Chinatrust

ANNUAL REPORT 2006

DECISIONS AND RESULTS

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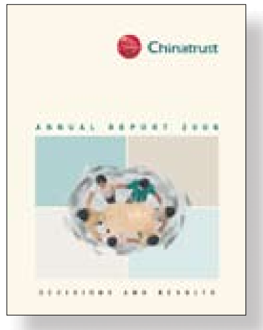

In 2006, the Chinatrust Family stood firmly, hand in hand, to dominate as a team deeply invested in our chosen businesses. Our work is not done, but we are moving forward. This Report is a chapter in our continuing story of decisions and results in this country - the choices we have made to build a Bank that is as solid as it is transparent, and the impact this has made not only in delivering a strong financial performance but more significantly in helping to shape an informed and responsible constituency.

Awarded Finalist Among Best Annual Reports of 2005 by the Management Association of the Philippines

FINANCIAL HIGHLIGHTS

Chinatrust (Philippines) Commercial Bank Corporation

	2006	2005
TOTAL ASSETS	27,932,468	22,995,121
LOANS AND RECEIVABLES (NET)	15,376,578	16,130,728
DEPOSITS	18,752,888	14,861,476
CAPITAL ACCOUNTS	4,894,913	4,361,045
NET INCOME	492,585	417,316
RETURN ON AVERAGE EQUITY	10.68%	9.41%
RETURN ON AVERAGE ASSETS	2.00%	1.84%
NPL RATIO	5.40%	3.02%
NPL COVER	59%	106%
EARNINGS PER SHARE	2.28	1.94

All numbers except earnings per share and those shown in % are in thousands

MESSAGE FROM THE CHAIRMAN

In Asia as in the rest of the world, 2006 was a year of mixed reviews. Oil price hikes, currency concerns, consumer credit issues, and political tension clouded otherwise encouraging trends. As the United States experienced a slowdown, its trade partners braced for the anticipated impact that this would bring. In Taiwan, where our parent institution Chinatrust Commercial Bank is based, we managed against a testy economic environment, brightened only by vigorous export growth and the promise of a stronger economic recovery and expansion in 2007.

Notwithstanding the stressful environment, our parent institution forged ahead, not only with its strategic initiatives, but also with efforts to ensure alignment with evolving global standards of governance and transparency. The global Chinatrust organization proceeded with measures to ensure that its practices and processes are IAS-compliant and Basel II- ready, conducting parallel runs to ascertain that it is prepared much earlier than the deadlines set by the regulatory bodies in its home country and in the host countries of its subsidiaries.

Like its parent institution, Chinatrust Philippines had to deal with the twin challenges of strategic execution and the imperatives of financial reform. Our financial results in 2006 are a product of our chosen business strategy and the initiatives that we had undertaken to become a responsible member of the global financial community.

Of course, it has helped tremendously that the country's economy has performed well. The national government has remained firm and consistent in its efforts to reduce the country's fiscal deficit. Philippine GDP is up, pushed by robust exports, while average inflation has eased as crude prices continue to decline. The rising inflow of remittances from overseas Filipino workers and professionals has brought the Philippine peso to its strongest level in five years. Parallel to this, foreign direct investments are pointing to buoyant investor sentiment.

We have also seen the Bangko Sentral supportive of the consolidation and merger of local banks. We welcome this direction in as much as it challenges the banking industry to be more competitive as well as more innovative in the products and services it offers the public. And as the financial community braces for the full impact of the continuing reforms, Chinatrust supports the drive for good governance and corporate social responsibility.

The environment is not getting any less complex but we are committed to pursuing our niche-based strategy in the Philippines while endeavoring to make ourselves a worthy member of the global Chinatrust organization.

I would like to take this opportunity to thank our customers for their business and trust, our shareholders as well as my colleagues in the Board for their invaluable support, and the Bank management and staff for their commitment and contribution. As we move towards new decisions and stronger results in 2007, we do so as a team with one clear vision and one firm commitment. We are Family.

WILLIAM HON
Chairman of the Board

THE PRESIDENT'S REVIEW: A CONTINUING STORY OF INVESTMENT AND VALUE CREATION

JOEY A. BERMUDEZ

This Report is but a chapter in our continuing story of responsibly investing in our chosen businesses and meaningfully creating value in the markets we have selected. When we review our performance and write our Report for the year, we do so within the context of our long-term plans in this country. Moreover, in publishing a thorough and comprehensive Report, we aim not for self-congratulation or public relations mileage, but rather for a genuinely informative and educational exercise through which we can further serve and enlighten our constituents on the business of banking.

Over the last five years, the Bank has single-mindedly pursued a strategy of specialization and niche-building. While most banks today position themselves as financial supermarkets, i.e., they have a product for every conceivable customer segment, we at Chinatrust position ourselves differently. We are not a financial supermarket and we carefully choose our businesses. We don't have everything for everyone. In the businesses that we have chosen, we try our very best to excel and to achieve a dominant market position. How do we select our businesses? Firstly, we select those that display a great potential to become a major contributor to stakeholder value. Then, we weigh their business potentials against our core competencies. This means that we must first discover and thoroughly understand our core competencies so that we can deploy them in businesses where we can make a significant impact. Entering a business where we don't have the requisite competencies and where we cannot make a difference is a waste of economic resources. If we do this, we will not be a responsible enterprise.

There is another reason why we are not a financial supermarket. It has to do with risk and capital. If we get engrossed in too many businesses, our capital will be spread thin. This will inhibit our risk-taking ability. Consequently, our potential to create stakeholder value will also be impaired. Over the last several years, the notion of adequate capital has evolved. No longer is the absolute size of one's capital a stand-alone measure of long-term stability. Today, the amount of capital one needs is a function of the amount of risks one takes. A close look at the Philippine banking market will reveal that local banks compete with well-capitalized global banking giants that have chosen to pick niches in the Philippine market rather than operate as financial supermarkets. We believe that the only way to compete with the world's best is to focus one's ammunition (read: capital) on a few select areas where its firepower can be felt.

What have we really done as a niche player?

We have successfully built an industry-leading personal loan portfolio. While other financial institutions obsessively chase high net worth individuals and small/medium enterprises as their preferred customer segment, we have willingly embraced the vast population of salaried workers as a core market. Today, this vast army of wage-earning employees can count on the infrastructure we have built to deliver personal loans to them on the same day that they applied. The tough reality is that we need to continuously invest in technology to make this business sticky. Fortunately, we got into this business fully conscious of the need to keep pouring a substantial part of our profits into investments that will enable us to grow while keeping a tight handle on risks.

We have maintained an active presence in the treasury business, consistently landing among the top ten government securities dealers. This is a market position that we have occupied for several years now and we intend to keep this place as long as there is a need to provide a ready market for high-grade fixed-income instruments and to supply individuals and corporations with investment instruments of sovereign quality.

Unlike other banks, we generate low-cost deposits largely from our unique cash management offerings and not from our borrowers' maintaining balances. We selectively lend to local companies including the top-tier names in the Philippine business community. We provide financial services to the Taiwanese companies in the Philippines. Together, the treasury franchise, the consumer finance business, the low-cost deposit portfolio, and the segment-focused corporate loan business have given Chinatrust a franchise that makes it a relevant contributor to this country's economic and social life.

In 2006, we continued to build on these established strengths.

We attained an 18% growth in our audited net income, which surged to ₱493 million in 2006 from ₱417 million in 2005. Boosted by robust business lines, our total revenues grew by 37% to ₱2.12 billion. Our net interest income increased by 14% to ₱1.39 billion.

With its astute reading of the market during the year, our Treasury team surpassed its annual volume and revenue targets for 2006. The peso fixed-income desk took a prudent position while the dollar desk skillfully managed its portfolio and duration to maximize trading profits. Properly executed strategies caused trading gains to soar by a remarkable 149% to ₱548 million. Foreign exchange gain registered a 98% growth, closing the year at ₱41.64 million.

The Institutional Banking team braved an austere business atmosphere, as economic and political uncertainties continued to put a damper on investments. Corporate loan demand showed restrained growth as local top-tier companies went straight to the equity and debt markets to raise funds, prepaying their expensive bank debts. Faced with these challenges, our relationship managers focused their efforts on deposit generation and the selling of cash management products.

Our *Retail Banking Group* continued to spread its wings in 2006. We acquired the requisite licenses to set up new branches in Las Piñas, Angeles City, Cebu City, Mandaue City, and Davao City. In expanding to these areas, we deployed much more

MORE THAN READY FOR BASEL II

By Rogerio B. Panlasigui

On June 25, 2004, with Central Bankers agreeing on a new framework to standardize the manner by which banks measure their capital adequacy resulting from new methods of risk recognition and reporting, the Basel Committee on Banking Supervision issued the International Convergence of Capital Measurement and Capital Standards. The accord, which has since been known as Basel II, replaces Basel I – a simpler capital measurement system introduced in 1988, which computes capital adequacy on the basis of credit risk; it was revised in 1996 to include market risk as well. From the time it was signed in Basel, Switzerland, to its full implementation scheduled in July 2007, Basel II has ushered stronger risk management practices by banks and their regulators across national borders. It is based on three mutually reinforcing pillars: Pillar 1 comprises minimum capital requirements; Pillar 2 governs the supervisory review process; and Pillar 3 mandates market discipline.

Under Pillar 1, "Banks should have capital appropriate to risk-taking activities." Basel II prescribes major changes in the recognition of Credit and Market Risks, and now includes Operational Risk in the computation of a bank's Capital Adequacy Ratio (CAR). Credit risk pertains to the risk of losses resulting from the inability of a borrower to pay his obligations on time. Market risk relates to losses from the movement of market prices. Operating risk denotes the risk of loss resulting from inadequate or failed internal processes, people, and systems, including external events. These risk factors can be computed using various accredited models, depending on the bank's level of sophistication. CAR is now expressed as a percentage of qualifying capital to risk-weighted assets. Credit, market, and operational risks are weighed according to their attendant risks; the higher the risk, the higher the risk-weight assigned to it. The risk-weights are then multiplied by the corresponding assets, added together, and then compared with the bank's capital. Consequently, a bank with riskier assets will require more capital to adequately cover its vulnerabilities.

Under Pillar 2, "Banks should be able to properly assess their capital adequacy in relation to the risks they are taking and supervisors should be able to evaluate the soundness of these assessments." Existing Bangko Sentral ng Pilipinas regulations require all Philippine banks to have a minimum risk-based CAR of 10%. With the implementation of Basel II, most banks in the Philippines foresee their CARs being drastically pulled down. As a remedy, many of them have taken steps to increase their capital base either via additional shareholder contribution or Hybrid Tier 1 and Tier 2 capital issuances. Hybrid Tier 1 includes capital instruments that have equity-like features in the form of unsecured subordinated debt or preferred shares with step-up feature. Tier 2 consists of notes that can be converted into equity after a certain period of time. Basel II accepts both Hybrid Tier 1 and Tier 2 as equity augmentation measures.

For Chinatrust Philippines, however, there is no need to resort to such measures. Even with the full implementation of Basel II risk-based capital requirements, the Bank will still be sufficiently capitalized as our CAR is expected to be 200% of the minimum required under Basel II. This means that the Bank's risk-taking activities are more than sufficiently covered by our robust equity position.

Under Pillar 3, "Banks should be disclosing pertinent information necessary to enable market mechanisms to complement the supervisory oversight function." Basel II mandates full disclosure and good governance so that the banks, the regulators, and the public all play a pivotal role in ensuring that all banks are adequately capitalized.

While the deadline for full migration to the new standards has been set for July 2007 yet, Chinatrust has already been parallel-reporting on a monthly basis to its Parent Bank using the Basel II format since October 2006. We have likewise already successfully begun submitting the trial reports mandated by the Bangko Sentral. These initiatives reflect the Bank's readiness to be assimilated into the global financial community, and our commitment to take an active part in international efforts to promote and defend good governance in the banking industry.

By 2010, Basel II will impose more advanced risk-assessment models such as the Foundation Internal Ratings Based (FIRB) and Advanced Internal Ratings Based (AIRB) approaches for credit risk, and Advanced Measurement Approach (AMA) for operational risk. This early, our Parent Bank has already assigned a team of risk professionals dedicated to support the data collection and model building endeavors of all its overseas branches and subsidiaries to ensure the implementation of Basel II. Chinatrust Philippines thus projects full compliance with these additional Basel II initiatives by 2010, if not sooner.

than sales units that attract and maintain deposit accounts; we set up veritable business centers that offered the full complement of savings, investment, and loan products. Further, we created both front-end and back-end incentives to fuel the peaking trends we saw in Personal Loans. We promised our clients a one-day turnaround as well as balance transfer perks. Recognizing that 95% of our sales volume came from our agents, we gave them the *Kapamilya* promo, sweetening the rewards for accounts they delivered by enabling next-day crediting of commissions. We also beefed up our sales force, which comprised 700 active agents by year-end.

A major driver of our low-cost peso deposit growth is the aggressiveness with which we promoted the distribution and use of our Chinatrust Visa Debit & ATM Card via Cash Cards. With debit and ATM benefits combined in one product, the Cash Card became the medium of choice for disbursing personal loans. Likewise, combined with our unique Net Banking platform, the cash card easily became a favorite vehicle for transmitting the remittances of overseas Filipino workers to their beneficiaries. Recently, the Bank signed agreements with agencies like the Social Security System for the issuance of cash cards to pensioners. Two other cash card variants were offered to deposit clients – reloadable linked cards as well as gift cards, both appreciated for their versatility and practicality.

All these initiatives contributed to a vigorous 46% growth in low-cost deposits and a hefty 24% expansion in consumer loans.

In the Trust arena, the Bank cautiously rode uncertainties and volatility in the local and global markets. Our fixed-income portfolio outperformed Fund benchmarks by 500-600 basis points, while we maximized earnings in our mixed portfolio as we took advantage of rising prices in the equity market. We attained a 28.79% return on investment, ranking us among the top performers once again in the Watson Wyatt Survey on Investment Performance. The survey's recently published results for the first quarter of 2006 placed us at No. 1 among fund managers handling less than five funds; over-all, or in the combined categories of fund managers handling less than 5 as well as more than 5 funds, Chinatrust placed third, besting other unibanks that participated in the survey.

Not so obvious from our short-term financial results were the big investments that we made: the branch re-engineering project that we undertook to improve productivity and service quality; the restructuring we implemented to raise corporate

RISK AND REWARD: MANAGING THE BALANCE

By Enrico Villanueva

The Bank is in the business of creating value out of taking risks. In offering financial products and services – be they deposits, loans, securities, or investments – the Bank exposes itself to a myriad of risks. Consequently, we have put in place the appropriate risk management structures and policies to address each type of risk.

Foremost in the hierarchy is credit risk, which pertains to the possibility that one party to a financial transaction will fail to honor an obligation and cause the Bank to incur a financial loss. The Bank manages credit risk by setting limits for individual borrowers and groups of borrowers, and for geographical and industry segments. We have a comprehensive risk evaluation system that continually assesses the creditworthiness of corporate credits in terms of financial performance, market standing, management quality, product, and industry position.

An Obligor Risk Rating System (ORR) objectively rates the credit quality of all applicable borrowing accounts within the range of 17 grades. Patterned after our Parent Bank's ORR, it is adapted to local market conditions and is prepared for all new corporate accounts and as well as existing accounts that are being renewed.

In 2006, the Bank's Credit Risk Management Group participated in a Chinatrust Group effort to develop data on default probabilities for Chinatrust branches and subsidiaries. The data-gathering effort lays the groundwork for the eventual development of a Group-wide internal credit risk model and forms part of the Group initiative to comply with the Basel II directive on capital adequacy.

Another risk management mechanism is the post-approval Portfolio Review, which is undertaken annually to evaluate accounts individually and on a per portfolio basis. The accounts are reviewed against Bank policies on the basis of market definition, credit initiation, administration and documentation, disbursement and risk asset management. Thus, in addition to the individual account rating, we also assess the credit quality of specific portfolios.

Thirdly, the Bank conducts a monthly meeting wherein all Past Due/Classified Accounts are presented to senior management. The accounts are reviewed and, depending on whether they improve or deteriorate, they are either upgraded or adversely classified. Further, lending officers submit monthly reports covering all watchlisted and adversely classified accounts to senior management. Loan loss provisions are established depending on management's assessment of the nature and extent of deterioration in the credit – such provisions are determined based on the impairment assessment and measurements rules of PAS 39. In addition, the Bank obtains security where appropriate, enters into master netting agreements and collateral arrangements with counterparties, and limits the duration of exposures.

Chinatrust implements all these protective measures to maintain a diversified and sound loan portfolio and to detect signs of credit weaknesses. In this regard, the Bank has been successful as evidenced by its non-performing loan (NPL) ratio, which has always been considerably lower than the banking industry average. .

On the consumer finance side, the Bank manages risk through rigorous screening and credit evaluation processes for individual loan applications and stringent accreditation criteria for companies availing themselves of the corporate salary loan product. Individual applicants are evaluated for creditworthiness while accredited companies are assessed for financial stability, credit experience, market potential, and industry standing. Our credit process is supported by standard procedures that ensure risk identification and mitigation. In 2006, the Bank's consumer credit partnered with counterparts from our Parent Bank in Project Mango, a joint undertaking aimed at strengthening retail credit capabilities. Out of this exercise, we improved our model for estimating probability of default and created a checklist of high-risk industries or occupations.

Credit risk, in respect of derivative financial instruments, is limited to those with positive fair values, which are included under Other Assets. As a result, the maximum credit risk, without taking into account the fair value of any collateral and netting agreements, is limited to the amounts on the statement of condition plus commitments to customers. Concentrations arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political, or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

Chinatrust derives a significant part of its income from trading and investment. Critical to the success and stability of this business is the management of market risk. Market risk is the possibility of loss to future earnings, to fair values, or to future cash flows that may result from changes in the price of a financial instrument. The value of financial instruments held by the Bank may fluctuate as a result of changes in interest rates, foreign currency exchanges rates, commodity prices, equity prices, and other market changes.

