Chinatrust
中國信託

Positioning For Better Opportunities

ANNUAL REPORT 2009

Contents

Vision, focus, and direction. Chinatrust Philippines employed all these in 2009 Ð a year marked by a series of deliberate investments aimed at strengthening the BankÕs competitive advantages. The lessons and experiences of the past served as a compass that guided us amid the challenges we met along the way. As a stronger and more cohesive team, we turned our attention and resources toward positioning the organization for better opportunities. Our efforts were rewarded with a positive scorecard amid a difficult year and, more importantly, with the promise of continued success as we move confidently toward the future we envision.

FINANCIAL *Highlights*

	2009	2008 *As restated*
TOTAL ASSETS	**24,107,654**	24,463,110
LOANS & RECEIVABLES (NET)	**16,823,635**	17,946,240
DEPOSITS	**16,968,158**	18,903,990
CAPITAL ACCOUNTS	**5,343,283**	4,915,652
NET INCOME	**332,857**	69,920
RETURN ON AVERAGE EQUITY	**6.52%**	1.43%
RETURN ON AVERAGE ASSETS	**1.31%**	0.30%
NPL RATIO	**3.04%**	3.93%
NPL COVER	**35%**	46%
EARNINGS PER SHARE	**1.34**	0.28

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

MESSAGEF ROMT HE *Chairman*

Chinatrust intends to champion the cause of becoming one of the best-managed banks in the world in terms of creating customer and shareholder value.

In 2009, the global community struggled and reeled from the impact of the continuing recession in the United States. Asia, though still remaining fundamentally strong, was not spared from the fallout, but the region did stir cautious optimism for some relief around the corner. Reports indicated that China had managed positive economic recovery with 8.5% growth for the year, propelled mostly by expanding domestic demand, particularly investment. Furthermore, it lifted China to become the world's largest trading nation, which helped to spur modest regional and global recovery. Taiwan, the home base of our Parent Bank, reported economic contraction of 1.9% for the year but its fourth-quarter rebound fueled hope that the worst of the crisis had passed.

The Philippines also needed the increased consumer and government spending to give the much-needed boost to the economy throughout the year. Natural calamities that hit the country towards the end of 2009 put the brakes on already tepid growth. Moreover, export demand from the country's recession-hit major trading partners declined. All these factors limited GDP to 0.9% while GNP was recorded at 3.0% for the year. Nevertheless, the Philippine banking sector's annual performance showed strong earnings on the back of higher non-interest income combined with lower interest expense. The Bangko Sentral ng Pilipinas cited significant earnings from fees and commissions, notably from overseas remittances, as well as trading gains and income from foreign exchange transactions as major growth drivers in 2009. Furthermore, the industry exhibited a healthier balance sheet and a lower NPL ratio as banks' loan quality improved.

Meanwhile, our Parent Bank, Chinatrust Commercial Bank Ltd., overcame the financial difficulties prevalent in the region to post a consolidated pre-tax profit of NT$3.30 billion and net income of NT$2.05 billion. Our Parent Bank managed through this global financial crisis by continually strengthening customer relationship, retaining strategic flexibility, and thus maintaining its strong growth momentum. At the same time, it focused on enhancing operational efficiency and risk control as well as improving asset quality. Fee income ratio reached 48.43% in 2009, one of the highest among its peers. The Bank preserved its market share in the wealth management business, as its VIP accounts (or clients with more than NT$3 million worth of assets under management at Chinatrust) led the industry at 15.9%.

Further evidence of our Parent Bank's stature in spite of the adverse circumstances in 2009 came from the recognition bestowed by several independent and international publications in the financial industry. Among the accolades that our Parent Bank garnered for the year are: Best Private Bank in Taiwan by Euromoney; Best Emerging Market Bank in Taiwan, Best Investment Bank in Taiwan, Best Trade Finance Bank in Taiwan, Best Foreign Exchange Bank in Taiwan, and Best Corporate / Institutional Internet Bank in Taiwan by Global Finance; Best Cash Management Bank in Taiwan by Asiamoney; Best Bank in Taiwan by FinanceAsia; Best Domestic Investment Bank in Taiwan, Best Debt House in Taiwan, Best Transaction Bank in Taiwan, and Best Domestic Custodian Bank in Taiwan by The Asset; Best Bank in Taiwan Dollar Corporate Bonds by The Asset Benchmark Survey; Bank of the Year in Taiwan and Deals of the Year in Taiwan by The Banker; House of the Year by AsiaRisk; Best ATM Installation and Management Project Award by The Asian Banker; and Taiwan Loan House by IFR Asia.

These awards in 2009, and more importantly our track record over the longer term, show that Chinatrust can and will stand the test of time. Just as global attention is shifting from West to East, and China takes a more central role in the international economy, Chinatrust intends to champion the cause of becoming one of the best-managed banks in the world in terms of creating customer and shareholder value. We will do so as one family, armed by the same unique values we have always held as an organization: caring, professional, and trustworthy. These values will guide us towards the right direction as we position for better opportunities ahead.

We have set ambitious goals for ourselves, and we shall pursue them with enthusiasm and confidence. The Chinatrust brand was built on our collective efforts after all: we relied on the support of our Parent Bank, the vision and leadership of our directors and officers, and the loyalty and dedication of our employees. As we move forward, we likewise reaffirm our commitment and gratitude to our customers who have continued to trust and grow with us. In partnership with all our stakeholders, we shall bring Chinatrust to its proudest accomplishments yet.

William T.Y. Hon
Chairman of the Board

MESSAGEF ROMT HE
President & CEO

These solid results validate the roadmap we had set for ourselves in 2009, and encourage us to continue the work we had just begun. Leveraging on our Parent Bank franchise, we have capitalized better on our advantages in our niche market.

For Chinatrust Philippines, 2009 was a period of reassessment, redirection, and rebuilding. We underwent immense difficulties the year before; having survived them, we then turned our focus towards applying the lessons and taking the initiative to regroup and strengthen our core businesses once again.

Buoyed by market opportunities in a struggling but steadily improving economy, we saw our solutions bear fruit in our financial scorecard for 2009. Chinatrust Philippines earned a net income of ₱332.86 million, exceeding targets with a robust increase of 376% from 2008. We generated substantial earnings from fee-based and interest differential income, particularly in foreign exchange and fixed-income trading which amounted to ₱160.82 million. Corporate loans reached ₱8.35 billion, while our total deposits stood at ₱16.97 billion.

Our net interest income likewise grew, reaching ₱1.50 billion at the end of 2009, as we successfully expanded the highly profitable consumer finance portfolio and developed new corporate relationships.

Our capital base increased to ₱5.34 billion. Capital Adequacy Ratio (CAR) under BASEL II remained high at 22.96%, better than year-end 2008 CAR of 21.50% and more than double the regulatory requirement of 10%.

These solid results validate the roadmap we had set for ourselves in 2009, and encourage us to continue the work we had just begun. Leveraging on our Parent Bank franchise, we have capitalized better on our advantages in our niche market. We have also taken a stronger and more cohesive approach to our institutional and retail banking businesses, where we built even more pro-actively on cross-sell opportunities in the prime sectors.

Because we operate in an increasingly technology-enabled world, we had to ensure that our plans and programs were backed by adequate IT support. Foremost of our priority investments in this area was the SAP infrastructure project that we launched in September 2009. The upgrade included our Sales Campaign Management System, Customer Relationship Management System, and Interactive Voice Response System, all of which were designed to increase our sales and service quality performance through improved agent productivity while minimizing operating expenses. We firmly believe this investment will yield results that we will continue to reap in the coming years.

2009 was not all about just expansion and growth; it was also marked by streamlining and refocusing for greater efficiency. We consolidated operations support functions rationalized processes, and optimized headcount Ð all with a singular view towards reshaping Chinatrust Philippines into a leaner, more productive, and more agile organization.

And much more work remains to be done. Having put these initiatives and investments in place, we must now follow through on our aim of positioning Chinatrust Philippines for further growth opportunities ahead. We face exciting and challenging times in this country as well as in the global community, and we will need to think and move smartly as a team to seize our competitive advantage.

We would like to express our thanks to Mr. William Go, our Vice Chairman of the Board who served concurrently as our President until January 2009. We are committed to build on the track record he has set and continue leading our Bank towards growth, excellence, and innovativeness.

We are likewise grateful to our Parent Bank for the support it has consistently provided us as we strive to further strengthen the Chinatrust brand in the Philippines. We thank our Board of Directors for their direction and leadership, our officers and staff for their perseverance and hard work, and our clients for their trust and confidence. We draw inspiration from all of these as we prepare to face the new challenges and opportunities of 2010.

Mark Chen
President and CEO

PERFORMANCE *Review*

The best opportunities are borne by a series of deliberate investments made over time. In 2009, Chinatrust Philippines began to reap the results of such investments, which created many of the opportunities that highlighted the Bank's excellent performance during the year.

Retail Banking

Focusing strongly on opportunities in consumer lending, cash management, and deposits, the Retail Banking Group registered a total pre-tax income of more than ₱305 million for 2009, representing a hefty 65% increase over 2008.

The lending business alone soared by 88% from 2008 and posted a ₱268 million pre-tax income for 2009. Of this amount, 83% came from public loans while corporate loans—quadrupled income contributed 12%. This was primarily fueled by a 17% portfolio growth from the unsecured lending business, which was supported by a 4% improvement in secured lending. The Bank's flagship product, Salary Stretch, as well as the innovative Cashback Mortgage continued to drive the business growth, fueled by the impact of aggressive promotional offers, significant market expansion, and effective loyalty programs. The Bank's investment in SAP-CRM technology improved data gathering and analysis, enhanced customer service especially for repeat clients, and yielded fresh up-sell opportunities.

Cash Management deals likewise boosted the low-cost peso CASA, rising 65% year-on-year as a result of major tie-ups with manpower agencies, educational institutions, financial and insurance companies. Float business also thrived as the number of SSS Pensioner Cash Cards issued in the market increased by 175%, with float volume up by 210%. The Bank aims to reinforce its cash management product array with novel and efficient solutions that will cater to both corporate and retail clients.

Sales and Distribution posted a 33% growth in year-to-date average daily balance with low-cost deposits ending the year at their highest level after a series of successful product launches and aggressive campaigns by a relationship-based sales force. The Bank reintroduced Ultimate Earner, a multi-access interest-earning checking account that allows two withdrawals a month. It also pioneered Dollar Innovate, a 5-year tax-free dollar time deposit with monthly interest payout. The Bank likewise launched its first ever member-get-member promo, dubbed "Multiply Chinatrust Friends," aimed at creating a fresh base of deposit accounts thus reinforcing up-sell and cross-sell opportunities for its sales officers.

Treasury and Trust Services

After maintaining a decidedly conservative position the previous year, the Bank's Treasury and Trust Services resumed more active roles in 2009. Treasury took advantage of opportunities to generate more business from Bank clients and traded aggressively in both the fixed-income and currency markets. As a result, foreign exchange and trading gains exceeded targets, totaling ₱160.8 million for the year. Given a higher interest rate outlook for 2010, Treasury is preparing to tackle the challenges it anticipates in the trading environment by beefing up its capabilities. It is applying for an expanded derivatives license alongside efforts to implement a new treasury system that will be able to support derivative products.

2009 was a moderate year for Trust Services, with volume reaching ₱3.68 billion. However, its performance was enough to propel the Bank to top once again the Watson Wyatt Survey on Fund Performance. In both categories under All Trusteed Funds and Funds Managed with Full Discretion, Chinatrust Philippines once again bested other fund managers handling at least five funds. Trust Services intends to stay on course by continuing to support investments in SDAs, which account for the bulk of its portfolio, and thereby promote the Bank's wealth management thrust.

Institutional Banking

The Institutional Banking Group strengthened its position to contend with challenges and opportunities in 2009. It expanded its customer base across all segments, concentrating on credit-worthy accounts in the top-tier and middle markets as well as the Taiwanese and Chinese sectors. Total assets exceeded targets as it grew to ₱9.08 billion, and pre-tax income registered a 22.53% increase over the previous year's level.

Evidence of the Bank's level of credibility and recognition among corporate customers was reflected in the awarding of two major corporate finance transactions during the year. This delivered substantial fee income and, furthermore, ushered the Bank into the elite circle of the Philippine League Table for Lead Corporate Finance Mandates, tied at 8th with two other foreign banks.

At the same time, cleaning up the Bank's corporate portfolio still remained a priority. As a result of continuing efforts in this direction, the NPL ratio was cut down to 2.43% – even lower than the reported industry ratio and a vast improvement from the double-digit figure during 2008.

The Bank is looking ahead to future revenue contributions from Institutional Banking's newly launched product offerings, the Medical Receivables Program and PDC Warehousing, which have been backed up by the appropriate system investments. Increased competition looms in the horizon, but the Bank draws much confidence from the solid credentials it has built up in the corporate arena.

Support Services

Critical to Chinatrust Philippines' strategy of positioning for better opportunities was the increased cohesiveness and reliability of the Bank's support services group. The year marked the consolidation of the support functions of head office and branch banking into one Banking Operations Group, which enabled cross-functional teams to work closer together, share and learn from each other's expertise, capitalize on the Bank's existing resources, and realize cost savings. Training programs were conducted for various head office operations units as well as Visayas and Mindanao branch officers to further enhance their knowledge and skills in their respective areas.

Among the highlights of the year was the successful implementation of Customer Relationship Management (CRM) and Integrated Voice Response (IVR) systems. Following a seven-month focused and extensive development phase, these service systems were launched and used to automate voice calls, monitor agent performance, and stratify capacity requirements. In just three months of implementation, Customer Care migrated 19% of its calls to the virtual agent. Its benefits have only begun to be felt, and the Bank is highly optimistic about sustained results from the system investment.

Consumer Loans Operations arranged to accredit a payment channel with a reach of more than 800 payment centers nationwide, thus providing another convenient payment option to clients all over the country. It also activated the Auto-Payoff functionality in the Bank's main host system, which facilitated real-time posting of loan pre-termination transactions.

Given the direction of fully servicing all of the Bank's products under one roof, the Consumer Finance Centers in Angeles and Davao were merged with the branches. Simultaneously, the Subic, Greenhills, Imus, and Del Monte branches were enabled to release personal loans, thereby bringing the various loan products even closer to the customers.

Credit Cycle upgraded the Collections Management System to improve the collection process and increase the productivity of personal loans collectors. The upgraded system also helped to monitor performance and efficiently distribute workload among the collectors.

The integration of service quality led to the departmental expansion of Service Quality and Process Management in 2009. Tasked with raising the Bank to the next level of productivity, efficiency, and profitability, it pursued this goal through continuous process improvements, documentation of policies and procedures, and rationalization of processes that took into account their relevance to profitability and service. Viewing the Chinatrust customer experience as the main business driver, the Bank created the Service Excellence Core Team to spearhead directions and initiatives that had specific and meaningful impact on enhancing service quality. From the telephone handling to corporate attire and down to the details of face-to-face interactions, the Bank defined the total customer experience as it should be in every Chinatrust Philippines branch.

Human Resources and Corporate Social Responsibility

Positioning for better opportunities for the Bank's human resources was paved by HOPE, or the Headcount Optimization and Productivity Enhancement program. It streamlined the organization and optimized headcount for increased productivity. Alongside the benefits of the automation project that had been implemented earlier in the year, HOPE further strengthened a more focused and more cohesive Chinatrust Philippines.

With a leaner and more agile organization, Human Resources responded by offering various training courses to ensure that skill levels kept pace with the higher standards of service delivery. It conducted the needed leadership and communication courses, and customer service skills enhancement programs. Moreover, it worked closely with Operations Group to ensure the successful implementation of the Bank's key investment in initiatives such as the Service Officers Competency Enhancement Program for Metro Manila as well as VisMin branches, and the Head Office Operations Department Academy.

Apart from the year-round training and development activities, there were other noteworthy occasions that underscored the Bank's core value of caring for its people. Among these was the response in the aftermath of Typhoon Ondoy, the worst calamity to hit the country in decades, which moved Chinatrust Philippines officers and staff to bring relief to colleagues who had been displaced by the disaster. The concern and action turned global, as the Parent Bank organized an aid campaign and Chinatrust subsidiaries and branches worldwide sent their donations. Never was the Chinatrust family spirit more palpable and vigorous than when it was needed the most.

Chinatrust Philippines also cares for the community outside the Bank, as shown by its consistent participation in corporate social responsibility efforts. Through its nationwide branch network, the Bank once again took part in the "Tulong Barya Para Sa Eskwela" project in 2009, heeding the appeal from the Bangko Sentral ng Pilipinas to collect coins for the benefit of the public elementary schools.

Caring. Trustworthy. Professional. These words are not only emblazoned on the trademark green uniform shirts worn proudly by Chinatrust Philippines employees every Friday; they are values made real and lived by the Bank at every opportunity from day to day.

MANAGEMENT DISCUSSION *and Analysis*

For the year ending December 31, 2009, Chinatrust's audited net income surged by 376% to ₱333 million from ₱70 million in 2008 mainly on account of strong earnings on service fees and commission income on credit-related transactions, improved interest differential business and the recovery of the fixed income trading business from the mark to market losses in 2008. Performance indicators such as return on equity (ROE) and return on assets registered 6.52% and 1.31% respectively.

Net interest income climbed by 10.41% from ₱1.35 billion to ₱1.49 billion, driven mainly by higher booking of corporate loans through major corporate finance deals and the sustained increase of the highly profitable consumer finance portfolio. The average balance of both Peso and US Dollar earning loans increased by ₱2.01 billion in 2009 compared to 2008. Interest expense declined by 0.27%, brought about by maturities on borrowings partly offset by increase in interest expense of deposit liabilities by 3.32%. Year-on-year average volume for deposits increased by ₱2.4 billion.

Non-interest income rose by 136.75% mainly due to higher fees and commissions amounting to ₱187 million from ₱94 million last year mainly on account of higher processing fees earned and credit-related fees from corporate finance transactions. Moreover, a significant increase in both trading gain and foreign exchange of 934.75% was posted, amounting to ₱160.82 million from ₱15.55 million last year. With the gradual recovery of global financial markets, the Bank took advantage of the improving market prices resulting in the hefty increase on trading and securities gain.

Operating expenses were well contained at 9% increase, largely due to higher revenues. Cost to income ratio referring to the ratio of operating expenses (exclusive of bad debts written off/provisions for probable losses) to operating income is at 57%, favorably better than 66% in 2008. The Bank set aside ₱285.63 million as provisions for impairment and credit losses for the year, maintaining its conservative stance on loan loss provisioning.

Non-performing loans (NPL) ratio as of December 31, 2009 improved to 3.04% from 3.93% in December 2008. The Bank's capital adequacy ratio remains high versus the industry at 22.96% as of December 31, 2009, better than year-end 2008 CAR of 21.50% and way above the regulatory requirement of 10%.

RISK *Management*

As Chinatrust Philippines positions itself for better opportunities, it must do so while exercising prudence in managing the Bank’s resources and in carrying out its risk-taking activities. The Board of Directors thus created the Risk Management Committee (RMC) to oversee the Bank’s Risk Management Program, thereby directing and defining the Bank’s philosophy for managing and monitoring risk. The oversight role is extended to the following independent risk functions:

Credit Risk Management Group (CRMG) – Corporate Credit Risk

Credit risk is the risk that a counterparty would fail to fulfill its obligations to the Bank as they fall due. CRMG manages credit risk arising from the Bank’s corporate loans.

CRMG safeguards the quality of the Bank’s corporate loan portfolio by applying prudent risk acceptance criteria considering the borrower’s overall risk dimension amid prevailing industry and economic conditions. The Bank has a robust Internal Rating System employing an Obligor Risk Rating (ORR) system in compliance with Basel II directives. The IRS is likewise the basis of the Bank’s credit approval system employing the 4-Eyes Concept, with all cases requiring joint approval by the Business and Credit sides. On the other hand, the ORR is a statistical metric of the Bank’s actual loan portfolio for the past seven years resulting in the derivation of a predictive Probability of Default (PD) Factor. The PD is an integral step in the Bank’s plan to eventually upgrade to Foundation Internal Ratings Based (FIRB) stage of Basel II. Adequate loan loss provisioning is applied to all corporate cases based on the “concrete and objective evidence of weakness” as required by PFRS/PAS coupled with the account classification system of the Bangko Sentral ng Pilipinas.

The Corporate Credit Committee meets every other week to discuss, approve, and endorse new credit cases and to be promptly apprised of developments relating to watchlisted and classified loan accounts. All Relationship Managers prepare periodic Loan Review Reports for all accounts and monthly Account Plans for accounts dimensioned to have weaknesses.

In addition to credit risk acceptance, CRMG also handles credit administrative support, including collateral appraisal and credit investigation, insurance, securities documentation and custodianship, central liability control, special account management, and disposal of non-performing assets. Collection of delinquent mortgage banking accounts and contracts-to-sell has been added to its mandate, as well as transactional document acceptance of corporate loan cases and covenant tracking.

CRMG implements these measures to maintain a diversified and sound loan portfolio and to detect weaknesses early on.

Credit Cycle Department (CCD) – Consumer Credit Risk

CCD formulates credit policies that are founded on methodical studies of the behavioral, i.e. credit-worthiness, aspect of the target market.

As the personal loan business involves assessing small-ticket, high-volume applications within a set turnaround time, the evaluation process utilizes an application scorecard engine that was developed to distinguish between potential good and bad accounts. This scorecard was based on statistical analysis using historical data and is periodically calibrated for accuracy. For the mortgage loan business, experienced internal appraisers conduct property identification and valuation based on generally accepted Appraisal Principles.

A fraud management policy is in place to detect fraudulent applications through rational screening, data matching, and verification. The group recognizes the value of maintaining an industry-best asset quality by rigorously and proficiently resolving the non-performing assets. External collection agencies were accredited to support recovery efforts of experienced and goal-driven Collection Officers.

A continuous, dynamic, and specialized training program that is focused on risk identification and mitigation models enhances the competency level of the Credit Cycle personnel. An internal career advancement program defining the required skill set and proficiency levels complements the training program.

