for probable losses.

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

Allowance for Probable Losses

Allowance for probable losses is maintained at a level considered adequate to provide for potential losses on receivables and other assets.

The level of allowance is based on the management's evaluation of potential losses after consideration of prevailing and anticipated economic conditions, the character, quality and performance of the portfolios, and other pertinent indicators.

The allowance for probable losses consists of specific and general provisions. Specific provisions are made at the customer level where the repayment is in doubt and reflects an estimate of the amount of loss expected. The general provision relates to the inherent risk of loan losses which, although they have not been separately identified, are known from experience to be present in any loan portfolio, and to those identified loans where material uncertainty exist as to the quantum of the specific provision required. The amount of the general provision reflects past experience and judgments about current conditions in particular locations and business sectors.

To the extent that the above policy does not meet the minimum provisioning guidelines established by BSP, the Bank recognizes additional provision to meet such requirements.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. The cost of leasehold rights and improvements is amortized over the estimated useful lives of the improvements or the terms of the related leases, whichever is shorter. Depreciation is computed using the straight-line method based on the following estimated useful lines:

	Number of years
Bank premises	30
Computer equipment	3-5
Transport equipment	5
Furniture, fixtures and equipment	5

Costs of minor repairs and maintenance are expensed in the year incurred; significant renewals and improvements are capitalized.

When property and equipment are retired or otherwise disposed of, both the cost and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Real and Other Properties Owned or Acquired

Assets acquired in settlement of loans are recorded at the lower of the balance of total loan exposure or bid price. Nonrefundable capital gains tax and documentary stamp tax incurred in connection with foreclosure are capitalized as part of the carrying values of the foreclosed properties, provided that such carrying values do not exceed the appraised values. Holding costs subsequent to the foreclosure or acquisition of the properties are charged to operations as incurred. Allowance for probable losses is set up for any anticipated significant shortfalls from the recorded values based on appraisal reports and current negotiations and programs to dispose of these properties.

Equity Investments

The Bank follows the equity method of accounting for its investment in an associated company engaged in allied undertaking where the Bank exercises significant influence and control. Under this method, the Bank recognizes in its statements of income (as miscellaneous income) its share in the earnings or losses of an investee. The cost of investment is increased or decreased by the Bank's equity in net earnings or losses and reduced by cash dividends received from the investee since date of acquisition. Other equity investments where the Bank has no significant influence are carried at cost.

Deferred Income Tax

Deferred tax assets and liabilities are recognized for the estimated future tax effects attributable to temporary differences between the financial reporting bases of assets and liabilities and their related tax bases, and for the carryforward benefits of the excess of minimum corporate income tax (MCIT) over the regular income tax and net operating loss carryover (NOLCO). Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled, and NOLCO or MCIT is expected to be applied. As required by SFAS 12/IAS 12, which become effective January 1, 2004, deferred tax asset will be recognized only to the extent that it is probable that taxable profit will be available against which the deferred tax asset can be used. The carrying amount of the deferred tax asset is reviewed at each balance sheet date and reduced if appropriate.

Derivative Instruments

The Bank is a party to foreign exchange contracts with off-balance sheet risk. These contracts are entered into as a service to customers and as a means of reducing and managing the Bank's foreign exchange and interest rate exposures, as well as for trading purposes. Amounts contracted are recorded as contingent accounts which are not included in the Statement of Condition. These are valued with reference to the PDSWAR. The resulting profit or loss is included in the Statement of Income, except where the position in the instrument has been designated as a hedge when the profit or loss resulting from marking them to market is accounted for on a basis consistent with the underlying hedged position.

Retirement Cost

Retirement cost is determined using the projected unit credit method. Under this method, the cost of employees' benefits is evenly allocated over the full period of employment. Current service cost is charged to current operations while past service cost is amortized over the expected remaining working lives of the employees.

Earnings Per Share

Basic earnings per share is determined by dividing net income for the year by the weighted average numbers of shares outstanding during the year after giving retroactive effect to stock dividends declared during the year, if any.

3. Trading and Investment Securities

This account consists of:

	2004	2003
TAS (after unrealized loss of P797,926 in 2004 and unrealized gain of P21,793,577 in 2003)	P270,324,231	P816,695,870
IBODI:		
Government	3,474,451,636	3,646,542,023
Private	534,226,381	537,804,322
	P4,279,002,249	P5,001,042,215

As of December 31, 2004 and 2003, the market values of the Bank's IBODI amounted to P4.0 billion and P4.2 billion, respectively.