The Bank manages its market risk through a system of policies and limits, setting market risk limits by considering market predictions, capital, and annual budgets, as well as the experience of its risk-taking units and its risk appetite. It takes into account the correlation among different market risk factors to estimate potential loss using the Value-at-Risk approach and determines if this potential loss is appropriate in light of the size of its annual budget. Calculating market risk factor sensitivities, the Bank measures the effect of a one unit increase in current interest rates, current foreign exchange rates, and equity process or volatilities upon various product types.

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows and fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches in the interest rate repricing of assets and liabilities. Accordingly, limits on interest rate gaps for stipulated periods have been established by management and approved by the Board of Directors. The Bank also adheres to a policy of keeping its foreign currency exposure within acceptable limits and within existing regulatory guidelines.

Liquidity risk, or the risk that the Bank will be unable to meet its obligations as they fall due, is managed effectively through diversified funding sources. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities, and the ability to close out market positions.

In 2006, Chinatrust made a deliberate effort to foster market risk discipline amidst the highly volatile market by rationalizing its system of limits and strictly enforcing them. Crucial to the success of this endeavor were the buy-in of traders as early as limit setting stage, the ability of risk managers to provide immediate limit simulations, and the mandate and support from senior management and the Board.

The magnitude and breadth of the Bank's risk-taking activities exposes it to the possibility of financial loss or regulatory penalty due to a breakdown in its processes, systems, or manpower – collectively referred to as operational risk. The Bank manages operational risk through regular audits as well as self-assessment reports by the operating units. Operational risk items rated 4 or above are elevated to senior management during the monthly Operations Risk meeting. Keeping in mind that branch personnel are greatly exposed to risk, the Branch Banking Operations unit issues newsletters discussing common operational issues and ways to manage them. Project Mango was a specific operational risk initiative for Retail Banking, as it aimed not only to strengthen consumer credit but also to improve operational risk controls.

By applying its expertise and enforcing policy toward effectively managing credit, market, interest rate, and liquidity risks, Chinatrust fulfills its commitment to protect shareholder interest as well as deliver value to the banking public.

service delivery standards; and the strengthening of our organization as a professional team and as a growing Family.

As we continued to invest in our core businesses, our branch network, our systems, and our human resources, we managed the rise in our operating expense (excluding provision for impairment and credit losses) at 14%. Equally important was that, notwithstanding the increase in operating expense, the Bank's cost-to-income ratio improved considerably from the previous year's 54% to 44% in 2006. A declining cost-to-income ratio indicates that the company is becoming more efficient because it spends less for every peso of revenue earned. Further, our capital adequacy ratio as of December 31, 2006, stood at 30.25%, way above the regulatory requirement of 10%. Among all banks listed in the Philippine Stock Exchange, the Bank showed the best capital adequacy ratio as of the third quarter of 2006. Our return on average equity went up to 10.68% while our return on average assets likewise rose to 2%.

These decisions and results tell part of our continuing story. Chinatrust is a work-in-progress. Every year, a chapter is added to our interesting story of building a solid enterprise, enriching the lives of our employees, partnering with communities, and enhancing the quality of life in this country. It will be intellectually dishonest to say that the future doesn't daunt us. We are awed by the tall challenges ahead but we are determined to complete our story, one piece at a time.

WHAT YOU SEE IS WHAT YOU GET:
TOWARDS GREATER TRANSPARENCY IN FINANCIAL REPORTING

By Jose Nerio Salamillas

In 2005, Chinatrust Philippines took the initiative of adopting the new "Philippine Accounting Standards" (PAS) and "Philippine Financial Reporting Standards" (PFRS). It was a pioneering effort at the time, as other financial institutions were seeking the deferment of the implementation of the new accounting standards. While others were putting on the brakes, Chinatrust decided to gear up and embrace the international standards for doing business – not only was this crucial to being a worthy global player; it also meant providing depositors, borrowers, customers, regulators, and the public-at-large a fair and transparent accounting of the Bank's financial affairs.

Basically, the new standards require greater use of fair value accounting, more risk-based loss provisioning, less off-balance sheet transactions, and more disclosures on risk management policies. The adoption of these new standards is also aimed at harmonizing accounting practices globally, with participants speaking a uniform accounting language.

As a result of the implementation of the new standards, Chinatrust reflected a P 201.6 million adjustment in the balance of surplus on January 1, 2005.

In 2006, the Bank adopted the pertinent amendments to the existing standards and adhered to the Philippine interpretations of the current PAS and PFRS. One of the amendments relates to PAS 19, which covers accounting and reporting of employee benefits. As mentioned in the Notes to Financial Statements, the amended standard requires additional disclosure about trends in the assets and liabilities in the defined benefits plans and the assumptions underlying the components of the defined benefit cost. This entailed a more extensive discussion of the composition and condition of the assets and liabilities of the Bank's retirement plan.

Other amendments involve PAS 21 – *The Effects of Changes in Foreign Exchange Rates* and PAS 39 – *Financial Instruments: Recognition and Measurement*. The amendment to PAS 21 essentially requires all exchange differences arising from a monetary item that forms part of the Bank's net investment in a foreign operation to be recognized as a separate component of equity in the consolidated financial statements regardless of the currency in which the monetary item is denominated. On the other hand, the amendment to PAS 39 requires financial guarantee contracts that are not deemed insurance contracts to be recognized initially at fair value. Subsequently, said contracts shall be re-measured based on the amount determined in accordance with PAS 37, Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognized, net of cumulative amortization recognized in accordance with PAS 18, Revenue, whichever is higher.

The Bank likewise adopted the recently issued interpretations of the existing standards. Among these is Philippine Interpretation IFRIC-4, which sets the guidelines in determining whether certain arrangements contain a lease, requiring the use of lease accounting. The Bank also implemented Philippine Interpretation IFRIC-9, which provides for the rules on the reassessment of embedded derivatives in specific contracts.

While the foregoing revised standards and new interpretations did not have any material adverse effect on the Bank, they generally resulted in additional disclosures in the Financial Statements; ultimately, these led to a more transparent reporting of the Bank's financial affairs.

NOTES ON KEY FINANCIAL INDICATORS

Banks are generally evaluated based on financial ratios that are considered barometers of financial condition and performance. However, since stakeholders have diverse concerns, they look at different financial indicators as they assess each bank. Stockholders and investors normally monitor Return on Equity, Return on Assets, and Cost to Income Ratio while depositors, lenders, and regulators usually focus on the Capital Adequacy Ratio, among others.

RETURN ON EQUITY

Return on Equity (ROE), viewed as one of the most important financial ratios, measures the bank's efficiency at generating profits for every peso of net assets. ROE may be used as a basis in comparing the stockholders' earnings from their investment in the bank against other investment opportunities, such as stocks, real estate, and debt instruments. Likewise, it shows the stockholders whether the bank is making enough of a profit to compensate for the risk of investing in this business. However, not all high-ROE companies make good investments. Some companies have high ROE because they require no assets; meanwhile, other companies may require large infrastructure buildups before they can generate profits, thus resulting in a lower ROE. Therefore, as with many financial ratios, ROE is best used as a tool for comparing companies operating within the same industry.

Chinatrust's ROE rose to 10.68% in 2006 from 9.41% and 8.74% in 2005 and 2004, respectively. The increase reflects the healthy growth in the Bank's treasury business, consumer finance, and low-cost deposit portfolio as well as its prudent management of expenses.

RETURN ON ASSETS

Return on Assets (ROA) measures how effectively a bank employs its assets in generating revenue. Return on assets is a commonly used ratio for comparing the performance of financial institutions because the majority of their assets will have a carrying value that is close to their actual market value.

Chinatrust's ROA in 2006 rose to 2% from 1.84% in the previous two years, as the Bank posted a hefty 18% net income growth in 2006. Total assets of the Bank likewise grew by ₱5 Billion in 2006.

COST TO INCOME RATIO

Cost to Income Ratio (CIR) is a key profitability ratio for banks. CIR refers to the ratio of operating expenses (exclusive of bad debts written off/provisions for probable losses) to operating income. The management of expenses is compared with the bank's ability to generate revenues. The CIR, since it provides a quantitative expression of the bank's efficiency, is thus also known as the efficiency ratio: it tells the public how much the bank spends to make a peso. The rule is: the lower the cost-to-income ratio, the higher the bank's level of efficiency.

Chinatrust's cost-to-income ratio improved by more than 10%, from 54.44% in 2005 to 44.01% in 2006. The improvement resulted from the robust growth in revenues coupled with the Bank's prudent management of expenses, even as it continued to pour in investments into its existing businesses as well as the expansion of its branch network.

CAPITAL ADEQUACY RATIO

Capital Adequacy Ratio (CAR) refers to the ratio of a bank's capital to risk weighted assets computed in accordance with the risk-based capital adequacy framework. CAR determines the ability of the bank to absorb a reasonable level of losses before becoming insolvent. The higher the CAR, the higher the level of protection available to the depositors.

Chinatrust's CAR as of December 31, 2006 stood at 30.25%, or more than double the industry average of 15.6% and way above the BSP requirement of 10%. The Bank also consistently posted one of the highest CARs among the listed banks.

Chinatrust's high CAR reflects the Bank's prudent deployment of its resources and sound risk management process. Moreover, with its present CAR, the Bank can withstand the higher capital charge required under the BASEL II Accord without the need to resort to capital build-up measures.

CORPORATE SOCIAL RESPONSIBILITY:

TAKING CARE OF THE FAMILY AND THE COMMUNITY

By Evie Abraham

Good governance creates the enabling conditions and the natural motivation for corporate social responsibility. At Chinatrust, corporate social responsibility starts with developing the employees' full potentials and providing them an environment that promotes work-life balance. In 2006, we devoted attention to building and inspiring the "Best of Breed" among our officers and employees. While we may not be a "big" bank in the usual sense, we believe that Chinatrust is big indeed in the specific areas we have chosen to focus on. One of these is people development. By nurturing a generation of bankers who care and do as much for the company and the community as for their own family, we believe we are also shaping a secure future for our country.

We kept close track of the competencies identified for every function in the Bank and how assignees were faring against career objectives and training goals. Training hours averaged 35.5 hours per employee, with key personnel being sent to the parent bank in Taiwan for exposure and transfer of skills. Indicative of strong individual performance, some 24.8% of the total organization were promoted during the year and as much as 80% received merit increases higher than the industry rate. "Star Employees" were recognized as peers and clients nominated them for exemplifying teamwork, integrity, excellence, and service.

Celebrations remained a healthy part of our organization-building rituals during the year. All employees attended our Bank's 11th anniversary last September 26, heartened by our president's invitation to participate in heralding another successful year. Gifts and greetings for employees on their birthdays and other special occasions strengthened the feeling of family in the Bank. Congratulatory cards and gift certificates for employees' children who graduated with honors further extended the goodwill and reinforced the image of a caring Bank.

Perhaps the deepest fulfillment of the Bank's corporate social responsibility, however, took root in a small community near one of our most successful branches. Our officers and staff continued their deep involvement with the residents, especially the pre-school children, of GK Sison, our adopted Gawad Kalinga site. The community sits just outside the New Bilibid Prisons in Muntinlupa and was heretofore a blighted area where 65 families had lived in utter desperation and hopelessness. Today, these families have discovered the power of enlightened partnership and self-help. Financial support was part, but was not the most important component of Chinatrust's contribution to this renewed community. The centerpiece of Chinatrust's involvement was the physical presence of its officers and employees (all of them taking turns year-round) in the Sibol school, a learning institution for the pre-school of the community. For the Bank, this was a philanthropic project undertaken not to achieve public relations mileage nor to publicize a positive corporate image; rather, this was a deeply held commitment driven by the Bank's top leaders and embraced by its entire population. It was social engagement in the truest sense, where each and every Chinatrust employee internalized the Gawad Kalinga spirit and lived it. Today, if you walk around the offices of Chinatrust, you will hardly find an employee who cannot talk animatedly about his Gawad Kalinga experience. Their individual experiences are varied: painting schools and houses, teaching catechism, personal hygiene, and good manners to pre-school children, organizing and participating in community celebrations, and bringing Gawad Kalinga music to the Bank's customer lobby. A very special milestone we marked with GK Sison in 2006 was the Kasalang Bayan, a joint wedding of 12 couples in the community. Bank officers stood as sponsors, employees donated clothes, and other volunteers provided catering, entertainment, flowers, décor, and other supplies needed to complete the ceremony and make it memorable. We were honored to have been instrumental in seeing these couples blessed with the sacrament of matrimony, as families and friends witnessed their first steps to a new life together in faith. We will continue our social engagement because we believe that community involvement is two-dimensional: while it gives us the opportunity to uplift the communities around us, it also makes it easier for us to imbue our people with the same values that can make us a successful business organization in the long run.

WHY YOU SHOULD BANK WITH CHINATRUST

A major strength of the Bank is its undisturbed focus on its business strategy. In 2006, the Bank revisited its Corporate Vision and Mission to assess where the organization has brought itself after 10 years in the Philippines and, more importantly, to define the way forward. Why should anyone bank with Chinatrust? Because we know who we are, what we do best, and how we can best serve our chosen markets.

VISION STATEMENT

We are specialists.
We focus on markets where we make a real difference.
We distinguish ourselves with our niche-based strategy.

We aim to be the best-managed bank with dominant presence in our chosen businesses.
We deploy a local strategy and execute with the discipline of a global player.
We are driven by highly motivated and innovative professionals.

We strive to meet the exacting standards of our customers.
We are a high-performance bank.
We create value by effectively managing risks.

We are Chinatrust.

MISSION STATEMENT

We are Family.
We live the Chinatrust values
Caring
Trustworthy
Professional

We commit to our…

Customers, to delight them with products and services that enhance their financial well-being and consistently exceed their expectations

Officers and Staff, to create a work environment characterized by career development and meritocracy that rewards "Best of Breed"

Shareholders, to create value by optimizing the returns on their investment

Community, to share our resources and encourage the personal involvement of our employees in caring for the needs and improving the lives of the people in our communities

Government, to behave like a good corporate citizen, transparent in our actions, compliant with laws and contributing to the national economy

Business Partners, to foster lasting and mutually beneficial relationships.

TODAY	FUTURE
We are the subsidiary of a leading Taiwanese bank operating in the Philippine market.	We will be a Chinatrust subsidiary that mirrors the brand image of the Parent Bank by being a caring, trustworthy and professional financial institution.
We are a dominant player in the personal loans business, a market mover in the treasury business and an emerging player in the cash management business.	We will sustain our leadership in the personal loans business, we will keep our market-moving position in the treasury business and we will be a market leader in selected segments of the cash management business.
We provide corporate loans, deposits and investment products to the Chinese and Taiwanese community.	In the Taiwanese segment, we shall be a market leader in deposit and investment products. In the local corporate segment, we shall be a specialist, providing program-driven products aimed at chosen niches.
Our trading business today is largely proprietary.	We will leverage our trading skills and build the requisite distribution platform to provide treasury products to our retail and corporate customers.
We are an aggressive seeker of new and innovative businesses that can enhance our long-term revenue and profit stream.	We will complement our opportunity-seeking attitude with robust platforms, policies and processes that enable us to manage our risks better, provide competent and efficient customer service and fulfill our responsibilities as a good corporate citizen.

GOVERNANCE STRUCTURE

Beyond just complying with regulations, Chinatrust Philippines believes that the practice of good corporate governance by private and public corporations is essential to a robust economy and a healthy society. The Bank champions transparency, responsibility, and accountability in the conduct of its business, thereby contributing to a sound financial system – an indispensable foundation for sustainable economic growth.

In 2006, we followed through on our earlier initiatives to keep pace with the new international accounting standards that had dramatically changed the framework of financial supervision. We are proud that Chinatrust stood among those that promptly rose to the challenge, managing the delicate balance between faithfully adhering to regulations on one hand and creatively responding to opportunities on the other. .

Active governance, already built into the systems and practices of the Bank, was provided by the Board and its Committees. In addition, it drew on the expertise and vigilance of independent units, specifically in Audit, Compliance, and Risk Management, to enhance the stability, reliability, and efficiency of the Bank.

BOARD COMMITTEES

The Nomination and Review Committee ascertains that the Board seats, including those of Independent Directors, as well as other positions that necessitate Board appointment are filled by members who meet the required qualifications as set forth in the by-laws of the Bank. This Committee monitors not only the Board's performance, effectiveness, and observance of corporate governance principles, but also those of the various other Committees and the Executive Management of the Bank. Further, it adopts guidelines for directors serving on multiple boards and recommends plans pertaining to Board assignments, succession, and remuneration. It also approves the hiring and promotion of the Group Heads. Likewise, it is involved in human resource matters such as the amendment and revision of the Performance Management System, Benefits Policy, Salary Structure Review, Merit Increase, and Performance Bonus distribution. This Committee is headed by William Hon as Chairman, with William B. Go, Edwin B. Villanueva, and Yung Fang Yang as Members.

The Audit Committee supports the Board in undertaking oversight responsibilities. Made up of members with accounting, auditing, or related financial management expertise and experience, it monitors the Bank's compliance with approved internal policies and controls as well as statutory regulations, emphasizing an accounting system that is 100% compliant with International Accounting Standards. Further, it performs oversight functions covering financial management, internal and external audit, and compliance. In 2006, it adopted the Parent Bank's Internal Audit Guidelines for Overseas Subsidiaries. It also aligned the Bank's Internal Audit Charter and Manual with the latest international audit standards and with the Bangko Sentral's latest regulations on internal audit. The Committee is headed by Edwin B. Villanueva as Chairman, with Eric Wu and Yung Fang Yang as Members.

The Trust Committee reviews and approves the quality and movement of the Bank's trust assets, including the opening and closing of trust and other fiduciary accounts; the investment, reinvestment, and disposal of funds; and the acceptable fixed income and equity investments, including the investment outlets. It reports to the Board any changes in regulations, market conditions, and other factors that may affect the trust business. This Committee is headed by Larry Hsu as Chairman, with William Hon, Joey A. Bermudez, and William B. Go as Members and Edlyn L. Quiroz as Trust Officer.