To keep the Group’s stakeholders abreast of the asset quality and ensure enlightened management decisions, CCD conducts regular portfolio review. Results are incorporated in the Business Unit Performance Report (BUPR), which analyzes and monitors profiles and trends in the portfolio as well as progress on test programs.

Risk Management Division (RMD) – Market Risk and Liquidity 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 the financial instrument may change as a result of changes in interest rates, foreign currency exchange rates, equity prices, and other market changes. The Bank’s market risk originates from its holdings of foreign exchange instruments, debt securities, equities, and derivatives.

RMD manages market risk through setting limits, taking into account market predictions, capital, annual budgets, experience of the risk-taking units, and the Bank’s risk appetite. To manage probable losses arising from potential changes in the market price of underlying assets, the Bank uses the Value-at-Risk (VaR) model. The VaR is a statistical estimate based on historical simulation approach and generated from a historical database of which validity is assessed daily via back-testing.

Liquidity risk is the risk of loss to earnings or capital due to the inability to meet funding requirements within a reasonable period of time at a reasonable price. This risk is controlled by setting limits on the maximum cumulative outflow (MCO) and the ratio of inter-bank borrowing to loans. Further, RMD performs a funding gap analysis using estimated cash flows.

Enterprise-Wide Risk Management Unit (EWRMU) – Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events. The business units identify operational issues through a self-assessment system and key risk indicator reporting process. Results derived from these methods are accordingly discussed and deliberated in the Operations Committee.

EWRMU undertakes operational risk management and handles the consolidation of all risks reported by each risk-monitoring unit. All risks shall be assessed, evaluated, monitored and reported to the RMC with appropriate recommendations. EWRMU also ensures implementation of all RMC policies and directives.

Information Security Unit (ISU) – Information Security Risk

Information security risks are threats and vulnerabilities on the confidentiality, integrity, and availability of the Bank’s assets.

A central authority, ISU is represented by the Information Security Officer, who is responsible for establishing and monitoring a bankwide information security program. The information security program shall include appropriate administrative, technical, and physical safeguards based on the size, complexity, nature, and scope of the institution’s operations.

CORPORATE *Governance*

Adhering faithfully to good corporate governance principles formed part of Chinatrust Philippines' efforts in 2009 to position itself for better opportunities. Under the stewardship of the Board Committees and Directors, the Bank conducted its business in compliance with international governance standards. The Bank recognizes that our consistency and diligence in this area had a meaningful impact on our Bank's performance as well as our stature in the global financial community.

BOARD COMMITTEES

Conformably with existing rules and regulations, its Articles of Incorporation and By-Laws, and Manual on Corporate Governance, the Board organized five (5) committees to assist it in governance matters consisting of the following: (1) Executive Committee; (2) Nomination and Review Committee; (3) Audit Committee; (4) Risk Management Committee; and (5) Trust Committee.

The Executive Committee is headed by William T.Y. Hon as Chairman, with William B. Go and Mark Chen as Members. It is authorized to act on behalf of the full Board as to urgent matters that arise between regular meetings. It may review and coordinate information from other committees as well as oversee Bank operations. Its functions also include the review and approval of credit facilities that are beyond the President's approval limits; the review of DOSRI transactions for final approval by the Board; and the review and approval of the Bank's budget and business plans. Moreover, it obtains from the Bank's management a timely assessment of the potential effect of any instability or crisis in the economic and political environment.

The Nomination and Review Committee is headed by William T.Y. Hon as Chairman, with William B. Go, Edwin B. Villanueva and Ng Meng Tam as Members. The NRC, which also functions as the Bank's "Committee on Corporate Governance" and "Compensation and Remuneration Committee," is responsible for ascertaining that the Board seats, including those of Independent Directors, as well as other positions that necessitate Board appointment, are filled by individuals who meet the required qualifications as set forth in the by-laws of the Bank. It oversees the periodic performance evaluation of the Board, its Committees, and the Bank's Executive Management, as well as conducts an annual self-evaluation of its performance. In its assessment of a director's performance, it considers competence, candor, attendance, preparedness, and participation in meetings. It 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 makes recommendations to the Board on the continuing education of directors, their assignment to Board committees, succession, and remuneration. It also approves the hiring and promotion of the Bank's Group Heads. Likewise, it is involved in Human Resource matters such as the review and revision of the Performance Management System, Benefits Policy, Salary Structure, Merit Increase, and Performance Bonus distribution.

The Audit Committee is headed by Independent Director Edwin B. Villanueva as Chairman, with Eric Wu and Ng Meng Tam as Members. The members of the Audit Committee must possess accounting, auditing, or related financial management expertise and experience. Tasked primarily with assisting the Board in fulfilling its oversight responsibilities, the Audit Committee reviews the Bank's financial information, its systems of internal controls and risk management, the audit process, and compliance with significant applicable legal, ethical, and regulatory requirements. 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. The Committee facilitates free and open communication among Management, Compliance, Risk Management, Internal Audit, the external auditors, BSP examiners, and the Committee. It enjoys sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of audit reports, and appropriate action on audit recommendations. It is also empowered, among others, to appoint, compensate and oversee external audit engagements; review and comment on internal and external audit reports; and resolve financial reporting disputes between management and the auditor.

The Risk Management Committee is headed by William T.Y. Hon as Chairman, with William B. Go, Larry Hsu, Eric Wu, and Mark Chen as Members. Responsible for the development and oversight of the Bank's Risk Management Program, the Risk Management Committee oversees the system of limits to discretionary authority that the Board delegates to management. It is tasked to ensure that the system remains effective, that the limits are observed, and that immediate corrective actions are taken whenever limits are breached. To achieve this, the Committee takes on 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, and evaluating the risk management plan to ensure its continued relevance, comprehensiveness, and effectiveness. Hand in hand with the Enterprise-Wide Risk Management Unit, which functions under the auspices of the Committee, it performs oversight functions in managing credit, market, liquidity, information security, and operational risks.

The Trust Committee is headed by Larry Hsu as Chairman, with William T.Y. Hon, William B. Go, Mark Chen, and the Trust Officer as Members. It 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 initial review of assets placed under the trustee's or fiduciary's custody; the investment, reinvestment and disposition of funds or property; the review and approval of transactions between trust and/or fiduciary accounts, and of acceptable fixed income and equity investments, including the investment outlets. Further, it reviews trust and other fiduciary accounts at least once yearly to determine the advisability of retaining or disposing of the trust or fiduciary assets, and/or whether the account is being managed in accordance with the instrument creating the trust or other fiduciary relationship. It reports to the Board any changes in regulations, market conditions, and other factors that may affect the trust business.

The Bank is generally in compliance with adopted leading practices on good corporate governance. It actively participates in the corporate governance surveys separately conducted by the Securities and Exchange Commission (SEC) and the Bangko Sentral ng Pilipinas (BSP), in collaboration with the Institute of Corporate Directors (ICD), which makes use of the Corporate Governance (CG) Scorecard and the Performance Scorecard for Banks, respectively, as the survey instruments. The exercise serves to evaluate the level of compliance of the Board of Directors and Top Level Management with its Manual of Corporate Governance. The annual self-assessment test for individual directors, administered by the Bank's NRC, provides a mechanism for monitoring and measuring the performance of the Board and the Board Committees, and for determining whether a director conducts fair business transactions, devotes necessary time and attention to discharge his duties, acts judiciously, exercises independent judgment, has working legal knowledge affecting the Bank, observes confidentiality, and ensures the soundness, effectiveness, and adequacy of the Bank's control environment.

The Bank has no knowledge of any instance of non-compliance with its Manual of Corporate Governance by the Board of Directors or its Members, or by the Bank's officers or employees.

DIRECTORS

WILLIAM T.Y. HON, Canadian, 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 Masters in Business Administration from Concordia University in 1982 and his BachelorÕs degree from LÕEcole des Hautes Etudes Commerciales in 1976. He is currently the Managing Director - Corporate Banking Division, International of Chinatrust Commercial Bank, Ltd. In 2005, he was the President and CEO of Chinatrust Bank (USA). Prior to this, he worked with DBS Bank in Singapore as Managing Director and in Hong Kong as Managing Director and joint CEO of DBS-Kwong On Bank. Before that, he was with Bank of Montreal as General Manager and Country Head of their Singapore office. He is 54 years old.

WILLIAM B. GO, Filipino, has been the Vice Chairman of the Board since October 15, 2001. He also served as concurrent President from April 3, 2008 to January 31, 2009. A Certified Public Accountant, he earned his Bachelor of Science degree from the University of the East and 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 served as the President of Philippine Bank of Communications from 1985 to 1995. Mr. Go has been with Chinatrust Philippines since 1995. He was President until October 15, 2001 when he resigned, and was elected as Vice Chairman. He is 70 years old.

MARK CHEN, Taiwanese, assumed the position of member of the Board of Directors on January 20, 2009 and also as President and CEO on February 1, 2009. Prior to his appointment, he was named as the Executive Vice President and Chief Banking Operations Officer. He holds a B.A. in Public Finance from National Chengchi University in Taiwan, and Masters in Finance at the University of Iowa in the USA. He previously worked with ABN AMRO Taiwan's Asia Pacific Regional Center in Singapore, Bank of Asia in Thailand, and ABN AMRO in Shanghai, before joining the Chinatrust family in 2006 as Chief Country Officer of Chinatrust Commercial Bank in Vietnam. He is 41 years old.

LARRY HSU, a.k.a. Hsu Chun-Jen, Taiwanese, is a member of the Board. He graduated with a BachelorÕs degree in Business from the National Taiwan University. He is currently the Head of Capital Markets Group of Chinatrust Commercial Bank, Ltd. (Taiwan). He was also the Head of Trading of Citibank, Taipei Branch from 1998 to 2003, and Trader of FX, Fixed Income, and Derivatives Trading from 1988 to 1998. He is 47 years old.

ERIC WU a.k.a. Wu Hsin-Hao, Taiwanese, is a member of the Board. He graduated with a MasterÕs degree in Business Administration from the National Taiwan University. He is currently Senior Executive Vice President and Managing Director of Consumer Finance Group of Chinatrust Commercial Bank, Ltd. (Taiwan). He was Senior Vice President of McDonalds Restaurants, Taiwan from 1991 to 2003. He is 46 years old.

INDEPENDENT DIRECTORS

NG MENG TAM, Filipino, is an Independent Director of Chinatrust Philippines, having been re-elected last October 25, 2008. Being one of the incorporators of Access Banking Corporation, the predecessor of Chinatrust Philippines, he served as Director of the Bank from 1995 to 2001. He holds a Bachelor of Science degree in Physics from the Mapua Institute of Technology. Over the past several years, he has been President of Cinema 2000, Inc., and the President of N & M Land Development, Inc. He is 64 years old.

EDWIN B. VILLANUEVA, Filipino, has been an Independent Director of Chinatrust Philippines since 2002 and is the Chairman of the Audit Committee. He received his Bachelor of Science degree in Management Engineering (cum laude) from Ateneo de Manila University and MasterÕs degree in Business Administration from Wharton School at the University of Pennsylvania. He is the Chairman of VFL Advisors, Inc. and President of ABV Inc., a real estate holding company. He is a member of the Market Governance Board of the Philippine Dealing Exchange. He also holds directorships in the Makati Supermart Group, Testech Inc., and DFNN Inc. He is 59 years old.

MANAGEMENT COMMITTEES

The Bank President heads the Management Team as well as the following Committees, each of which is tasked with specific responsibilities in line with the execution of the BankÕs business strategies. **The Asset and Liability Committee** (ALCO), which meets to evaluate the market situation and to devise the asset-liability strategy for the coming week, includes as its members the Treasurer, the Chief Finance Officer, the Chief Credit Officer, and the Heads of Institutional Banking, Retail Banking, Trust, and Risk Management. **The Credit Committee** (Crecom) convenes to review, approve and endorse corporate credit proposals. The Crecom also discusses the Bank's classified and non-performing loan portfolio in order to further improve the asset quality of the Bank. The Chief Credit Officer and Institutional Banking Group Head are joined by the respective account officers in this meeting. The **Management Committee** (Mancom), which tackles major management issues, is attended by all the Group Heads and other key senior officers. **The Operations Committee** (OpCom) is devoted to discussing operational risk issues. Its members include the Enterprise-wide Risk Officer, Information Security Officer, and Heads of Credit Risk Management, Credit Cycle, Finance and Corporate Affairs, Information Technology, Banking Operations, Internal Audit and Compliance. The **IT Steering Committee** (ITSC), on the other hand, has for its members Heads of Information Technology, Finance and Corporate Affairs, Banking Operations, Credit Cycle, Service Quality and Process Management, Treasury, Institutional Banking, and Retail Banking. The committee prioritizes and approves critical IT Projects and also reviews and endorses IT Policies and Procedures.

The President chairs the Committee meetings which are all held every Tuesday Ð the ALCO, CreCom and ManCom meetings on a weekly basis, and OpCom and ITSC once a month.

SENIOR OFFICERS

RAYMUNDO MARTIN M. ESCALONA, Filipino, earned his Bachelor of Science in Commerce degree, Major in Management of Financial Institutions, at De La Salle University. He joined Chinatrust Philippines in January 2008 as Executive Vice President and Head of the Institutional Banking Group. Prior to this, he was the Executive Vice President and Corporate and Institutional Bank Head of Australia and New Zealand Bank, Manila Branch. He has also served as First Vice President and Unit Head of Corporate Banking and Financial Institutions in BDO; Vice President and Head of Large Local Corporates Unit and Deputy Corporate Banking Head in Deutsche Bank AG, Manila Branch; and Assistant Vice President of Relationship Management Unit in Citytrust. He is 49 years old.

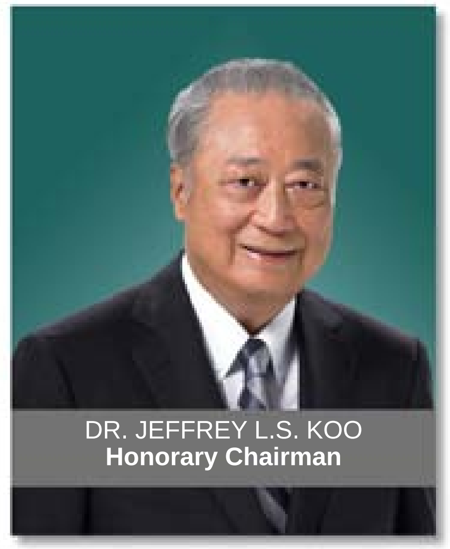
MARIA GRETCHEN S. MACABASCO, Filipino, earned her Bachelor of Science in Business Management degree from the Ateneo de Manila University. She joined Chinatrust Philippines in August 2008, as Senior Vice President Ð Corporate Finance and Top Tier Head of Institutional Banking Group. Prior to joining the Bank, she was Senior Vice President Ð Head of Trade of Australia and New Zealand Bank, Manila Branch. She also served as First Vice President Ð Structured Products Group Head at Philippine Bank of Communications; Vice President Ð Working Capital Head of ABN AMRO Philippines; Assistant Vice President Ð Global Relationship Banking of Citibank Manila. She is 46 years old.

EDGARDO A.M. MENDOZA, JR., Filipino, earned his Bachelor of Arts degree in Psychology from De La Salle University, and his Masters in Business Administration degree from the Ateneo de Manila University. He is Senior Vice President and Head of the Human Resource and Administration Group. Prior to joining Chinatrust Philippines in August 2008, he was with the BPO/call center industry for five years, as General Manager for Human Resources of IBM Daksh Philippines, and as Human Resources Director of iTouchPoint Softech Ltd. He also had a 10-year stint with three other banksÑ he Rizal Commercial Banking Corporation (RCBC), where he was First Vice President and HR Group Head; Philippine Savings Bank (PSBank), where he was First Vice President and HR Group Head; and Solidbank, where he was Vice President and HR Group Head. For more than 10 years, he was also a faculty member of both the Ateneo de Manila University and De La Salle University Graduate School of Business, where he taught Organizational Behavior at the MBA level. He is 52 years old.

VILMA A. NOCHE, Filipino, earned her Bachelor of Science in Computer Science degree, at the De La Salle University in 1987. She joined Chinatrust Philippines on November 5, 2007. She is Senior Vice President and Head of Banking Operations Group. Prior to joining Chinatrust Philippines, she was Vice President and Head of Recovery Collections of Citibank NA Philippines. She also held various positions in Standard Chartered Bank (SCB) Philippines and Hong Kong i.e. Vice President and Head of Customer Service for Consumer Banking, Senior Assistant Vice President and Head of Channels Development for Consumer Banking, Assistant Vice President and Head of Operations and Systems Support for Consumer Banking, Project Manager of Systems and Support for Retail Banking Operations, HOGAN Training Officer for Regional Product Planning supporting all HOGAN System releases for SCB Hong Kong, Singapore and Malaysia and I.T. Training Officer for Information Technology Division. She is 44 years old.

JIMMY ARSENIO Y. SAMONTE, Filipino, a Certified Public Accountant, obtained his Bachelor's degree in Commerce, Major in Accountancy (cum laude), from the University of Santo Tomas. He also attended the Banking Intermediate Industry Training School at the Center for Professional Education of Arthur Andersen and Co.; St. Charles, Illinois, USA. He is Senior Vice President and Head of Internal Audit. He also served as the Bank's Compliance Officer in 2000 to 2001. Prior to joining Chinatrust Philippines, he was Audit Manager of the Financial Services Group of Sycip, Gorres, Velayo & Co. (SGV & Co.), a member firm of Ernst & Young Global Limited. He has been with the Bank since October 1998. He is 40 years old.

HONORARY CHAIRMAN AND *Board of Directors*


DR. JEFFREY L.S. KOO
Honorary Chairman


WILLIAM T.Y. HON
Chairman

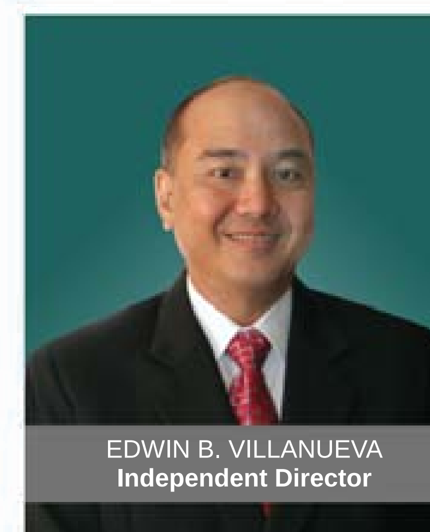

WILLIAM B. GO
Vice Chairman


MARK CHEN
President and CEO


LARRY HSU
Director


ERIC WU
Director


NG MENG TAM
Independent Director


EDWIN B. VILLANUEVA
Independent Director

STATEMENT OF MANAGEMENT’S RESPONSIBILITY *for the 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, 2009. 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

MARK CHEN
President and CEO

ANDRE P. PAYAWAL
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 statements of financial position as of December 31, 2009 and 2008, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2009, and a summary of significant accounting policies and other explanatory notes.

Management’s Responsibility for the Financial Statements

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

Auditors’ Responsibility

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

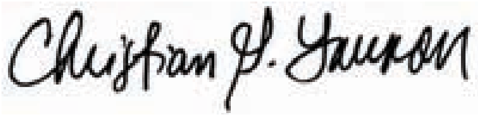
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Chinatrust (Philippines) Commercial Bank Corporation as of December 31, 2009 and 2008, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.



Christian G. Lauron
Partner
CPA Certificate No. 95977
SEC Accreditation No. 0790-A
Tax Identification No. 210-474-781
PTR No. 2087541, January 4, 2010, Makati City

March 12, 2010

STATEMENTS OF FINANCIAL POSITION

	December 31, 2009	December 31, 2008 (As restated - Note 2)	December 31, 2007 (As restated - Note 2)
ASSETS			
Cash and Other Cash Items (Notes 4, 5, 12, and 16)	**₱319,525,532**	₱351,253,539	₱188,751,714
Due from Bangko Sentral ng Pilipinas (Notes 4, 5, 12 and 16)	**1,909,190,000**	3,536,491,101	3,443,045,304
Due from Other Banks (Notes 4, 5, and 16)	**1,855,613,683**	1,457,052,884	341,006,935
Interbank Loans Receivable (Notes 4, 5, and 16)	**2,979,000**	715,280,000	247,680,000
Financial Assets at Fair Value through Profit or Loss (Notes 2, 4, 5 , 6 and 16)	**701,027,799**	498,554,402	421,894,818
Available-for-Sale Investments (Notes 4, 5, 6 and 16)	**1,521,450,054**	1,086,684,504	1,269,284,691
Held-to-Maturity Investments (Notes 4, 5, 6 and 16)	**211,820,728**	98,002,854	106,446,504
Loans and Receivables (Notes 2, 4, 5, 7, 16 and 25)	**16,823,635,352**	17,946,239,812	12,746,325,841
Property and Equipment (Notes 8 and 16)	**187,760,710**	197,279,769	229,915,401
Investment Properties (Notes 9 and 16)	**3,379,509**	2,456,539	26,167,367
Deferred Tax Assets (Notes 16 and 20)	**440,025,959**	448,397,791	438,885,149
Other Assets (Notes 2, 4, 5, 10 and 16)	**131,245,932**	125,416,457	128,525,088
	₱24,107,654,258	₱26,463,109,652	₱19,587,928,812
LIABILITIES AND EQUITY			
LIABILITIES			
Deposit Liabilities (Notes 4, 5, 12 and 16)			
Demand	**₱4,624,783,830**	₱3,856,006,069	₱4,121,600,514
Savings	**2,442,728,670**	2,233,854,322	1,740,705,462
Time	**9,900,645,770**	12,814,129,876	6,975,782,555
	16,968,158,270	18,903,990,267	12,838,088,531
Bills Payable (Notes 4, 5, 13 and 16)	**646,800,000**	1,431,556,080	675,568,028
Outstanding Acceptances (Notes 4, 5 and 16)	**18,996,988**	3,838,026	16,225,536
Manager's Checks (Notes 4, 5 and 16)	**40,161,695**	53,990,478	55,920,445
Accrued Interest, Taxes and Other Expenses (Notes 4, 5, 14 and 16)	**335,778,648**	392,135,946	366,342,597
Income Tax Payable (Note 20)	**9,677,155**	948,458	6,001,228
Other Liabilities (Notes 2, 4, 5, 15 and 16)	**744,798,148**	760,998,435	663,283,826
	18,764,370,904	21,547,457,690	14,621,430,191
EQUITY			
Common Stock (Note 17)	**2,479,687,310**	2,479,687,310	2,479,687,310
Additional Paid-in Capital (Note 17)	**53,513,675**	53,513,675	53,513,675
Surplus (Notes 17 and 22)	**2,818,233,267**	2,485,376,706	2,415,456,295
Cumulative Translation Adjustment	**(6,442,775)**	Ð	Ð
Net Unrealized Gain (Loss) on Available-for-Sale Investments (Note 6)	**(1,708,123)**	(102,925,729)	17,841,341
	5,343,283,354	4,915,651,962	4,966,498,621
	₱24,107,654,258	₱26,463,109,652	₱19,587,928,812

See accompanying Notes to Financial Statements.