4. Receivables from Customers

This account consists of:

	2004	2003
Loans and discounts	P11,546,859,991	P10,645,564,673
Bills purchased	866,882,630	669,186,394
Customer's liabilities under acceptances	247,116,881	162,961,612
	12,660,859,502	11,477,712,679
Unearned interest and discount	(16,178,592)	(8,066,081)
Allowance for probable losses (see Note 5)	(662,457,294)	(671,789,920)
	P11,982,223,616	P10,797,856,678

The following table shows the breakdown of loans as to secured and unsecured and the breakdown of secured loans as to type of security as of December 31, 2004 and 2003:

	2004		2003	
	Amount	%	Amount	%
Secured				
Real estate	P2,018,953,837	15.95	P1,935,296,216	16.86
Government guarantee	1,014,993,742	8.02	1,297,251,227	11.30
Mortgage trust indenture	1,010,938,867	7.98	1,056,029,578	9.20
Shares of stock	650,063,840	5.13	616,785,944	5.37
Hold-out on deposit	398,215,761	3.15	342,568,708	2.99
Chattel	89,620,704	0.71	83,344,897	0.73
Standby letters of credit	-		50,468,800	0.44
Government securities	-		2,800,000	0.02
	5,182,786,752	40.94	5,384,545,370	46.91
Unsecured	7,478,072,750	59.06	6,093,167,309	53.09
	P12,660,859,502	100.00	P11,477,712,679	100.00

On September 19, 2002, the BSP issued Circular 351 which allows banks to exclude from nonperforming classification receivables classified as Loss in the latest examination of the BSP which are fully covered by allowance for probable losses, provided that interest on said receivables shall not be accrued and that such receivables shall be deducted from total receivable portfolio for purposes of computation. As of December 31, 2004 and 2003, the non-performing loans (NPL) of the Bank are as follows:

	2004	2003
Total NPLs	P783,702,095	P629,488,971
Less NPLs fully covered by allowance for probable losses	154,033,992	108,321,650
	P629,668,103	P521,167,321

As of December 31, 2004 and 2003, information on the concentration of credit as to industry follows:

	2004		2003	
	Amount	%	Amount	%
Manufacturing (various industries)	P2,541,593,103	20.07	P2,944,880,628	25.66
Real estate, renting and business services	2,163,431,363	17.09	1,270,399,812	11.07
Electricity, gas and water	1,826,776,950	14.43	1,440,581,102	12.55
Wholesale and retail trade	1,509,274,991	11.92	1,556,966,470	13.57
Financial intermediation	1,119,886,700	8.85	1,114,141,025	9.71
Public administration and defense	831,634,000	6.57	286,768,174	2.50
Transportation, storage and communications	594,476,537	4.70	604,824,592	5.27
Agriculture	36,100,000	0.29	72,457,345	0.63
Construction	31,046,564	0.25	134,693,050	1.17
Others	2,006,639,293	15.85	2,052,000,481	17.87
	P12,660,859,502	100.00	P11,477,712,679	100.00

The BSP considers that concentration of credit exists when total loan exposure to a particular industry or economic sector exceeds 30% of total loan portfolio. As of December 31, 2004 and 2003, the Bank does not have credit concentration in any particular industry.

As of December 31, 2004 and 2003, the Bank has restructured loans amounting to P548.46 million and P400.27 million, respectively. There were no losses incurred in relation to restructuring because the loans were restructured through modification of terms.

5. Allowance for Probable Losses

Changes in the allowance for probable losses are as follows:

	2004	2003
Balance at beginning of year		
Receivables from customers	P671,789,920	P599,874,189
IBODI	-	108,631,964
Other resources	163,053,257	159,593,469
	834,843,177	868,099,622
Provisions charged to operations (reversal of allowance for probable losses) during the year		
Receivables from customers	(19,795,484)	149,173,331
Other resources	(2,289,029)	(14,173,331)
	(22,084,513)	135,000,000
Accounts written off and others		
Receivables from customers	10,462,859	(77,257,600)
IBODI	-	(108,631,964)
Other resources	(63,733,203)	17,633,119
	(53,270,345)	(168,256,445)
	(75,354,857)	(33,256,445)
Balance at end of year		
Receivables from customers	662,457,294	671,789,920
Other resources	97,031,026	163,053,257
	P759,488,320	P834,843,177

6. Property and Equipment

This account consists of:

FOR THE YEAR ENDED DECEMBER 31, 2004

	Bank Premises	Computer Equipment	Transportation Equipment	Leasehold Improvements	Furniture, Fixtures and Equipment	Total
Cost:						
Balance at beginning of year	P96,026,975	P78,292,432	P44,292,444	P19,572,415	P42,801,564	P280,985,830
Additions during the year	308,000	17,876,647	28,871,159	13,900,256	4,379,685	65,335,747
Disposals during the year	-	(4,575,968)	(21,392,444)	(15,242,774)	(1,818,123)	(43,029,309)
Balance at end of year	96,334,975	91,593,112	51,771,159	18,229,897	45,363,126	303,292,269
Accumulated depreciation:						
Balance at beginning of year	5,680,872	53,839,594	17,300,443	-	28,284,794	105,105,704
Depreciation during the year	3,825,550	16,565,619	9,710,517	-	5,763,695	35,865,381
Disposals/write-off during the year	-	(969,860)	(7,388,958)	-	(529,459)	(8,888,276)
Balance at end of year	9,506,422	69,435,353	19,622,002	-	33,519,031	132,082,808
Carrying amount:						
Balance at beginning of year	P90,346,103	P24,452,838	P26,992,001	P19,572,415	P14,516,770	P175,880,126
Balance at end of year	P86,828,553	P22,157,759	P32,149,156	P18,229,897	P11,844,096	P171,209,460