The Executive Committee handles urgent matters on behalf of the Board. It also reviews and approves the credit facilities beyond the President's approval limits, DOSRI transactions, the Bank's credit policies and procedures, as well as the Bank's financial budget and strategic and business plans. Moreover, it steers the Bank's management toward preparing an assessment and a report on the potential effect to the Bank of any instability or crisis in the economic and political environment. This Committee is headed by William B. Go as Chairman, with William Hon and Joey A. Bermudez as Members.

The Risk Management Committee fulfills the critical role of identifying and evaluating the Bank's risk exposures, ensuring that the appropriate risk management strategies and plans are in place and ready to be executed as necessary. It performs oversight functions in managing credit, market, liquidity, operational, and legal risks. This Committee is headed by William Hon as Chairman, with Eric Wu, Joey A. Bermudez, and Larry Hsu as Members.

OUR DIRECTORS:

WILLIAM TAI-YUEN HON, Canadian citizen, assumed the position of Chairman of the Board on April 28, 2006. He was initially elected to the Board on October 21, 2005. He obtained his Master's in Business Administration from Concordia University in 1982 and his Bachelor's degree from L'Ecole des Hautes Etudes Commerciales in 1976. He is currently the Managing Director, Corporation Banking Division International of CTCB. He is also the Chief Country Officer, Hong Kong, of CTCB and the Chief Representative of CTCB Representative Office in the Philippines. In 2005, he was the President and CEO of Chinatrust Bank, USA. Prior to this, he worked with with DBS Bank (Singapore/ Hong Kong) as Managing Director and joint CEO in 2002, and with Bank of Montreal as General Manager and Country Head in 1993. He is 51 years old.

WILLIAM B. GO, Filipino, has been the Vice-Chairman of the Board since October 15, 2001. A Certified Public Accountant, he earned his Bachelor of Science degree from the University of the East and a Master of Science in Business Administration degree from the University of Missouri. He is Chairman of Investors Securities, Inc. and Gama Enterprises, Inc.; Chairman and President of Big Blue Realty Corporation; and President of Serico, Inc. He also holds directorships in State Investment House and Sunvar Realty Development Corporation. He served as President of the Philippine Bank of Communications from 1985 to 1995. Mr. Go has been with Chinatrust since 1995. He was President and a member of the Board of Directors until October 15, 2001 when he resigned as President, and was elected as Vice-Chairman. He is 67 years old.

JOEY A. BERMUDEZ, Filipino, is the President of the Bank. He assumed his functions as President and member of the Board of Directors on October 15, 2001. A Certified Public Accountant, he obtained his Bachelor's degree in Commerce (Major in Accountancy) from the University of Santo Tomas and his Master of Business Economics from the University of Asia and the Pacific. Before joining Chinatrust, 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 (now Equitable PCI Bank) where he spent fourteen (14) years doing consumer banking and middle market lending. He is 51 years old.

ERIC WU a.k.a Wu Hsin-Hao, Taiwanese, is a member of the Board. 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 44 years old.

LARRY HSU, a.k.a Hsu Chun-Jen, Taiwanese, is the newest member of the Board, having been elected last April 28, 2006. He graduated with a Bachelor's degree in Business from the National Taiwan University. He is currently the Head of Capital Markets of Chinatrust Commercial Bank, Ltd. (Taiwan), and previously Director of Debt Capital Market Division. He was also the Head of Trading of Citibank, Taipei Branch from 1998 to 2003, and Trader of Fixed Income and Derivatives Trading from 1992 to 1998. He is 45 years old.

INDEPENDENT DIRECTORS:

YUNG FANG YANG, Taiwanese, is an Independent Director. He joined Chinatrust (Philippines) in 1999 and has been a member of the Board of Directors since then. He obtained a Bachelor of Science in Physics/Mathematics from Tung-Hai University, Taiwan in 1979. He is the Vice-Chairman of KK Converter Phils. Inc. Prior to that, he held various positions in KK Converter-Taiwan, KK Converter-Thailand, KK Converter-Philippines. He also served as a Production Manager of CITC in Penang Malaysia from 1995 to 1998. He is 51 years old.

EDWIN B. VILLANUEVA, Filipino, has been an Independent Director of Chinatrust (Philippines) since 2002. He received his Bachelor of Science degree in Management Engineering (cum laude) from Ateneo De Manila University and Master's degree in Business Administration from Wharton School at the University of Pennsylvania. He is the Chairman of VFL Advisors, Inc.; Senior Partner of Argosy Advisers; and President of ABV Inc., a real estate holding company. He is Chairman of the Audit Committee of Chinatrust Philippines, Diversified Financial Network Inc. (DFNN), and the Philippine Dealing Systems Group. He also holds directorships in the Makati Supermart Group, Testech Inc., Datapax (Philippines), and PhilRatings Inc. He is 57 years old.

MANAGEMENT COMMITTEES

The Management Team is headed by the President, who is assisted in his work by several committees. The Asset and Liability Committee (ALCO) meets every Monday to assess the market situation and to formulate the asset-liability strategy for the coming week. The President chairs the committee, whose members include the Treasurer, the Heads of the liquidity and trading desks, the Chief Finance Officer, the Chief Credit Officer, the Head of Risk Management, and the Heads of Institutional Banking, Retail Banking, and Trust. The Credit Committee meets every Thursday to take up credit proposals for approval. Chaired by the President, the committee counts among its members the Chief Credit Officer as well as the Heads of Treasury, Institutional Banking, and Retail Banking. The Management Committee (Mancom) meets twice a month to tackle major management issues. It is also chaired by the President and is made up of all Group Heads plus some other senior officers depending on discussion agenda. Mancom meetings are held on the second and fourth Wednesday of each month, with specific major subjects assigned on those two days. Information technology and marketing and product issues are tackled during the second Wednesday, while operations risks and human resource issues are discussed on the fourth Wednesday. A Mancom meeting is held on the second Monday of each month right after the ALCO to discuss specifically the Bank's financial performance for the previous month.

EXECUTIVE OFFICERS:

ROLANDO R. AVANTE, Filipino, received a Bachelor of Science in Commerce, major in Marketing Management, from De La Salle University. He is Executive Vice-President and Head of the Bank's Treasury Group. Prior to joining Chinatrust, he was First Vice-President of Domestic Funds Management of Philippine Commercial International Bank (now Equitable 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. (Investment House owned by Manila Electric Company) from 1983 to 1988. He has been with the Bank since December 1999. He is 48 years old.

LESLIE Y. CHAM, Filipino, graduated from De La Salle University with a Bachelor of Science in Commerce Major in Marketing Management. He is Senior Vice-President and Head of Sales and Distribution. Before joining the Bank, he was the Value Center Head and First Vice President of Standard Chartered Bank for Bancassurance and International Banking from 2004 to 2005 and for Wealth Management from 2003 to 2004; Vice-President and Head of Sales for Trust and Investment Services and Wealth Management Securities and Distribution from 2002 to 2003; and a District Branch Manager from 1991 to 2001. He also worked at Philippine Commercial International Bank from 1997 to 1999 as Vice President and Area Manager, at Vickers Ballas Asset Management Ltd. PTE,; from 1995 to 1997 as Vice President, and at Citytrust Banking Corporation as Assistant Vice President from 1987 to 1995. He is 42 years old.

MARTIN T. LEE, Filipino, obtained a Bachelor of Science in Business Administration, major in Economics and Finance from the University of the East, and a Master's degree in Business Administration at the Ateneo Graduate School of Business. He attended the Strategic Business Economics Program, leading to a Master's degree in Business Economics, at the University of Asia and the Pacific. He is Executive Vice-President and Head of the Bank's Institutional Banking Group. Before joining Chinatrust in 2002, he worked with Global Banking Corporation as Head of Account Management Group as well as the Special Account and Remedial Management Group. Prior to that, he was connected with Asian Banking Corporation, PCIBank and Insular Bank of Asia and America. He is 55 years old.

JOSEFINA R. NATIVIDAD, Filipino, received her Economics degree from the University of Santo Tomas and Master's in Business Administration from De La Salle University. She is a Senior Vice-President and Head of Product Banking under the Institutional Banking Group. Prior to joining Chinatrust, she was Vice-President at ABN AMRO from 2000 to 2002; Vice-President at SolidBank Corporation from 1997 to 2000; and Senior Manager at Asian Bank from 1991 to 1993. She is 48 years old.

ROGERIO B. PANLASIGUI, Filipino, obtained his Bachelor's degree in Economics from the Ateneo de Manila University and Master's degree in Business Economics from the University of Asia and the Pacific. He is Senior Vice-President and the Bank's Chief Credit Officer. Prior to joining the Bank in 2005, he was 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 50 years old.

ANTHONY T. ROBLES, Filipino, a Certified Public Accountant, obtained his Bachelor's degree in Commerce, Major in Accountancy, from the University of Santo Tomas. He is Executive Vice-President and Head of the Bank's Retail Banking Group. Prior to joining Chinatrust in October 2004, he was Executive Vice President at Planters Development Bank in September 2004; Head of Wealth Management at Standard Chartered Bank in 2003; President at Union Properties, Inc. in 1998; Union Bank of the Philippines' Vice President-Special Accounts in 1990, First Vice President-Retail Finance in 1992, Senior Vice President-Retail Finance in 1996, and Senior Vice President-Retail Banking in 1999; and AVP-Special Accounts at PCI Bank in 1988. He is 52 years old.

HUNTLEY S. UY, Filipino, received a Bachelor of Science degree in Mathematics from the Ateneo De Manila University. He is a Senior Vice-President. Prior to joining the Bank in 2003, he was 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 of Development Bank of the Philippines in 1989; and Assistant Manager of Citibank in 1988. He is 42 years old.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of **CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION** is responsible for all information and representations contained in the financial statements for the year ended December 31, 2006. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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

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

Sycip Gorres Velayo & Co., the independent 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. BEMUDEZ
President

ATTY. JOSE NERIO A. SALAMILLAS
First Vice-President
Chief Financial Officer/Comptroller/
Principal Accounting Officer

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Chinatrust (Philippines) Commercial Bank Corporation

We have audited the accompanying financial statements of Chinatrust (Philippines) Commercial Bank Corporation, which comprise the statement of condition as at December 31, 2006, and the statement of income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements of the Bank as of December 31, 2005 and 2004 and for the years then ended, which are presented for comparative purposes, were audited by other auditors whose report dated February 23, 2006, expressed an unqualified opinion on those statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Chinatrust (Philippines) Commercial Bank Corporation as of December 31, 2006, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Wilson P. Tan

Wilson P. Tan
Partner
CPA Certificate No. 76737
SEC Accreditation No. 0100-AR-1
Tax Identification No. 102-098-469
PTR No. 0267394, January 2, 2007, Makati City
March 30, 2007

STATEMENT OF CONDITION
(With Comparative Figures for 2005)

	2006	2005
ASSETS		
Cash and Other Cash Items (Note 16)	₱199,372,111	₱135,685,113
Due from Bangko Sentral ng Pilipinas (Note 16)	2,572,550,941	1,120,338,910
Due from Other Banks (Note 16)	383,167,668	1,021,195,874
Interbank Loans Receivable (Notes 16 and 28)	3,415,976,536	1,048,014,350
Financial Assets at Fair Value through Profit or Loss (Notes 6 and 16)	2,163,238,970	193,041,319
Available-for-Sale Investments (Notes 6 and 16)	3,027,369,931	1,664,435,957
Held-to-Maturity Investments (Notes 6 and 16)	15,864,886	1,048,059,579
Loans and Receivables (Notes 7, 16 and 25)	15,376,578,440	16,130,727,926
Property and Equipment (Notes 8 and 16)	216,447,083	210,971,584
Investment Properties (Notes 9 and 16)	25,691,007	8,017,790
Deferred Tax Assets (Notes 16 and 21)	402,655,755	261,987,827
Other Assets (Notes 10 and 16)	133,554,844	152,644,497
	₱27,932,468,172	₱22,995,120,726
LIABILITIES AND EQUITY		
LIABILITIES		
Deposit Liabilities (Notes 12 and 16)		
Demand	₱3,323,618,738	₱2,009,502,685
Savings	1,840,362,462	5,002,362,278
Time	13,588,906,775	7,849,611,125
	18,752,887,975	14,861,476,088
Bills Payable (Notes 13 and 16)	3,542,814,745	3,035,288,757
Outstanding Acceptances (Note 16)	70,002,083	120,318,773
Manager's Checks (Note 16)	21,120,084	34,062,671
Accrued Interest, Taxes and Other Expenses (Notes 14 and 16)	363,026,970	288,397,762
Other Liabilities (Notes 15 and 16)	287,703,762	294,531,655
	23,037,555,619	18,634,075,706
EQUITY		
Common Stock (Note 17)	2,156,249,970	1,875,000,000
Additional Paid-in Capital (Note 17)	53,513,675	53,513,675
Surplus (Note 17)	2,625,019,750	2,413,684,527
Net Unrealized Gain on Available-for-Sale Investments (Note 6)	60,129,158	18,846,818
	4,894,912,553	4,361,045,020
	₱27,932,468,172	₱22,995,120,726

See accompanying Notes to Financial Statements.

STATEMENT OF INCOME
(With Comparative Figures for 2005 and 2004)

	Years Ended December 31		
	2006	2005	2004
INTEREST INCOME			
Loans and receivables (Notes 7 and 25)	₱1,897,847,656	₱1,679,387,714	₱1,260,722,253
Trading and investment securities (Note 6)	287,613,011	246,402,529	233,341,751
Interbank loans receivable	90,819,102	37,065,572	21,307,481
Deposits with other banks and others	52,275,398	25,820,328	11,090,944
	2,328,555,167	1,988,676,143	1,526,462,429
INTEREST EXPENSE			
Deposit liabilities (Note 12)	770,846,665	597,032,373	477,880,808
Bills payable and other borrowings (Note 13)	169,383,062	173,513,245	126,455,828
	940,229,727	770,545,618	604,336,636
NET INTEREST INCOME	1,388,325,440	1,218,130,525	922,125,793
Service fees and commission income	126,116,900	72,653,077	60,212,778
Trading and securities gain - net (Note 6)	547,743,518	220,313,436	123,297,834
Foreign exchange gain - net	41,642,908	21,032,123	23,175,864
Miscellaneous - net	18,772,943	22,198,117	25,538,372
TOTAL OPERATING INCOME	2,122,601,709	1,554,327,278	1,154,350,641
Provision for (recovery from) impairment and credit losses (Note 11)	494,491,320	(97,043,679)	(22,084,513)
Compensation and fringe benefits (Notes 18 and 25)	402,839,942	459,932,658	366,201,250
Occupancy and other equipment-related costs (Note 19)	254,651,708	177,616,151	149,209,168
Taxes and licenses (Note 21)	189,572,890	132,540,296	85,058,106
Depreciation and amortization (Notes 8 and 9)	63,276,183	51,153,627	43,839,324
Insurance	39,338,177	32,722,736	28,948,919
Amortization of software license (Note 10)	27,491,205	21,234,720	21,275,586
Miscellaneous (Note 20)	137,360,300	102,171,721	80,647,001
TOTAL OPERATING EXPENSES	1,609,021,725	880,328,230	753,094,841
INCOME BEFORE INCOME TAX	513,579,984	673,999,048	401,255,800
PROVISION FOR INCOME TAX (Note 21)	20,994,761	256,683,337	64,964,897
NET INCOME	₱492,585,223	₱417,315,711	₱336,290,903
Basic/Diluted Earnings Per Share (Note 27)	₱2.28	₱1.94	₱1.56

See accompanying Notes to Financial Statements.

STATEMENT OF CHANGES IN EQUITY

(With Comparative Figures for 2005 and 2004)

	Common Stock (Note 17)	Additional Paid-in Capital (Note 17)	Surplus (Note 17)	Net Unrealized Gain on Available-for-Sale Investments (Note 6)	Total
Balance at December 31, 2005	**₱1,875,000,000**	**₱53,513,675**	**₱2,413,684,527**	**₱18,846,818**	**₱4,361,045,020**
Net income for the year	—	—	492,585,223	—	492,585,223
Net unrealized gain on available-for-sale (AFS) investments	—	—	—	41,282,340	41,282,340
Total income and expense for the year	—	—	492,585,223	41,282,340	533,867,563
Stock dividends declaration (Notes 17 and 27)	281,249,970	—	(281,250,000)	—	(30)
	281,249,970	—	211,335,223	41,282,340	533,867,533
Balance at December 31, 2006	**₱2,156,249,970**	**₱53,513,675**	**₱2,625,019,750**	**₱60,129,158**	**₱4,894,912,553**
Balance at December 31, 2004	**₱1,875,000,000**	**₱53,513,675**	**₱2,197,982,575**	**₱ —**	**₱4,126,496,250**
Cumulative effect of change in accounting policy for financial instruments - Philippine Accounting Standards 32 and 39	—	—	(201,613,759)	—	(201,613,759)
Balance at January 1, 2005, as restated	1,875,000,000	53,513,675	1,996,368,816	—	3,924,882,491
Net income for the year	—	—	417,315,711	—	417,315,711
Net unrealized gain on AFS investments	—	—	—	18,846,818	18,846,818
Total income and expense for the year	—	—	417,315,711	18,846,818	436,162,529
Balance at December 31, 2005	**₱1,875,000,000**	**₱53,513,675**	**₱2,413,684,527**	**₱18,846,818**	**₱4,361,045,020**
Balance at December 31, 2003	**₱1,875,000,000**	**₱53,513,675**	**₱1,861,691,672**	**₱—**	**₱3,790,205,347**
Net income for the year	—	—	336,290,903	—	336,290,903
Balance at December 31, 2004	**₱1,875,000,000**	**₱53,513,675**	**₱2,197,982,575**	**₱—**	**4,126,496,250**

See accompanying Notes to Financial Statements.