STATEMENTS OF INCOME

	Years Ended December 31		
	2009	2008	2007
INTEREST INCOME			
Loans and receivables (Notes 7 and 25)	**₱1,838,872,754**	₱1,623,803,294	₱1,655,080,538
Trading and investment securities (Note 6)	**152,313,982**	186,005,406	246,062,849
Deposits with other banks and others	**64,081,387**	63,963,749	81,539,633
Interbank loans receivable	**28,776,564**	70,842,561	285,565,447
	2,084,044,687	1,944,615,010	2,268,248,467
INTEREST EXPENSE			
Deposit liabilities (Note 12)	**574,187,174**	555,729,379	749,407,580
Bills payable and other borrowings (Note 13)	**14,074,051**	34,132,357	83,922,100
	588,261,225	589,861,736	833,329,680
NET INTEREST INCOME	**1,495,783,462**	1,354,753,274	1,434,918,787
Service fees and commission income (Note 21)	**204,527,373**	110,571,792	123,691,467
Trading and securities gain (loss) - net (Note 6)	**107,108,986**	(60,176,921)	85,099,709
Foreign exchange gain - net	**53,715,619**	75,723,787	64,591,106
Miscellaneous - net (Note 21)	**50,425,394**	49,500,893	75,504,316
TOTAL OPERATING INCOME	**1,911,560,834**	1,530,372,825	1,783,805,385
Compensation and fringe benefits (Notes 18 and 25)	**490,894,324**	463,195,886	477,948,575
Provision for impairment and credit losses (Note 11)	**285,633,420**	257,204,483	338,529,831
Security, messengerial and janitorial expenses	**159,412,883**	172,326,788	173,209,864
Occupancy and other equipment-related costs (Note 19)	**148,635,601**	128,697,229	146,155,208
Taxes and licenses (Note 20)	**141,002,659**	129,193,106	188,732,558
Depreciation and amortization (Notes 8 and 9)	**56,266,761**	59,058,571	66,582,030
Amortization of computer software costs (Note 10)	**18,566,217**	24,190,293	30,922,873
Miscellaneous (Note 21)	**207,409,488**	165,626,824	203,970,102
TOTAL OPERATING EXPENSES	**1,507,821,353**	1,399,493,180	1,626,051,041
INCOME BEFORE INCOME TAX	**403,739,481**	130,879,645	157,754,344
PROVISION FOR INCOME TAX (Note 20)	**70,882,920**	60,959,234	43,880,312
NET INCOME	**₱332,856,561**	₱69,920,411	₱113,874,032
Basic/Diluted Earnings Per Share (Note 27)	**₱1.34**	₱0.28	₱0.46

See accompanying Notes to Financial Statements.

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2009	2008	2007
NET INCOME FOR THE YEAR	**₱332,856,561**	₱69,920,411	₱113,874,032
OTHER COMPREHENSIVE INCOME (LOSS)			
Net fair value change on available-for-sale investments (Note 6)	**101,217,606**	(120,767,070)	(42,287,817)
Cumulative translation adjustment	**(6,442,775)**	Đ	Đ
	94,774,831	(120,767,070)	(42,287,817)
TOTAL COMPREHENSIVE INCOME (LOSS), NET OF TAX	**₱427,631,392**	(₱50,846,659)	₱71,586,215

STATEMENTS OF CHANGES IN EQUITY

	Common Stock (Note 17)	**Additional Paid-in Capital** (Note 17)	**Surplus** (Notes 17 and 22)	**Cumulative Translation Adjustments**	**Net Unrealized Gain on Available-for-Sale Investments** (Note 6)	**Total**
Balance at December 31, 2008	**₱2,479,687,310**	**₱53,513,675**	**₱2,485,376,706**	**₱Đ**	**(₱102,925,729)**	**₱4,915,651,962**
Total comprehensive income for the year	Đ	Đ	332,856,561	(6,442,775)	101,217,606	427,631,392
Balance at December 31, 2009	**₱2,479,687,310**	**₱53,513,675**	**₱2,818,233,267**	**(₱6,442,775)**	**(₱1,708,123)**	**₱5,343,283,354**
Balance at December 31, 2007	₱2,479,687,310	₱53,513,675	₱2,415,456,295	₱Đ	₱17,841,341	₱4,966,498,621
Total comprehensive income for the year	Đ	Đ	69,920,411	Đ	(120,767,070)	(50,846,659)
Balance at December 31, 2008	₱2,479,687,310	₱53,513,675	₱2,485,376,706	₱Đ	(₱102,925,729)	₱4,915,651,962
Balance at December 31, 2006	₱2,156,249,970	₱53,513,675	₱2,625,019,750	₱Đ	₱60,129,158	₱4,894,912,553
Total comprehensive income for the year	Đ	Đ	113,874,032	Đ	(42,287,817)	71,586,215
Stock dividends (Note 17)	323,437,340	Đ	(323,437,487)	Đ	Đ	(147)
Balance at December 31, 2007	₱2,479,687,310	₱53,513,675	₱2,415,456,295	₱Đ	₱17,841,341	₱4,966,498,621

See accompanying Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2009	2008 (As restated - Note 2)	2007 (As restated - Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱403,739,481**	₱130,879,645	₱157,754,344
Adjustments for:			
Foreign exchange revaluation on trading and investment securities	**23,996,393**	(211,697,937)	262,433,921
Amortization of premium (discount)	**(59,370,497)**	431,100,850	85,823,337
Provision for impairment and credit losses (Note 11)	**285,633,420**	257,204,483	338,529,831
Foreign exchange revaluation on bills payable	**(34,110,720)**	(185,683,267)	(338,370,000)
Depreciation and amortization (Notes 8 and 9)	**56,266,761**	59,058,571	66,582,030
Amortization of computer software costs (Note 10)	**18,566,217**	24,190,293	30,922,873
Gain on sale of assets	**(86,590)**	(2,942,716)	(14,098,852)
Loss (gain) on sale of foreclosed investment properties	**Đ**	2,273,085	(5,013,460)
Mark-to-market loss (gain) on trading securities (Note 6)	**3,164,042**	1,836,892	(5,268,107)
Dividend income	**(508,200)**	(511,050)	(512,850)
Amortization of deferred charges	**810,757**	254,738	(953,218)
Changes in operating assets and liabilities:			
Decrease (increase) in amounts of:			
Financial assets at fair value through profit or loss	**(205,637,439)**	221,360,107	1,741,344,152
Loans and receivables	**836,971,040**	(5,451,114,288)	2,319,154,248
Interbank loans receivable	**Đ**	Đ	81,716,536
Other assets	**(1,647,405)**	(8,840,146)	(47,032,936)
Increase (decrease) in amounts of:			
Deposit liabilities	**(1,935,831,997)**	6,065,901,736	(5,914,799,444)
Outstanding acceptances	**15,158,962**	(12,387,510)	(53,776,547)
ManagerÕs checks	**(13,828,783)**	(1,929,967)	34,800,361
Accrued interest, taxes and other expenses	**(56,357,299)**	25,793,349	22,323,665
Other liabilities	**(16,200,288)**	(206,945,308)	74,966,002
Net cash generated from (used in) operations	**(679,272,145)**	1,137,801,560	(1,163,474,114)
Income taxes paid	**(53,782,391)**	(75,524,646)	(93,116,517)
Net cash provided by (used in) operating activities	**(733,054,536)**	1,062,276,914	(1,256,590,631)

(Forward)

	Years Ended December 31		
	2009	2008 (As restated - Note 2)	2007 (As restated - Note 2)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Available-for-sale investments	**(P3,444,916,481)**	(P3,628,416,043)	(P7,459,478,067)
Held-to-maturity investments	**(175,785,375)**	(58,595,934)	(106,066,578)
Property and equipment (Note 8)	**(54,785,363)**	(41,746,495)	(86,145,820)
Computer software costs	**(24,948,403)**	(14,281,056)	(14,810,144)
Proceeds from disposals of:			
Available-for-sale investments	**3,145,267,368**	3,473,885,832	9,133,831,077
Investment properties (Note 9)	**Ð**	21,349,486	12,571,685
Property and equipment (Note 8)	**8,590,641**	18,938,498	21,456,707
Compute software costs	**Ð**	Ð	228,870
Proceeds from maturity of held-to-maturity investments	**57,000,000**	64,000,000	14,500,000
Dividends received	**508,200**	511,050	512,850
Net cash provided by (used in) investing activities	**(489,069,413)**	(164,354,662)	1,516,600,580
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of bills payable	**9,193,400,000**	12,447,197,769	25,098,793,414
Settlement of bills payable	**(9,944,045,360)**	(11,505,526,450)	(27,627,670,130)
Net cash provided by (used in) financing activities	**(750,645,360)**	941,671,319	(2,528,876,716)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,972,769,309)**	1,839,593,571	(2,268,866,767)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items	**351,253,539**	188,751,714	199,372,111
Due from Bangko Sentral ng Pilipinas	**3,536,491,101**	3,443,045,304	2,572,550,941
Due from other banks	**1,457,052,884**	341,006,935	383,167,668
Interbank loans receivable	**715,280,000**	247,680,000	3,334,260,000
	6,060,077,524	4,220,483,953	6,489,350,720
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items	**319,525,532**	351,253,539	188,751,714
Due from Bangko Sentral ng Pilipinas	**1,909,190,000**	3,536,491,101	3,443,045,304
Due from other banks	**1,855,613,683**	1,457,052,884	341,006,935
Interbank loans receivable	**2,979,000**	715,280,000	247,680,000
	P4,087,308,215	P6,060,077,524	P4,220,483,953
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest received	**P2,127,769,974**	P1,876,555,779	P2,356,789,398
Interest paid	**(685,181,991)**	(504,332,742)	(814,511,378)

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. General Information

Chinatrust (Philippines) Commercial Bank Corporation (the Bank) is a 99.41%-owned entity of Chinatrust Commercial Bank Ltd., Taipei (Chinatrust Taipei), a Taiwan-based commercial bank. The Bank was incorporated as a domestic commercial bank on September 7, 1995 under the name 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 BankÕs 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 12, 2010.

2. Summary of Significant Accounting Policies

<u>Basis of Preparation</u>
The accompanying financial statements have been prepared based on a historical cost basis except for financial assets at fair value through profit or loss (FVPL) and available-for-sale (AFS) financial assets, and derivative financial instruments that have been measured at fair value. The financial statements are presented in Philippine pesos, and all values are rounded to the nearest peso except when otherwise stated.

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.

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

<u>Changes in Accounting Policies</u>
The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Bank changed its accounting policy on regular way purchases and sales of financial assets to settlement date basis effective January 1, 2009 as allowed under Philippine Accounting Standard (PAS) 39, *Financial Instruments: Recognition and Measurement*. Prior to January 1, 2009, the Bank used trade date accounting. In accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, the affected account balances as of December 31, 2008 and December 31, 2007 were restated for comparability. The change in accounting policy resulted in restatements:

December 31, 2008					
	Financial Assets at FVPL (Note 6)	Loans and Receivables (Note 7)	Other Assets (Note 10)	Total Assets	Other Liabilities (Note 15)
Balance as previously reported	₱555,321,284	₱18,004,693,828	₱124,036,577	₱26,576,950,670	₱874,839,453
Net increase (decrease) in outstanding balances	(56,766,882)	(58,454,016)	1,379,880	(113,841,018)	(113,841,018)
	₱498,554,402	₱17,946,239,812	₱125,416,457	₱26,463,109,652	₱760,998,435

December 31, 2007					
	Financial Assets at FVPL (Note 6)	Loans and Receivables (Note 7)	Other Assets (Note 10)	Total Assets	Other Liabilities (Note 15)
Balance as previously reported	₱721,751,402	₱12,752,330,008	₱127,324,255	₱19,892,588,730	₱967,943,744
Net increase (decrease) in outstanding balances	(299,856,584)	(6,004,167)	1,200,833	(304,659,918)	(304,659,918)
	₱421,894,818	₱12,746,325,841	₱128,525,088	₱19,587,928,812	₱663,283,826

The change in accounting policy did not have any impact to other balances in the statements of financial position, statements of income and statements of comprehensive income for the years ended December 31, 2008 and 2007.

The Bank has adopted the following new and amended PFRS and Philippine Interpretations which became effective beginning January 1, 2009.

New Standards
PAS 1, *Presentation of Financial Statements*
The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in one single statement, or in two linked statements. The revision also includes changes in titles of some of the financial statements to reflect their function more clearly, although not mandatory for use in the financial statements. The Bank has elected to present two linked statement of comprehensive income and statement of income and has changed the title of its balance sheet to statement of financial position. The revised standard also requires the Bank to present a statement of financial position at the beginning of the earliest comparative period when (a) a new accounting policy is applied retrospectively; or (b) there is a retrospective restatement or reclassification. The Bank, thus presented the financial position as of December 31, 2007 since there was a change in accounting policy on accounting for regular way purchases and sales of financial assets as discussed above.

PFRS 8, *Operating Segments*
PFRS 8 replaced PAS 14, *Segment Reporting*, upon its effective date. The Bank concluded that the operating segments determined in accordance with PFRS 8 are the same as the business segments previously identified under PAS 14. PFRS 8 disclosures are shown in Note 23, including the related revised comparative information.

PFRS 7 Amendments - *Improving Disclosures about Financial Instruments*
The amendments to PFRS 7, *Financial Instruments: Disclosures*, require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and financial assets used for liquidity management. The fair value measurement disclosures are presented in Note 4. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 5.

Improvements to PFRSs 2008
The omnibus amendments to PFRSs issued in 2008 were issued primarily with a view to remove inconsistencies and clarifying wordings. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes in accounting policies but did not have any impact on the financial position or performance of the Bank.

The issuance of and amendments to the following PAS, PFRS and Philippine Interpretations did not have any impact on the accounting policies, financial position or performance of the Bank:

- PAS 23, *Borrowing Cost (*Revised)
- PAS 32 and PAS 1 Amendments - *Puttable Financial Instruments and Obligations Arising From Liquidation*
- PFRS 1 and PAS 27 Amendments - *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- PFRS 2 Amendments - *Vesting Conditions and Cancellations*
- Philippine Interpretation IFRIC 9 and PAS 39 Amendments - *Embedded Derivatives*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
- Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers*

<u>Significant Accounting Policies</u>

<u>Foreign Currency Translation</u>
The financial statements are presented in Philippine pesos. The Bank determines its own functional currency and items included in the financial statements are measured using that functional currency. The functional currency of the Bank is the Philippine pesos.

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.

Transactions and balances
The books of accounts of the RBU are maintained in Philippine pesos, while those of the FCDU are maintained in United States dollars (USD). For financial reporting purposes, the monetary assets and liabilities of the foreign-currency denominated assets and liabilities in the RBU are translated in Philippine pesos based on the Philippine Dealing System (PDS) closing rate prevailing at the statement of financial position date and foreign-currency denominated income and expenses, at the PDS weighted average rate for the year. Foreign exchange differences arising from revaluation and translation of foreign-currency denominated assets and liabilities are credited to or charged against operations in the statement of income and against cumulative translation adjustment in the statement of other comprehensive income, respectively, in the year in which the rates change.

The assets and liabilities of FCDU books of the Bank are translated into Philippine peso based on PDS closing rate prevailing at the statement of financial position date, and their income and expenses are translated at PDSWAR for the year. Exchange differences arising on translation of monetary items are taken to statement of comprehensive income.

FCDU
Effective January 1, 2008
In compliance with the requirements of Bangko Sentral ng Pilipinas (BSP) Circular No. 494, *Guidelines on the Adoption of PFRS and PAS* and PAS 21*, The Effects of Changes in Foreign Exchange Rates*, management formalized its determination of the FCDUÕs functional currency. Based on managementÕs assessment, the FCDUÕs functional currency is the USD. The use of USD faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the FCDU. Exchange differences arising on translation will be taken directly to the statement of comprehensive income under ÒCumulative translation adjustmentÓ Translation adjustments recognized for the year ended December 31, 2009 amounted to ₱6.4 million. As of December 31, 2008, translation adjustments were not recognized because the amount is not material in relation to the Bank’s financial statement.

Prior to 2008
For financial reporting purposes, the monetary assets and liabilities of the FCDU are translated in Philippine pesos based on the PDS closing rate prevailing at end of the year, and foreign currency-denominated income and expenses, at the PDSWAR 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 period in which the rates change.

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

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

Initial recognition of financial instruments
All financial assets and financial liabilities are initially recognized at fair value. Except for financial assets and financial liabilities at FVPL, the initial measurement of financial instruments includes transaction costs. The Bank classifies its financial assets in the following categories: financial assets at FVPL, Held-to-maturity (HTM), AFS investments, and loans and receivables.

Financial liabilities are classified as financial liabilities at FVPL and other financial liabilities carried at amortized cost. The classification depends on the purpose for which the financial instruments were acquired and whether they are quoted in an active market. Management determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every statement of financial position date.

Determination of fair value
The fair value for financial instruments traded in active markets at the statement of financial position date is based on their quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and 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 quoted in an active market, the fair value is determined by using appropriate valuation techniques incorporating as much as possible market desirable inputs. Valuation techniques include discounted cash flow methodologies, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

ÔDay 1 differenceÕ
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 ÔDay 1 difference') in 'Trading and securities gain - net' in the statement of income unless it qualifies for recognition as some other type of assets. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the ÔDay 1 differenceÕ amount.

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

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value relating to the held-for-trading positions are recognized in ÔTrading and securities gains (losses) - netÕ in the statement of income. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded in ÔMiscellaneous incomeÕ when the right to receive payment has been established.

Derivative financial instruments
The Bank is a counterparty to derivative contracts, such as foreign exchange contracts and cross currency swaps. These derivatives are entered into as a service to customers and as a means of reducing or managing the BankÕs foreign exchange exposures, as well as for trading purposes. Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as effective hedges) are taken directly to the statement of income and are included in ÔTrading and securities gains (losses) - netÕ. 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 2009 and 2008, the Bank did not apply hedge accounting treatment for any of its derivatives transactions.

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

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or

- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value on financial assets and liabilities designated as FVPL are recorded in 'Trading and securities gains (losses) - netÕ. Interest earned or incurred is recorded in interest income or expense, respectively, while dividend income is recorded in ÔMiscellaneous incomeÕ 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 BankÕs management has the positive intention and ability to hold to maturity. Where the Bank sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments and the Bank will be precluded from using the HTM investments account for the current period and for the next two succeeding periods from tainting date. After initial measurement, HTM investments are subsequently measured at amortized cost using the effective interest rate 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 ÔInterest incomeÕ in the statement of income. Gains and losses are recognized in the statement of income when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statement of income under ÔProvision for impairment and credit lossesÕ. The effects of translation of foreign currency-denominated HTM investments are recognized in the statement of income.

Loans and receivables
This accounting policy relates to ÒDue from BSP,Ó ÒDue from other banks,Ó ÒInterbank call loans receivableÓ and ÒLoans and receivables accounts. These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS investments or financial assets at FVPL.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the 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 ÒInterest incomeÓ in the statement of income. The losses arising from impairment of such loans and receivables are recognized in ÒProvision for impairment and credit lossesÓ in the statement of income.

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

After initial measurement, AFS investments are subsequently measured at fair value. Unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from reported earnings and are reported as ÒNet unrealized gain or loss on AFS investmentsÓ in other comprehensive income of the statement of comprehensive income. For AFS debt securities, impact of translation on foreign currency-denominated securities is reported in the statement of income. For AFS equity securities considered as non-monetary items, impact of translation on foreign currency-denominated securities is included in unrealized gains and losses taken in other comprehensive income.

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

When the security is disposed of, the cumulative gain or loss previously recognized in other comprehensive income is recognized as ÒTrading and securities gains (losses) - netÓ in the statement of income. Where the Bank holds more than one investment in the same security, these are deemed to be disposed of on a weighted average of inventory costing. Interest earned on holding AFS investments are reported as ÒInterest incomeÓ using the effective interest rate. Dividends earned on holding AFS investments are recognized in the statement of income as ÒMiscellaneous incomeÓ when the right of payment has been established. Losses arising from impairment of such investments are recognized as ÒProvisions on impairment and credit lossesÓ in the statement of income.

<u>Reclassification of financial assets</u>
A financial asset is reclassified out of the FVPL category when the following conditions are met:

- the financial asset is no longer held for the purpose of selling or repurchasing it in the near term; and
- there is rare circumstance.

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

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

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Bank did not reclassify any of its financial assets during 2009 and 2008.

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

After initial measurement, deposit liabilities, bills payable and similar financial liabilities not qualified and not designated as FVPL are subsequently measured at amortized cost using the 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.

This accounting policy relates to the statement of financial position captions ‘Deposit liabilities’, ‘Bills payable’, ÒOutstanding acceptances,Ó ÒManagerÕs checks,Ó ÒAccrued interest and other expensesÓ and ÒOther liabilitiesÓ

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

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

Where the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the BankÕs 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.