Depreciation amounting to P35.87 million, P31.86, and P27.44 million and amortization of leasehold improvements amounting to P7.97 million, P8.51 million, and P7.72 million for the years ended December 31, 2004 and 2003 and 2002, respectively are included in the Occupancy and Equipment-Related Expenses account in the Statement of Income.

7. Equity Investments

This account consists of:

	2004	2003
At equity:		
Chinatrust Forex Corporation – 40% owned		
Acquisition cost	P20,000,000	P20,000,000
Accumulated equity in net earnings:		
Balance at beginning of year	3,789,500	3,146,814
Equity in net earnings for the year	489,229	642,686
Balance at end of year	4,278,729	3,789,500
	24,278,729	23,789,500
At cost:		
BancNet, Incorporated	6,940,717	6,940,717
Philippine Clearing House Corporation	5,000,100	5,000,100
BAP Consulting, Inc.	500,000	500,000
	12,440,817	12,440,817
	P36,719,546	P36,230,317

The equity in net earnings for the period is included under Miscellaneous income account in the Statements of Income.

8. Other Resources

This account consists of:

	2004	2003
Accounts receivable	P668,902,508	P863,623,593
Deferred tax assets (see Note 13)	339,304,450	337,779,077
Accrued interest receivable	282,024,882	240,365,366
Real and other properties owned or acquired	53,470,636	48,967,818
Computer software – net	51,125,406	56,816,004
Foreign currency coins and notes on hand	22,710,087	38,889,218
Prepaid expenses and other deferred charges	21,270,261	20,127,475
Miscellaneous	50,795,231	53,456,289
	1,489,603,461	1,660,024,840
Less allowance for probable losses (see Note 5)	97,031,026	163,053,257
	P1,392,572,435	P1,496,971,583

The miscellaneous account includes the change in fair value of forward exchange contracts amounting to P3.3 million and P11.1 million as of December 31, 2004 and 2003, respectively (see Note 9).

9. Other Liabilities

This account consists of:

	2004	2003
Payment orders payable	P107,641,420	P27,728,272
Accounts payable	65,402,286	35,557,910
Withholding tax payable	17,776,228	14,022,896
Miscellaneous	116,293,696	67,595,361
	P307,113,630	P144,904,439

The miscellaneous account includes the change in fair value of forward exchange contracts amounting to P9.9 million and P17.40 million as of December 31, 2004 and 2003, respectively.

10. Maturity Profile of Financial Assets and Liabilities

The following tables present the financial assets and liabilities classified according to contractual maturities and settlement dates as of December 31, 2004 and 2003:

	2004			2003		
	Due Within One Year	Over One Year	Total	Due Within One Year	Over One Year	Total
Due from BSP	P716,808,358	-	P716,808,358	P742,698,271	P	P742,698,271
Due from other banks	491,311,769	-	491,311,769	249,925,815	-	249,925,815
Interbank loans receivable	788,774,000	219,103,839	1,007,877,839	1,000,548,000	277,930,000	1,278,478,000
TAS and IBODI	705,910,869	3,573,091,380	4,279,002,249	743,786,587	4,257,255,628	5,001,042,215
Receivables from customers	5,059,741,861	7,601,117,641	12,660,859,502	5,037,622,460	6,440,090,219	11,477,712,679
	P7,762,546,857		P19,155,859,717	P7,774,581,133	P10,975,275,847	P18,749,856,980
	2004			2003		
	Due Within One Year	Over One Year	Total	Due Within One Year	Over One Year	Total
Deposit liabilities						
Demand	P1,643,903,363	P	P1,643,903,363	P1,459,377,278	P	P1,459,377,278
Savings	2,135,842,731	-	2,135,842,731	5,996,382,367	-	5,996,382,367
Time	8,129,616,643	295,076,703	8,424,693,346	5,352,704,289	2,649,691	5,355,353,980
	11,909,362,737	295,076,703	12,204,439,440	12,808,463,934	2,649,691	12,811,113,625
Bills payable	2,014,215,500	1,144,076,085	3,158,291,585	2,005,679,867	695,597,884	2,701,277,751
Outstanding acceptances	198,474,299	-	198,474,299	162,961,612	-	162,961,612
	P14,122,052,536	P1,439,152,788	P15,561,205,323	P14,977,105,413	P698,247,575	P15,675,352,988

11. Capital Funds

The Monetary Board (MB) of the BSP in its Resolution No. 1340 dated November 22, 1995 has required the Bank to list in the PSE not later than 4 years after the start of the Bank's operations. The Bank was listed in the PSE on June 2, 1999 through an initial public offering (IPO) of 37,500,000 common shares from its unissued common stock. The application for the IPO of the Bank was approved by the PSE on April 19, 1999. Since the date of the Bank's IPO, the number of shares outstanding has remained at 187,500,000.