STATEMENT OF CASH FLOWS

(With Comparative Figures for 2005 and 2004)

	Years Ended December 31		
	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱513,579,984**	₱673,999,048	₱401,255,800
Adjustments for:			
Provision for (recovery from) impairment and credit losses (Note 11)	**494,491,320**	(97,043,679)	(22,084,513)
Amortization of premium/discount	**(262,629,994)**	(350,980,454)	(107,905,342)
Foreign exchange revaluation on bills payable	**(88,751,600)**	(178,750,500)	59,395,154
Depreciation and amortization (Notes 8 and 9)	**63,276,183**	51,153,627	43,839,324
Mark-to-market gain on trading and investment securities	**(41,694,533)**	(26,754,698)	—
Amortization of computer software costs (Note 10)	**27,491,205**	21,234,720	21,275,586
Foreign exchange revaluation on trading and investment securities	**18,298,963**	—	29,738,034
Amortization of deferred charges (Note 20)	**280,229**	415,918	1,263,033
(Gain) loss on sale of property and equipment	**170,303**	1,517	(657,513)
Changes in operating assets and liabilities:			
Decrease (increase) in amounts of:			
Financial assets at fair value through profit or loss	**(1,970,197,651)**	78,250,180	546,371,639
Loans and receivables	**240,453,441**	(1,719,516,141)	(1,124,492,995)
Interbank loans receivable (Note 28)	**65,677,814**	71,709,489	58,826,161
Other assets	**(8,681,780)**	(27,083,148)	(20,048,326)
Increase (decrease) in amounts of:			
Deposit liabilities	**3,891,411,887**	2,657,036,647	(606,674,184)
Manager's checks	**(12,942,587)**	3,702,901	2,549,064
Accrued interest, taxes and other expenses	**69,816,995**	110,448,765	(81,014,102)
Other liabilities	**(6,827,923)**	(1,855,111)	170,427,227
Net cash generated from (used in) operations	**2,993,222,256**	1,265,969,081	(627,935,953)
Income taxes paid	**(156,850,477)**	(91,246,574)	(63,383,424)
Net cash provided by (used in) operating activities	**2,836,371,779**	1,174,722,507	(691,319,377)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Available-for-sale investments	**(33,898,336,793)**	(29,983,789,208)	—
Held-to-maturity investments	**(2,306,817,831)**	(3,049,994,513)	(2,973,693,968)
Property and equipment (Note 8)	**(72,432,347)**	(119,990,769)	(65,335,747)
Proceeds from disposals of:			
Available-for-sale investments	**32,837,935,734**	28,530,158,483	—
Held-to-maturity investments	**3,363,787,513**	4,474,805,770	3,266,565,803
Property and equipment (Note 8)	**5,041,870**	29,999,252	26,824,602
Investment properties (Note 9)	**—**	3,142,012	—
Net cash provided by (used in) investing activities	**(70,821,854)**	(115,668,973)	254,360,690

(Forward)

	Years Ended December 31		
	2006	2005	2004
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of bills payable	**₱38,173,450,950**	₱83,861,893,486	₱55,943,880,101
Settlement of bills payable	**(37,577,173,362)**	(83,806,145,814)	(55,546,261,421)
Decrease (increase) in amount of outstanding acceptances	**(50,316,690)**	(78,155,526)	35,512,686
Net cash provided by (used in) financing activities	**545,960,898**	(22,407,854)	433,131,366
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**3,311,510,823**	1,036,645,680	(3,827,321)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items	**135,685,113**	144,300,090	151,849,452
Due from Bangko Sentral ng Pilipinas	**1,120,338,910**	716,808,358	742,698,271
Due from other banks	**1,021,195,874**	491,311,769	249,925,815
Interbank loans receivable (Note 28)	**900,620,000**	788,774,000	1,000,548,000
	3,177,839,897	2,141,194,217	2,145,021,538
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items	**199,372,111**	135,685,113	144,300,090
Due from Bangko Sentral ng Pilipinas	**2,572,550,941**	1,120,338,910	716,808,358
Due from other banks	**383,167,668**	1,021,195,874	491,311,769
Interbank loans receivable (Note 28)	**3,334,260,000**	900,620,000	788,774,000
	₱6,489,350,720	₱3,177,839,897	₱2,141,194,217

OPERATIONAL CASH FLOWS FROM INTEREST			
Interest received	**₱2,225,241,420**	₱1,949,147,176	₱1,484,802,912
Interest paid	**(869,351,161)**	(717,173,599)	(661,449,138)
	₱1,355,890,259	₱1,231,973,577	₱823,353,774

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

(With Comparative Figures for 2005 and 2004)

1. **General Information**

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

The Bank's principal place of business is located at 3rd Floor, Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue corner Paseo de Roxas, Makati City.

The accompanying financial statements of the Bank were authorized for issue by the board of directors (BOD) of the Bank on March 30, 2007.

2. **Accounting Policies**

Basis of Preparation

The accompanying financial statements have been prepared based on a historical cost basis except for financial assets at fair value through profit or loss (FVPL) and available-for-sale (AFS) investments that have been measured at fair value. The financial statements are presented in Philippine pesos, the Bank's functional currency.

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

Statement of Compliance

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

Changes in Accounting Policies

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

Amendments to PFRSs and Philippine Interpretation effective in 2006

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

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

Philippine Interpretation early adopted

The Bank has also early adopted Philippine Interpretation IFRIC–9, *Reassessment of Embedded Derivatives*

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

PAS 19, *Employee Benefits*

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

PAS 21, *The Effects of Changes in Foreign Exchange Rates*

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

PAS 39, *Financial Instruments: Recognition and Measurement*

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

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

Amendment for the fair value option. This amended PAS 39 to restrict the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Bank has reassessed its existing FVPL investments, including documentation of the specific conditions allowing the continued FVPL classification of such investments. This amendment has no significant impact on the financial statements.

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

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

The following Philippine Interpretations are effective for annual periods beginning on or after January 1, 2006 but are not relevant to the Bank:

- Philippine Interpretation IFRIC-5, *Rights to Interests Arising from Decommissioning Restoration and Environmental Rehabilitation Funds*
- Philippine Interpretation IFRIC-6, *Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*

Summary of Significant Accounting Policies

Foreign Currency Translation
The books of accounts of the RBU are maintained in Philippine pesos, while those of the FCDU are maintained in their original currencies. For financial reporting purposes, the monetary assets and liabilities of the FCDU and the foreign currency-denominated monetary assets and liabilities in the RBU are translated in Philippine pesos based on the Philippine Dealing System (PDS) closing rate prevailing at end of the year and foreign currency-denominated income and expenses, at the PDS weighted average rate for the year. Foreign exchange differences arising from restatements of foreign currency-denominated assets and liabilities are credited to or charged against operations in the year in which the rates change.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Financial Instruments
Date of recognition
Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Derivatives are recognized on trade date basis (i.e. the date that the Bank commits to purchase or sell the asset). Deposits, amounts due to banks and customers and loans are recognized when cash is received by the Bank or advanced to the borrowers.

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

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

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

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

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

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

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

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

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

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

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

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS investments or financial assets at FVPL.

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

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

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

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized as 'Trading and securities gain - net' in the statement of income. Where the Bank holds more than one investment in the same security, these are deemed to be disposed of on a first-in first-out basis. Interest earned on holding AFS investments are reported as interest income using the effective interest rate. Dividends earned on holding AFS investments are recognized in the statement of income as 'Miscellaneous income' when the right of payment has been established. The losses arising from impairment of such investments are recognized as 'Provisions on impairment and credit losses' in the statement of income.

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

After initial measurement, bills payable and similar financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate.

Derecognition of Financial Assets and Liabilities
Financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when:
- the rights to receive cash flows from the asset have expired; or
- the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through arrangement; or
- the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred the control of the asset.

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

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

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

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized on the statement of condition. The corresponding cash paid, including accrued interest, is recognized on the statement of condition and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest rate method. The Bank has no reverse repurchase agreements as of December 31, 2006 and 2005.

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

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

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

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such changes in property prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

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

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

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

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

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

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

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

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

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

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

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

In 2004 and prior years, interest income on non-accruing loans was recognized only to the extent of actual cash collections.

Service fees and commissions
The Bank earns fee and commission income from diverse range of services it provides to its customers. Fees arising from negotiating or participating in the negotiation of a transaction for a third party - such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria. These fees include corporate finance fees. Loan syndication fees are recognized in the statement of income when the syndication has been completed and the Bank retains no part of the loans for itself or retains part at the same effective interest rate as for the other participants.

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

Trading and securities gain - net
Results arising from trading activities include all gains and losses from changes in fair value for financial assets and financial liabilities held for trading and disposals of AFS investments.

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

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

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

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

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

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

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

Investment Properties
Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment property acquired is measured at the carrying amount of asset given up. Fair value has been determined based on the valuations performed by experienced and competent appraisers as of the statement of condition date. Foreclosed properties are classified under investment properties from foreclosure date.

Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and impairment in value. Transaction costs including nonrefundable taxes such as capital gains tax and documentary stamp tax that were paid by the Bank are capitalized as part of cost. Expenditures incurred after the investment properties have been put into operation, such as repairs and maintenance, are normally charged against current operations in the year in which the costs are incurred.

Depreciation is calculated on a straight-line basis over the estimated remaining useful life from the time of acquisition of the investment properties. The estimated useful lives of the condominium units range from 10 to 50 years.

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

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

Computer Software Costs
Computer software costs (included under Other Assets in the statement of condition) include costs incurred relative to the development of the Bank's software. Costs are amortized on a straight-line basis over 5 to 8 years.

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

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

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

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

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

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

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

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

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

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

The retirement cost of the Bank is determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current year.

The liability recognized in the statement of condition in respect of defined benefit pension plans is the present value of the defined benefit obligation at the statement of condition date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged against current operations when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Past service costs, if any, are recognized immediately in the statement of income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

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

Provisions
Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event and where it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an Interest Expense.

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

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

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward of unused MCIT and unused NOLCO can be utilized. Deferred income tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss. Current tax and deferred tax relating to items recognized directly in equity is also recognized in equity and not in the statement of income.

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

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

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

Earnings Per Share
Basic earnings per share (EPS) is computed by dividing net income for the year by the weighted average number of shares outstanding during the year after giving retroactive effect to stock dividends declared and stock rights exercised during the year, if any. The Bank does not have any dilutive potential common shares.

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

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

Segment Reporting
The Bank's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 23. The Bank's assets producing revenues are located in the Philippines (i.e., one geographical location). Therefore, geographical segment information is no longer presented.

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

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

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

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

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

Philippine Interpretation IFRIC-8, *Scope of PFRS 2 (effective for annual periods beginning on or after May 1, 2006)*
This Interpretation requires PFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value. The Interpretation has no significant impact on the financial position of the Bank.

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

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

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

3. **Significant Accounting Judgments and Estimates**

The preparation of the financial statements in accordance with PFRS requires the Bank to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the financial statements as they become reasonably determinable. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances as of the date of the financial statements. While the Bank believes that the assumptions are reasonable and appropriate, actual results could differ from such estimates.

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

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

As of December 31, 2006 and December 31, 2005, HTM investments are carried at ₱15.9 million and ₱1.0 billion, respectively.

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

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

In addition to specific allowance against individually significant loans and receivables, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the internal rating of the loan or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

As of December 31, 2006 and 2005, allowance for credit losses on loans and receivables of the Bank amounted to ₱1.3 billion and ₱0.8 billion, respectively. Loans and receivables, net of allowance for credit losses, are carried at ₱15.4 billion and ₱16.1 billion as of December 31, 2006 and December 31, 2005, respectively (Note 7).

(b) Fair value of derivatives
The fair value of derivatives that are not quoted in active markets is determined using appropriate valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by management. All models are reviewed before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practicable, models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. Refer to Notes 4 and 26 for the information on the carrying amounts of these instruments.

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

As of December 31, 2006 and 2005, AFS investments are carried at ₱3.0 billion and ₱1.7 billion, respectively.

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

The Bank has been in a tax loss position over the past several years. However, estimates of future taxable income indicate that certain temporary differences will be realized in the future. Recognized deferred tax assets as of December 31, 2006 and 2005 amounted to ₱402.7 million and ₱262.0 million, respectively (Note 21). Deferred tax assets on MCIT and other temporary differences amounting to ₱43.7 million and ₱32.1 million as of December 31, 2006 and ₱152.2 million and ₱211.1 million as of December 31, 2005, respectively, were not recognized (Note 21).

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

The expected rate of return on plan assets of 13% and 10% in 2006 and 2005, respectively, was based on the average historical premium of the fund assets. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of statement of condition dates. The present value of the retirement obligation of the Bank as of December 31, 2006 and 2005 amounted to ₱127.1 million and ₱70.6 million, respectively (Note 18).

The net retirement asset balance as of December 31, 2006 amounted to ₱10.0 million (Note 18).

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

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

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

As of December 31, 2006, the net carrying value of property and equipment and investment properties amounted to ₱216.4 million and ₱25.7 million, respectively (Notes 8 and 9). As of December 31, 2005, the net carrying value of property and equipment and investment properties amounted to ₱211.0 million and ₱8.0 million, respectively (Notes 8 and 9).

4. **Fair Value Measurement**

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

Cash equivalents and short-term investments
The carrying amounts approximate fair values due to the relatively short-term maturity of these investments.

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

Equity securities
Fair values are based on quoted prices published in markets.

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

Liabilities
The fair values of unquoted debt instruments are estimated using the discounted cash flow methodology using the Bank's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. The carrying values approximate fair values due to either the demand nature or the relatively short-term maturities of these liabilities.

Derivative instruments
Fair values are estimated based on quoted market prices, prices provided by independent parties or prices derived using accepted valuation methods.

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities as of December 31, 2006 and 2005 not presented on the statements of condition at their fair value.

	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Cash and other cash items	₱199,372,111	₱199,372,111	₱135,685,113	₱135,685,113
Due from BSP	2,572,550,941	2,572,550,941	1,120,338,910	1,120,338,910
Due from other banks	383,167,668	383,167,668	1,021,195,874	1,021,195,874
Interbank loans receivable	3,415,976,536	3,415,976,536	1,048,014,350	1,048,014,350
Financial assets at FVPL	2,163,238,970	2,163,238,970	193,041,319	193,041,319
AFS investments	3,027,369,931	3,027,369,931	1,664,435,957	1,664,435,957
HTM investments	15,864,886	16,333,897	1,048,059,579	1,046,418,962
Loans and receivables	15,376,578,440	15,228,872,444	16,130,727,926	15,951,547,398
Financial Liabilities				
Deposit liabilities	18,752,887,975	18,752,887,975	14,861,476,088	14,861,476,088
Bills payable	3,542,814,745	3,542,814,745	3,035,288,757	3,035,288,757
Outstanding acceptances	70,002,083	70,002,083	120,318,773	120,318,773
Manager's checks	21,120,084	21,120,084	34,062,671	34,062,671
Accrued interest and other expenses	344,018,932	344,018,932	274,201,937	274,201,937
Other liabilities	287,703,762	287,703,762	294,531,655	294,531,655

5. **Financial Risk Management Objectives and Policies**

a. Credit Risk and Concentration of Assets and Liabilities and Off Balance Sheet Items
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank manages credit risk by setting limits for individual borrowers and groups of borrowers, and for geographical and industry segments. It has in place a comprehensive risk evaluation system that continually assesses the creditworthiness of corporate credits in terms of financial performance, market standing, management quality, product and industry position. The Obligor Risk Rating System (ORR) objectively rates the credit quality of all applicable borrowing accounts within the range of 17 grades. This is patterned after parent company's ORR but is tailor-fit to consider local market conditions. The ORR is prepared for all new corporate accounts and renewal of existing credit exposures. Another measure is the post-approval Portfolio Review which is undertaken annually to evaluate accounts individually and on a per portfolio basis. This entails reviewing the accounts against bank policies on the basis of market definition, credit initiation, administration and documentation, disbursement and risk asset management. Thus, the credit quality of specific portfolios is assessed in addition to the individual account rating. Thirdly, a monthly Past Due/Classified Accounts meeting is undertaken wherein all classified accounts are presented to senior management. During the review, if there are signs of weaknesses or deterioration in the credit, the account is adversely classified; however, in cases of positive developments, the classification is upgraded. Further, lending officers prepare monthly reports covering all watch listed and all adversely classified accounts and submit them to senior management. Loan loss provisions are established depending on management's assessment of the nature and extent of deterioration in the credit - such provisions are determined based on the impairment assessment and measurements rules of PAS 39. In addition, the Bank obtains security where appropriate, enters into master netting agreements and collateral arrangements with counterparties, and limits the duration of exposures.

All these measures are implemented in order to maintain a diversified and sound loan portfolio and to detect signs of weaknesses early on in order to protect the interests of the Bank. In this regard, the Bank has been successful as evidenced by its nonperforming loan ratio, which has always been considerably much lower than the banking industry average.

On the consumer finance side, risk is managed through rigorous screening and credit evaluation processes for individual loan applications and stringent accreditation criteria for companies availing of the corporate salary loan product. For individual borrowers, application information enters into a scorecard that evaluates their credit worthiness. Accredited companies, on the other hand, are assessed for financial stability, credit experience, market potential and industry standing. The credit process is supported by standard procedures that ensure identification and mitigation of risk.

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

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

Note 7 provides information on the concentration of credit on loans and receivables.