<u>Repurchase and Reverse Repurchase Agreements</u>
Securities sold under agreements to repurchase at a specified future date (‘repos’) are not derecognized from the statement of financial position. The corresponding cash received, including accrued interest, is recognized on the statement of financial position as a loan to the Bank, reflecting the economic substance of such transaction. The Bank has no repurchase agreements as of December 31, 2009 and 2008.

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

Impairment of Financial Assets

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

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original 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. 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. The financial assets, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized.

If the Bank determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtorsÕ 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.

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

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to the ÒProvision for impairment and credit lossesÓ

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

Financial assets carried at cost

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

Restructured loans

This may involve extending the payment arrangements and agreement on new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loanÕs 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 ÒProvision for impairment and credit lossesÓ in the statement of income.

AFS investments

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

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

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of ÒInterest incomeÓ in the statement of income. If, in subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

Offsetting Financial Instruments

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

Financial Guarantees

In the ordinary course of business, the Bank gives financial guarantees consisting of letters of credit, letters of guarantees, and acceptances. Financial guarantees are initially recognized in ÒOther liabilitiesÓ in the statement of financial position at fair value. Subsequent to initial recognition, the Bank's liabilities under such guarantees are each measured at the higher of the initial fair value less, when appropriate, cumulative amortization calculated to recognize the fee in the statement of income in ÒService charges, fees and commissionsÓ 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 ÒService fees and commission incomeÓ when the guarantee is discharged, cancelled or expires.

Revenue Recognition

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

Interest income

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as financial assets at FVPL and AFS investments, interest income is recorded at the 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 ÔInterest incomeÕ

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.

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. Service charges and penalties relating to loan receivable and deposit transactions are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collectability.

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

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

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

<u>Property and Equipment</u>
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
Transportation equipment	5 years
Furniture, fixtures and equipment	5 years
Computer equipment	3 years
Leasehold rights and improvements	3 - 5 years or the terms of the related leases, whichever is shorter

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

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

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

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

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

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

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

<u>Computer Software Costs</u>
Computer software costs (included under 'Other assets' in the statement of financial position) include costs incurred relative to the development of the BankÕs software. Costs are amortized on a straight-line basis over 5 to 8 years and are included in the ÒDepreciation and amortizationÓ caption in the statement of income.

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

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

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

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the assetÕs 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 assetÕs revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Leases

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

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

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

Bank as lessee

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

Retirement Cost

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

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

The asset recognized in the statement of financial position in respect of defined benefit pension plans is the fair value of plan assets at the financial position date less present value of the defined benefit obligation, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged against income when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These excess gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

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

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs not yet recognized and less the fair value of plan assets out of which the obligations are to be settled directly. Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Bank nor can they be paid directly to the Bank. Fair value is based on market price information and in the case of quoted securities it is the published bid price. The value of any plan asset recognized is restricted to the sum of any past service costs not yet recognized and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Provisions

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

Contingent Liabilities and Contingent Assets

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

Income Taxes

Current taxes

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

Deferred taxes

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

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

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

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

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

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

Earnings Per Share

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

The Bank does not have any dilutive potential common shares.

Dividends on Common Shares

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

Subsequent Events

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

Segment Reporting

The BankÕs 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 BankÕs revenue producing assets are located in the Philippines (i.e., one geographical location). Therefore, geographical segment information is no longer presented.

Fiduciary Activities

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

Future Changes in Accounting Policies

The Bank will adopt the following standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Bank does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

Effective in 2010

PFRS 3, *(Revised) Business Combinations* and PAS 27*, Consolidated and Separate Financial Statements (Amended)*

The revised standards are effective for annual periods beginning on or after July 1, 2009. PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. PAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by PFRS 3 (Revised) and PAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. PFRS 3 (Revised) will be applied prospectively while PAS 27 (Amended) will be applied retrospectively with a few exceptions. Adoption of these revised standards will not have a significant impact to the Bank's financial statements.

PAS 39 Amendments - *Eligible Hedged Items*

The amendment to PAS 39, *Financial Instruments: Recognition and Measurement*, effective for annual periods beginning on or after July 1, 2009, clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Bank has concluded that the amendment will have no impact on the financial position or performance of the Bank, as the Bank has not entered into any such hedges.

PFRS 2 Amendments - *Group Cash-settled Share-based Payment Transactions*

The amendments to PFRS 2, *Share-based Payments*, effective for annual periods beginning on or after January 1, 2010, clarify the scope and the accounting for group cash-settled share-based payment transactions. The Bank has concluded that the amendment will have no impact on the financial position or performance of the Bank as the Bank has not entered into any such share-based payment transactions.

Philippine Interpretation IFRIC 17, *Distributions of Non-Cash Assets to Owners*

This Interpretation is effective for annual periods beginning on or after July 1, 2009 with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability. The Bank does not expect the Interpretation to have an impact on the financial statements as the Bank has not made non-cash distributions to shareholders in the past.

Improvements to PFRSs

The omnibus amendments to PFRSs issued in 2009 were issued primarily with a view to removing inconsistencies and clarifying wordings. The amendments are effective for annual periods financial years January 1, 2010 except otherwise stated. The Bank has not yet adopted the following amendments and anticipates that these changes will have no material effect on the financial statements.

PFRS 2, *Share-based Payment*

- Clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3, *Business Combinations (Revised)*. The amendment is effective for financial years on or after July 1, 2009.

PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*

- Clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRSs only apply if specifically required for such non-current assets or discontinued operations.

PFRS 8, *Operating Segment Information*

- Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

PAS 1, *Presentation of Financial Statements*

- Clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

PAS 7, *Statement of Cash Flows*

- Explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

PAS 17, *Leases*

- Removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either 'finance' or 'operating' in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.

PAS 36, *Impairment of Assets*
- Clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.

PAS 38, *Intangible Assets*
- Clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. Also, it clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

PAS 39, *Financial Instruments: Recognition and Measurement*
- The amendment clarifies the following:
  - Prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.
  - Scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken.
  - Requires that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
- Clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.

Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*
- States that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

Effective 2012
Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*
This Interpretation, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The Bank does not expect the adoption of this Philippine Interpretation to have a material impact to its financial statements.

Effective in 2013
PFRS 9, *Financial Instruments*
This PFRS, effective for annual periods beginning on or after January 1, 2013 with early application permitted, specifies how an entity should classify and measure financial assets, including some hybrid contracts. This standard requires all financial assets to be: (a) classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset; (b) initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs; and (c) subsequently measured at amortized cost or fair value. The requirements of IFRS 9 improve and simplify the approach for classification and measurement of financial assets compared with the requirements of PAS 39. PFRS 9 applies a consistent approach to classifying financial assets and replaces the numerous categories of financial assets in PAS 39, each of which had its own classification criteria. They also result in one impairment method, replacing the numerous impairment methods. The Bank is currently evaluating the impact of adopting this standard.

3. Significant Accounting Judgments and Estimate

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

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances as of the date of the financial statements. While the Bank believes that the assumptions are reasonable and appropriate, actual results could differ from such estimates.

Judgments

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

(b) *Determination of whether a financial instrument is quoted in an active market*
The Bank classifies financial instruments by evaluating, among others, whether the instrument is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination of whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions conducted on an armǤ length basis.

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

As of December 31, 2009 and 2008, HTM investments are carried at ₱211.8 million and ₱98.0 million, respectively (see Note 6).

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

(e) *Functional currency*
PAS 21 requires management to use its judgment to determine the entityǤ functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the Bank considers the following:
- the currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);
- the currency in which funds from financing activities are generated; and

- the currency in which receipts from operating activities are usually retained.

Estimates

(a) *Impairment and credit losses of loans and receivables*

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

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

As of December 31, 2009 and 2008, allowance for impairment and credit losses on loans and receivables of the Bank amounted to P1.5 billion and P1.5 billion, respectively (see Note 11). Loans and receivables, net of allowance for impairment and credit losses, are carried at P16.8 billion and P17.9 billion as of December 31, 2009 and 2008, respectively (see Note 7).

(b) *Fair value of derivatives*

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

As of December 31, 2009 and 2008, net derivative asset amounts to P10.2 million and P0.7 million, respectively (see Note 26).

(c) *Impairment of AFS equity investments*

The Bank treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Bank treats 'significant' generally as 20% or more of the original cost of investment, and Ôprolonged Õas greater than 12 months. In addition, the Bank evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

As of December 31, 2009 and 2008, AFS equity investments are carried at P13.1 million and P13.2 million, respectively (see Note 6).

(d) *Recognition of deferred income taxes*

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

The Bank recognized deferred tax assets as of December 31, 2009 and 2008 amounted to P440.0 million and P448.4 million, respectively. Deferred tax assets on excess MCIT over RCIT amounting to nil and P9.5 million as of December 31, 2009 and 2008 respectively, and deferred tax asset on accrued rent expense - PAS 17 amounting to P2.6 million and P3.9 million as of December 31, 2009 and 2008, respectively, were not recognized (see Note 20).

(e) *Present value of retirement obligation*

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

The expected rate of return on plan assets of 6% in 2009 and 2008, was based on the average historical premium of the fund assets. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of statement of financial position dates. The present value of the retirement obligation of the Bank as of December 31, 2009 and 2008 amounted to P57.7 million and P77.5 million, respectively (see Note 18).

The net retirement asset balance as of December 31, 2009 and 2008 amounted to P9.5 million and P9.9 million, respectively (see Note 18).

(f) *Impairment on property and equipment and investment properties*

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

- 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, 2009, the net carrying value of property and equipment and investment properties amounted to P187.8 million and P3.4 million, respectively. As of December 31, 2008, the net carrying value of property and equipment and investment properties amounted to P197.3 million and P2.5 million, respectively (see Notes 8 and 9).

4. Financial Instruments and Fair Value Measurement

The following table presents a comparison of the carrying amounts and fair values of all of the Bank's financial assets and liabilities as of December 31, 2009 and 2008.

	2009		2008	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
FINANCIAL ASSETS				
Loans and receivables				
Cash and other cash items	**P319,525,532**	**P319,525,532**	P351,253,539	P351,253,539
Due from BSP	**1,909,190,000**	**1,909,190,000**	3,536,491,101	3,536,491,101
Due from other banks	**1,855,613,683**	**1,855,613,683**	1,457,052,884	1,457,052,884
Interbank loans receivable	**2,979,000**	**2,979,000**	715,280,000	715,280,000
Loans and discounts				
Institutional banking	**8,288,418,162**	**8,287,917,742**	9,744,529,313	9,747,436,177
Retail banking	**3,410,251,428**	**3,132,698,776**	2,970,248,936	2,609,322,084
Mortgage banking	**2,438,208,971**	**2,429,967,761**	2,349,582,969	2,348,683,507
Small business loans	**386,383,559**	**386,383,559**	420,668,585	420,668,585
Accrued interest receivable	**334,119,101**	**334,119,101**	377,844,388	377,844,388
Other receivables	**573,415,058**	**573,415,058**	478,410,479	478,410,479
Unquoted debt securities	**1,392,839,073**	**1,380,733,650**	1,604,955,142	1,589,833,662

Other assets	**₱27,290,530**	**₱27,290,530**	₱22,869,423	₱22,869,423
Subtotal	**20,938,234,097**	**20,639,834,392**	24,029,186,759	23,655,145,829
Financial assets at FVPL				
Held-for-trading				
Government debt	**690,172,079**	**690,172,079**	496,863,523	496,863,523
Derivative assets	**10,855,720**	**10,855,720**	1,690,879	1,690,879
Subtotal	**701,027,799**	**701,027,799**	498,554,402	498,554,402
AFS investments				
Government debt	**1,508,334,904**	**1,508,334,904**	1,073,521,355	1,073,521,355
Unquoted equity securities	**13,115,150**	**13,115,150**	13,163,149	13,163,149
Subtotal	**1,521,450,054**	**1,521,450,054**	1,086,684,504	1,086,684,504
HTM investments				
Government debt	**211,820,728**	**216,467,550**	98,002,854	98,079,648
	₱23,372,532,678	**₱23,078,779,795**	₱25,712,428,519	₱25,338,464,383
FINANCIAL LIABILITIES				
Financial liabilities at FVPL				
Derivative liabilities	**₱668,311**	**₱668,311**	₱1,030,737	₱1,030,737
Other financial liabilities at amortized cost				
Deposit liabilities				
Demand	**4,624,783,830**	**4,624,783,830**	3,856,006,069	3,856,006,069
Savings	**2,442,728,670**	**2,442,728,670**	2,233,854,322	2,233,854,322
Time	**9,900,645,770**	**9,800,834,999**	12,814,129,876	12,697,570,904
Subtotal	**16,968,158,270**	**16,868,347,499**	18,903,990,267	18,787,431,295
Bills payable	**646,800,000**	**646,800,000**	1,431,556,080	1,431,556,080
Outstanding acceptances	**18,996,988**	**18,996,988**	3,838,026	3,838,026
ManagerÕs checks	**40,161,695**	**40,161,695**	53,990,478	53,990,478
Accrued interest and other expenses	**327,056,089**	**327,056,089**	381,809,855	381,809,855
Other liabilities	**653,701,067**	**653,701,067**	728,278,289	728,278,289
	₱18,655,542,420	**₱18,555,731,649**	₱21,504,493,732	₱21,387,934,760

Due from BSP includes lending to the central bank under reverse repurchase agreement amounting to ₱0.2 billion and ₱1.8 billion as of December 31, 2009 and 2008, respectively.

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

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

	2008			
	USD		PHP	
	High	Low	High	Low
Unquoted debt securities	3.4%	2.9%	Ð	Ð
Loans and discounts				
Institutional banking	Ð	Ð	Ð	Ð
Retail banking	Ð	Ð	12.1%	11.1%
Mortgage banking	Ð	Ð	15.0%	11.0%
Deposit liabilities - Time	2.4%	2.0%	8.7%	7.3%

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

- Quoted in market prices in active markets for identical assets or liabilities (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

	2009				2008			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
				(in Thousand Pesos)				
Financial Assets at FVPL								
Government debt	**₱690,172**	**₱Ð**	**₱Ð**	**₱690,172**	₱496,864	₱Ð	₱Ð	₱496,864
Derivative assets	**Ð**	**10,856**	**Ð**	**10,856**	Ð	1,691	Ð	1,691
AFS Investments								
Government debt	**1,508,335**	**Ð**	**Ð**	**1,508,335**	1,073,521	Ð	Ð	1,073,521
Clubshares	**Ð**	**296**	**Ð**	**296**	Ð	344	Ð	344
	₱2,198,507	**₱11,152**	**₱Ð**	**₱2,209,659**	₱1,570,385	₱2,035	₱Ð	₱1,572,420
Financial Liabilities at FVPL								
Derivative Liabilities	**₱Ð**	**₱668**	**₱Ð**	**₱668**	₱Ð	₱1,031	₱Ð	₱1,031

During 2009 and 2008, there were no transfers between Level 1 to Level 2 category and no transfers into and out of Level 3 fair value measurements.

5. Financial Risk and Capital Management Objectives and Policies

Framework, Organization, and Processes
The Bank is in the business of creating value out of taking risks.

In offering financial products and services - whether deposits, loans, securities, or investments - the Bank exposes itself to a myriad of risks, particularly financial risks arising from the use of financial instruments. Consequently, it has put in place the appropriate risk management structures, policies, and processes to address each type of risk.

The Bank faces both financial and non-financial risks. Financial risks arise primarily from the use of financial instruments and include credit risk, market risk, and liquidity risk.

The succeeding sections will discuss the Bank's risk management structure, the definition and sources of key financial risks, and the processes and methodologies applied in identifying, monitoring, and managing these key financial risks.

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

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

Risk management structure
The BOD is ultimately responsible for oversight of the Bank's risk management process which involves identifying, measuring, analyzing, monitoring and controlling risks. It created the Risk Management Committee, a board-level independent committee with explicit authority and responsibility for managing and monitoring risks. It has oversight role over the independent risk functions of Credit Risk Management Group (CRMG) (credit risk), Risk Management Division (market risk) and the Risk Team (operational risk). The Risk Team is a multi-disciplinary group composed of the Chief Credit Risk Officer, Chief Financial Officer, Internal Audit Head, Compliance Officer, and Market Risk Manager. It conducts a regular Management Committee meeting that is devoted to a discussion of operational risk issues. These issues are identified by the business units through a self-assessment system which the team subsequently provides input and advice to the President in the conduct of the Operations Committee meetings.

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

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

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

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

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

(a) conduct pre-approval review of Credit proposals of lending units;
(b) provide policy guidelines to the lending units in order to standardize the credit process;
(c) coordinate with the lending units on the required post-approval requirements (i.e., Loan Review Report, Account Planning, etc.) in the management of existing accounts;
(d) conduct regular meetings to discuss problem accounts;
(e) handle problem accounts and disposal of foreclosed assets; and
(f) provide senior management with reports pertaining to the quality of the loan portfolio.

CRMG also performs support activities, such as appraisal of collaterals, credit investigation, custodianship of credit and collateral folders, monitoring of facility utilization, among others.

The Bank manages customer credit risk on institutional loans 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 institutional loans in terms of financial performance, market standing, management quality, product and industry position. The Obligor Risk Rating System (ORR) objectively rates the credit quality of all applicable borrowing accounts within the range of 17 grades. This is patterned after parent company's ORR but is tailor-fit to consider local market conditions. The ORR is prepared for all new institutional accounts and renewal of existing credit exposures.

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

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

On the Retail Banking side, risk is managed through rigid screening and prudent credit evaluation for individual loan applications and stringent accreditation criteria for companies availing of the corporate salary loan product. For individual borrowers, credit scoring is in place to capture the level of risk of every account. Application data pass through an automated application scorecard that evaluates their creditworthiness. 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 based on sound credit policies that are designed to ensure identification and mitigation of risk.

The dynamic nature of retail loans requires thorough monitoring of asset quality, performance, and behavior. The periodic review of portfolio performance and identification of risk groups for the purpose of subsequent creation of new and enhancements in existing credit policies hedge the Bank from possible losses. Policies that are needed, whether improvement or formation of new sets of policies, ensure that risks are identified and managed. Based on asset quality reviews of the portfolio, the Bank fine-tunes its rules and guidelines in the granting of credit as it sees fit using internal and external data or through the use of independent firms and consultants with expertise in research and development, statistical analysis and database management.

A periodic assessment of the portfolio's health is conducted to recommend action points or risk mitigants as needed. Timely and accurate reports facilitate the decision-making process of management with regard to this matter. Review items included in this periodic release include delinquency indicators, through-the-door profiling, risk segmentation, volume tracking, scorecard monitoring, population shift indexing, and computation of caps applicable to certain programs. Extensive exchanges of recommendations are conducted to achieve a strong synergy among the groups within the retail banking business.

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. The Bank monitors its nonperforming loan ratio, and compares these ratios against the banking industry average.

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

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

	2009	2008
Loans and receivables		
Due from BSP and other banks	**P3,764,803,683**	P4,993,543,985
Interbank loans receivables	**2,979,000**	715,280,000
Loans and discounts		
Institutional banking	**8,288,418,162**	9,744,529,313
Retail banking	**3,410,251,428**	2,970,248,936
Mortgage banking	**2,438,208,971**	2,349,582,969
Small business loans	**386,383,559**	420,668,585
Accrued interest receivable	**334,119,101**	377,844,388
Other receivables	**573,415,058**	478,410,479
Unquoted debt securities	**1,392,839,073**	1,604,955,142
Other assets	**27,290,530**	22,869,423
Subtotal	**20,618,708,565**	23,677,933,220
Financial assets at FVPL		
Held-for-trading		
Government debt	**690,172,079**	496,863,523
Derivative assets	**10,855,720**	1,690,879
Subtotal	**701,027,799**	498,554,402
Available-for-sale investments		
Government debt	**1,508,334,904**	1,073,521,355
Unquoted equity securities	**13,115,150**	13,163,149
Subtotal	**1,521,450,054**	1,086,684,504
Held-to-maturity investments		
Government debt	**211,820,728**	98,002,854
Total	**23,053,007,146**	25,361,174,980
Commitments and contingent assets (Note 24)	**4,579,545,339**	5,331,631,127
Maximum credit risk exposure	**P27,632,552,485**	P30,692,806,107

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

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

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

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

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

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

	2009						
	Loans and Receivables		Other Financial Assets		Off-Balance Sheet Exposures		
	Amount	%	Amount	%	Amount	%	Total
Financial intermediaries*	**P2,620,414**	**15.58**	**P6,188,966**	**99.35**	**P901,321**	**19.68**	**P9,710,701**
Manufacturing	**2,442,311**	**14.52**	**Đ**	**Đ**	**1,090,165**	**23.81**	**3,532,476**
Transport, storage and communications	**2,112,510**	**12.56**	**Đ**	**Đ**	**20,924**	**0.46**	**2,133,434**
Wholesale and retail	**1,541,860**	**9.16**	**Đ**	**Đ**	**1,676,101**	**36.60**	**3,217,961**
Real estate, renting and business activities	**1,087,829**	**6.47**	**Đ**	**Đ**	**82,988**	**1.81**	**1,170,817**
Public administration and defense	**965,189**	**5.74**	**Đ**	**Đ**	**Đ**	**0.00**	**965,189**
Construction	**123,264**	**0.73**	**Đ**	**Đ**	**Đ**	**0.00**	**123,264**
Agriculture, hunting and forestry	**72,543**	**0.43**	**Đ**	**Đ**	**45,000**	**0.98**	**117,543**
Electricity, gas and water	**5,581**	**0.03**	**Đ**	**Đ**	**213,171**	**4.65**	**218,752**
Others**	**7,405,445**	**44.01**	**40,406**	**0.65**	**549,875**	**12.01**	**7,995,726**
Total	**18,376,946**	**109.23**	**6,229,372**	**100.00**	**4,579,545**	**100.00**	**29,185,863**
Allowance for impairment and credit losses	**(1,473,509)**	**(8.76)**	**Đ**	**Đ**	**Đ**	**Đ**	**(1,473,509)**
Unearned interest discount	**(79,802)**	**(0.47)**	**Đ**	**Đ**	**Đ**	**Đ**	**(79,802)**
	P16,823,635	**100.00**	**P6,229,372**	**100.00**	**P4,579,545**	**100.00**	**P27,632,552**

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

2008

	Loans and Receivables		Other Financial Assets		Off-Balance Sheet Exposures		
	Amount	%	Amount	%	Amount	%	Total
Financial intermediaries*	₱4,742,666	26.43	₱6,670,235	90.00	₱713,027	13.37	₱12,125,928
Manufacturing	3,588,699	20.00	Ð	Ð	2,080,674	39.03	5,669,373
Transport, storage and communications	1,030,047	5.74	Ð	Ð	1,250	0.02	1,031,297
Real estate, renting and business activities	916,195	5.11	Ð	Ð	55,052	1.03	971,247
Wholesale and retail	825,265	4.60	Ð	Ð	891,273	16.72	1,716,538
Construction	145,930	0.81	Ð	Ð	200,649	3.76	346,579
Agriculture, hunting and forestry	51,735	0.29	Ð	Ð	Ð	Ð	51,735
Public administration and defense	9,370	0.05	Ð	Ð	18,229	0.34	27,599
Electricity, gas and water	2,115	0.01	Ð	Ð	1,337,600	25.09	1,339,715
Others**	8,268,724	46.07	744,700	10.00	33,877	0.64	9,047,301
Total	19,580,746	109.11	7,414,935	100.00	5,331,631	100.00	32,327,312
Allowance for impairment and credit losses	(1,505,124)	(8.39)	Ð	Ð	Ð	Ð	(1,505,124)
Unearned interest discount	(129,382)	(0.72)	Ð	Ð	Ð	Ð	(129,382)
	₱17,946,240	100.00	₱7,414,935	100.00	₱5,331,631	100.00	₱30,692,806

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

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

The Bank considers concentration risk to be present in its loans and receivables when the total exposure to a particular industry or sector exceeds 25% of the total loan portfolio. The BSP considers that credit concentration risk exists when the total loan exposure to a particular industry or economic sector exceeds 30% of the total loan portfolio. As of December 31, 2009 and 2008, following both the BankÕs policy and BSP regulations, the Bank does not have significant loan concentration to any particular industry.