In December 2000, Chinatrust Taipei substantially increased its equity in the Bank through the acquisition of shares held by a minority group. Relative to this acquisition, Chinatrust Taipei controls approximately 91% of the Bank's capital stock compared to 57% prior to the acquisition. The General Banking Law of 2000 allows foreign banks to own up to 100% of Philippine incorporated banks, compared to 60% under the previous law. A further acquisition of shares held by the public representing approximately 4% of the Bank's equity was made by Chinatrust Taipei in January 2001 through a tender offer at a price of P19 per share, the same price at which the shares from the minority group was acquired. In May 2001, Chinatrust Taipei purchased another 4.38% of the outstanding shares at a price of P18.25 per share. 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% of its outstanding capital stock. However, the continuing listing requirement on minimum public ownership has been suspended by the PSE until the issuance and implementation of new rules concerning the such continuing listing requirement.

Under current banking regulations, the combined capital accounts of each commercial bank should not be less than an amount equal to ten percent (10%) of its risk assets. As of December 31, 2004 and 2003, the Bank is in compliance with the minimum capital-to-risk assets ratio. The capital-to-risk assets ratio of the Bank as of December 31, 2004 and 2003 is 31.55% and 28.45%, respectively.

12. Leases

The Bank leases a portion of the equipment and premises of its head office and branches. The terms of the lease contracts range from 1 to 7 years subject to future increases. Rent expense included in Occupancy and Equipment-Related Expenses in the Statements of Income amounted to P68.2 million, P60.20 million and P58.60 million for each of the years ended December 31, 2004, 2003 and 2002, respectively.

The future minimum lease rentals for the next five years subsequent to December 31, 2004 are as follows:

Year	Amount (in millions)
2005	P61
2006	34
2007	16
2008	12
2009	5
	P128

13. Income Tax and Other Taxes

Under Philippine tax laws, the Bank is subject to percentage and other taxes (presented as Taxes and licenses in the Statements of Income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp taxes. Income taxes paid consist of corporate income tax and a final withholding tax of 20% on gross interest income from government securities and other deposit substitutes. These income taxes are presented in the Statements of Income as Provision for Income Tax.

Pursuant to Revenue Regulation No. 12-2003 issued on March 12, 2003, a 10% Value-Added Tax (VAT) was imposed on services of banks, non-bank financial intermediaries and finance companies effective January 1, 2003. Accordingly, the Bank has been subjected to a 10% VAT on its gross receipts in lieu of the GRT starting January 1, 2003. However, Republic Act No. 9238 reverting the services of banks and non-bank financial intermediaries to GRT was approved on February 5, 2004 with retroactive effect from January 1, 2004.

The RBU corporate income tax rate is 32%. Interest allowed as a deductible expense is reduced by an amount equivalent to 38% of interest income subjected to final tax. The regulations also provide for Minimum Corporate Income Tax (MCIT) of 2% of gross income and three-year Net Operating Loss Carryover (NOLCO). The 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 incurrence.

FCDU offshore income (income from nonresidents) is tax-exempt. Onshore income (income from residents) is subject to 10% gross income tax. Interest income on deposits with other FCDUs and Offshore Banking Units (OBUs) are subject to 7.5% final tax.

The Comprehensive Tax Reform Bill (which became R.A. 8424 otherwise known as the Tax Reform Act of 1997) amended the Tax Code provision governing taxation of income derived under the Expanded Foreign Currency Deposit System which included the FCDUs and OBUs. As amended, the items previously classified as exempt from all taxes have become subject to 10% final income tax, namely, income derived from transactions with local commercial banks, including branches of foreign banks that may be authorized by the BSP to transact business with foreign currency deposit system units; and other depository banks under the expanded foreign currency deposit system.

On April 28, 2004, Republic Act No. 9294 (R.A. 9294) was enacted into law. R.A. 9294 is the Act restoring the tax exemption of OBUs and FCDUs. Under this law, income derived by FCDUs from foreign currency transactions with nonresidents, OBUs in the Philippines, local commercial banks including branches of foreign banks that may be authorized by the BSP to transact business with foreign currency deposit system units and other depository banks under the foreign currency deposit system shall be exempt from all taxes, except net income from such transactions as may be specified by the Secretary of Finance, upon recommendation by the Monetary Board to be subject to the regular income tax payable by banks. Provided, however, that interest income from foreign currency loans granted by other FCDUs to residents under the offshore units in the Philippines or other depository banks under the expanded system shall be subject to a final tax at a rate of 10%.