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

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

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

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

The following tables set forth the repricing gap position of the Bank as of December 31, 2006 and 2005 (amounts in thousands):

	2006					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Greater than 1 year	Total
Assets						
Total loans	₱10,633,335	₱2,877,641	₱2,292,943	₱580,977	₱385,024	₱16,769,920
Total investments	18,301	—	10,822	4,170	5,173,180	5,206,473
Placements with other banks	5,324,224	780,000	185,755	—	81,716	6,371,695
Cash and other cash items	199,372	—	—	—	—	199,372
Total financial assets	16,175,232	3,657,641	2,489,520	585,147	5,639,920	28,547,460
Liabilities						
Deposit liabilities	13,114,617	3,507,288	1,098,383	332,287	700,313	18,752,888
Bills payable	2,295,604	—	—	290,415	956,796	3,542,815
Outstanding acceptances	17,956	35,652	16,394	—	—	70,002
Manager's checks	21,120	—	—	—	—	21,120
Total financial liabilities	15,449,297	3,542,940	1,114,777	622,702	1,657,109	22,386,825
Asset-liability gap	₱725,935	₱114,701	₱1,374,743	(₱37,555)	₱3,982,811	₱6,160,635

	2005					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Greater than 1 year	Total
Assets						
Total loans	₱9,216,457	₱4,458,587	₱2,510,295	₱430,787	₱424,388	₱17,040,514
Total investments	390,126	347,962	399,789	471,925	1,295,735	2,905,537
Placements with other banks	2,839,475	99,088	103,592	—	147,394	3,189,549
Cash and other cash items	135,685	—	—	—	—	135,685
Total financial assets	12,581,743	4,905,637	3,013,676	902,712	1,867,517	23,271,285
Liabilities						
Deposit liabilities	12,025,923	1,845,938	334,20	127,873	527,540	14,861,476
Bills payable	1,586,270	—	—	—	1,449,019	3,035,289
Outstanding acceptances	31,872	28,711	3,551	56.185	—	120,319
Manager's checks	34,063	—	—	—	—	34,063
Total financial liabilities	13,678,128	1,874.649	337,753	184,058	1,976,559	18,051,147
Asset-liability gap	(₱1,096,385)	₱3,030,988	₱2,675,923	₱718,654	(₱109,042)	₱5,220,138

The following table provides for the average effective interest rates by period of maturity or repricing of the Bank as of December 31, 2006 and 2005:

	2006		
	Less than 3 months	**3 months to 1 year**	**Greater than 1 year**
Peso			
Financial Assets			
Due from BSP	**3.16%**	—	—
Due from other banks	**7.43%**	—	—
Financial assets at FVPL	**12.27%**	**8.24%**	**6.19%**
AFS investments	—	**10.46%**	**11.00%**
HTM investments	—	**4.97%**	**10.12%**
Loans and receivables	**10.57%**	**10.40%**	**14.01%**
Financial Liabilities			
Deposit liabilities	**5.11%**	**5.71%**	**5.25%**
Bills payable	**5.98%**	—	**8.36%**
Foreign Currency-Denominated			
Financial Assets			
Due from other banks	**4.87%**	—	—
Financial assets at FVPL	—	—	**6.86%**
AFS investments	—	—	**7.05%**
Loans and receivables	**6.62%**	**6.77%**	**7.49%**
Financial Liabilities			
Deposit liabilities	**2.01%**	**4.28%**	**4.96%**
Bills payable	**4.26%**	—	—

	2005		
	Less than 3 months	3 months to 1 year	Greater than 1 year
Peso			
Financial Assets			
Due from BSP	1.80%	—	—
Due from other banks	6.70%	—	—
Financial assets at FVPL	6.09%	9.22%	7.51%
AFS investments	—	9.59%	9.76%
HTM investments	—	6.31%	11.23%
Loans and receivables	11.98%	12.00%	12.95%
Financial Liabilities			
Deposit liabilities	4.51%	5.24%	7.50%
Bills payable	6.50%	—	8.01%
Foreign Currency-Denominated			
Financial Assets			
Due from other banks	2.99%	—	—
Financial assets at FVPL	—	—	8.49%
AFS investments	—	—	7.89%
Loans and receivables	4.91%	5.58%	5.96%
Financial Liabilities			
Deposit liabilities	1.03%	1.85%	3.47%
Bills payable	3.48%	—	—

d. Maturity (Liquidity Risk)

Liquidity risk is the risk that the Bank will be unable to meet its obligations as they fall due. To effectively manage liquidity risk, the Bank has arranged diversified funding sources. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

The tables below summarize the maturity profile of the Bank's financial assets and liabilities based on contractual repayment arrangements (amounts in thousands):

	2006					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Greater than 1 year	Total
Assets						
Cash and other cash items	₱199,372	₱—	₱—	₱—	₱—	₱199,372
Due from BSP	1,606,796	780,000	185,755	—	—	2,572,551
Due from other banks	383,167	—	—	—	—	383,167
Interbank loans receivable	3,334,260	—	—	—	81,717	3,415,977
Financial assets at FVPL	5,444	—	53	—	2,157,742	2,163,239
AFS investments	12,857	—	5,254	3,159	3,006,100	3,027,370
HTM investments	—	—	5,516	1,010	9,338	15,864
Loans and receivables	2,741,564	1,543,378	1,258,808	1,162,984	10,063,186	16,769,920
Total financial assets	8,283,460	2,323,378	1,455,386	1,167,153	15,318,083	28,547,460
Liabilities						
Deposit liabilities	13,179,490	3,506,988	1,090,083	331,987	644,340	18,752,888
Bills payable	2,295,604	—	—	290,415	956,796	3,542,815
Outstanding acceptances	17,956	35,652	16,394	—	—	70,002
Manager's checks	21,120	—	—	—	—	21,120
Total financial liabilities	15,514,170	3,542,640	1,106,477	622,402	1,601,136	22,386,825
Asset-liability gap	(₱7,230,710)	(₱1,219,262)	₱348,909	₱544,751	₱13,716,947	₱6,160,635

	2005					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Greater than 1 year	Total
Assets						
Cash and other cash items	₱135,685	₱—	₱—	₱—	₱—	₱135,685
Due from BSP	917,659	99,088	103,592	—	—	1,120,339
Due from other banks	1,021,196	—	—	—	—	1,021,196
Interbank loans receivable	900,620	—	—	—	147,394	1,048,014
Financial assets at FVPL	189,675	516	287	2,129	434	193,041
AFS investments	29,723	—	—	345,938	1,288,775	1,664,436
HTM investments	170,728	347,446	399,502	123,858	6,526	1,048,060
Loans and receivables	1,844,986	2,494,920	1,095,822	1,278,503	10,326,283	17,040,514
Total financial assets	5,210,272	2,941,970	1,599,203	1,750,428	11,769,412	23,271,285
Liabilities						
Deposit liabilities	12,036,416	1,845,138	329,729	122,654	527,539	14,861,476
Bills payable	1,586,270	—	—	—	1,449,019	3,035,289
Outstanding acceptances	31,873	28,711	3,551	56,184	—	120,319
Manager's checks	34,063	—	—	—	—	34,063
Total financial liabilities	13,688,622	1,873,849	333,280	178,838	1,976,558	18,051,147
Asset-liability gap	(₱8,478,350)	₱1,068,121	₱1,265,923	₱1,571,590	₱9,792,854	₱5,220,138

e. Foreign Currency Risk

Foreign exchange factor sensitivities ("FX Delta") represent the change in the net present value of the foreign exchange portfolios caused by a unit shift of 1% of the underlying currency's exchange rate. The FX Delta risk comes from the FX exposure of derivatives, the hedging of foreign exchange positions and foreign currency cash positions.

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

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

The tables below summarize the Bank's exposure to foreign exchange risk as of December 31, 2006 and 2005. Included in the tables are the Bank's assets and liabilities at carrying amounts, categorized by currency (information relating to Bank's currency derivatives are contained in Note 26) (amounts in thousands):

	2006		
	USD	Others	Total
Assets			
Cash and other cash items	₱58,970	₱—	₱58,970
Due from other banks	370,230	216,671	586,901
Interbank loans receivable	2,140,977	—	2,140,977
Financial assets at FVPL	840,359	—	840,359
AFS investments	2,055,421	—	2,055,421
Loans and receivables	3,060,904	442,846	3,503,750
Other assets	422	—	422
Total assets	8,527,283	659,517	9,186,800
Liabilities			
Deposit liabilities	7,016,801	41	7,016,842
Bills payable	1,912,170	354,234	2,266,404
Outstanding acceptances	19,289	50,713	70,002
Accrued interest, taxes and other expenses	38,931	987	39,918
Other liabilities	26,518	192	26,710
Total liabilities	9,013,709	406,167	9,419,876
Net exposure	(₱486,426)	₱253,350	(₱233,076)

	2005		
	USD	Others	Total
Assets			
Cash and other cash items	₱34,746	₱—	₱34,746
Due from other banks	1,008,778	238,152	1,246,930
Interbank loans receivable	678,014	—	678,014
AFS investments	240,818	—	240,818
Loans and receivables	3,231,589	668,368	3,899,957
Other assets	442	—	442
Total assets	5,194,387	906,520	6,100,907
Liabilities			
Deposit liabilities	5,352,490	46	5,352,536
Bills payable	732,256	387,344	1,119,600
Outstanding acceptances	20,280	100,039	120,319
Accrued interest, taxes and other expenses	17,004	916	17,920
Other liabilities	42,609	131	42,740
Total liabilities	6,164,639	488,476	6,653,115
Net exposure	(₱970,252)	₱418,044	(₱552,208)

6. **Trading and Investment Securities**

Financial assets at FVPL consist of the following:

	2006	2005
Held-for-trading	**₱2,157,794,636**	₱186,709,371
Derivative assets (Note 26)	**5,444,334**	3,842,412
Designated FVPL	**—**	2,489,536
	₱2,163,238,970	₱193,041,319

Net unrealized gain (loss) for the years ended December 31, 2006, 2005 and 2004 on revaluation to market of financial assets at FVPL amounting to ₱27.9 million, (₱6.9 million) and ₱4.3 million, respectively, are included under 'Trading and securities gain - net' in the statement of income.

AFS investments of the Bank represent government debt instruments and include accumulated unrealized gains of ₱60.1 million and ₱18.8 million as of December 31, 2006 and 2005, respectively.

As of December 31, 2006 and 2005, realized gain from sale of AFS investments amounted to ₱255.7 million and ₱171.0 million, respectively.

HTM investments consist of the following:

	Carrying Value		**Fair Value**	
	2006	2005	**2006**	2005
BSP treasury bills	**₱—**	₱1,030,223,668	**₱—**	₱1,029,110,315
Treasury notes	**15,864,886**	17,835,911	**16,333,897**	17,308,647
	₱15,864,886	₱1,048,059,579	**₱16,333,897**	₱1,046,418,962

Peso-denominated HTM investments bear nominal annual interest rates ranging from 10.0% to 13.4% and from 4.5% to 14.5% for the years ended December 31, 2006 and 2005, respectively.

Interest income on trading and investment securities consists of:

	2006	2005	2004
Financial assets at FVPL	**₱143,903,832**	₱30,220,939	₱45,834,034
AFS investments	**90,493,165**	142,003,737	—
HTM investments	**53,216,014**	74,177,853	187,507,717
	₱287,613,011	₱246,402,529	₱233,341,751

7. **Loans and Receivables**

This account consists of:

	2006	2005
Receivables from customers:		
Loans and discounts	**₱13,095,933,603**	₱13,335,452,539
Customers' liabilities under acceptances, letters of credit and trust receipts	**557,989,675**	562,252,760
Bills purchased	**89,230,152**	118,484,393
Less unearned discount and capitalized interest	**38,183,972**	33,692,184
	13,704,969,458	13,982,497,508
Unquoted debt securities - net of unearned discount and capitalized interest of ₱97,659,572 in 2006 and ₱98,275,701 in 2005	**1,877,680,348**	1,928,462,976
Accounts receivable	**622,280,557**	676,031,307
Accrued interest receivable	**424,867,597**	321,553,850
Dividends receivable	**4,278,630**	—
	16,634,076,590	16,908,545,641
Less allowance for impairment and credit losses (Note 11)	**1,257,498,150**	777,817,715
	₱15,376,578,440	₱16,130,727,926

Accounts receivable include amounts due from Integrated Credit and Corporate Services (ICCS) representing impaired loans secured by real properties transferred to ICCS which the latter subsequently foreclosed and consolidated. On July 27, 2006, the Monetary Board (MB) of the BSP in its Resolution No. 949 allowed the Bank to consider the value of the foreclosed properties in the valuation of such receivables.

Unquoted debt securities represents various corporate and government bonds. These investments are classified as loans and receivables in accordance with PAS 39.

BSP Reporting

The nonperforming loans (NPL) were as follows:

	2006	2005
Secured	**₱429,582,711**	₱226,423,442
Unsecured	**1,127,037,971**	443,553,843
	₱1,556,620,682	₱669,977,285

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

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

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

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

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

	2006	2005
NPLs	₱1,556,620,682	₱669,977,285
Less NPLs fully provided with allowance for impairment losses	668,339,998	221,868,779
	₱888,280,684	₱448,108,506

Restructured loans of the Bank as of December 31, 2006 and 2005 amounted to ₱614.4 million and ₱638.4 million, respectively. Restructured receivables which do not meet the requirements to be treated as performing receivables shall also be considered as NPLs.

The Bank's loan portfolio includes nonrisk loans, as defined under BSP regulations, totaling ₱1.7 billion and ₱2.2 billion as of December 31, 2006 and 2005, respectively.

As of December 31, 2006 and 2005, 88.6% and 95.2%, respectively, of the total loans of the Bank are subject to periodic interest repricing. Remaining loans earn annual fixed interest rates ranging from 11.0% to 22.5% for peso-denominated loans and from 6.3% to 10.5% for foreign currency-denominated loans for the years ended December 31, 2006 and 2005.

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

	2006		2005	
	Amount	%	Amount	%
Secured by:				
Government guarantee	₱3,325,111,673	19.83	₱3,924,493,200	23.03
Real estate	2,240,579,577	13.36	2,272,488,875	13.34
Mortgage trust indenture	1,151,311,697	6.87	1,105,605,416	6.49
Shares of stock	580,755,131	3.46	606,848,788	3.56
Hold-out on deposits	336,465,413	2.01	325,069,707	1.91
Chattel	71,537,371	0.43	60,034,119	0.35
Assigned investment	69,352,935	0.41	106,124,000	0.62
Standby letter of credit	25,000,000	0.14	—	—
	7,800,113,797	46.51	8,400,664,105	49.30
Unsecured	8,969,806,337	53.49	8,639,849,421	50.70
	₱16,769,920,134	100.00	₱17,040,513,526	100.00

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

	2006		2005	
	Amount	%	Amount	%
Other community, social and personal activities	₱3,817,083,620	22.76	₱3,004,010,533	17.63
Financial intermediation	3,209,253,407	19.14	3,870,129,004	22.71
Manufacturing (various industries)	3,020,832,848	18.01	2,731,611,864	16.03
Electricity, gas and water	1,416,720,841	8.45	1,917,292,582	11.25
Wholesale and retail	997,098,446	5.95	1,136,253,061	6.67
Real estate	944,716,121	5.63	1,249,916,010	7.34
Transportation, storage and communications	669,669,693	3.99	844,284,910	4.95
Public administration and defense	385,987,011	2.30	375,418,524	2.20
Agriculture	53,698,326	0.32	31,857,333	0.19
Construction	8,852,602	0.05	27,387,662	0.16
Others	2,246,007,219	13.40	1,852,352,043	10.87
	₱16,769,920,134	100.00	₱17,040,513,526	100.00

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

8. **Property and Equipment**

The composition of and movements in this account as of and for the years ended December 31, 2006 and 2005 follow:

	2006					
	Bank Premises	Computer Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Total
Cost						
Balance at beginning of year	₱98,039,496	₱96,359,124	₱59,920,794	₱51,543,354	₱117,074,397	₱422,937,165
Additions	139,118	9,495,557	22,980,204	7,836,022	31,981,446	72,432,347
Disposals	—	(217,792)	(15,542,543)	(1,389,819)	(333,214)	(17,483,368)
Balance at end of year	98,178,614	105,636,889	67,358,455	57,989,557	148,722,629	477,886,144
Accumulated Depreciation and Amortization						
Balance at beginning of year	13,412,681	61,911,849	23,603,914	36,401,323	76,635,814	211,965,581
Depreciation and amortization	3,958,935	18,751,242	12,544,862	6,076,578	20,413,058	61,744,675
Disposals	—	(200,252)	(10,706,076)	(1,333,930)	(30,937)	(12,271,195)
Balance at end of year	17,371,616	80,462,839	25,442,700	41,143,971	97,017,935	261,439,061
Net Book Value at end of year	₱80,806,998	₱25,174,050	₱41,915,755	₱16,845,586	₱51,704,694	₱216,447,083

	2005					
	Bank Premises	Computer Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Total
Cost						
Balance at beginning of year	₱96,334,975	₱91,593,112	₱51,771,159	₱45,363,126	₱80,677,178	₱365,739,550
Additions	1,704,521	35,953,076	36,081,007	9,854,946	36,397,219	119,990,769
Disposals	—	(31,187,064)	(27,931,372)	(3,674,718)	—	(62,793,154)
Balance at end of year	98,039,496	96,359,124	59,920,794	51,543,354	117,074,397	422,937,165
Accumulated Depreciation and Amortization						
Balance at beginning of year	9,506,422	69,435,353	19,622,003	33,519,031	62,447,282	194,530,091
Depreciation and amortization	3,906,259	15,927,937	11,047,917	5,157,230	14,188,532	50,227,875
Disposals	—	(23,451,441)	(7,066,006)	(2,274,938)	—	(32,792,385)
Balance at end of year	13,412,681	61,911,849	23,603,914	36,401,323	76,635,814	211,965,581
Net Book Value at end of year	₱84,626,815	₱34,447,275	₱36,316,880	₱15,142,031	₱40,438,583	₱210,971,584

9. **Investment Properties**

The composition of and movements in this account as of and for the years ended December 31, 2006 and 2005 follow:

	2006	2005
Cost		
Balance at beginning of year	₱9,257,519	₱9,472,386
Additions	20,775,520	2,927,145
Disposals	—	(3,142,012)
Balance at end of year	30,033,039	9,257,519
Accumulated Depreciation		
Balance at beginning of year	925,752	—
Depreciation	1,531,508	925,752
Transfers	35,133	—
Balance at end of year	2,492,393	925,752
Allowance for Impairment Losses (Note 11)	1,849,639	313,977
	₱25,691,007	₱8,017,790

The aggregate fair value of the investment properties of the Bank are ₱27.4 million and ₱13.1 million as of December 31, 2006 and 2005, respectively.