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

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

- Moody's
- Standard and Poor's

In cognizance of the requirements of the BSP, the ORR was implemented to all applicable borrowing accounts (i.e., Corporate accounts of Institutional banking group, Small business loans excluding sole proprietorships, and Mortgage banking loans-CTS financing on a with recourse facility) of the Bank. The objectives of the system are the following:

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

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

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

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

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

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

* already equivalent to substandard status
** equivalent Standard and PoorÕs ratings apply

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

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

The table below shows the credit quality by class of the Bank’s financial assets as of December 31, 2009 and 2008, excluding loans and receivables (gross of allowance for credit losses and unearned interest discount).

	2009						
	Neither Past Due nor Specifically Impaired						
	High Grade	Standard Grade	Substandard Grade	Others	Past Due but not Specifically Impaired	Specifically Impaired	Total
	(In Thousand Pesos)						
Loans and receivables							
Due from BSP	₱1,909,190	₱Ð	₱Ð	₱Ð	₱Ð	₱Ð	₱1,909,190
Due from other banks	1,855,614	Ð	Ð	Ð	Ð	Ð	1,855,614
Interbank loans receivable	2,979	Ð	Ð	Ð	Ð	Ð	2,979
Loans and discounts							
Institutional banking	348,810	7,785,143	Ð	10,000	6,560	212,038	8,362,551
Retail banking	1,452,644	1,478,992	103,924	27	292,190	1,312,653	4,640,430
Mortgage banking	1,567,577	582,163	123,753	101,506	Ð	102,731	2,477,730
Small business loans	Ð	281,092	Ð	101,442	1,000	3,958	387,492
Accrued interest receivable	981	41,861	19,463	271,814	Ð	Ð	334,119
Others receivables	Ð	Ð	Ð	723,190	Ð	Ð	723,190
Unquoted debt securities	1,451,434	Ð	Ð	Ð	Ð	Ð	1,451,434
Other assets	Ð	Ð	Ð	27,291	Ð	Ð	27,291
Subtotal	8,589,229	10,169,251	247,140	1,235,270	299,750	1,631,380	22,172,020
Financial assets at FVPL							
Held-for-trading							
Government debt	690,172	Ð	Ð	Ð	Ð	Ð	690,172
Derivative assets	Ð	10,856	Ð	Ð	Ð	Ð	10,856
Subtotal	690,172	10,856	Ð	Ð	Ð	Ð	701,028
AFS investments							
Government debt	2,379	1,505,956	Ð	Ð	Ð	Ð	1,508,335
Unquoted equity securities	13,115	Ð	Ð	Ð	Ð	Ð	13,115
Subtotal	15,494	1,505,956	Ð	Ð	Ð	Ð	1,521,450
HTM investments							
Government	95,320	116,501	Ð	Ð	Ð	Ð	211,821
Total	₱9,390,215	₱11,802,564	₱247,140	₱1,235,270	₱299,750	₱1,631,380	₱24,606,319

	2008						
	Neither Past Due nor Specifically Impaired						
	High Grade	Standard Grade	Substandard Grade	Others	Past Due but not Specifically Impaired	Specifically Impaired	Total
	(In Thousand Pesos)						
Loans and receivables							
Due from BSP	₱3,536,491	₱Ð	₱Ð	₱Ð	₱Ð	₱Ð	₱3,536,491
Due from other banks	1,457,053	Ð	Ð	Ð	Ð	Ð	1,457,053
Interbank loans receivable	715,280	Ð	Ð	Ð	Ð	Ð	715,280
Loans and discounts							
Institutional banking	3,389,773	5,999,491	231,107	Ð	Ð	500,343	10,120,714
Retail banking	2,496,934	183,066	86	Ð	194,330	1,099,937	3,974,353
Mortgage banking	1,504,934	557,879	114,628	59,319	Ð	143,616	2,380,376
Small business loans	Ð	Ð	2,775	417,377	Ð	16,418	436,570
Accrued interest receivable	31,604	33,743	9,041	303,456	Ð	Ð	377,844
Others receivables	Ð	Ð		609,798	Ð	37	609,835
Unquoted debt securities	1,681,053	Ð	Ð	Ð	Ð	Ð	1,681,053
Other assets	Ð	Ð	Ð	22,869	Ð	Ð	22,869
Subtotal	14,813,122	6,774,179	357,637	1,412,819	194,330	1,760,351	25,312,438
Financial assets at FVPL							
Held-for-trading							
Government debt	496,864	Ð	Ð	Ð	Ð	Ð	496,864
Derivative assets	Ð	1,691	Ð	Ð	Ð	Ð	1,691
Subtotal	496,864	1,691	Ð	Ð	Ð	Ð	498,555
AFS investments							
Government debt	3,353	1,070,169	Ð	Ð	Ð	Ð	1,073,522
Unquoted equity securities	Ð	Ð	Ð	13,163	Ð	Ð	13,163
Subtotal	3,353	1,070,169	Ð	13,163	Ð	Ð	1,086,685
HTM investments							
Government	98,003	Ð	Ð	Ð	Ð	Ð	98,003
Total	₱15,411,342	₱7,846,039	₱357,637	₱1,425,982	₱194,330	₱1,760,351	₱26,995,681

The table below shows the aging analysis of past due but not specifically impaired financial assets by class as of December 31, 2009 and 2008.

	2009			2008		
	Less than 30 days	31 to 90 days	Total	Less than 30 days	31 to 90 Days	Total
	(In Thousand Pesos)					
Loans and discounts						
Retail banking	₱193,006	₱99,184	₱292,190	₱131,010	₱63,320	₱194,330
Institutional banking	6,560	Ð	6,560	Ð	Ð	Ð
Small business loans	1,000	Ð	1,000	Ð	Ð	Ð
Total	₱200,566	₱99,184	₱299,750	₱131,010	₱63,320	₱194,330

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

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

Included in specifically impaired financial assets are the Bank's restructured loan receivables. The table below shows the carrying amounts of restructured loan receivables by class as of December 31, 2009 and 2008:

	2009	2008
	(In Thousand Pesos)	
Institutional banking		
Performing	**PĐ**	P40,908
Non-performing	**55,513**	12,543
Small business loans		
Performing	**3,958**	Đ
Non-performing	**Đ**	Đ
Mortgage banking		
Performing	**2,275**	Đ
Non-performing	**Đ**	Đ
	P61,746	P53,451

Restructured performing and non-performing loans (NPL) of the Bank, net of specific impairment allowances as determined by PAS 39, as of December 31, 2009 and 2008, amounted to P50.9 million and P13.0 million, respectively.

<u>Nonperforming loans</u>
The Bank monitors its NPLs ratio as part of its credit risk monitoring and reporting to the BSP. Shown below are the BankÕs NPL:

	2009	2008
Secured	**P169,863,540**	P371,771,080
Unsecured	**1,446,232,187**	1,388,580,164
	P1,616,095,727	P1,760,351,244

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

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

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

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

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

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

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

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

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

	2009		2008	
	Amount	**%**	Amount	%
Secured by:				
Real estate	**P2,871,154,109**	**17.07%**	P2,925,374,945	16.30%
Government guarantee	**2,384,836,832**	**14.17%**	2,946,488,453	16.42%
Hold-out on deposits	**363,685,058**	**2.16%**	396,565,120	2.21%
Mortgage trust indenture	**221,774,072**	**1.32%**	548,932,502	3.06%
Standby letter of credit	**45,329,504**	**0.27%**	42,711,276	0.24%
Chattel	**33,257,703**	**0.20%**	80,872,497	0.45%
Special Deposit Account	**11,069,317**	**0.07%**	17,060,446	0.10%
Shares of stock	**2,141,489**	**0.01%**	2,951,906	0.02%
	5,933,248,084	**35.27%**	6,960,957,145	38.79%
Unsecured	**12,443,698,564**	**73.96%**	12,619,788,066	70.32%
	18,376,946,648	**109.23%**	19,580,745,211	109.11%
Allowance for impairment and credit losses	**(1,473,509,023)**	**(8.76%)**	(1,505,123,698)	(8.39%)
Unearned interest discount and capitalized interest	**(79,802,273)**	**(0.47%)**	(129,381,701)	(0.72%)
	P16,823,635,352	**100.00%**	P17,946,239,812	100.00%

For past due and impaired loans and discounts, the fair values of collaterals held as of the year ended December 31, 2009 and 2008 are as follows:

	2009	2008
Type of collateral	Fair Value	
Real Estate	**P288,802,743**	P242,968,131
Chattel	**61,230,000**	115,153,056
Standby letter of credit	**42,000,000**	42,000,000
Hold-out on deposits	**1,000,000**	Đ
Mortgage trust indenture	**Đ**	189,145,830

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

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

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

The fair value of collaterals subjected to repurchase and reverse repurchase agreements with BSP as of the year ended December 31, 2009 and 2008 amounted to P0.2 billion and P1.8 billion, respectively.

Liquidity Risk and Funding Management

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

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

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

	2009				
	On demand	**1 to 3 months**	**6 to 12 months**	**Greater than 1 year**	**Total**
Deposit liabilities					
Demand	**P4,625**	**PÐ**	**PÐ**	**PÐ**	**P4,625**
Savings	**2,443**	**Ð**	**Ð**	**Ð**	**2,443**
Time	**Ð**	**6,727**	**1,987**	**1,186**	**9,900**
Bills and acceptances payable	**Ð**	**647**	**Ð**	**19**	**666**
ManagerÕs checks	**40**	**Ð**	**Ð**	**Ð**	**40**
Accrued interest and other expenses	**327**	**Ð**	**Ð**	**Ð**	**327**
Other liabilities	**654**	**Ð**	**Ð**	**Ð**	**654**
	8,089	**7,374**	**1,987**	**1,205**	**18,655**
Future interest payments	**43**	**34**	**215**	**181**	**473**
	8,132	**7,408**	**2,202**	**1,386**	**19,128**
Financial liabilities at FVPL					
Forward Contract Payable	**1,154**	**Ð**	**Ð**	**Ð**	**1,154**
Forward Contract Receivable	**(1,153)**	**Ð**	**Ð**	**Ð**	**(1,153)**
	1	**Ð**	**Ð**	**Ð**	**1**
	P8,133	**P7,408**	**P2,202**	**P1,386**	**P19,129**

	2008				
	On demand	1 to 3 months	6 to 12 months	Greater than 1 year	Total
Deposit liabilities					
Demand	P3,856	PÐ	PÐ	PÐ	P3,856
Savings	2,234	Ð	Ð	Ð	2,234
Time	Ð	9,980	1,704	1,130	12,814
Bills and acceptances payable	Ð	1,213	56	166	1,435
ManagerÕs checks	54	Ð	Ð	Ð	54
Accrued interest and other expenses	382	Ð	Ð	Ð	382
Other liabilities	728	Ð	Ð	Ð	728
	7,254	11,193	1,760	1,296	21,503
Future interest payments	92	110	172	318	692
	7,346	11,303	1,932	1,614	22,195
Financial liabilities at FVPL					
Forward Contract Payable	54	Ð	Ð	Ð	54
Forward Contract Receivable	(53)	Ð	Ð	Ð	(53)
	1	Ð	Ð	Ð	1
	P7,347	P11,303	P1,932	P1,614	P22,196

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

The table below further shows the contractual expiry by maturity of the BankÕs off-balance sheet commitments.

	2009					
	Up to 1 month	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Beyond 1 Year**	**Total**
			(In Thousand Pesos)			
Commitments	**P274,628**	**P210,940**	**P2,378,225**	**P1,454,703**	**P7,584**	**P4,326,080**
Contingent liabilities	**55,172**	**167,718**	**462**	**27,970**	**Ð**	**251,322**
Total	**P329,800**	**P378,658**	**P2,378,687**	**P1,482,673**	**P7,584**	**P4,577,402**

	2008					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 Year	Total
			(In Thousand Pesos)			
Commitments	P3,434,716	P888,162	P315,994	P400,000	P99,600	P5,138,472
Contingent liabilities	9,763	101,582	1,250	30,181	18,334	161,110
Total	P3,444,479	P989,744	P317,244	P430,181	P117,934	P5,299,582

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

Liquidity risk control entails primarily the setting of risk limits, which define management's tolerance for liquidity risk. Specifically, limits are set on the maximum cumulative outflow (MCO) and ratio of interbank borrowing to loans. Liquidity risk is also monitored through the use of liquidity ratios. One of the more important liquidity ratios is the ratio of net liquid assets to total deposits. Net liquid assets consist of cash, due from banks, interbank loans, securities held for trade and available for sale less interbank borrowings. The ratios for the year 2009 and 2008 were as follows:

	2009	2008
31 December	**33%**	33%
Average during the period	**36%**	39%
Highest	**43%**	49%
Lowest	**31%**	28%

Further, the Bank performs a funding gap analysis using estimated cash flows (amounts in thousands). Shown below is the BankÕs asset-liability gap as of December 31, 2009 and 2008:

2009

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

2008

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	2 years	3 years	4 years	Greater than 5 years	Total
Assets									
Loans and receivables									
Cash and other cash items	₱351,254	₱Ð	₱Ð	₱Ð	₱Ð	₱Ð	₱Ð	₱Ð	₱351,254
Due from BSP	2,636,491	900,000	Ð	Ð	Ð	Ð	Ð	Ð	3,536,491
Due from other banks	1,457,053	Ð	Ð	Ð	Ð	Ð	Ð	Ð	1,457,053
Interbank loans receivable	715,280	Ð	Ð	Ð	Ð	Ð	Ð	Ð	715,280
Loans and discounts - gross	3,408,627	2,069,396	1,309,528	1,314,833	5,224,413	2,711,782	1,891,565	1,650,601	19,580,745
Other assets	4,161		Ð	Ð	18,708	Ð	Ð	Ð	22,869
Subtotal	8,572,866	2,969,396	1,309,528	1,314,833	5,243,121	2,711,782	1,891,565	1,650,601	25,663,692
Financial assets at FVPL	1,691	279	Ð	Ð	50,423	Ð	326,890	119,272	498,555
AFS investments	12,785	Ð	Ð	17	Ð	392	Ð	1,073,491	1,086,685
HTM investments	Ð	52,162	5,115	Ð	36,001	4,725	Ð	Ð	98,003
Total financial assets	8,587,342	3,021,837	1,314,643	1,314,850	5,329,545	2,716,899	2,218,455	2,843,364	27,346,935
Liabilities									
Financial liabilities at FVPL									
Derivative liabilities	1,031	Ð	Ð	Ð	Ð	Ð	Ð	Ð	1,031
Other financial liabilities at amortized cost									
Deposit liabilities	12,389,703	5,110,464	734,178	122,061	262,571	145,857	107,297	31,859	18,903,990
Other liabilities									
Bills payable	1,213,306	Ð	Ð	218,250	Ð	Ð	Ð	Ð	1,431,556
Outstanding acceptances	3,838	Ð	Ð	Ð	Ð	Ð	Ð	Ð	3,838
ManagerÕs checks	53,990	Ð	Ð	Ð	Ð	Ð	Ð	Ð	53,990
Accrued interest and other expenses	381,810	Ð	Ð	Ð	Ð	Ð	Ð	Ð	381,810
Other liabilities	728,278	Ð	Ð	Ð	Ð	Ð	Ð	Ð	728,278
Total financial liabilities	14,771,956	5,110,464	734,178	340,311	262,571	145,857	107,297	31,859	21,504,493
Asset-liability gap	(₱6,184,614)	(₱2,088,627)	₱580,465	₱974,539	₱5,066,974	₱2,571,042	₱2,111,158	₱2,811,505	₱5,842,442

Market Risk

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

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

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

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

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

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

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

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

VaR assumptions/parameters
The VaR will be based on a 1-day holding period, a level of confidence of 99% and a time series equivalent to 500 days (or 2 years). The level of confidence can be adjusted in response to heightened volatility in the market. The following are the VaR statistics for December 31, 2009 and 2008:

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

	2008			
	Foreign Exchange	Peso Fixed Income	Dollar Fixed Income	Total VaR
		(In Million Pesos)		
December 31, 2008	₱1.5	₱8.0	₱Ð	₱7.4
2008-Average Daily	4.3	6.6	14.4	16.4
2008-Highest	12.7	26.3	62.7	62.2
2008-Lowest	0.1	Ð	Ð	1.1

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

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

Foreign Exchange Risk
The table below summarizes the Bank's exposure to foreign exchange risk as of December 31, 2009 and 2008. Included in the tables are the Bank's assets and liabilities at carrying amounts, categorized by currency (amounts in thousands):

	2009			2008		
	USD	**Others**	**Total**	USD	Others	Total
Assets						
Loans and receivables						
Cash and other cash items	**P5**	**PÐ**	**P5**	P5	PÐ	P5
Due from BSP and other banks	**1,342,429**	**18,226**	**1,360,655**	94,482	8,194	102,676
Interbank loans receivable	**Ð**	**Ð**	**Ð**	Ð	Ð	Ð
Loans and discounts - net	**20,821**	**Ð**	**20,821**	399,012	2,351	401,363
Other assets	**Ð**	**109,596**	**109,596**	Ð	126,793	126,793
Total assets	**1,363,255**	**127,822**	**1,491,077**	493,499	137,338	630,837
Liabilities						
Other financial liabilities at amortized cost						
Deposit liabilities	**Ð**	**302**	**302**	Ð	311	311
Outstanding acceptances	**Ð**	**Ð**	**Ð**	Ð	2,351	2,351
Other liabilities	**Ð**	**Ð**	**Ð**	Ð	433	433
Total liabilities	**Ð**	**302**	**302**	Ð	3,095	3,095
Net exposure	**₱1,363,255**	**₱127,520**	**₱1,490,775**	₱493,499	₱134,243	₱627,742

As of December 31, 2009 and 2008, the Bank has no foreign exchange risk exposure from its financial assets at FVPL, AFS and HTM investments.

Information relating to the Bank's currency derivatives is contained in Note 26. The Bank has outstanding foreign currency spot transactions (in equivalent peso amounts) of P1.2 billion (sold) and P1.2 billion (bought) as of December 29, 2009, and ₱475.8 million (sold) and ₱476.2 million (bought) as of December 24, 2008.

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

Foreign exchange factor sensitivities ("FX Delta") represent the change in the net present value of the foreign exchange portfolios caused by a unit shift of 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.

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

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

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

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

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

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

The tables below show the sensitivity of the BankÕs one-year earnings and economic value of equity to possible changes in interest rates. The effect of the assumed interest rate changes on one-year earnings per currency is measured based on rate sensitive non-trading assets and liabilities as of December 31, 2009 and 2008. The sensitivity of equity to interest rate movements is the present value of future cash flows discounted at the market rate.