Subsequent to April 28, 2004, the banking industry with FCDU and OBU operations in the Philippines received Letter Notices, Preliminary Assessment Notice and/or Formal Assessment Notice from the Bureau of Internal Revenue (BIR) assessing the FCDUs and OBUs for alleged deficiency gross receipts, branch profit remittance, value-added and documentary stamp taxes for taxable years covering the intervening years to the date of restoration. The Bankers Association of the Philippines (BAP) and the tax counsel of the banks had been in discussion with the BIR to come up with a final resolution of the issue. However, up to this date, nothing has yet been agreed.

In relation to this, the Bank received Letter Notices and Preliminary Assessment Notice for its FCDU taxable years 1998, 2000 and 2002 on various dates after April 28, 2004. The Bank also received a Formal Assessment Notice for its FCDU for taxable year 2001 and has, through its tax counsel, filed a motion with the Court of Tax Appeals contesting the said assessment. A trial has been scheduled for this motion. The Bank management, through their tax counsel and the support of the BAP, is contesting the assessments on certain grounds which, if considered, will not give rise to material tax deficiencies.

Provision for (benefit from) income taxes consists of:

	2004	2003	2002
Current	P66,343,585	P100,084,618	P105,145,929
Deferred	(1,378,689)	(46,770,287)	(77,170,740)
	P64,964,896	P53,314,331	P27,975,189

The provision for income tax – current includes the regular corporate income tax or MCIT, income tax of the Bank's FCDU and the final taxes paid on interest and other income.

The components of the Bank's deferred tax assets (included in Other Assets) are as follows:

	2004	2003
Tax effects of:		
Allowance for probable losses	P226,412,811	P212,802,832
NOLCO	90,825,798	111,063,340
Unamortized past service cost	1,722,263	2,030,021
Excess of MCIT over regular corporate income tax	20,343,578	11,882,884
	P339,304,450	P337,779,077

Details of the Bank's NOLCO are as follows:

Year Incurred	Amount	Used / Expired	Balance	Expiry Year
2001	P95,220,547	P95,220,547	P -	2004
2002	170,788,966	-	170,788,966	2005
2003	81,063,425	-	81,063,425	2006
2004	31,978,227	-	31,978,227	2007
	P379,051,165	P95,220,547	P283,830,618	

Details of the Bank's excess MCIT over regular corporate income tax are as follows:

Year Incurred	Amount	Used / Expired	Balance	Expiry Year
2001	P1,925,326	P1,925,326	P -	2004
2002	2,530,621	-	2,530,621	2005
2003	7,426,937	-	7,426,937	2006
2004	10,386,020	-	10,386,020	2007
	P22,268,904	P1,925,326	P20,343,578	

The reconciliation between the statutory income tax and effective income tax follows for the years ended December 31, 2004, 2003 and 2002:

	2004	2003	2002
Statutory income tax	P135,081,563	P177,939,355	P140,438,271
Tax effects of:			
FCDU income	(72,405,481)	(84,557,309)	(85,538,256)
Tax paid and tax exempt income	(30,638,035)	(46,671,942)	(76,262,182)
Non-deductible interest expense	19,792,021	16,360,640	18,703,853
Others	13,134,829	(9,756,413)	30,633,503
Effective income tax	P64,964,897	P53,314,331	P27,975,189

14. Trust Assets

Securities and properties held by the Bank in fiduciary or agency capacities for its customers are not included in the accompanying Statement of Condition. These items are not assets of the Bank. Total assets held by the Bank's trust department amounted to about P732.45 million and P340.60 million as of December 31, 2004 and 2003, respectively (see Note 20).

In compliance with current banking regulations relative to the Bank's trust functions, government securities owned by the Bank with face value amounting to P5 million as of December 31, 2004 and 2003, are deposited with the BSP.

15. Earnings Per Share

Earnings per share are computed as follows:

	2004	2003	2002
Net income	P357,164,989	P502,746,152	P410,894,408
Weighted average number of outstanding common shares	187,500,000	187,500,000	187,500,000
Earnings per share	P1.90	P2.68	P2.19

16. Retirement Plan

The Bank has a funded, noncontributory defined benefit retirement plan covering substantially all of its employees. The benefits are based on number of years of service of employees with the Bank. The valuation used in determining retirement cost is the projected unit credit method.

As of March 31, 2003, the latest actuarial valuation, the actuarial present value of retirement benefits amounted to P56.8 million. The fair value of the plan assets amounted to P18.6 million. The principal actuarial assumptions used to determine retirement benefits were 7% salary increases and 8% return on plan assets, both compounded annually. Actuarial valuations are made at least every two years. The Bank's annual contribution to the retirement plan consists of payment covering the current service cost for the year plus a payment toward funding the actuarial accrued liability. The fund is managed by the trust department of the Bank.