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

10. **Other Assets**

This account consists of:

	2006	2005
Computer software costs - net	₱65,803,889	₱69,864,141
Rental deposit	25,903,721	22,794,990
Prepaid expenses and other charges	(16,803,825)	20,252,943
Net retirement asset (Note 18)	10,032,417	—
Returned checks and other cash items	2,080,180	1,321,207
Miscellaneous	46,538,462	38,411,216
	₱133,554,844	₱152,644,497

The movements in computer software costs follow:

	2006	2005
Cost		
Balance at beginning of year	₱155,375,786	₱129,993,658
Additions	23,430,953	38,916,616
Disposals	(56,662)	(13,534,488)
Balance at end of year	178,750,077	155,375,786
Accumulated Amortization		
Balance at beginning of year	85,511,645	77,811,413
Amortization	27,491,205	21,234,720
Disposals	(56,662)	(13,534,488)
Balance at end of year	112,946,188	85,511,645
	₱65,803,889	₱69,864,141

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

Changes in the allowance for impairment and credit losses follow:

	2006	2005
Balance at beginning of year		
Loans and receivables	₱777,817,715	₱759,488,320
Investment properties	313,977	—
	778,131,692	759,488,320
Provisions for (recovery from) impairment and credit losses	494,491,320	(97,043,679)
Transitional effect of adopting PAS 32 and 39	—	214,723,174
Accounts charged off and others	(13,275,223)	(99,036,123)
	481,216,097	18,643,372
Balance at end of year		
Loans and receivables	1,257,498,150	777,817,715
Investment properties	1,849,639	313,977
	₱1,259,347,789	₱778,131,692

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

12. **Deposit Liabilities**

Of the total deposit liabilities of the Bank as of December 31, 2006 and 2005, 0.6% and 0.4%, respectively, are subject to periodic interest repricing. The remaining deposit liabilities earn annual fixed interest rates ranging from 0.5% to 7.5% and from 0.2% to 7.0% for the years ended December 31, 2006 and 2005, respectively.

Under existing BSP regulations, non-FCDU deposit liabilities of the Bank are subject to liquidity reserve equivalent to 11.0% starting July 15, 2005 (under BSP Circular No. 491) and statutory reserve equivalent to 10.0%. As of December 31, 2006 and 2005, the Bank is in compliance with such regulations.

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

	2006	2005
Cash	₱155,378,268	₱115,421,183
Due from BSP	2,347,518,390	890,941,712
HTM investments	—	1,050,000,000
	₱2,502,896,658	₱2,056,362,895

13. **Bills Payable**

This account consists of borrowings from:

	2006	2005
Banks and other financial institutions	₱3,513,614,745	₱2,953,848,757
BSP	29,200,000	81,440,000
	₱3,542,814,745	₱3,035,288,757

Peso-denominated interbank borrowings are subject to annual fixed interest rates ranging from 6.3% to 9.7% and from 6.3% to 9.5% for the years ended December 31, 2006 and 2005, respectively.

Bills payable - BSP mainly represent term borrowings availed through normal open market transactions with the BSP and other local banks. These are collateralized by eligible receivables from customers.

14. **Accrued Interest, Taxes and Other Expenses**

This account consists of:

	2006	2005
Accrued interest	₱182,534,943	₱111,656,377
Accrued income tax	19,008,037	14,195,825
Accrued other expenses	161,483,990	162,545,560
	₱363,026,970	₱288,397,762

15. **Other Liabilities**

This account consists of:

	2006	2005
Accounts payable	₱127,495,831	₱70,354,381
Sundry credits	32,585,767	13,015,528
Withholding taxes payable	25,313,907	24,047,948
Payment order payable	15,663,813	28,393,842
Derivative liabilities (Note 26)	1,016,850	23,138,257
Miscellaneous	85,627,594	135,581,699
	₱287,703,762	₱294,531,655

16. **Maturity Analysis of Assets and Liabilities**

The following tables present the assets and liabilities as of December 31, 2006 and 2005 analyzed according to when they are expected to be recovered or settled within one year and beyond one year from statement of condition date (amounts in thousands):

	2006			2005		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Financial Assets						
Cash and other cash items	₱199,372	₱—	₱199,372	₱135,685	₱—	₱135,685
Due from BSP	2,572,551	—	2,572,551	1,120,339	—	1,120,339
Due from other banks	383,168	—	383,168	1,021,196	—	1,021,196
Interbank loans receivable	3,334,260	81,717	3,415,977	900,620	147,394	1,048,014
Financial assets at FVPL	5,444	2,157,795	2,163,239	193,041	—	193,041
AFS investments	21,270	3,006,100	3,027,370	375,661	1,288,775	1,664,436
HTM investments	6,526	9,339	15,865	1,041,534	6,526	1,048,060
Loans and receivables - gross (Note 7)	6,706,734	10,063,186	16,769,920	6,714,231	10,326,283	17,040,514
Other assets	36,874	21,142	58,016	25,600	22,795	48,395
	13,266,199	15,339,279	28,605,478	11,527,907	11,791,773	23,319,680
Nonfinancial Assets						
Property and equipment	—	216,447	216,447	—	210,972	210,972
Investment properties - gross (Note 9)	—	27,541	27,541	—	8,332	8,332
Deferred tax assets	—	402,656	402,656	—	261,988	261,988
Other assets	(4,998)	80,536	75,538	33,193	71,056	104,249
	(4,998)	727,180	722,182	33,193	552,348	585,541
	13,261,201	16,066,459	29,327,660	11,561,100	12,344,121	23,905,221

(Forward)

	2006			2005		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Less allowance for impairment and credit losses (Note 11)			(1,259,348)			(778,132)
Unearned discount and capitalized interest (Note 7)			(135,844)			(131,968)
	₱13,261,201	₱16,066,459	₱27,932,468	₱11,561,100	₱12,344,121	₱22,995,121
Financial Liabilities						
Deposit liabilities	₱18,752,888	₱—	₱18,752,888	₱14,861,476	₱—	₱14,861,476
Bills payable	2,586,019	956,796	3,542,815	1,586,270	1,449,019	3,035,289
Outstanding acceptances	70,002	—	70,002	120,319	—	120,319
Manager's checks	21,120	—	21,120	34,063	—	34,063
Accrued interest and other expenses	344,019	—	344,019	274,202	—	274,202
	21,774,048	956,796	22,730,844	16,876,330	1,449,019	18,325,349
Nonfinancial Liabilities						
Accrued income tax	19,008	—	19,008	14,196	—	14,196
Other liabilities	287,704	—	287,704	294,531	—	294,531
	306,712	—	306,712	308,727	—	308,727
	₱22,080,760	₱956,796	₱23,037,556	₱17,185,057	₱1,449,019	₱18,634,076

17. **Equity**

The Bank's capital stock consists of:

	2006	2005
Common stock - ₱10 par value		
Authorized - 300,000,000 shares		
Issued and outstanding - 215,624,997 shares in 2006 and 187,500,000 shares in 2005	₱2,156,249,970	₱1,875,000,000

The shares of the Bank are listed in the PSE.

In December 2000, Chinatrust Taipei substantially increased its equity in the Bank through the acquisition of shares held by a minority group. As a result of this acquisition, Chinatrust Taipei controlled approximately 91% 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 a 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 ₱19 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 ₱18.25 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. In its meeting held in August 2005, the BOD of PSE approved the removal of the rule on minimum public ownership as a continuing listing requirement. However, the said amendment is not yet effective as it is still subject to approval by the Philippine SEC.

On August 25, 2005, the BOD of the Bank declared 15% stock dividends out of the Bank's unissued shares of stock. This was approved by the Bank's stockholders in a special stockholders' meeting held on December 22, 2005 and later by the BSP on February 20, 2006. With the authority of the BOD, the President set the record date of stock dividends as of March 10, 2006 and the payment date as of April 4, 2006.

Accordingly, the Bank applied for the listing of 28,125,000 common shares with par value of ₱10 per share to cover the 15% stock dividends declaration with the PSE. This was approved by the PSE on March 13, 2006. The Bank, however, subsequently issued the stock dividend up to 28,124,997 common shares only, with fractional shares to be paid in cash to the corresponding stockholders, in conformity with BSP approval.

On its March 30, 2007 meeting, the BOD declared a 15% stock dividend, estimated to be about 32,343,750 common shares to be issued out of the Bank's unissued shares in favor of stockholders as of a record date to be determined by the President conformably with existing laws and regulations. Likewise, the stock dividend declaration is subject to the approval by the stockholders and the BSP as required by law.

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

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

As of December 31, 2006 and December 31, 2005, the capital-to-risk assets ratio, as reported to BSP, is 30.3% and 30.8%, respectively.

18. **Retirement Plans**

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

The date of the last actuarial valuation is December 31, 2006.

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

	January 1	
	2006	2005
Retirement age	**60 years**	60 years
Average remaining working life	**28 years**	28 years
Discount rate	**12.0%**	14.0%
Expected rate of return on assets	**10.0%**	11.0%
Future salary increases	**7.0%**	10.0%

Discount rate used to arrive at the present value of the obligation of the Bank as of December 31, 2006 and 2005 are 8.1% and 12%.

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

The net retirement asset recognized in the Bank's statement of condition is as follows:

	2006	2005
Present value of funded obligation	**₱127,051,172**	₱70,555,367
Fair value of plan assets	**(81,422,941)**	(68,428,013)
	45,628,231	2,127,354
Unrecognized actuarial losses	**(47,903,188)**	—
Unamortized transition liability	**(7,757,460)**	(2,127,354)
Net retirement asset	**(₱10,032,417)**	₱—

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

	2006	2005
Balance at beginning of year	**₱—**	₱—
Retirement expense	**3,951,583**	25,376,130
Contribution paid	**(13,984,000)**	(25,376,130)
Balance at end of year	**(₱10,032,417)**	₱—

The actual return on plan assets amounted to ₱10.2 million and ₱4.9 million for the years ended December 31, 2006 and 2005, respectively.

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

	2006	2005
Balance at beginning of year	**₱70,555,367**	₱61,920,017
Current service cost	**9,815,363**	11,294,584
Interest cost	**6,840,462**	8,668,802
Benefits paid	**(11,188,466)**	(10,865,009)
Actuarial losses (gains)	**51,028,446**	(463,027)
Balance at end of year	**₱127,051,172**	₱70,555,367

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

	2006	2005
Balance at beginning of year	**₱68,428,013**	₱48,990,917
Expected return on plan assets	**6,842,801**	5,389,001
Contributions paid	**13,984,000**	25,376,130
Benefits paid	**(11,188,466)**	(10,865,009)
Actuarial gains (losses)	**3,356,593**	(463,026)
Balance at end of year	**₱81,422,941**	₱68,428,013

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

	2006	2005
Debt instruments	**61.8%**	63.3%
Equity instruments	**18.7%**	11.7%
Other assets	**19.5%**	25.0%

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

	2006	2005
Current service cost	**₱9,815,363**	₱11,294,584
Interest cost	**6,840,462**	8,668,802
Expected return on plan assets	**(6,842,801)**	(5,389,001)
Amortization of transition liability	**2,585,820**	10,801,745
Past service cost	**(8,447,261)**	—
	₱3,951,583	₱25,376,130

Information on the Bank's retirement plan for the current and previous years follows:

	2006	2005
Present value of funded obligation	**₱127,051,172**	₱70,555,367
Fair value of plan assets	**(81,422,941)**	(68,428,013)
Deficit	**(45,628,231)**	(2,127,354)
Experience adjustments on plan liabilities	**8,003,968**	(5,476,093)
Experience adjustments on plan assets	**3,356,593**	(463,026)

19. **Leases**

The Bank leases a portion of the equipment and premises of its head office and branches. The lease contracts are for periods ranging from 1 to 10 years and are renewable at the Bank's option under certain terms and conditions. Various lease agreements include escalation clauses, most of which bear an annual rent increase of 5% to 10%. The Bank has no contingent rent payable as of December 31, 2006 and 2005.

Total rent expense (included under 'Occupancy and Other Equipment-related Costs' in the statement of income) incurred by the Bank amounted to ₱80.8 million, ₱77.9 million and ₱68.2 million in 2006, 2005 and 2004, respectively.

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

	2006	2005
Within one year	**₱38,089,863**	₱45,477,383
After one year but not more than five years	**117,749,538**	128,994,154
After more than five years	**3,636,353**	7,916,446
	₱159,475,754	₱182,387,983

20. **Miscellaneous Expenses**

This account consists of:

	2006	2005	2004
Management and professional fees	**₱29,166,531**	₱12,163,046	₱8,029,707
Advertising	**24,746,881**	10,125,229	12,353,997
Telecommunications	**12,129,779**	14,293,683	9,301,250
Office supplies	**10,181,994**	8,012,313	7,081,654
Litigation	**9,625,101**	13,253,536	9,861,863
Banking and supervision fees	**7,266,288**	8,311,213	6,935,025
Postage and cable	**5,269,524**	300,981	(325,143)
Travel and transportation	**5,057,695**	4,874,602	2,806,227
Entertainment, amusement and recreation (EAR) (Note 21)	**3,383,176**	2,949,604	2,152,859
Fuel and lubricants	**2,192,514**	1,882,327	844,777
Membership dues	**2,003,267**	1,394,926	1,647,806
Freight	**1,796,862**	1,093,926	853,742
Bank charges	**1,465,387**	2,422,128	2,535,922
Miscellaneous	**23,075,301**	21,094,207	16,567,315
	₱137,360,300	₱102,171,721	₱80,647,001

21. **Income and Other Taxes**

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

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

In addition, current tax regulations provide for the ceiling on the amount of EAR that can be claimed as a deduction against taxable income. Under the regulation, EAR allowed as deductible expense for a service company like the Bank is limited to the actual EAR paid or incurred but not to exceed 1% of net revenue. EAR of the Bank amounted to ₱3.4 million, ₱2.9 million and ₱2.2 million (included under 'Miscellaneous Expenses' in the statement of income) in 2006, 2005 and 2004, respectively (Note 20).

The regulations also provide for MCIT of 2% on modified gross income and allow a NOLCO. The Bank's MCIT and NOLCO may be applied against the Bank's income tax liability and taxable income, respectively, over a three-year period from the year of inception.

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

Provision for income tax consists of:

	2006	2005	2004
MCIT	**₱19,095,934**	₱14,194,715	₱10,386,020
Final	**142,566,755**	80,860,554	55,957,566
	161,662,689	95,055,269	66,343,586
Deferred	**(140,667,928)**	161,628,068	(1,378,689)
	₱20,994,761	₱256,683,337	₱64,964,897

Components of the net deferred tax assets follow:

	2006	2005
Tax effects of:		
Allowance for impairment and credit losses	**₱411,808,842**	₱257,739,120
Unrealized mark-to-market gain on derivative assets	**(9,193,080)**	—
Unamortized past service costs	**4,248,707**	4,248,707
Retirement benefit asset	**(3,009,725)**	—
Unrealized gain on initial measurement of investment properties	**(2,466,812)**	—
Accumulated depreciation of investment properties	**1,267,823**	—
	₱402,655,755	₱261,987,827

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

	2006	2005
MCIT	**₱43,674,819**	₱32,095,351
NOLCO	**81,218,946**	162,282,371
Allowance for impairment and credit losses	**70,983,677**	36,079,403
Mark-to-market loss on derivative assets	**—**	12,709,083

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

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

	2006	2005	2004
Statutory income tax	**35.00%**	32.50%	32.00%
Tax effects of:			
Tax-paid and tax-exempt income	**(25.43)**	(6.64)	(7.64)
FCDU income	**(12.21)**	(12.31)	(18.04)
Nondeductible interest expense	**7.24**	5.04	4.93
Others	**(0.51)**	19.49	4.94
Provision for income tax	**4.09%**	38.08%	16.19%

The details of the Bank's NOLCO and MCIT not recognized are as follows:

NOLCO:

Inception Year	Amount	Used/Expired	Balance	Expiry Year
2003	₱81,063,425	(₱81,063,425)	₱—	2006
2004	31,978,227	—	31,978,227	2007
2005	49,240,719	—	49,240,719	2008
	₱162,282,371	(₱81,063,425)	₱81,218,946	

MCIT:

Inception Year	Amount	Used/Expired	Balance	Expiry Year
2003	₱7,426,937	(₱7,426,937)	₱—	2006
2004	10,386,020	—	10,386,020	2007
2005	14,194,715	—	14,194,715	2008
2006	19,094,084	—	19,094,084	2009
	₱51,101,756	(₱7,426,937)	₱43,674,819	

22. **Trust Operations**

Securities and other properties held by the Bank in fiduciary or agency capacity for its customers are not included in the accompanying statement of condition since these items are not assets of the Bank. As of December 31, 2006 and 2005, total assets held by the Bank's Trust Department amounted to ₱971.7 million and ₱1.1 billion, respectively (Note 24).

In connection with the trust operations of the Bank, government securities with carrying value of ₱8.4 million (face value of ₱8.0 million) and ₱8.1 million (face value of ₱8.0 million) as of December 31, 2006 and 2005, respectively, are deposited with the BSP in compliance with existing banking regulations relative to the trust functions of the Bank.

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

23. **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, Corporate Banking and Retail Banking.

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

Corporate Banking - principally handles loans, trade finance and other credit facilities and deposit and current accounts for corporate and institutional customers.

Retail Banking - addresses the individual and retail markets. It covers deposit taking and servicing, consumer lending such as home mortgages and personal loans.
The information presented in the table below is derived from the internal management reporting system used by management to measure the performance of the various segments and the Bank in general.