2009

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

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

2008

Currency	Increase in bps	Sensitivity of net interest income	Sensitivity of Equity: 1 month	3 months	6 months	1 year	2 years	5 years	7 years	10 years up	Total
			(In Thousand Pesos)								
PHP (in 000s)	15	₱966	(₱62)	(₱789)	₱2,120	(₱884)	(₱4,003)	(₱4,830)	(₱24)	(₱1,264)	(₱9,736)
	20	1,288	(83)	(1,051)	2,826	(1,178)	(5,334)	(6,431)	(31)	(1,680)	(12,962)
	25	1,610	(103)	(1,314)	3,531	(1,472)	(6,662)	(8,027)	(39)	(2,093)	(16,179)
USD (in 000s)	15	(50)	Ð	13	8	50	Ð	(27)	Ð	(159)	(115)
	20	(67)	Ð	17	11	66	Ð	(36)	Ð	(211)	(153)
	25	(84)	Ð	22	14	83	1	(44)	Ð	(261)	(185)

Currency	Decrease in bps	Sensitivity of net interest income	Sensitivity of Equity: 1 month	3 months	6 months	1 year	2 years	5 years	7 years	10 years up	Total
			(In Thousand Pesos)								
PHP (in 000s)	-15	(₱966)	₱62	₱789	(₱2,120)	₱884	₱4,003	₱4,830	₱24	₱1,264	₱9,736
	-20	(1,288)	83	1,051	(2,826)	1,178	5,334	6,431	31	1,680	12,962
	-25	(1,610)	103	1,314	(3,531)	1,472	6,662	8,027	39	2,093	16,179
USD (in 000s)	-15	50	Ð	(13)	(8)	(50)	Ð	27	Ð	159	115
	-20	67	Ð	(17)	(11)	(66)	Ð	36	Ð	211	153
	-25	84	Ð	(22)	(14)	(83)	(1)	44	Ð	261	185

The following table sets forth the repricing gap position of the Bank as of December 31, 2009 and 2008:

2009

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
			(In Thousand Pesos)			
Financial Assets						
Loans and receivables						
Cash and other cash items	**₱319,526**	**₱Ð**	**₱Ð**	**₱Ð**	**₱Ð**	**₱319,526**
Due from BSP and other banks	**2,844,804**	**920,000**	**Ð**	**Ð**	**Ð**	**3,764,804**
Interbank loans receivable	**2,979**	**Ð**	**Ð**	**Ð**	**Ð**	**2,979**
Loans and discounts - gross	**9,694,560**	**2,408,938**	**4,572,111**	**1,519,029**	**182,309**	**18,376,947**
Other Assets	**13,111**	**Ð**	**Ð**	**Ð**	**14,180**	**27,291**
Financial assets at FVPL						
Government debt	**Ð**	**21,237**	**12,804**	**89**	**656,042**	**690,172**
Derivatives	**10,856**	**Ð**	**Ð**	**Ð**	**Ð**	**10,856**
AFS investments	**Ð**	**Ð**	**Ð**	**Ð**	**1,521,450**	**1,521,450**
HTM investments	**30,105**	**Ð**	**11,519**	**Ð**	**170,197**	**211,821**
Total financial assets	**12,915,941**	**3,350,175**	**4,596,434**	**1,519,118**	**2,544,178**	**24,925,846**
Financial Liabilities						
Financial liabilities at FVPL						
Derivative liabilities	**668**	**Ð**	**Ð**	**Ð**	**Ð**	**668**
Other financial liabilities at amortized cost						
Deposit liabilities						
Demand	**4,624,784**	**Ð**	**Ð**	**Ð**	**Ð**	**4,624,784**
Savings	**2,442,729**	**Ð**	**Ð**	**Ð**	**Ð**	**2,442,729**
Time	**4,505,221**	**3,968,588**	**516,026**	**276,358**	**634,453**	**9,900,646**
Bills payable and outstanding acceptances	**665,797**	**Ð**	**Ð**	**Ð**	**Ð**	**665,797**
ManagerÕs checks	**40,162**	**Ð**	**Ð**	**Ð**	**Ð**	**40,162**
Accrued interest and other expenses	**327,056**	**Ð**	**Ð**	**Ð**	**Ð**	**327,056**
Other liabilities	**653,701**	**Ð**	**Ð**	**Ð**	**Ð**	**653,701**
Total financial liabilities	**13,260,118**	**3,968,588**	**516,026**	**276,358**	**634,453**	**18,655,543**
Repricing gap	**(₱344,177)**	**(₱618,413)**	**₱4,080,408**	**₱1,242,760**	**₱1,909,725**	**₱6,270,303**
Cumulative gap	**(₱344,177)**	**(₱962,590)**	**₱3,117,818**	**₱4,360,578**	**₱6,270,303**	**₱Ð**

	2008					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
	(In Thousand Pesos)					
Financial Assets						
Loans and receivables						
Cash and other cash items	₱351,254	₱Ð	₱Ð	₱Ð	₱Ð	₱351,254
Due from BSP and other banks	4,093,544	900,000	Ð	Ð	Ð	4,993,544
Interbank loans receivable	715,280	Ð	Ð	Ð	Ð	715,280
Loans and discounts - gross	10,940,676	3,295,861	3,167,429	2,017,178	159,601	19,580,745
Other Assets	4,161	Ð	Ð	Ð	18,708	22,869
Financial assets at FVPL						
Government debt	Ð	279	Ð	Ð	496,585	496,864
Derivatives	1,691	Ð	Ð	Ð	Ð	1,691
AFS investments	Ð	Ð	Ð	17	1,086,668	1,086,685
HTM investments	Ð	52,162	5,115	Ð	40,726	98,003
Total financial assets	16,106,606	4,248,302	3,172,544	2,017,195	1,802,288	27,346,935
Financial Liabilities						
Financial liabilities at FVPL						
Derivative liabilities	1,031	Ð	Ð	Ð	Ð	1,031
Other financial liabilities at amortized cost						
Deposit liabilities						
Demand	3,856,006	Ð	Ð	Ð	Ð	3,856,006
Savings	2,233,854	Ð	Ð	Ð	Ð	2,233,854
Time	6,049,550	5,127,063	828,728	155,111	653,678	12,814,130
Bills payable and outstanding acceptances	1,217,144	Ð	Ð	218,250	Ð	1,435,394
ManagerÕs checks	53,990	Ð	Ð	Ð	Ð	53,990
Accrued interest and other expenses	381,810	Ð	Ð	Ð	Ð	381,810
Other liabilities	728,278	Ð	Ð	Ð	Ð	728,278
Total financial liabilities	14,521,663	5,127,063	828,728	373,361	653,678	21,504,493
Repricing gap	₱1,584,943	(₱878,761)	₱2,343,816	₱1,643,834	₱1,148,610	₱5,842,442
Cumulative gap	₱1,584,943	₱706,182	₱3,049,998	₱4,693,832	₱5,842,442	₱Ð

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

	Impact to profit or loss		Impact to equity	
	2009	**2008**	**2009**	**2008**
PHP interest rates				
Increase by 15 bps	**5,275,071**	6,920,440	**(22,954)**	(31,486)
Increase by 20 bps	**7,033,428**	9,227,253	**(30,542)**	(41,892)
Increase by 25 bps	**8,791,785**	11,534,066	**(38,099)**	(52,253)
Decrease by 15 bps	**(5,275,071)**	(6,920,440)	**23,242**	31,892
Decrease by 20 bps	**(7,033,428)**	(9,227,253)	**31,054**	42,614
Decrease by 25 bps	**(8,791,785)**	(11,534,066)	**38,899**	53,383
USD interest rates				
Increase by 15 bps	**4,739,293**	5,629,518	**(13,388,369)**	(15,730,254)
Increase by 20 bps	**6,319,058**	7,506,024	**(17,815,542)**	(20,892,652)
Increase by 25 bps	**7,898,822**	9,382,530	**(22,225,054)**	(26,015,180)
Decrease by 15 bps	**(4,739,293)**	(5,629,518)	**13,550,529**	16,103,092
Decrease by 20 bps	**(6,319,058)**	(7,506,024)	**18,103,833**	21,555,515
Decrease by 25 bps	**(7,898,822)**	(9,382,530)	**22,675,519**	27,050,983

The following table provides for the average effective interest rates by period of maturity or repricing of the Bank as of December 31, 2009 and 2008:

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

	2008		
	Less than 3 months	3 months to 1 year	Greater than 1 year
Peso-denominated Financial assets			
Due from BSP	3.6%	Ð	Ð
Due from other banks	10.8%	Ð	Ð
Financial assets at FVPL	3.1%	6.6%	6.1%
AFS investments	Ð	10.2%	8.1%
HTM investments	5.7%	6.3%	6.9%
Loans and receivables	8.3%	8.3%	13.6%
Financial liabilities			
Deposit liabilities	2.4%	4.5%	7.0%
Bills payable	6.8%	Ð	Ð
Foreign currency-denominated Financial assets			
Due from other banks	1.7%	Ð	Ð
Financial assets at FVPL	Ð	Ð	6.6%
AFS investments	Ð	Ð	7.0%
Loans and receivables	4.3%	4.2%	4.8%
Financial liabilities			
Deposit liabilities	1.5%	3.9%	4.1%
Bills payable	2.3%	Ð	Ð

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

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

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

<u>Capital Management</u>
The primary objectives of the BankÕs capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains a strong credit standing and healthy capital ratios in order to support its business and to maximize shareholdersÕ value.

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

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

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

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

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

Under existing BSP regulations, the determination of the BankÕs compliance with regulatory requirements and ratios is based on the amount of the Bank’s “unimpaired capital” (regulatory net worth) as reported to the BSP, which is determined on the basis of regulatory accounting policies, which differ from PFRS in some aspects. The combined capital accounts of the Bank should not be less than an amount equal to ten percent (10%) of its risk assets. As of December 31, 2009 and 2008, the capital adequacy ratio of the Bank, as reported to the BSP, is 22.9% and 21.5%, respectively.

As of December 31, 2009 and 2008, the Bank has complied with the minimum capital requirements of the BSP.

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

In October 2009, the Bank made a presentation to BSP the initial stage of ICAAP implementation. Based on the results of the presentation, as per recommendations of BSP, the Bank is working on further enhancement of its ICAAP.

Shown below are the BankÕs minimum capital-to-risk assets ratio as reported to the BSP as of December 31, 2009 and 2008.

	2009	2008
	(Amounts in Million Pesos)	
Tier 1 Capital	**₱4,823**	₱4,565
Tier 2 Capital	**194**	196
Gross Qualifying Capital	**5,017**	4,761
Less: Required deductions	**20**	20
Total qualifying capital	**4,997**	₱4,741
Risk weighted assets	**₱21,767**	₱22,051
Tier 1 capital ratio	**22.1%**	20.7%
Tier 2 capital ratio	**0.8%**	0.9%
Risk-based capital adequacy ratio	**22.9%**	21.5%

6. Trading and Investment Securities

Financial assets at FVPL consist of the following:

	2009	2008 (As restated)
Held-for-trading		
Government debt	**₱690,172,079**	₱496,863,523
Derivative assets (Note 26)	**10,855,720**	1,690,879
	₱701,027,799	₱498,554,402

Net unrealized gain (loss) for the years ended December 31, 2009, 2008 and 2007 on revaluation to market of financial assets at FVPL amounting to (P3.2 million), P1.8 million and (P32.6 million), respectively, are included under ÒTrading and securities gain - netÓin the statements of income.

AFS investments consist of the following:

	2009	2008 (As restated)
Government debt	**₱1,508,334,904**	₱1,073,521,355
Unquoted equity securities	**13,115,150**	13,163,149
	₱1,521,450,054	₱1,086,684,504

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

The movements of net unrealized gains (losses) on AFS investments are as follows:

	2009	2008	2007
Balance at the beginning of the year	**(₱102,925,729)**	₱17,841,341	₱60,129,158
Unrealized gains (losses) recognized in equity	**23,853,323**	(113,694,633)	26,951,497
Amount realized in profit or loss	**77,364,283**	(7,072,437)	(69,239,314)
Balance at end of the year	**(₱1,708,123)**	(₱102,925,729)	₱17,841,341

For the years ended December 31, 2009 and 2008, the effective interest rates of Philippine government securities range from 5.4% to 7.6% and 5.6% to 8.7% respectively.

Effective interest rates range from 6.2% to 9.2% and from 5.2% to 8.0% for peso-denominated and foreign currency-denominated AFS investments, respectively, for the year ended December 31, 2009. Effective interest rates range from 5.4% to 7.9% and from 5.3% to 11.4% for peso-denominated and foreign currency-denominated AFS investments, respectively, for the year ended December 31, 2008.

HTM investments consist of Philippine government treasury notes that bear nominal annual interest rates ranging from 3.8% to 10.6% and from 10.0% to 13.8% for the years ended December 31, 2009 and 2008, respectively.

Interest income on trading and investment securities consists of:

	2009	2008	2007
Financial assets at FVPL	**₱77,681,103**	₱82,486,302	₱116,760,840
AFS investments	**68,500,334**	97,534,491	125,764,719
HTM investments	**6,132,545**	5,984,613	3,537,290
	₱152,313,982	₱186,005,406	₱246,062,849

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

	2009	2008	2007
AFS investments	**₱77,364,283**	₱7,072,437	₱69,239,314
Financial assets at FVPL	**29,100,067**	(67,249,358)	15,860,395
Unquoted debt securities	**644,636**	Ð	Ð
	₱107,108,986	(₱60,176,921)	₱85,099,709

Net gain (loss) on derivative transactions amounting to ₱9.9 million, ₱8.3 million, and (P7.4 million) for the years ended December 31, 2009, 2008 and 2007, respectively, are included under ÒForeign exchange gain - netÓin the statement of income.

7. Loans and Receivables

This account consists of:

	2009	2008
Loans and discounts		
Institutional banking	**₱8,362,551,278**	₱10,120,713,836
Retail banking	**4,640,429,739**	3,974,352,900
Mortgage banking	**2,477,730,216**	2,380,376,273
Small business loans	**387,491,911**	436,569,617
Accrued interest receivable	**334,119,101**	377,844,388
Other receivables	**723,189,984**	609,835,249
	16,925,512,229	17,899,692,263
Unquoted debt securities	**1,451,434,419**	1,681,052,948
	18,376,946,648	19,580,745,211
Unearned interest discount and capitalized interest	**(79,802,273)**	(129,381,701)
	18,297,144,375	19,451,363,510
Allowance for impairment and credit losses (Note 11)	**(1,473,509,023)**	(1,505,123,698)
	₱16,823,635,352	₱17,946,239,812

Other receivables include amounts due from Integrated Credit and Corporate Services (ICCS) representing impaired loans secured by real properties transferred to ICCS with carrying values, net of impairment, amounting to ₱208.2 million and ₱168.6 million, as of December 31, 2009 and 2008, respectively.

Other receivables also include sales contract receivables, which bear fixed interest rate per annum of 9.0% to 12.8% and 9.0% to 14.8%, with gross amounts of ₱39.4 million and ₱86.0 million, for the years ended December 31, 2009 and 2008, respectively.

Institutional loans include domestic bills purchased amounting to ₱195.0 million and ₱198.2 million as of December 31, 2009 and 2008, respectively (Note 15).

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

The effective interest rates of ÒLoans and discountsÓ ÒUnquoted debt instrumentsÓand ÒSales contract receivablesÓ range from 3.1% to 4.0% in 2009 and 4.0% to 6.1% in December 31, 2008 for foreign currency-denominated receivables, and from 13.0% to 14.0% in 2009 and from 12. 6% to 14.8% in 2008 for peso-denominated receivables.

The Bank’s loan portfolio includes non-risk loans, as defined under BSP regulations, totaling P1.3 billion and P1.7 billion as of December 31, 2009 and 2008, respectively.

As of December 31, 2009 and 2008, 67.8% and 89.6%, respectively, of the total loans of the Bank are subject to periodic interest repricing. Remaining loans earn annual fixed interest rates ranging from 6.0% to 39.5% and from 11.0% to 45.0% in 2009 and 2008, respectively, for peso-denominated loans and 13% and from 6.3% to 10.5% for foreign currency-denominated loans.

Interest income accrued on loans and receivables includes unwinding of the allowance for impairment and credit losses amounting to P13.5 million and P12.5 million as of December 31, 2009 and 2008, respectively.

8. Property and Equipment

The composition of and movements in this account as of and for the years ended December 31, 2009 and 2008 follow:

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

	2008					
	Bank Premises	Computer Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Total
Cost						
Balance at beginning of year	₱98,530,636	₱111,379,493	₱70,977,148	₱64,719,275	₱193,907,612	₱539,514,164
Additions	56,522	8,719,961	26,651,763	3,933,236	2,385,013	41,746,495
Disposals and reversals	Đ	(2,630,467)	(29,354,763)	(744,233)	(21,357)	(32,750,820)
Balance at end of year	98,587,158	117,468,987	68,274,148	67,908,278	196,271,268	548,509,839
Accumulated Depreciation and Amortization						
Balance at beginning of year	21,302,542	94,504,663	27,232,719	46,323,091	120,235,748	309,598,763
Depreciation and amortization	3,912,764	12,345,176	13,360,326	6,275,862	22,492,217	58,386,345
Disposals and reversals	Đ	(2,626,317)	(13,449,999)	(715,055)	36,333	(16,755,038)
Balance at end of year	25,215,306	104,223,522	27,143,046	51,883,898	142,764,298	351,230,070
Net Book Value at end of year	₱73,371,852	₱13,245,465	₱41,131,102	₱16,024,380	₱53,506,970	₱197,279,769

9. Investment Properties

The BankÕs Investment properties consist of buildings and improvements. Movements in this account as of and for the years ended December 31, 2009 and 2008 follow:

	2009	2008
Cost		
Balance at beginning of year	**₱4,606,010**	₱28,867,860
Additions	**1,389,360**	583,969
Disposals/others	**Đ**	(24,845,819)
Balance at end of year	**5,995,370**	4,606,010
Accumulated Depreciation		
Balance at beginning of year	**2,149,471**	2,700,493
Depreciation	**466,390**	672,226
Reversals and other adjustments	**Đ**	(1,223,248)
Balance at end of year	**2,615,861**	2,149,471
Net Book Value at End of Year	**₱3,379,509**	₱2,456,539

The aggregate fair value of the investment properties of the Bank are P6.5 million and P4.3 million as of December 31, 2009 and 2008, respectively. The fair value of the BankÕs investment properties has been arrived at on the basis of recent sales of similar properties in the same areas and taking into account the economic conditions prevailing at the time the valuations were made.

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

10. Other Assets

This account consists of:

	2009	2008
Computer software costs - net	**₱45,935,235**	₱39,553,049
Prepaid expenses and other charges	**27,542,665**	32,356,994
Rental deposit	**23,676,873**	19,372,290
Net retirement asset (Note 18)	**9,450,203**	9,947,208
Returned checks and other cash items	**1,457,458**	437,527
Sundry debits	**Đ**	464,298
Miscellaneous	**23,183,498**	23,285,091
	₱131,245,932	₱125,416,457

Miscellaneous assets include documentary stamps on hand, stationery and office supplies and investment in a subsidiary. As of December 31, 2009 and 2008, the investment in a subsidiary is non-operational and is in the process of liquidation.

The movements in computer software costs follow:

	2009	2008
Cost		
Balance at beginning of year	**P207,223,242**	P193,088,194
Additions	**24,948,403**	14,281,056
Disposals	**(1,056,836)**	(146,008)
Balance at end of year	**231,114,809**	207,223,242
Accumulated Amortization		
Balance at beginning of year	**167,670,193**	143,625,904
Amortization	**18,566,217**	24,190,293
Disposals	**(1,056,836)**	(146,004)
Balance at end of year	**185,179,574**	167,670,193
	P45,935,235	P39,553,049

11. Allowance for Impairment and Credit Losses

Movements in the allowance for impairment and credit losses follow:

	2009					
	Loans and Receivables					
	Institutional Banking	**Mortgage Banking**	**Small Business Loans**	**Retail Banking**	**Other Receivables**	**Total**
Balance at beginning of year	**P339,846,107**	**P13,847,826**	**P15,901,032**	**P1,004,103,964**	**P131,424,769**	**P1,505,123,698**
Provisions for (recovery from) impairment and credit losses	**3,526,129**	**8,553,155**	**(35,772)**	**226,074,347**	**47,515,561**	**285,633,420**
Accounts charged off and others	**(273,355,823)**	**30,039**	**(14,756,908)**	**Ð**	**(29,165,403)**	**(317,248,095)**
Balance at end of year	**P70,016,413**	**P22,431,020**	**P1,108,352**	**P1,230,178,311**	**P149,774,927**	**P1,473,509,023**

	2008					
	Loans and Receivables					
	Institutional Banking	Mortgage Banking	Small Business Loans	Retail Banking	Other Receivables	Total
Balance at beginning of year	P511,628,504	P2,474,497	P16,232,806	P772,836,907	P123,265,849	P1,426,438,563
Provisions for (recovery from) impairment and credit losses	2,549,669	11,373,329	(344,139)	231,267,057	12,358,567	257,204,483
Accounts charged off and others	(174,332,066)	Ð	12,365	Ð	(4,199,647)	(178,519,348)
Balance at end of year	P339,846,107	P13,847,826	P15,901,032	P1,004,103,964	P131,424,769	P1,505,123,698

Impairment Assessment

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

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

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

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

The impairment allowances, if any, are evaluated semi-annually or as the need arise in view of favorable or unfavorable developments.

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

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

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

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

Below is the breakdown of provision for credit losses by type of loans and receivable for the year ended December 31, 2009 and 2008:

	2009			2008		
	Specific Impairment	**Collective Impairment**	**Total**	Specific Impairment	Collective Impairment	Total
Loan and discounts	**P12,921,816**	**P225,196,043**	**P238,117,859**	P1,173,342	P243,672,574	P244,845,916
Other receivables	**30,401,482**	**17,114,079**	**47,515,561**	831,683	11,526,884	12,358,567
Total	**P43,323,298**	**P242,310,122**	**P285,633,420**	P2,005,025	P255,199,458	P257,204,483

BSP Reporting

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

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

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

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

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

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

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

Current bank regulations allow banks with no unbooked valuation reserves and capital adjustments required by the BSP to exclude from nonperforming classification those loans that are fully provided with allowance for credit losses, provided that interest on said loans shall not be accrued. Accordingly, NPLs not fully covered by allowance for impairment and credit losses as of December 31, 2009 and 2008 follow:

	2009	2008
NPLs	**₱1,616,095,727**	₱1,760,351,244
Less NPLs fully provided with allowance for impairment and credit losses	**1,163,242,683**	1,038,887,939
	₱452,853,044	₱721,463,305

12. Deposit Liabilities

Of the total deposit liabilities of the Bank as of December 31, 2009 and 2008, 1.6% and 1.5%, respectively, are subject to periodic interest repricing, while 0.1% of the total deposits are noninterest-bearing. The remaining deposit liabilities earn annual fixed interest rates ranging from 0.5% to 10.3% and from 0.5% to 6.0% for the years ended December 31, 2009 and 2008, respectively.