Total retirement expense (shown as part of Compensation and fringe benefits account in the Statements of Income) amounted to P19.65 million, P13.3 million and P7.5 million in 2004, 2003 and 2002, respectively.

17. Related Party Transactions

Under current banking law and regulations, the aggregate amount of loans to directors, officers, stockholders and related interests (DOSRI) should not exceed the total capital funds or 15% of the total loan portfolio of the Bank, whichever is lower. In addition, the amount of direct credit accommodations to DOSRI, of which 70% must be secured, should not exceed the amount of their respective regular and/or quasi-deposits and book value of their respective investments in the Bank. These limits do not apply to loans secured by assets considered as non-risk as defined in the regulations. The Bank is in compliance with such regulations as of December 31, 2004 and 2003.

The following table shows information relating to DOSRI loans as of December 31, 2004 and 2003:

	2004	2003
Total outstanding DOSRI loans	P190,846,953	P164,498,569
Percent of DOSRI loans to total loans	1.51%	1.43%
Percent of unsecured DOSRI loans to total DOSRI loanst	0.39%	0.52%

Secured DOSRI loans include those for which the underlying mortgages are pending registration.

18. Segment Information

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

The information presented in the table below is derived from the internal management reporting system used by management to measure the performance of the segments and the Bank in the overall. This information has been presented with comparative amounts of December 31, 2003 and 2002. The management reporting system assigns Statement of Condition and Statement of Income items to each segment based on internal funds transfer pricing system, which assigns a cost of funds or a credit for funds to resources and liabilities based on their type, maturity or repricing characteristics. Non-interest income and expense directly attributable to a segment are assigned to that business based on the profit/cost center concept. Economic capital is attributed to each business unit using a Risk Adjusted Return on Capital (RAROC) methodology, which seeks to allocate capital to each business unit consistent with the level of credit risk they assume. Any excess is allocated proportionately to each business segment.

Segment information for the years ended December 31, 2004, 2003 and 2002 are as follows:

	Treasury and Financial Institution			Corporate Banking			Retail Banking			Others		
	2004	2003	2002	2004	2003	2002	2004	2003	2002	2004	2003	2002
Results of operations (in millions)												
Net interest Income	P135	P144	P57	P347	P326	P209	P421	P215	P299	P19	P6	P129
Noninterest income	147	459	628	42	67	14	41	35	20	2	(5)	-
Total revenue	282	603	685	389	393	223	462	250	319	22	1	129
Noninterest expense	95	75	71	25	164	313	278	212	229	334	240	301
Income (loss) before income tax	187	528	614	363	229	(90)	184	38	90	(312)	(239)	(172)
Income tax provision (benefit)	46	77	78	14	-	(46)	2	(6)	(4)	3	(17)	3
Net income (loss)	P141	P451	P536	P350	P229	(P44)	P182	P44	P94	(P316)	(P222)	(P175)
YTD Average (in millions)												
Total resources	P4,937	P4,590	P2,739	P9,202	P9,393	P8,314	P3,987	P3,133	P4,757	P799	P730	P558
Total liabilities	P10,395	P10,163	P1,489	P933	P680	P411	P3,331	P2,903	P10,876	P476	P812	P709

19. Financial Performance

The following basic ratios measure the financial performance of the Bank for the year ended December 31, 2004 (with comparative ratios for 2003 and 2002):

	2004	2003	2002
Return on average equity	8.74%	14.70%	12.87%
Return on average assets	1.84	2.79	2.52
Net interest margin	5.56	4.23	4.74

20. Commitments and Contingent Liabilities

In the normal course of the operations of the Bank there are various outstanding commitments and contingent liabilities which are not reflected in the accompanying financial statements. The Bank does not anticipate material unreserved losses as a result of these transactions.

The following is a summary of the Bank's commitments and contingent liabilities at their equivalent peso contractual amounts as of December 31, 2004 and 2003:

	2004	2003
Forward exchange bought	P1,627,196,534	P1,827,887,776
Unused commercial letters of credit	1,037,587,123	947,875,575
Forward exchange sold	974,624,427	1,559,039,866
Trust department accounts	732,447,737	340,610,673
Spot exchange bought	185,925,300	62,256,320
Spot exchange sold	174,657,100	55,586,000
Outward bills for collection	50,307,680	99,914,246
Outstanding guarantees	18,381,853	120,336,978
Inward bills for collection	6,039,070	31,939,992
Traveller's checks unsold	1,583,191	1,423,002
Others	12,653,734	13,001,828

21. Approval of Financial Statements

The President of the Bank authorized the issuance of its financial statements as of and for the year ended December 31, 2004 on January 28, 2005.

22. Reclassification

Certain accounts in the 2003 and 2002 financial statements have been reclassified to conform with the 2004 financial statements presentation.