Segment information for the result of operations for the year ended December 31, 2006 and 2005 are as follows (amounts in thousands):

2006	Treasury and Financial Institution	Corporate Banking	Retail Banking	Others	Total
Net interest income	**₱85,649**	**₱432,397**	**₱860,083**	**₱10,196**	**₱1,388,325**
Non-interest income	**580,987**	**39,923**	**106,291**	**7,076**	**734,277**
Revenue - net of interest expense	**666,636**	**472,320**	**966,374**	**17,272**	**2,122,602**
Non-interest expenses	**122,084**	**272,374**	**803,957**	**410,607**	**1,609,022**
Income (loss) before provision for (benefit from) income tax	**544,552**	**199,946**	**162,417**	**(393,335)**	**513,580**
Provision for (benefit from) income tax	**123,127**	**(24,253)**	**(91,732)**	**13,853**	**20,995**
Net income (loss)	**₱421,425**	**₱224,199**	**₱254,149**	**(₱407,188)**	**₱492,585**
Depreciation and amortization	**₱3,429**	**₱1,501**	**₱28,950**	**₱29,396**	**₱63,276**

2005	Treasury and Financial Institution	Corporate Banking	Retail Banking	Others	Total
Net interest income	₱135,626	₱419,556	₱641,450	₱21,499	₱1,218,131
Non-interest income	222,295	50,253	61,026	2,622	336,196
Revenue - net of interest expense	357,921	469,809	702,476	24,121	1,554,327
Non-interest expenses	101,705	(77,328)	460,010	395,941	880,328
Income (loss) before provision for (benefit from) income tax	256,216	547,137	242,466	(371,820)	673,999
Provision for (benefit from) income tax	56,815	80,636	(15,043)	134,275	256,683
Net income (loss)	₱199,401	₱466,501	₱257,509	(₱506,095)	₱417,316
Depreciation and amortization	₱3,319	₱1,806	₱22,905	₱23,124	₱51,154

2004	Treasury and Financial Institution	Corporate Banking	Retail Banking	Others	Total
Net interest income	₱134,804	₱347,136	₱420,689	₱19,497	₱922,126
Non-interest income	147,208	41,593	41,302	2,122	232,225
Revenue - net of interest expense	282,012	388,729	461,991	21,619	1,154,351
Non-interest expenses	95,007	25,256	277,946	354,886	753,095
Income (loss) before provision for income tax	187,005	363,473	184,045	(333,267)	401,256
Provision for income tax	46,340	13,720	1,582	3,323	64,965
Net income (loss)	₱140,665	₱349,753	₱182,463	(₱336,590)	₱336,291
Depreciation and amortization	₱3,205	₱1,405	₱17,224	₱22,005	₱43,839

Segment information for the statement of condition as of December 31, 2006 and 2005 are as follows (amounts in thousands):

	Treasury and Financial Institution		Corporate Banking		Retail Banking		Others		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
Average segment assets	**₱4,269,519**	₱3,804,312	**₱9,789,968**	₱11,184,783	**₱8,713,559**	₱6,576,430	**₱1,014,841**	₱762,476	**₱23,787,887**	₱22,328,001
Average segment liabilities	**₱4,351,166**	₱4,999,187	**₱5,799,659**	₱6,281,415	**₱9,042,311**	₱6,393,272	**₱196,056**	₱499,375	**₱19,389,192**	₱18,173,249
Capital expenditures	**₱4,466**	₱8,241	**₱1,749**	₱6,550	**₱54,268**	₱68,297	**₱35,381**	₱75,819	**₱95,864**	₱158,907

24. **Commitments and Contingent Liabilities**

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

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

	2006	2005
Trust department accounts (Note 22)	**₱971,725**	₱1,108,680
Unused commercial letters of credit	**486,260**	543,387
Outstanding guarantees	**21,485**	18,316
Outward bills for collection	**11,533**	9,171
Inward bills for collection	**6,799**	65,854
Traveler's check unsold	**1,079**	982
Others	**1,282**	12,486

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

The Bank has received Letter Notices and Preliminary Assessment Notices for its FCDU covering taxable years 1998, 1999, 2000 and 2002 on various dates after April 28, 2004. The Bank also received a Formal Assessment Notice for taxable year 2001 and has, through its tax counsel contested the said assessment in the Court of Tax Appeals. Management and tax counsels believe that they have valid defense against such claims and that such claims would not result in significant tax deficiencies.

25. **Related Party Transactions**

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

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

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

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

	2006	2005
Total outstanding DOSRI accounts	**₱65,202,680**	₱84,956,200
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**0.27%**	0.30%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	**0.48%**	0.61%
Percent of DOSRI accounts to total loans	**0.75%**	0.90%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**—**	—
Percent of past due DOSRI accounts to total DOSRI accounts	**—**	—
Percent of nonaccruing DOSRI accounts to total DOSRI accounts	**—**	—

Interest income on loans to DOSRI for the years ended December 31, 2006, 2005 and 2004 amounted to ₱7.3 million, ₱6.3 million and ₱7.3 million.

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

	2006	2005
Total outstanding non-DOSRI accounts granted prior to BSP Circular No. 423	**₱36,939,871**	₱41,763,086
Percent of unsecured non-DOSRI accounts granted prior to BSP Circular No. 423 to total loans	**2.83%**	2.16%
Percent of past due non-DOSRI accounts granted prior to BSP Circular No. 423 to total loans	**—**	—
Percent of nonaccruing non-DOSRI accounts granted prior to BSP Circular No. 423 to total loans	**—**	—

The remuneration of directors and other members of key management personnel for the years ended December 31, 2006, 2005 and 2004 are as follows:

	2006	2005	2004
Short-term benefits	**₱64,188,049**	₱59,113,314	₱63,258,721
Post-employment benefits	**2,881,958**	3,930,014	5,960,215
Other long-term benefits	**8,570,934**	8,299,616	7,473,531
Termination benefits	**—**	—	—
Share-based payments	**—**	—	—
	₱75,640,941	₱71,342,944	₱76,692,467

In accordance with the Bank's bylaws, profit share of directors, officers and employees is computed at 14% of net income after tax, except for the accretion of interest income relating to accounts where impairment losses were charged against retained earnings. Management believes that accretion of income should not be considered in the profit share computation.

26. **Derivative Financial Instruments**

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

As of December 31, 2006 and 2005, the outstanding currency forwards and swaps substantially involve US dollars and Philippine pesos, with outstanding notional amounts of the currency buy and currency sell positions amounting to $10.8 million and $21.0 million, respectively, and $19.0 million and $1.0 million. The positive fair values (which are presented as derivative assets in Note 6) amounted to ₱5.4 million and ₱3.8 million as of December 31, 2006 and 2005, respectively. The negative fair values (which are presented as derivative liabilities in Note 15) amounted to ₱1.0 million and ₱23.1 million as of December 31, 2006 and 2005, respectively.

27. **Financial Performance**

EPS amounts attributed to equity holdings of the Bank for the year ended December 31, 2006 and 2005 were computed as follows:

	2006	2005	2004
a. Net income	**₱492,585,223**	₱417,315,711	₱336,290,903
b. Weighted average number of outstanding common shares	**215,624,997**	215,624,997*	215,624,997*
c. Basic/Diluted EPS (a/b)	**₱2.28**	₱1.94	₱1.56

** After retroactive adjustment for stock dividends in 2006 (Note 17).*

The 15% stock dividend declared by the BOD on March 30, 2007 (Note 17), once approved by the stockholders and the BSP as required by law, will reduce basic/diluted EPS to ₱1.99, ₱1.68 and ₱1.36 for the years ended December 31, 2006, 2005 and 2004, respectively.

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

	2006	2005	2004
Return on average equity	**10.68%**	9.41%	8.74%
Return on average assets	**2.00%**	1.84%	1.84%
Net interest margin on average earning assets	**6.33%**	6.05%	5.56%

28. **Notes to Statements of Cash Flows**

The amounts of interbank loans receivable considered as cash and cash equivalents as of December 31, 2006 and 2005 follow:

	2006	2005
Interbank loans receivable	**₱3,415,976,536**	₱1,048,014,350
Less interbank loans receivable not considered as cash and cash equivalents	**81,716,536**	147,394,350
	₱3,334,260,000	₱900,620,000

HONORARY CHAIRMAN

DR. JEFFREY L.S. KOO

BOARD OF DIRECTORS

WILLIAM TAI-YUEN HON
Chairman

WILLIAM B. GO
Vice-Chairman

JOEY A. BERMUDEZ
President

ERIC WU
Director

LARRY HSU
Director

YUNG FANG YANG
Independent Director

EDWIN B. VILLANUEVA
Independent Director

CHINATRUST INTERNATIONAL DIRECTORY

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NANTOU COUNTY

Nantou Branch
1F, No. 220, Jhongshan St., Nantou City
Nantou County 540, Taiwan, R.O.C.
Tel.: (049) 2207711
Fax: (049) 2203038

CHIAYI CITY

Chiayi Branch
1F, No. 241, Minsheng N. Rd.
Chiayi City 600, Taiwan, R.O.C.
Tel.: (05) 2286600
Fax: (05) 2246115

YUNLIN COUNTY

Douliou Branch
1F, No. 2, Singhua St., Douliou City
Yunlin County 640, Taiwan, R.O.C.
Tel.: (05) 5360099
Fax: (05) 5362499

TAINAN CITY

Central Tainan Branch
1F, No. 167, Sec. 1, Minsheng Rd., Central District
Tainan City 701, Taiwan, R.O.C.
Tel.: (06) 2412318
Fax: (06) 2412317

East Tainan Branch
1F, No. 290, Sec. 2, Changrong Rd., East District
Tainan City 701, Taiwan, R.O.C.
Tel.: (06) 2085522
Fax: (06) 2084522

Jhonghua Branch
1F, No. 195, Sec. 2, Jhonghua E. Rd., East District
Tainan City 701, Taiwan, R.O.C.
Tel.: (06) 3353535
Fax: (06) 3353061

South Tainan Mini Branch
1F, No. 236, Sec. 2, Jiankang Rd., South District
Tainan City 702, Taiwan, R.O.C.
Tel.: (06) 2919999
Fax: (06) 2912788

Tainan Branch
1F, No. 31, Jhongjheng Rd., Central District
Tainan City 700, Taiwan, R.O.C.
Tel.: (06) 2295151
Fax: (06) 2284275

West Tainan Branch
1F, N. 212, Sec. 4, Jinhua Rd., West District
Tainan City 703, Taiwan, R.O.C.
Tel.: (06) 2263636
Fax: (06) 2111896

TAINAN COUNTY

Sinying Branch
1F, No. 137, Jhongshan Rd., Sinying City
Tainan County 730, Taiwan, R.O.C.
Tel.: (06) 6336789
Fax: (06) 6336161

Yongkang Branch
1F, No. 425, Jhonghua Rd., Yongkang City
Tainan County 710, Taiwan, R.O.C.
Tel.: (06) 2025787
Fax: (06) 3025922

KAOHSIUNG CITY

Cianjhen Mini Branch
1F, No. 480, Rueilong Rd., Cianjhen District
Kaohsiung City 806, Taiwan, R.O.C.
Tel.: (07) 7261066
Fax: (07) 7169355

East Kaohsiung Branch
1F, No. 29, Cingnian 1st Rd., Lingya District
Kaohsiung City 802, Taiwan, R.O.C.
Tel.: (07) 5351885
Fax: (07) 3324330

Jiouru Mini Branch
1F, No. 551, Jiouru 1st Rd., Sanmin District
Kaohsiung City 807, Taiwan, R.O.C.
Tel.: (07) 3805558
Fax: (07) 3852268

Kaohsiung Branch
1F, No. 168 Jhongjheng 4th Rd., Cianjin District
Kaohsiung City 801, Taiwan, R.O.C.
Tel.: (07) 2318141
Fax: (07) 2214387

Minzu Branch
1F, No. 97, Minzu 2nd Rd., Sinsing District
Kaohsiung City 800, Taiwan, R.O.C.
Tel.: (07) 2386567
Fax: (07) 2388879

North Kaohsiung Branch
1F, No. 52, Mingcheng 2nd Rd., Sanmin District
Kaohsiung City 807, Taiwan, R.O.C.
Tel.: (07) 3461199
Fax: (07) 3411041

Sanduo Mini Branch
1F, No. 274, Jhongshan 2nd Rd., Lingya District
Kaohsiung City 802, Taiwan, R.O.C.
Tel.: (07) 3341199
Fax: (07) 3341178

Sanmin Branch
1F, No. 366, Jiouru 2nd Rd., Sanmin District
Kaohsiung City 807, Taiwan, R.O.C.
Tel.: (07) 3161155
Fax: (07) 3163092

Sinsing Branch
1F, No. 206, Minsheng 1st Rd., Sinsing District
Kaohsiung City 800, Taiwan, R.O.C.
Tel.: (07) 2262325
Fax: (07) 2262349

South Kaohsiung Branch
1F, No. 21, Yisin 2nd Rd., Cianjhen District
Kaohsiung City 800, Taiwan, R.O.C.
Tel.: (07) 3366768
Fax: (07) 3303216

KAOHSIUNG COUNTY

Cingnian Branch
1F, No. 315, Sec. 2, Cingnian Rd., Fongshan City
Kaohsiung County 830, Taiwan, R.O.C.
Tel.: (07) 7777668
Fax: (07) 7777155

Fongshan Branch
1F, No. 85-1, Jhongshan Rd., Fongshan City
Kaohsiung County 830, Taiwan, R.O.C.
Tel.: (07) 7451199
Fax: (07) 7102336

Gangshan Branch
1F, No. 388, Gangshan Rd., Gangshan Township
Kaohsiung County 820, Taiwan, R.O.C.
Tel.: (07) 6235500
Fax: (07) 6232256

Wujia Branch
No. 699, Wujia 2nd Rd., Fongshan City
Kaohsiung County 830, Taiwan, R.O.C.
Tel.: (07) 8215101
Fax: (07) 8118109

PINGTUNG COUNTY

Pingtung Branch
1F, No. 450, Zihyou Rd., Pingtung City
Pingtung County 900, Taiwan, R.O.C.
Tel.: (08) 7383000
Fax: (08) 7382269

TAITUNG COUNTY

Taitung Branch
1F, No. 279, Jhongshan Rd., Taitung City
Taitung County 950, Taiwan, R.O.C.
Tel.: (089) 339898
Fax: (089) 320250

CHINATRUST OVERSEAS UNITS

BRANCHES

Hong Kong Branch
28th Fl., Two International Finance Centre
8 Finance St., Central, Hong Kong
Tel.: 852-29161888
Fax: 852-28109742

Kowloon Branch
26th Fl., One Peking, No. 1 Peking Road
Tsin Sha Tsui, Kowloon, Hong Kong
Tel.: 852-29161688
Fax: 852-28050899

New Delhi Branch
21A Janpath, New Delhi 110001, India
Tel.: 91-11-23356001
Fax: 91-11-23731815

New York Branch
3rd Fl., 366 Madison Ave., New York, New York
10017, USA
Tel.: 1-212-4578888
Fax: 1-212-9494774

Tokyo Branch
7th Fl., AIG Building, 1-3, Marunouchi
1-chome Chiyoda-ku, Tokyo 100-0005, Japan
Tel.: 813-32161108
Fax: 813-32161090

Ho Chi Minh City Branch
Suite 116, Saigon Trade Center Building
37 Ton Due Thang St., District 1
Ho Chi Minh City, Vietnam
Tel.: 848-9101888
Fax: 848-9101999

REPRESENTATIVE OFFICES

Bangkok Representative Office
Diethelm Tower A, Suite 803 93/1
Wireless Road, Pathumwan, Bangkok 10330
Thailand
Tel.: 66-2-2543139
Fax: 66-2-2566480

Beijing Representative Office
B-111, The Grand Pacific Building
8A, Guanghua Rd., Chao Yang District, Beijing
P.R.C. 100026
Tel.: 86-10-65813700
Fax: 86-10-65815701

Hanoi Representative Office
4th Fl., 41B Ky Thai To St., Hanoi, Vietnam
Tel.: 84-4-8249088
Fax: 84-4-8249099

Jakarta Representative Office
Wisma Tamara, 16th Fl., J1 Jenderal
Sudirman Kav. 24, Jakarta, 12920, Indonesia
Tel.: 62-21-5207878
Fax: 62-21-5206278

London Representative Office
7th Fl., Aldermary House, 15 Queen St.
London EC4N 1TX, England
Tel.: 44-207-3290033
Fax: 44-207-3290828

Los Angeles Representative Office
17851 Colima Road, City of Industry
CA 91748, USA
Tel: 1-626-839-7660
Fax: 1-626-839-3562

Manila Representative Office
3rd Fl., Tower One & Exchange Plaza
Ayala Ave., corner Paseo de Roxas, Makati City
Philippines
Tel.: 63-2-8485519
Fax: 63-2-7594983

CHINATRUST PHILIPPINES

Chinatrust (Philippines)
Commercial Bank Corporation
3rd Fl., Tower One & Exchange Plaza
Ayala Ave., corner Paseo de Roxas, Makati City
Philippines
Tel.: 63-2-8485519
Fax: 63-2-7594983

CHINATRUST INDONESIA

Bank Chinatrust Indonesia
Wisma Tamara, 16th Fl., Jl1 Jenderal
Sudirman Kav. 24, Jakarta, 12920, Indonesia
Tel.: 62-21-5207878
Fax: 62-21-5206278

Head Office
Wisma Tamara, 16th & 17th Fl., Jl. Jenderal
Sudirman Kav. 24, Jakarta 12920
Tel.: 62-21-5207878
Fax: 62-21-5206278 / 5206378 / 5206767
(Marketing)

Head Office – Customer Service
Tel.: 62-21-5206856 / 5206781

Bandung Branch
Wisma Lippo, 7th Fl., Gatot Subroto
No. 2, Bandung 40262
Tel.: 62-22-7305900
Fax: 62-22-7308878 / 7316888

Cikarang Sub-branch
Komplek Ruko Union Blok A No. 2, Jl. M.H. Thamrin
Lippo Cikarang, Bekasi-Jawa Barat
Tel.: 62-21-89906688
Fax: 62-21-89906868