Honorary Chairman

Dr. Jeffrey L. S. Koo

Board of Directors



Eric Chen
Chairman



William B. Go
Vice Chairman



Joey A. Bermudez
President



John Li
Director



Eric Wu
Director



Yung Fang Yang
Independent Director



Edwin B. Villanueva
Independent Director

Chinatrust International Branches

Head Office
(Banking Department)
1F., No.3, Songshou Rd., Sinyi District,
Taipei City 110, Taiwan (R.O.C.)
(02) 27222002 Fax: 886-2-2723-8679

Dunbei Branch
1F., No.122, Dunhua N. Rd., Songshan
District, Taipei City 105, Taiwan (R.O.C.)
(02) 27133322

Chengdong Branch
1F., No.88, Sec. 2, Nanjing E. Rd.,
Jhongshan District, Taipei City 104,
Taiwan (R.O.C.)
(02) 25677377

Jhungle Branch
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District, Taipei City 105, Taiwan (R.O.C.)
(02) 27672669

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Jhongjheng District, Taipei City 100,
Taiwan (R.O.C.)
(02) 23818740

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Taipei City 104, Taiwan (R.O.C.)
(02) 25235222

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District, Taipei City 106, Taiwan (R.O.C.)
(02) 27754600

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District, Taipei City 106, Taiwan (R.O.C.)
(02) 23253616

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Da-an District, Taipei City 106, Taiwan
(R.O.C.)
(02) 27520310

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1F., No.16, Sec. 1, Nanjing E. Rd.,
Jhongshan District, Taipei City 104,
Taiwan (R.O.C.)
(02) 25232238

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Sinyi District, Taipei City 106,
Taiwan (R.O.C.)
(02) 23466711

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Da-an District, Taipei City 106,
Taiwan (R.O.C.)
(02) 23623377

Gangcian Branch
1F., No.200, Gangcian Rd.,
Neihu District, Taipei City 114,
Taiwan (R.O.C.)
(02) 26599798

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Shihlin District, Taipei City 111,
Taiwan (R.O.C.)
(02) 88661847

Da-an Branch
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Jhongjheng District, Taipei City 100,
Taiwan (R.O.C.)
(02) 33651988

Chengde Branch
1F., No.17, Sec. 1, Chengde Rd., Datong
District, Taipei City 103, Taiwan (R.O.C.)
(02) 25562088

Fusing Branch
1F., No.1, Sec. 4, Ren-ai Rd., Da-an
District, Taipei City 106, Taiwan (R.O.C.)
(02) 27521818

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1F., No.122, Songjiang Rd., Jhongshan
District, Taipei City 104, Taiwan (R.O.C.)
(02) 25677822

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1F., No.328, Changchun Rd., Jhongshan
District, Taipei City 104, Taiwan (R.O.C.)
(02) 25468989

Shihlin Branch
1F., No.307, Jhongjheng Rd., Shihlin
District, Taipei City 111, Taiwan (R.O.C.)
(02) 28748989

Sisong Branch
1F, No.161, Sec.4, Nanjing E. Rd.,
Songshan District, Taipei, 105,
Taiwan, R.O.C.
(02) 27177100

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Sinyi District, Taipei City 110,
Taiwan (R.O.C.)
(02) 23454000

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District, Taipei City 106,
Taiwan (R.O.C.)
(02) 27386171

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(02) 81017888

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Yonghe City, Taipei County 234,
Taiwan (R.O.C.)
(02) 26599798

Nashihjiao Mini Branch
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Taipei County 234, Taiwan (R.O.C.)
(02) 29498838

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(02) 22452277

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City, Taipei County 242, Taiwan (R.O.C.)
(02) 29929696

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Taiwan (R.O.C.)
(02) 22776789

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1F., No.881-7, Jhongjheng Rd.,
Sinhuang City, Taipei County 242,
Taiwan (R.O.C.)
(02) 29066888

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Banciao City, Taipei County 220, Taiwan
(R.O.C.)
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Banciao City, Taipei County 220,
Taiwan (R.O.C.)
(02) 89611500

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City, Taipei County 247,
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City, Taipei County 231, Taiwan (R.O.C.)
(02) 29129988

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Taipei County 231, Taiwan (R.O.C.)
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Taiwan (R.O.C.)
(02) 22630888

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1F., No.66, Sec. 1, Chongyang Rd.,
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Taiwan (R.O.C.)
(02) 89881199

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333, Taiwan (R.O.C.)
(03) 3962777

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Taoyuan County 320, Taiwan (R.O.C.)
(03) 4223131

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Taoyuan County 320, Taiwan (R.O.C.)
(03) 4266646

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Taoyuan County 320, Taiwan (R.O.C.)
(03) 4271122

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Taoyuan City, Taoyuan County 330,
Taiwan (R.O.C.)
(03) 3373266

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Taoyuan County 330, Taiwan (R.O.C.)
(03) 3388866

Nankan Branch
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Township, Taoyuan County 338,
Taiwan (R.O.C.)
(03) 3212211

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City 300, Taiwan (R.O.C.)
(03) 5222687

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Tokyo Branch 7th F1., AIG Building, 1-3, Marunouchi, 1-chome Chiyoda-ku, Tokyo 100-0005, Japan 813-32161108 / 813-32161090	Ho Chi Minh City Branch Suite 116, Saigon Trade Center Building, 37 Ton Duc Thang St., Dist.1, Ho Chi Minh City, Vietnam 848-910-1888 / 848-910-1999		

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Manila Representative Office 3rd Fl., Tower One, Ayala Triangle, Ayala Avenue cor Paseo De Roxas, Metro Manila, Makati , Philippines 63-2-8485519 / 63-2-7594982	Jakarta Representative Office Wisma Tamara, 16th Fl., J1 Jenderal Sudirman Kav. 24, Jakarta, 12920, Indonesia 62-21-5207878 / 62-21-5206278		

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Head Office Wisma Tamara, 16th & 17th Floor, Jl. Jenderal, Sudirman Kav. 24, Jakarta 12920 62-21-5207878 / 62-21-5206278; 5206378; 520-6767 (Marketing)	Surabaya Branch Wisma Dharmala Surabaya, 6th Floor, J1. Panglima Sudirman 101-103, Surabaya 60271 62-31-5348008 / 62-31-5348007	Cikarang Sub-Branch Komplek Ruko Union Blok A No. 2, Jl. M.H. Thamrin, Lippo Cikarang, Bekasi-Jawa Barat 62-21-89906688 / 62-21-89906868	Kelapa Gading Sub-Branch Ruko Inkopal Blok B No. 10, Jl. Boulevard Barat Raya, Kelapa Gading 62-21-45851088 / 62-21-45851077
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Yongji Branch 1F., No.18, Yongji Rd., Sinyi District, Taipei City 110, Taiwan (R.O.C.) (02) 27617999	Shuanghe Branch 1F., No.588, Jhongjheng Rd., Yonghe City, Taipei County 234, Taiwan (R.O.C.) (02) 29233333	Jisian Branch 1F., No.222-6, Jisian Rd., Lujhou City, Taipei County 247, Taiwan (R.O.C.) (02) 82832626	Jhupei Branch 1F., No.49, Guangming 6th Rd., Jhubei City, Hsinchu County 302, Taiwan (R.O.C.) (03) 6560222
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Chinatrust New York

Brooklyn Branch
54-13 8th Ave, Brooklyn,
New York 11220
(718) 854-2228 / (718) 854-2245

Elmhurst Branch
83-09 Broadway, Elmhurst,
New York 11373
(718) 760-4767 / (718) 760-4847

Flushing Branch
41-99 Main Street, Flushing,
New York 11355
(718) 886-5600 / (718) 886-0646

Chinatown Branch
208 Canal Street, New York,
New York 10013
(212) 385-9898 / (212) 385-9611

Midtown Branch
8F, No. 366 Madison Avenue, New York,
New York 10017
(212) 514-8000 / (212) 557-0333

Chinatrust Philippines

HEAD OFFICE
3rd Floor, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue cor.
Paseo de Roxas, Makati City
Tel.: 848-5519 to 38
Fax: 759-4982/83/88

AYALA BRANCH
Ground Floor, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue cor.
Paseo de Roxas, Makati City
Tel.: 848-5519 to 36, 759-4989
Fax: 759-4982/88/90

Metro Manila Branches

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G/F Page I Building, Acacia Avenue
Madrugal Business Park, Alabang
Tel.: 842-9653 to 55
Fax: 842-9649

ARRANQUE BRANCH
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Sta. Cruz, Manila
Tel.: 734-4674/75, 733-3297/44
Fax: 733-3296

BINONDO BRANCH
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Sts. Binondo, Manila
Tel.: 245-7753/55, 244-0414/16/22
Fax: 245-7754

BUENDIA-PASONG TAMO BRANCH
G/F Burgundy Corporate Tower
252 Sen. Gil Puyat Ave., Makati City
Tel.: 889-0026/27/36
Fax: 889-0026

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San Juan, Metro Manila
Tel.: 744-2227/28/744-4868
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KALOOKAN BRANCH
1358-1360 Rizal Ave. Extension
Kalookan City
Tel.: 366-6315/16
Fax: 366-6216

MABINI BRANCH
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Tel.: 400-8035/36/37, 522-9950
Fax: 400-8034

MARIKINA BRANCH
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San Roque, Marikina City
Tel.: 646-4325/51/61
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ORTIGAS BRANCH
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Tel.: 635-3832/34/35
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Tel.: 242-9018/20, 244-6710
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SUCAT BRANCH
Units N & O, Columbia Air Frieght Complex
Ninoy Aquino Ave., Parañaque City
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Fax: 854-8115

VALENZUELA BRANCH
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SUBIC BRANCH
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