Kelapa Gading Sub-Branch
Ruko Inkopal Blok B No. 10, Jl. Boulevard
Barat Raya Kelapa Gading
Tel.: 62-21-45851088
Fax: 62-21-45851077

Mangga Dua Sub-Branch
Komplek Ruko Texile, Ji. Mangga Dua Raya
Blok E4 No. 2, Jakarta Utara 14230
Tel.: 62-21-6125058
Fax: 62-21-6125056

Surabaya Branch
Wisma Dharmala Surabaya, 6th Fl., J1.
Panglima Sudirman 101-103, Surabaya 60271
Tel.: 62-31-5348008
Fax: 62-31-5348007

Tangerang Sub-Branch
Karawaci Office Park (Ruko Pinangsia)
Blok M No. 19 Lippo Karawaci 1200
Tel.: 62-21-55764558
Fax: 62-21-55764556

CHINATRUST USA

Chinatrust Bank (U.S.A.)
2939 Hawthorne Boulevard, 2nd Fl.
Torrance CA 90505, USA
Tel.: 1-310-7912828
Fax: 1-310-7912877

California Area

Arcadia Branch
815 West Naomi Avenue
#B, Arcadia, CA 91007
Tel.: 1-626-821-8900
Fax: 1-626-821-8908

Cerritos Branch
18512 Gridley Road, Artesia, CA 9170
Tel.: 1-562-809-7500
Fax: 1-562-809-8728

Cupertino Branch
19648 Stevens Creek Boulevard
Cupertino, CA 95015
Tel.: 1-408-873-3288
Fax: 1-408-873-3286

City of Industry Branch
18645 Gale Avenue
#150 City of Industry, CA 91748
Tel.: 1-626-839-3300
Fax: 1-626-839-3308

Diamond Bar Branch
315 S. Diamond Bar Boulevard
Diamond Bar, CA 91765
Tel: 1-909-396-8898
Fax: 1-909-861-9829

Fremont Branch
46801 Warm Spring Boulevard
Fremont, CA 94539
Tel.: 1-408-873-3288
Fax: 1-408-873-3286

Irvine Branch
15343 Culver Drive, Irvine, CA 92604
Tel.: 1-949-262-7168
Fax: 1-949-262-7162

Milpitas Branch
258 Barber Court, Milpitas, CA 95035
Tel.: 1-408-955-7288
Fax: 1-408-955-7286

Monterey Park Branch
2095 S. Atlantic Boulevard
Monterey Park, CA 91754
Tel.: 1-323-260-8060
Fax: 1-323-260-8058

Rowland Heights Branch
17851 Colima Rd., City of Industry, CA 91748
Tel.: 1-626-839-6656
Fax: 1-626-839-7706

San Gabriel Branch
250 W Valley Boulevard, Suite #P1
San Gabriel, CA 91776
Tel.: 1-626-299-5000
Fax: 1-626-821-5008

San Marino Branch
2956 Huntington Drive, San Marino, CA 91108
Tel.: 1-626-287-0716
Fax: 1-626-287-2706

Torrance Branch
22939 Hawthorne Boulevard
Torrance, CA 90505
Tel.: 1-310-791-2868
Fax: 1-310-791-2878

Westminster Branch
9547A Bolsa Ave., Westminster, CA 92683
Tel.: 1-714-531-2156
Fax: 1-714-531-2173

New Jersey Area

Edison Branch
1733 Route 27, Edison, NJ 08817
Tel.: 1-732-650-1160
Fax: 1-732-650-1161

East Hanover Branch
200 Route 10, East Hanover, NJ 07936
Tel: 1-973-386-5856
Fax: 1-973-386-5980

New York Area

Brooklyn Branch
54-13 8th Avenue, Brooklyn, NY 11220
Tel.: 1-718-854-2228
Fax: 1-718-854-2245

Elmhurst Branch
83-09 Broadway, Elmhurst, NY 11373
Tel.: 1-718-760-4767
Fax: 1-718-760-4847

Flushing Branch
41-99 Main Street, Flushing, NY 11355
Tel.: 1-718-886-5600
Fax: 1-718-886-0646

Chinatown Branch
28 Canal Street, New York, NY 10013
Tel.: 1-212-385-9898
Fax: 1-212-385-9611

Midtown Branch
8F, No. 366 Madison Avenue
New York, NY 10017
Tel.: 1-212-514-8000
Fax: 1-212-557-0333

Washington Area

Seattle Branch
500-108th Avenue Ne,
#1H3, Bellevue, WA 98004
Tel.: 1-425-289-8888
Fax: 1-425-289-6688

CHINATRUST CANADA

CTC Bank of Canada
1518 West Broadway, Vancouver
B.C., Canada, V6J JW8
Tel.: 1-604-6833882
Fax: 1-604-6833723

Burnaby Branch
162-5800 Kingsway, Burnaby B.C. V5H 4J2
Tel.: 1-604-4373868

Vancouver Branch
1518 West Broadway, Vancouver
B.C. V6J 1W8
Tel.: 1-604-6833882

Richmond Branch
120-8191 Westminster Highway
Richmond B.C. V6X 1A7
Tel.: 1-604-2331261

CHINATRUST PHILIPPINES BRANCHES

METRO MANILA

Head Office
3rd Floor, Tower One & Exchange Plaza
Ayala Ave. corner Paseo de Roxas, Makati City
Tel.: 848 5519
Fax: 759 4982 / 83 / 88

Consumer Finance Center
11th Floor, Lepanto Building
8747 Paseo de Roxas, Makati City
Tel.: 840 1531
Fax: 813 0594

Ayala Branch
Ground Floor, Tower One & Exchange Plaza
Ayala Ave., corner Paseo de Roxas, Makati City
Tel.: 848 5519 to 36
Fax: 759 4982 / 88 / 90

Alabang Branch
Ground Floor, Paragon Corporate Centre
Industry corner Trade Sts., Madrigal Business Park
Alabang, Muntinlupa City
Tel.: 659 0483 to 85
Fax: 659 0486

Binondo Branch
Ground Floor, State Centre Building
Juan Luna St., Binondo, Manila
Tel.: 245 7753 / 55, 244 0414 / 22
Fax: 245 7754

Buendia-Pasong Tamo Branch
Ground Floor, Burgundy Corporate Tower
252 Sen. Gil Puyat Ave., Makati City
Tel.: 8890026 / 27 / 36
Fax: 8890036

Del Monte Branch
Ground Floor, Van Allen Building
243 Del Monte Avenue, Quezon City
Opening July 2007

Greenhills Branch
Ground Floor, LGI Building, Ortigas Avenue
San Juan, Metro Manila
Tel.: 744 2227 / 28, 744 4868
Fax: 744 2228

Kalookan Branch
Rizal corner 3rd Avenues, Kalookan City
Tel.: 366 6315 / 16
Fax: 366 6216

Las Piñas Branch
Ground Floor, RRDC Building
National Road, Manuela Subdivision
Pamplona Tres, Las Piñas City
Tel: 874 6609 / 6063 / 6119 / 6239
Fax: 871 6328

Leviste Branch
Ground Floor, Athenaeum Building
160 L.P. Leviste St., Salcedo Village, Makati City
Tel.: 840 2507 to 09
Fax: 840 2510

Mabini Branch
Ground Floor, Unit B Echelon Tower
A. Mabini St., Malate, Manila
Tel.: 400 8035 to 37, 522 9950
Fax: 400 8034

Marikina Branch
J.P. Rizal corner E. dela Paz St.
San Roque, Marikina City
Tel.: 646 4325 / 51 / 61
Fax: 681 0337

Ortigas Branch
Ground Floor, Unit 101 Prestige Tower
Emerald Ave., Ortigas Centre, Pasig City
Tel.: 635 3832 / 34 / 35
Fax: 635 3833 / 34

Rada Branch
Ground Floor, SEDCCO I Building
Legaspi corner Rada Sts., Makati City
Tel.: 893 9837 / 7657 / 7500
Fax: 893 9415

Sucat Branch
Units N & O Columbia Airfreight Complex
Ninoy Aquino Ave., Parañaque City
Tel.: 854 8110 / 12 / 13
Fax: 854 8115

Valenzuela Branch
253-A McArthur Highway
Karuhatan, Valenzuela City
Tel.: 294 0640 / 41, 445 6753 / 58
Fax: 293 1924

PROVINCIAL BRANCHES

Angeles Branch
Ground Floor, JEV Building, MacArthur Highway
Balibago, Angeles City
Tel.: (045) 625 5758 to 59
Fax: (045) 625 5723

Carmona Branch
National Highway, Barrio Maduya
Carmona, Cavite
Tel.: (046) 430 3291 to 93
Fax: (046) 699 2297

Cebu Branch
Ground Floor, The Forum
Archbishop Reyes Ave., Cebu City
Tel.: (032) 233 3800 / 18
Fax: (032) 233 3808

Davao Branch
Ground Floor, Brightstone Building
Monteverde Avenue corner Gempasaw St.
Davao City
Tel.: (082) 228 6856 to 57
Fax: (082) 228 6846

Imus Branch
Ground Floor, PRB Building
Gen. Aguinaldo Highway, Palico, Imus, Cavite
Tel.: (046) 471 9884 to 89
Fax: (046) 471 9888

Magallanes Branch
Ground Floor, Tokyu Building
79 Magallanes St., Cebu City
Tel.: (032) 253 3725 / 5167
Fax: (032) 254 5011

Mandaue Branch
Ground Floor, Diamond Plaza
National Highway, Mandaue City
Tel.: (032) 346 5877 / 7198
Fax: (032) 346 5561

Subic Branch
SBDMC Park, Rizal cor. Argonaut Highway, Subic
Olongapo City
Tel.: (047) 252 1381/90
Fax: (047) 252 1382

CHINATRUST ATM DIRECTORY

AAVA
AAVA Office
Narra St., Ayala Alabang Village
Alabang, Muntinlupa City

Alabang
Ground Floor, Paragon Corporate Centre
Industry corner Trade Sts., Madrigal Business Park
Alabang, Muntinlupa City

Amerton
Bomaheco Building
Km. 17 West Service Road, South Superhighway
Parañaque City

Ayala (Mezzanine)
Mezzanine, Tower One & Exchange Plaza
Ayala Ave. corner Paseo de Roxas
Makati City

Binondo
Ground Floor, State Centre Building
Juan Luna St., Binondo Manila

Buendia – Pasong Tamo
Ground Floor, Burgundy Corporate Tower
252 Sen. Gil Puyat Ave., Makati City

Del Monte
Ground Floor, Van Allen Building
243 Del Monte Avenue, Quezon City

Greenhills
Ground Floor, LGI Building
Ortigas Ave., San Juan, Metro Manila

Kalookan
Rizal corner 3rd Avenues, Kalookan City

Las Piñas
Ground Floor, RRDC Building
National Road, Manuela Subdivision
Pamplona Tres, Las Piñas City

Lepanto
Ground Floor, Lepanto Building
8747 Paseo de Roxas, Makati City

Leviste
Ground Floor, Athenaeum Condominium
160 L.P. Leviste St., Salcedo Village
Makati City

Mabini
Ground Floor, Unit B Echelon Tower
A. Mabini St., Malate, Manila

Ortigas
Ground Floor, Unit 101 Prestige Tower
Emerald Ave., Ortigas Center, Pasig City

Rada
Ground Floor, SEDDCO I Building
Legaspi corner Rada Sts., Makati City

Sucat
Units N and O, Columbia Airfreight Complex
Ninoy Aquino Ave., Parañaque City

PROVINCIAL BRANCHES

Angeles
Ground Floor, JEV Building
MacArthur Highway, Balibago
Angeles City, Pampanga

Carmona
National Highway, Barrio Maduya
Carmona, Cavite

Cebu Banilad
Ground Floor, The Forum
Archbishop Reyes Ave., Cebu City

Cebu Waterfront
Ground Floor, Cebu Waterfront Hotel
1 Salinas Drive, Lahug, Cebu City

Davao
Ground Floor, Brightstone Building
Monteverde Ave. cor. Gempasaw St.
Davao City

Imus
Ground Floor, PRB Building
Gen. Aguinaldo Highway, Imus, Cavite

Imus Transport Plaza
Imus Transport Plaza
Bayang Luma, Imus, Cavite

Fujitsu 1
Fujitsu Computer Products Corp. of the Phils.
Special Export Processing Zone
Carmelray Industrial Park
Canlubang, Calamba City, Laguna

Fujitsu 2
Fujitsu Computer Products Corp. of the Phils.
Special Export Processing Zone
Carmelray Industrial Park, Canlubang
Calamba City, Laguna

Magallanes
Ground Floor, Tokyu Building
79 Magallanes St., Cebu City

Mandaue
Diamond Plaza, National Highway
Mandaue City, Cebu

Subic
Subic Bay Industrial Park-1
Rizal Highway cor. Argonaut Highway
Subic Bay Freeport Zone

Subic - Acer 1
Inside Wistron Infocomm
No. 4 Rizal Highway, Subic Bay Industrial Park
Phase I Subic Bay Freeport Zone

Subic - Acer 2
Inside Wistron Infocomm
No. 4 Rizal Highway, Subic Bay Industrial Park
Phase I Subic Bay Freeport Zone

CHINATRUST PHILIPPINES OFFICERS

OFFICE OF THE PRESIDENT

Joey A. Bermudez
President

COMPLIANCE

Leo Austin M. Mongaya
Assistant Vice President

CONTROLLERSHIP

Jose Nerio A. Salamillas
First Vice President

Andre P. Payawal
Vice President

Caezar O. Gutierrez
Assistant Vice President

CORPORATE SERVICE DELIVERY

Reynaldo Antonio R. Jimenez
Vice President

CREDIT RISK MANAGEMENT

Rogerio B. Panlasigui
Senior Vice President

Deogracias P. Canilao
Roel S. Costuna
Vice President

Mary Elizabeth H. Bayhon
Armand D. Eugenio
Carlos Francisco P. Roa
Rafael V. Rufino III
Rolando V. Vicerra
Dennis Wang
Assistant Vice President

HUMAN RESOURCE AND ADMINISTRATIVE SERVICES

Evie B. Abraham
Vice President

Virgilio D. Mendoza
Juanito M. Ocampo, Jr.
Assistant Vice President

INFORMATION TECHNOLOGY

Huntley S. Uy
Senior Vice President

Jesse Ephraim C. Almonte
Jean L. Ang
Renato I. Manalang, Jr.
Assistant Vice President

INSTITUTIONAL BANKING

Martin T. Lee
Executive Vice President

Josefina R. Natividad
Senior Vice President

Diana T. Gue
First Vice President

Pao Chuan Lin
Vice President

Donald Liu
Ma. Carmela Y. Rillo
Assistant Vice President

INTERNAL AUDIT

Jimmy Arsenio Y. Samonte
First Vice President

Ma. Christina C. Talastas
Assistant Vice President

RETAIL BANKING

Anthony T. Robles
Executive Vice President

Leslie Y. Cham
Senior Vice President

Carlos Simon T. Casas
Jane K. Gocuan
Beatriz S. Salgado
First Vice President

Jelynda L. Algarme
Ma. Lourdes V. Borromeo
Lolito Ramon A. Cerrer, Jr.
Rodel P. Geneblazo
Felix S. Glorioso
Robert Andrew M. Llaguno
Mandrake P. Medina
Nestor J. Sunico
Antonio D. Sy
Kathryn YC See
Vice President

Xavier Marc C. Amante
Rosario C. Astrologo
Thomas Wilfrido R. Bilbao
Cita M. Chan
Clarissa G. de Joya
Glennmore G. dela Cruz
Derlou D. Garcia
Racquel B. Manago
Ingrid U. Militante
Dionne Belle S. Silva
Ben August R. Solis
Assistant Vice President

MARKET RISK MANAGEMENT

Enrico P. Villanueva
Vice President

SERVICE QUALITY

Marichu Daisy S. Jimenea
First Vice President

TREASURY AND FINANCIAL INSTITUTIONS

Rolando R. Avante
Executive Vice President

Suzanne S. Aquino
Helen S. Go
Oliver D. Jimeno
Vice President

Ma. Iraida C. Bernardo
Justin Benedict G. dela Rosa
German Jeremy E. Pampolina III
Giselle P. Precilla
Assistant Vice President

TRUST AND INVESTMENT SERVICES

Edlyn L. Quiroz
Assistant Vice President

PRODUCTS AND SERVICES

BUSINESS BANKING SERVICES

Bills Payment
BIR eFPS
Check Preparation Outsourcing
Deposit Pick-up
Electronic Fund Transfer
NetBanking
Payroll Partner/Outsourcing
SSSNet
Ultimate CheckWriter
Visa Debit Cash Card

CONSUMER LOANS

CashBack Mortgage
Salary Stretch Loan

CORPORATE LENDING

Business/Term Loan
Check Discounting
FCDU Loan
Lease Term Discounting
Specialized Lending Project Loan
Trade Finance

FOREIGN CURRENCY DEPOSITS

Savings Account
Time Deposit

INTERNATIONAL TRADE

Documents Against Payment/Acceptance
Export Bills
Import/Export Letters of Credit
Standby Letters of Credit
Trust Receipts

PESO DEPOSITS

Chinatrust Innovate
Regular Savings Account
Time Deposit
Ultimate Deposit Account
Ultimate Earner

REMITTANCES

Telegraphic Transfer

TREASURY PRODUCTS

Buying and Selling of Notes
Demand Draft
Telegraphic Transfer
Travelers' Cheques

TRUST PRODUCTS

Custodianship
Escrow Agency
Investments Management Account
Mortgage Trust Indenture
Personal & Corporate Trust Accounts
Retirement Fund Management

CONTACT INFORMATION

CONTROLLERSHIP

General Accounting	811 8905

HUMAN RESOURCES AND ADMINISTRATIVE SERVICES

General Services	811 8969
Recruitment	811 8965

INFORMATION TECHNOLOGY

I.T. Helpdesk	811 8515

INSTITUTIONAL BANKING

Corporate Banking	811 8522
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