Under existing BSP regulations, non-FCDU deposit liabilities of the Bank are subject to liquidity reserve equivalent to 11% and statutory reserve equivalent to 8%. As of December 31, 2009 and 2008, the Bank is in compliance with such regulations.

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

	2009	2008
Cash	**₱295,319,687**	₱287,644,216
Due from BSP	**1,158,264,054**	1,109,597,933
	₱1,453,583,741	₱1,397,242,149

Interest expense on deposit liabilities consists of:

	2009	2008	2007
Time	**₱487,531,364**	₱459,054,393	₱658,205,669
Demand	**76,966,900**	82,965,206	80,679,453
Savings	**9,688,910**	13,709,780	10,522,458
	₱574,187,174	₱555,729,379	₱749,407,580

13. Bills Payable

This account consists of borrowings from banks and other financial institutions amounting to ₱0.6 billion and ₱1.4 billion, as of December 31, 2009 and 2008, respectively.

Peso-denominated interbank borrowings are subject to annual fixed interest rates ranging from 0.6% to 1.5% and 6.3% to 7.0% for the years ended December 31, 2009 and 2008, respectively.

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

Interest expense on bills payable amounted to ₱14.1 million, ₱34.1 million and ₱83.9 million in 2009, 2008 and 2007, respectively.

14. Accrued Interest and Other Expenses

This account consists of:

	2009	2008
Accrued interest	**₱195,813,526**	₱292,734,292
Accrued other expenses	**139,965,122**	99,401,654
	₱335,778,648	₱392,135,946

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

15. Other Liabilities

This account consists of:

	2009	2008
Accounts payable	**₱519,299,013**	₱501,581,298
Bills purchased - contra (Note 7)	**195,042,223**	198,182,485
Withholding taxes payable	**19,640,399**	26,561,651
Payment order payable	**7,297,820**	20,905,649
Derivative liabilities (Note 26)	**668,311**	1,030,737
Miscellaneous	**2,850,382**	12,736,615
	₱744,798,148	₱760,998,435

16. Maturity Analysis of Assets and Liabilities

The following tables present the assets and liabilities as of December 31, 2009 and 2008 analyzed according to when they are expected to be recovered or settled within one year and beyond one year from statement of financial position date (amounts in thousand pesos):

	2009			2008		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Financial Assets						
Loans and receivables						
Cash and other cash items	**₱319,526**	**₱Ð**	**₱319,526**	₱351,254	₱Ð	₱351,254
Due from BSP	**1,909,190**	**Ð**	**1,909,190**	3,536,491	Ð	3,536,491
Due from other banks	**1,855,614**	**Ð**	**1,855,614**	1,457,053	Ð	1,457,053
Interbank loans receivable	**2,979**	**Ð**	**2,979**	715,280	Ð	715,280
Loans and receivables - gross (Note 7)	**5,859,189**	**12,517,758**	**18,376,947**	8,102,384	11,478,361	19,580,745
Other assets	**13,111**	**14,180**	**27,291**	4,161	18,708	22,869
Subtotal	**9,959,609**	**12,531,938**	**22,491,547**	14,166,623	11,497,069	25,663,692
Financial assets at FVPL	**44,986**	**656,042**	**701,028**	1,970	496,584	498,554
AFS investments	**13,115**	**1,508,335**	**1,521,450**	Ð	1,086,685	1,086,685
HTM investments	**41,624**	**170,197**	**211,821**	57,277	40,726	98,003
	10,059,334	**14,866,512**	**24,925,846**	14,225,870	13,121,064	27,346,934
Nonfinancial Assets						
Property and equipment	**Ð**	**187,761**	**187,761**	Ð	197,280	197,280
Investment properties - gross (Note 9)	**Ð**	**3,380**	**3,380**	Ð	2,457	2,457
Deferred tax assets	**Ð**	**440,026**	**440,026**	Ð	448,398	448,398
Other assets	**56,657**	**47,298**	**103,955**	60,030	42,517	102,547
	56,657	**678,465**	**735,122**	60,030	690,652	750,682
	10,115,991	**15,544,977**	**25,660,968**	14,285,900	13,811,716	28,097,616
Less: Allowance for impairment and credit losses (Note 11)	**₱Ð**	**₱Ð**	**(₱1,473,509)**	₱Ð	₱Ð	(₱1,505,124)
Unearned discount and capitalized interest (Note 7)	**Ð**	**Ð**	**(79,802)**	Ð	Ð	(129,382)
	₱10,115,991	**₱15,544,977**	**₱24,107,657**	₱14,285,900	₱13,811,716	₱26,463,110
Financial Liabilities						
Financial liabilities at FVPL						
Derivative liabilities	**₱668**	**₱Ð**	**₱668**	₱1,031	₱Ð	₱1,031
Other Financial liabilities at amortized cost						
Deposit liabilities	**16,607,297**	**360,861**	**16,968,158**	18,356,405	547,585	18,903,990
Bills payable	**646,800**	**Ð**	**646,800**	1,431,556	Ð	1,431,556
Outstanding acceptances	**18,997**	**Ð**	**18,997**	3,838	Ð	3,838
ManagerÕs checks	**40,162**	**Ð**	**40,162**	53,990	Ð	53,990
Accrued interest and other expenses	**327,056**	**Ð**	**327,056**	381,810	Ð	381,810
Other liabilities	**653,701**	**Ð**	**653,701**	728,278	Ð	728,278
	18,294,681	**360,861**	**18,655,542**	20,956,908	547,585	21,504,493
Nonfinancial Liabilities						
Accrued interest and other expenses	**8,723**	**Ð**	**8,723**	10,327	Ð	10,327
Income tax payable	**9,677**	**Ð**	**9,677**	948	Ð	948
Other liabilities	**90,429**	**Ð**	**90,429**	31,690	Ð	31,690
	108,829	**Ð**	**108,829**	42,965	Ð	42,965
	₱18,403,510	**₱360,861**	**₱18,764,371**	₱20,999,873	₱547,585	₱21,547,458

(Forward)

17. Equity

Capital stock as of December 31, 2009 and 2008 consists of amounts (in thousands):

	2009		2008		2007	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Common stock - P10 par value						
Authorized	**300,000**		300,000		300,000	
Issued and outstanding						
Balance at beginning of the year	**247,969**	**₱2,479,687**	247,969	₱2,479,687	215,625	₱2,156,250
Stock dividends declared	**Ð**	**Ð**	Ð	Ð	32,344	323,437
Balance at end of the year	**247,969**	**₱2,479,687**	247,969	₱2,479,687	247,969	₱2,479,687

The shares of the Bank are listed in the PSE.

In December 2000, Chinatrust Taipei substantially increased its equity in the Bank through the acquisition of shares held by a minority group. As a result of this acquisition, Chinatrust Taipei controlled approximately 91% of the BankÕs capital stock compared to 57% prior to the acquisition. The General Banking Law of 2000 allows foreign banks to own up to 100% of Philippine incorporated banks, compared to 60% under the previous law. A further acquisition of shares held by the public representing approximately 4% of the BankÕs 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% of the outstanding shares at a price of ₱18.3 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.

As discussed in Note 5, the determination of the BankÕs compliance with regulatory requirements and ratios is based on the amount of the BankÕs 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.

As of December 31, 2009 and 2008, the number of holders of the BankÕs outstanding common shares is 160 and 168, 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, 2009.

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

	January 1	
	2009	2008
Retirement age	**60 years**	60 years
Average remaining working life	**27.6 years**	28.5 years
Discount rate	**11.2%**	10.7%
Expected rate of return on assets	**6.0%**	6.0%
Future salary increases	**5.0%**	5.0%

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

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

	2009	2008
Present value of funded obligation	**P57,711,181**	P77,533,774
Fair value of plan assets	**(74,197,903)**	(88,544,338)
Surplus	**(16,486,722)**	(11,010,564)
Unrecognized actuarial losses	**7,036,519**	2,514,963
Unamortized transition liability	**Ð**	(2,585,820)
Unrecognized asset due to asset ceiling	**Ð**	1,134,213
Net retirement asset	**(P9,450,203)**	(P9,947,208)

Movements in accumulated unrecognized actuarial gains (losses) of the Bank follow:

	2009	2008
Balance at beginning of year	**P2,514,963**	(P7,432,245)
Actuarial loss losses (gains) on the present value of the defined benefit obligation	**4,521,556**	9,947,208
Balance at end of year	**P7,036,519**	P2,514,963

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

	2009	2008
Balance at beginning of year	**(P9,947,208)**	(P5,231,596)
Retirement expense	**13,571,018**	13,003,938
Contribution paid	**(13,074,013)**	(17,719,550)
Balance at end of year	**(P9,450,203)**	(P9,947,208)

The actual return on plan assets amounted to (P2.2) million, P9.6 million and P10.2 million for the years ended December 31, 2008, 2007 and 2006, respectively.

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

	2009	2008
Balance at beginning of year	**P77,533,774**	P103,232,036
Current service cost	**12,470,180**	17,290,482
Interest cost	**8,288,360**	8,671,491
Benefits paid	**(38,235,249)**	(22,839,338)
Actuarial gains	**(2,345,884)**	(28,820,897)
Balance at end of year	**P57,711,181**	P77,533,774

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

	2009	2008
Balance at beginning of year	**P88,544,338**	P95,859,747
Expected return on plan assets	**4,557,823**	5,597,991
Contributions paid	**13,074,013**	17,719,550
Benefits paid	**(38,235,249)**	(22,839,338)
Actuarial losses	**6,256,978**	(7,793,612)
Balance at end of year	**P74,197,903**	P88,544,338

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

	2009	2008
Debt instruments	**55.0%**	72.8%
Equity instruments	**13.9%**	12.5%
Other assets	**31.1%**	14.7%

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

	2009	2008
Current service cost	**₱12,470,180**	₱17,290,482
Interest cost	**8,288,360**	8,671,491
Expected return on plan assets	**(4,557,823)**	(5,597,991)
Amortization of transition liability	**2,585,820**	2,585,820
Effect of asset limit	**(1,134,213)**	1,134,213
Actuarial gains recognized during the period	**(4,081,306)**	(11,080,077)
	₱13,571,018	₱13,003,938

Information on the BankÕs retirement plan follows:

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

19. Leases

The Bank leases a portion of the equipment and premises of its head office and branches. The lease contracts are for periods ranging from 1 to 10 years and are renewable at the BankÕs 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 lease agreements do not have contingent rent provisions.

Total rent expense (included under ÒOccupancy and other equipment-related costsÓ in the statement of income) incurred by the Bank amounted to ₱82.4 million, ₱79.1 million and ₱82.4 million in 2009, 2008 and 2007, respectively.

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

	2009	2008
Within one year	**₱41,562,803**	₱47,222,634
After one year but not more than five years	**58,210,807**	77,569,713
After more than five years	**3,466,006**	Ð
	₱103,239,616	₱124,792,347

20. Income and Other Taxes

Under Philippine tax laws, the RBU of the Bank is subject to percentage and other taxes (presented as ÒTaxes and licensesÓ 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. Taxes and licenses incurred by the Bank amounted to ₱141.0 million, ₱129.2 million and ₱188.7 million in 2009, 2008 and 2007, respectively.

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%. Interest expense allowed as a deductible expense is reduced by 42% starting November 1, 2005 until December 31, 2008. Starting January 1, 2009, interest expense allowed as a deductible expense shall be reduced by 33% of interest income subjected to final tax.

In addition, current tax regulations provide for the ceiling on the amount of entertainment and representation (EAR) that can be claimed as a deduction against taxable income. Under the regulation, EAR allowed as deductible expense for a service company like the Bank is limited to the actual EAR paid or incurred but not to exceed 1% of net revenue. EAR of the Bank amounted to ₱ 2.1 million, ₱3.1 million and ₱3.4 million (included under ÒMiscellaneous ExpensesÓ in the statement of income) in 2009, 2008 and 2007, respectively (Note 21).

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 BankÕs 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. With respect to other loan-related income, which are not in the nature of interest, but are considered part of the loan transaction, these shall also be exempt from tax in accordance with Section 3(b) of Revenue Regulations (RR) 14-77. The FCDU’s other income, those that are not classified as onshore or offshore under R.A. 9294 such as non-loan related income, is subject 30% RCIT based on net taxable income (or 2% MCIT based on gross income, if applicable). In addition, interest income on deposit placements with other FCDUs and offshore banking units (OBUs) is taxed at 7.5%. RA No. 9294, which became effective in May 2004, provides that the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10% income tax.

Provision for income tax consists of:

	2009	2008	2007
Final	**₱50,296,043**	₱56,301,068	₱57,967,369
RCIT	**12,215,045**	14,205,354	22,142,337
MCIT	**Ð**	Ð	Ð
	62,511,088	70,506,422	80,109,706
Deferred	**8,371,832**	(9,547,188)	(36,229,394)
	₱70,882,920	₱60,959,234	₱43,880,312

Components of the recognized net deferred tax assets follow:

	2009	2008
Tax effects of:		
Allowance for impairment and credit losses	**₱437,770,315**	₱442,189,785
Unamortized past service costs	**4,441,490**	5,239,968
Unrealized loss on initial measurement of investment properties	**2,122,845**	1,272,581
Unrealized mark-to-market gain on derivatives	**(4,308,691)**	198,043
Excess MCIT over RCIT	**Ð**	17,532,586
Accrued interest income from unwinding of impaired receivables	**Ð**	(15,051,010)
Retirement benefit	**Ð**	(2,984,162)
	₱440,025,959	₱448,397,791

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

	2009	2008
Accrued rent expense - PAS 17	**₱2,561,723**	₱3,872,678
Excess of MCIT over RCIT	**Ð**	9,480,825
	₱2,561,723	₱13,353,503

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:

	2009	2008	2007
Statutory income tax	**30.00%**	35.00%	35.00%
Tax effects of:			
Tax-paid and tax-exempt income	**(6.25)**	(22.09)	(26.80)
FCDU income	**(11.90)**	(6.68)	(10.85)
Nondeductible interest expense	**5.00**	26.34	17.16
Net unrecognized tax asset	**Ð**	12.91	14.04
Others	**0.70**	1.10	(0.73)
Provision for income tax	**17.55%**	46.58%	27.82%

Details of the BankÕ excess MCIT over RCIT are as follows:

Inception Year	Amount	Used	Balance	Expiry Year
2006	₱19,008,255	₱19,008,255	₱Ð	2009
2007	8,005,156	8,005,156	Ð	2010
	₱27,013,411	₱27,013,411	₱Ð	

21. Income and Expenses

Service fees and commission income for the year ended December 31, 2009, 2008 and 2007 consist of:

	2009	2008	2007
Credit-related	**₱134,858,859**	₱33,795,900	₱64,516,658
Deposit-related	**30,656,563**	31,822,174	19,263,886
Miscellaneous	**39,011,951**	44,953,718	39,910,923
	₱204,527,373	₱110,571,792	₱123,691,467

Miscellaneous income for the year ended December 31, 2009, 2008 and 2007 consist of:

	2009	2008	2007
Profit from assets sold/exchanged	**₱19,440,207**	₱2,942,716	₱14,098,852
Income from trust division	**11,201,289**	18,073,534	30,656,678
Income (loss) from assets acquired	**(1,247,579)**	(2,273,085)	666,755
Rent income - safety deposit box	**551,592**	636,517	562,000
Dividend income	**508,200**	511,050	512,850
Unrealized gain from nonfinancial assets	**270,393**	Ð	4,346,705
Recovery on charged-off assets	**Ð**	3,010,000	9,294,192
Miscellaneous income	**19,701,292**	26,600,161	15,366,284
	₱50,425,394	₱49,500,893	₱75,504,316

Miscellaneous expenses for the years ended December 31, 2009, 2008 and 2007 consist of:

	2009	2008	2007
Insurance	**₱43,875,524**	₱40,202,639	₱39,159,677
Litigation	**32,429,592**	14,143,096	12,661,862
Management and professional fees	**25,789,881**	22,774,073	24,084,844
Advertising	**23,939,100**	17,111,100	28,850,389
Telecommunications	**16,220,880**	14,578,975	17,005,669
Banking and supervision fees	**10,278,143**	10,426,162	8,560,351
Office supplies	**10,267,633**	3,967,392	11,952,507
Postage and cable	**8,859,427**	8,974,674	6,486,643
Travel and transportation	**4,976,000**	6,234,025	5,651,396
Bank charges	**3,113,855**	2,885,480	1,731,467
Membership dues	**2,248,168**	2,449,702	1,919,322
Entertainment and representation (Note 20)	**2,138,995**	3,137,820	3,367,263
Freight	**1,700,265**	2,252,580	1,979,754
Fuel and lubricants	**587,669**	1,093,015	2,146,434
Loss on foreclosure	**Ð**	Ð	25,359,852
Miscellaneous	**20,984,356**	15,396,091	13,052,672
	₱207,409,488	₱165,626,824	₱203,970,102

22. Trust Operations

Securities and other properties held by the Bank in fiduciary or agency capacity for its customers are not included in the accompanying statement of financial position since these items are not assets of the Bank. As of December 31, 2009 and 2008, total assets held by the BankÕ Trust Department amounted to ₱3.7 billion and ₱3.4 billion, respectively (Note 24).

In connection with the trust operations of the Bank, government securities with carrying value of ₱57.7 million (face value of ₱57.0 million) and ₱89.0 million (face value of ₱87.0 million) as of December 31, 2009 and 2008, respectively, are deposited with the BSP in compliance with existing banking regulations relative to the trust functions of the Bank.

In compliance with existing BSP regulations, 10% of the BankÕ income from trust business is appropriated to surplus reserve. This yearly appropriation is required until the surplus reserve for trust functions equals 20% of the BankÕ regulatory net worth. No part of such surplus reserve shall at any time be paid out as dividends, but losses accruing in the course of business may be charged against such surplus. As of December 31, 2009, the reserve for trust functions amounted to ₱4.2 million.

23. Segment Information

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

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

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

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

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

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

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

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

The Bank has no significant customers which contributes 10% or more of the total revenue net of interest expense.

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

	2009				
	Treasury	**Institutional Banking**	**Retail Banking**	**Others**	**Total**
Net interest income					
Third party	**(₱6,709)**	**₱490,168**	**₱1,010,825**	**₱1,499**	**₱1,495,783**
Intersegment	**482**	**(212,713)**	**193,825**	**18,406**	**Đ**
	(6,227)	**277,455**	**1,204,650**	**19,905**	**1,495,783**
Non-interest income	**158,156**	**128,172**	**125,826**	**3,624**	**415,778**
Revenue - net of interest expense	**151,929**	**405,627**	**1,330,476**	**23,529**	**1,911,561**
Non-interest expenses	**129,605**	**160,598**	**783,578**	**434,040**	**1,507,821**
Income (loss) before provision for (benefit from) income tax	**22,324**	**245,029**	**546,898**	**(410,511)**	**403,740**
Provision for (benefit from) income tax	**8,486**	**86,714**	**(26,371)**	**2,054**	**70,883**
Net income (loss)	**₱13,838**	**₱158,315**	**₱573,269**	**(₱412,565)**	**₱332,857**
Depreciation and amortization	**₱1,701**	**₱1,917**	**₱31,271**	**₱20,911**	**₱55,800**
Provision for impairment and credit losses	**₱Đ**	**₱36,407**	**₱249,226**	**₱Đ**	**₱285,633**

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

	2007				
	Treasury	Institutional Banking	Retail Banking	Others	Total
Net interest income					
Third party	₱278,376	₱409,105	₱744,166	₱3,272	₱1,434,919
Intersegment	(142,771)	(62,843)	192,653	12,961	Đ
	135,605	346,262	936,819	16,233	1,434,919
Non-interest income	153,252	49,349	141,770	4,515	348,886
Revenue - net of interest expense	288,857	395,611	1,078,589	20,748	1,783,805
Non-interest expenses	137,859	189,620	762,645	535,927	1,626,051
Income (loss) before provision for (benefit from) income tax	150,998	205,991	315,944	(515,179)	157,754
Provision for (benefit from) income tax	34,442	29,481	(26,413)	6,370	43,880
Net income (loss)	₱116,556	₱176,510	₱342,357	(₱521,549)	₱113,874
Depreciation and amortization	₱3,114	₱1,381	₱29,693	₱32,394	₱66,582
Provision for impairment and credit losses	(₱2)	₱80,849	₱257,683	₱Đ	₱338,530

Segment information for the statement of financial position as of December 31, 2009 and 2008 are as follows (amounts in thousand pesos):

	Treasury		**Institutional banking**		**Retail Banking**		**Others**		**Total**	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Segment assets	**₱4,865,902**	₱5,819,377	**₱9,081,234**	₱9,460,792	**₱9,526,074**	₱9,897,849	**₱634,444**	₱1,285,092	**₱24,107,654**	₱26,463,110
Segment liabilities	**₱4,852,406**	₱6,599,594	**₱3,497,309**	₱4,235,182	**₱10,201,366**	₱9,971,145	**₱213,290**	₱741,537	**₱18,764,371**	₱21,547,458
Capital expenditures	**₱3,024**	₱2,642	**₱1,727**	₱7,054	**₱21,522**	₱13,894	**₱28,512**	₱18,157	**₱54,785**	₱41,747

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

24. Commitments and Contingent Assets and Liabilities

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

For regulatory reporting purposes, the following is a summary of the commitments and contingent liabilities at their equivalent peso contractual amounts as of December 31, 2009 and 2008 (amounts in thousands):

	2009	2008
Credit commitments	**P4,326,080**	P5,138,472
Trust department accounts (Note 22)	**3,676,611**	3,408,954
Inward bills for collection	**1,434,851**	9,613
Unused commercial letters of credit	**251,322**	161,110
Outward bills for collection	**15,640**	2,034
TravelerÕ check unsold	**Ð**	860
Others	**2,144**	32,049

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

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

On April 23, 2009, CTA, upon motion of the bank’s tax counsel, commissioned an Independent Certified Public Accountant for the purpose of performing audit functions as the CTA may direct in relation to the aforesaid CTA case. The final report was submitted to the CTA last July 7, 2009. Thereafter, on August 25, 2009, the Bank’s counsel filed with the CTA its Formal Offer of Evidence. As of December 31, 2009, the tax case is still pending with the CTA.

25. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subjected to common control or common significant influence. The Bank treats other subsidiaries and branch offices of the Parent Company as related parties (referred to below as affiliates). Related parties may be individuals or corporate entities. Transactions between related parties are based on terms similar to those offered to nonrelated parties.

In the ordinary course of business, the Bank has loans transactions with investees and with certain 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.

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, 2009 and 2008:

	2009	2008
Total outstanding DOSRI accounts	**PÐ**	PÐ
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**Ð**	Ð
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	**Ð**	Ð
Percent of DOSRI accounts to total loans	**Ð**	Ð
Percent of unsecured DOSRI accounts to total DOSRI accounts	**Ð**	Ð
Percent of past due DOSRI accounts to total DOSRI accounts	**Ð**	Ð
Percent of nonaccruing DOSRI accounts to total DOSRI accounts	**Ð**	Ð

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

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

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

			Elements of Transactions			
		Nature of	Statement of Financial Position		Statement of Income	
Related Party	Relationship	Transaction	**2009**	2008	**2009**	2008
Officers and employees	Officers and employees	Loans and receivable	**P17,916,758**	P17,371,595	**PÐ**	PÐ
		Interest income	**Ð**	Ð	**1,803,437**	1,508,889
Chinatrust-New York	Affiliate	Due from other banks	**40,900,490**	119,136,900	**Ð**	Ð
Chinatrust-Taipei	Affiliate	Due from other banks	**27,584,893**	279,478,280	**Ð**	Ð
		Bills payable	**415,800,000**	950,400,000	**Ð**	Ð
		Interest income	**Ð**	Ð	**6,042**	Ð
		Interest expense	**Ð**	Ð	**131,250**	910,486
Chinatrust-Hongkong	Affiliate	Due from other banks	**6,893,825**	300,071	**Ð**	Ð
Chinatrust-Tokyo	Affiliate	Due from other banks	**5,045,270**	54,505,733	**Ð**	Ð

Accounts with Chinatrust-New York, Chinatrust-Hongkong and Chinatrust-Tokyo under ÒDue from other banksÓare current deposit accounts that do not earn interest.

For the year ended December 31, 2009 and 2008, borrowings availed and settled within the year from affiliates amounted to P5.1 billion and P6.5 billion, respectively. There are no other transactions with affiliates and other related parties other than those described above.

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:

	2009	2008
Total outstanding non-DOSRI accounts granted prior to BSP Circular No. 423	**₱17,916,758**	₱17,371,595
Percent of unsecured non-DOSRI accounts granted prior to BSP Circular No. 423 to total loans	**.06%**	.04%
Percent of past due non-DOSRI accounts granted prior to BSP Circular No. 423 to total loans	**Ð**	Ð
Percent of nonaccruing non-DOSRI accounts granted prior to BSP Circular No. 423 to total loans	**Ð**	Ð

The remuneration of directors and other members of key management personnel for the years ended December 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
Short-term benefits	**₱53,470,436**	₱64,092,472	₱68,101,020
Post-employment benefits	**17,375,455**	13,752,889	4,707,457
Other long-term benefits	**3,614,873**	5,778,667	8,620,808
	₱74,460,764	₱83,624,028	₱81,429,285

In accordance with the Bank's by laws, profit share of officers and employees is computed at 10% of net income after tax.

26. Derivative Financial Instruments

The table below shows the fair values of derivative financial instruments entered into by the Bank, recorded as derivative assets or derivative liabilities, together with the notional amounts. The notional amount is the amount of a derivativeÕs underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as of December 31, 2009 and 2008 and are not indicative of either market risk or credit risk (amounts in thousands).

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

	2008		
	Assets	Liabilities	Notional Amount
Freestanding derivatives:			
Currency forwards and swaps			
BUY:			
USD/PHP	₱872	₱287	USD 1,320
SELL:			
USD/PHP	819	744	USD 4,000
	₱1,691	₱1,031	

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

The net movements in fair value changes of all derivative instruments are as follows:

	2009	2008	2007
			(In Thousand Pesos)
Net derivative asset (liability) at beginning of year	**₱660**	(₱3,261)	₱4,427
Net changes in fair value of derivatives	**9,882**	8,279	(7,411)
Fair value of settled instruments	**(354)**	(4,358)	(277)
Net derivative asset (liability) at end of year	**₱10,188**	₱660	(₱3,261)

27. Financial Performance

EPS amounts attributed to equity holdings of the Bank for the year ended December 31, 2009, 2008 and 2007 were computed as follows:

		2009	2008	2007
a.	Net income	**₱332,856,561**	₱69,920,411	₱113,874,032
b.	Weighted average number of outstanding common shares	**247,968,731**	247,968,731	247,968,731
c.	Basic/Diluted EPS (a/b)	**₱1.34**	₱0.28	₱0.46

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

The following basic ratios measure the financial performance for the year ended December 31, 2009, 2008 and 2007 of the Bank:

	2009	2008	2007
Return on average equity (a/b)	**6.5%**	1.4%	2.3%
a.) Net income	**₱332,856,561**	₱69,920,411	₱113,874,032
b.) Average total equity	**5,105,087,127**	4,904,363,424	4,887,283,997
Return on average assets (c/d)	**1.3%**	0.3%	0.4%
c.) Net income	**₱332,856,561**	₱69,920,411	₱113,874,032
d.) Average total assets	**25,371,719,606**	23,112,153,070	26,083,398,379
Net interest margin on average earning assets (e/f)	**6.0%**	6.0%	6.2%
e.) Net interest income	**1,495,783,462**	1,354,753,274	1,434,918,787
f.) Average interest earning assets	**24,808,878,346**	22,464,166,738	22,986,576,613

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

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Beitou District, Taipei City 112
Taiwan, R.O.C.
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Jhongshan District, Taipei City 104
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Chengdong Branch
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Donghu Mini Branch
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Neihu District, Taipei City 114
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Taiwan, R.O.C.
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Songshan District, Taipei City 105
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Fusing Branch
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Da-an District, Taipei City 106
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Songshan District, Taipei City 105
Taiwan, R.O.C.
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Long Jiang Branch
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Jhongshan District, Taipei City 104
Taiwan, R.O.C.
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Minsheng Branch
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Taiwan, R.O.C.
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Mincyuan West Road Branch
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Datong District, Taipei City 103
Taiwan, R.O.C.
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Shihlin District, Taipei City 111
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Sanmin Branch
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Taiwan, R.O.C.
Tel.: 886-7-7451199

Gangshan Branch
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Gangshan Township, Kaohsiung County 820
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Tel.: 886-7-6235500

Wujia Branch
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Taiwan, R.O.C.
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NANTOU COUNTY

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Keboguan Branch
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West District, Taichung City 403
Taiwan, R.O.C.
Tel.: 886-4-23101258

Fongjia Mini Branch
1F., No. 275-2, Sec. 2, Situn Rd.
Situn District, Taichung City 407
Taiwan, R.O.C.
Tel.: 886-4-27069706

Gongyi Branch
1F., No. 53, Sec. 2, Gongyi Rd.
Nantun District, Taichung City 408
Taiwan, R.O.C.
Tel.: 886-2-23291111

Nantun Branch
1F., No. 234, Sec. 2, Wucyuan W. Rd.
Nantun District, Taichung City 408
Taiwan, R.O.C.
Tel.: 886-4-24712268

North Taichung Branch
1-2F., No. 77, Yucai N. Rd.
North District, Taichung City 404
Taiwan, R.O.C.
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Situn Mini Branch
1F., No. 111, Sec. 3, Taichung Port Rd.
Situn District, Taichung City 407
Taiwan, R.O.C.
Tel.: 886-4-23551000

Taichung Branch
1F., No. 50, Minzu Rd.
Central District, Taichung City 400
Taiwan, R.O.C.
Tel.: 886-4-22292161

Wunsin Branch
1F., No. 875, Sec. 4, Wunsin Rd.
Beitun District, Taichung City 406
Taiwan, R.O.C.
Tel.: 886-4-22469988

TAICHUNG COUNTY

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Taiwan, R.O.C.
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Fongyuan City, Taichung County 420
Taiwan, R.O.C.
Tel.: 886-4-25201010

Taiping Mini Branch
1F., No. 312, Jhongsing E. Rd.
Taiping City, Taichung County 411
Taiwan, R.O.C.
Tel.: 886-4-22789988

TAINAN CITY

Central Tainan Branch
1F., No. 167, Sec. 1, Minsheng Rd.
Central District, Tainan City 700
Taiwan, R.O.C.
Tel.: 886-6-2412318

East Tainan Branch
1F., No. 290, Sec. 2, Changrong Rd.
East District, Tainan City 701
Taiwan, R.O.C.
Tel.: 886-6-2085522

Jhonghua Branch
1F., No. 195, Sec. 2, Jhonghua E. Rd.
East District, Tainan City 701
Taiwan, R.O.C.
Tel.: 886-6-3353535

South Tainan Mini Branch
1F., No. 236, Sec. 2, Jiankang Rd.
South District, Tainan City 702
Taiwan, R.O.C.
Tel.: 886-6-2919999

Tainan Branch
1F., No. 159, Sec. 1, Fucian Rd.
Central District, Tainan City 700
Taiwan, R.O.C.
Tel.: 886-6-2152345

West Tainan Branch
1F., No. 212, Sec. 4, Jinhua Rd.
West District, Tainan City 703
Taiwan, R.O.C.
Tel.: 886-6-2263636

TAINAN COUNTY

Jiali Branch
No. 410, Jhongshan Rd.
Jiali Township, Tainan County 722
Taiwan, R.O.C.
Tel.: 886-6-7221335

Sinying Branch
1F., No. 137, Jhongshan Rd.
Sinying City, Tainan County 730
Taiwan, R.O.C.
Tel.: 886-6-6336789

Yongkang Branch
1F., No. 425, Jhonghua Rd.
Yongkang City, Tainan County 710
Taiwan, R.O.C.
Tel.: 886-6-2025787

TAITUNG COUNTY

Taitung Branch
1F., No. 279, Jhongshan Rd.
Taitung City, Taitung County 950
Taiwan, R.O.C.
Tel.: 886-089-339898

TAOYUAN COUNTY

Bade Mini Branch
1F., No. 965, Sec. 1, Jieshou Rd.
Bade City, Taoyuan County 334
Taiwan, R.O.C.
Tel.: 886-3-3716565

Jhongli Branch
1F., No. 500, Yanping Rd.
Jhongli City, Taoyuan County 320
Taiwan, R.O.C.
Tel.: 886-3-4223131

Jhongyuan Branch
1F., No. 445, Sec. 2, Jhongbei Rd.
Jhongli City, Taoyuan County 320
Taiwan, R.O.C.
Tel.: 886-3-4662211

Linkou Branch
1F., No. 233, Fuxing 1st Rd.
Guishan, Taoyuan County 333
Taiwan, R.O.C.
Tel.: 886-3-3962777

Nankan Branch
1F., No. 257, Jhongjheng Rd.
Lujhu Township, Taoyuan County 338
Taiwan, R.O.C.
Tel.: 886-3-3212211

North Taoyuan Branch
1F., No. 124, Jingguo Rd.
Taoyuan City, Taoyuan County 330
Taiwan, R.O.C.
Tel.: 886-3-3150566

South Taoyuan Branch
1F., No. 389, Fusing Rd.
Taoyuan City, Taoyuan County 330
Taiwan, R.O.C.
Tel.: 886-3-3388866

Taoyuan Branch
1F., No. 32, Sec. 1, Chenggong Rd.
Taoyuan City, Taoyuan County 330
Taiwan, R.O.C.
Tel.: 886-3-3373266

YILAN COUNTY

Loh Dong Branch
No. 232, Singdong S. Rd.
Luodong Township, Yilan County 265
Taiwan, R.O.C.
Tel.: 886-3-9574320

Yilan Branch
1F., No. 271, Sec. 2, Jhongshan Rd.
Yilan City, Yilan County 260
Taiwan, R.O.C.
Tel.: 886-3-9351122

YUNLIN COUNTY

Douliou Branch
1F., No. 2, Singhua St.
Douliou City, Yunlin County 640
Taiwan, R.O.C.
Tel.: 886-5-5360099

OVERSEAS UNITS *Directory*

BRANCHES

Ho Chi Minh City Branch
Unit 107-111, 1st F., 1-5 Le Duan St.
District 1, Ho Chi Minh City
Vietnam
Tel.: 848-9101888
Fax: 848-9101999

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

Kowloon Branch
26th F., One Peking, No. 1 Peking Rd.
Tsim Sha Tsui, Kowloon
Hong Kong
Tel.: 852-29161688
Fax: 852-28050899

New Delhi Branch
A1-16, Wenger House, Rajiv Chowk
Connaught Place
New Delhi-110 001
Tel.: 91-11-43688888
Fax: 91-11-23731815

New York Branch
3rd F., 366 Madison Avenue
New York, New York 10017
U.S.A.
Tel.: 1-212-4578888
Fax: 1-212-4576666

Singapore Branch
1 Raffles Place
29-02/03 OUB Centre
Singapore 048616
Tel.: 65-63514888
Fax: 65-65325999

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

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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 F., 41B Ly Thai To St., Hanoi
Vietnam
Tel.: 84-4-8249088
Fax: 84-4-8249099

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

Los Angeles Representative Office
17851 Colima Road, City of Industry
CA 91748
U.S.A.
Tel.: 1-626-8397660
Fax: 1-626-8393562

SUBSIDIARIES

Indonesia

Chinatrust Bank (Indonesia)
Tamara Center, 15th-17th F., J1 Jend.
Sudirman, Kav. 24, Jakarta 12920
Indonesia
Tel.: 62-21-25578787
Fax: 62-21-5206378

Bandung Branch
Wisma Lippo, 7th F., Jl. Jend.
Gatot, Subroto
No. 2, Bandung 40262
Indonesia
Tel.: 62-22-7305900
Fax: 62-22-7308878

Bandung - Dago Branch
Jl. Ir. H. Juanda (Dago)
No. 56, Bandung
Indonesia
Tel.: 62-22-4218708
Fax: 62-22-4265101

Cikarang Branch
Komplek Ruko Union Blok A No. 2
J1. M.H. Thamrin, Lippo Cikarang
Bekasi 17550
Indonesia
Tel.: 62-21-89906688
Fax: 62-21-89906868

Karawaci (Tangerang) Branch
Karawaci Office Park, Ruko Pinangsia
Blok M No. 19 Lippo Karawaci 1200
Tangerang 15811
Indonesia
Tel.: 62-21-55764558
Fax: 62-21-55764556

Kelapa Gading Branch
J1. Boulevard Barat Raya, Blok XC 09
No. 1-2, Kelapa Gading, Jakarta 14240
Indonesia
Tel.: 62-21-45877078
Fax: 62-21-45877077

Mangga Dua Branch
J1. Mangga Dua Raya
Komplek Ruko Textile
Blok E4, No. 2, Jakarta 14230
Indonesia
Tel.: 62-21-6125058
Fax: 62-21-6125056

Pluit Branch
Ruko CBD Pluit Blok S/11
Jl. Pluit, Selatan Raya, Jakarta Utara
Indonesia
Tel.: 62-21-66673100
Fax: 62-21-66673411

Surabaya Branch
Wisma Dharmala, 6th F.
J1. Panglima Sudirman
No. 101-103, Surabaya 60271
Indonesia
Tel.: 62-31-5348008
Fax: 62-31-5348007

United States of America (U.S.A.)

Chinatrust Bank (U.S.A.)
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2nd F., Torrance CA 90505
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Tel.: 1-310-7912828
Fax: 1-310-7912877

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815 West Naomi Avenue
Arcadia, CA 91007
U.S.A.
Tel.: 1-626-821-8900
Fax: 1-626-821-8908

Cerritos Branch
18512 Gridley Road
Artesia, CA 90701
U.S.A.
Tel.: 1-562-809-7500
Fax: 1-562-809-8728

Cupertino Branch
19648 Stevens Creek Boulevard
Cupertino, CA 95014
U.S.A.
Tel.: 1-408-873-3288
Fax: 1-408-873-3286

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

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

Fremont Branch
46801 Warm Springs Boulevard
Fremont, CA 94539
U.S.A.
Tel.: 1-510-249-9718
Fax: 1-510-249-9714

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

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

Monterey Park Branch
638 S. Atlantic Boulevard
Monterey Park, CA 91754
U.S.A.
Tel.: 1-626-289-6283
Fax: 1-626-289-8173

Rowland Heights Branch
17851 Colima Rd., Rowland Heights
CA 91748
U.S.A.
Tel.: 1-626-839-6656
Fax: 1-626-839-7706

San Gabriel Branch
250 W. Valley Boulevard
San Gabriel, CA 91776
U.S.A.
Tel.: 1-626-299-5000
Fax: 1-626-299-5008

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

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

New Jersey Area

Edison Branch
1733 Route 27, Edison
New Jersey 08817
U.S.A.
Tel.: 1-732-650-1160
Fax: 1-732-650-1161

East Hanover Branch
200 State Route 10, East Hanover
New Jersey 07936
U.S.A.
Tel: 1-973-386-5856
Fax: 1-973-386-5980

New York Area

Brooklyn Branch
54-18 8th Avenue, Brooklyn
New York 11220
U.S.A.
Tel.: 1-718-854-2228
Fax: 1-718-854-2245

Flushing Branch
41-99 Main St., Flushing
New York 11355
U.S.A.
Tel.: 1-718-886-5600
Fax: 1-718-886-0646

Chinatown Branch
208 Canal St.
New York, New York 10013
U.S.A.
Tel.: 1-212-385-9898
Fax: 1-212-385-9611

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

Canada Area

CTC Bank of Canada
1518 West Broadway, Vancouver
B.C., V6J 1W8
Canada
Tel.: 1-604-6833882
Fax: 1-604-6833723

Burnaby Branch
162-4800 Kingsway
Burnaby B.C. V5H 4J2
Canada
Tel.: 1-604-4373868
Fax: 1-604-6292195

Richmond Branch
120-8191 Westminster Highway
Richmond B.C. V6X 1A7
Canada
Tel.: 1-604-2331261
Fax: 1-604-2731251

Toronto Loan Production Office
Suite 300-4950 Yonge St.
Ontario, M2N 6K1
Canada
Tel.: 1-416-590-2822
Fax: 1-416-590-1788

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CORPORATE OFFICES

16th to 19th Floors, Fort Legend Towers
31st Street corner 3rd Avenue
Bonifacio Global City, Taguig City 1634
Tel.: (02) 9889-CTP

METRO MANILA BRANCHES

Alabang Branch
Ground Floor, Paragon Corporate Centre
Industry corner Trade Streets
Madrigal Business Park, Alabang
Muntinlupa City
Tel.: (02) 659 0483 / 659 0484 / 659 0486
Fax: (02) 659 0485

Ayala Branch
Ground Floor, Tower One & Exchange Plaza
Ayala Avenue, corner Paseo de Roxas
Makati City
Tel.: (02) 848 5519 / 759 4989
Fax: (02) 759 4990

Binondo Branch
Ground Floor, State Centre Building
Juan Luna Street, Binondo, Manila
Tel.: (02) 244 0414 / 244 0416 / 245 5540 / 245 7755 / 245 9225
Fax: (02) 245 7754

Buendia-Pasong Tamo Branch
Ground Floor, Burgundy Corporate Tower
252 Sen. Gil Puyat Avenue
Makati City
Tel.: (02) 889 0018 / 889 0027 / 889 0036
Fax: (02) 889 0026

Del Monte Branch*
Ground Floor, Van Allen Building
243 Del Monte Avenue, Quezon City
Tel.: (02) 365 0965 / 365 0969 / 365 0977
Fax: (02) 415 8822

Greenhills Branch*
Ground Floor, LGI Building
Ortigas Avenue, San Juan
Metro Manila
Tel.: (02) 744 2227 / 744 4868 / 724 9126
Fax: (02) 744 2228

Kalookan Branch*
Rizal Avenue corner 3rd Avenue
Kalookan City
Tel.: (02) 366 6315 / 366 6316
Fax: (02) 366 6216

Las Pi–as Branch
Ground Floor, RRDC Building
National Road, Manuela Subdivision
Pamplona Tres, Las Pi–as City
Tel.: (02) 871 6063 / 871 6239
Fax: (02) 871 6239

Leviste Branch*
Ground Floor, Athenaeum Building
160 L.P. Leviste Street
Salcedo Village, Makati City
Tel.: (02) 840 2507 to 09 / 840 3689
Fax: (02) 840 2510

Mabini Branch
Ground Floor, Unit B Echelon Tower
2100 A. Mabini Street, Malate, Manila
Tel.: (02) 400 8035 to 37
Fax: (02) 400 8034

Marikina Branch
J.P. Rizal corner E. dela Paz Street
San Roque, Marikina City
Tel.: (02) 646 4325 / 646 4361
Fax: (02) 681 0337

Ortigas Branch
Ground Floor, Unit 101 Prestige Tower
Emerald Avenue, Ortigas Centre
Pasig City
Tel.: (02) 635 3832 / 635 3833 / 635 3835 / 687 2869
Fax: (02) 635 3834

Rada Branch*
Ground Floor, SEDCCO I Building
Legaspi corner Rada Streets
Makati City
Tel.: (02) 893 7500 / 893 7657 / 893 9340/ 893 9837
Fax: (02) 893 9415

Sucat Branch
Units N & O Columbia Airfreight Complex
Ninoy Aquino Avenue, Para–aque City
Tel.: (02) 854 8110 / 854 8112
Fax: (02) 854 8115

PROVINCIAL BRANCHES

Angeles Branch*
Ground Floor, JEV Building
MacArthur Highway
Balibago, Angeles City, Pampanga
Tel.: (045) 625 5758 / 625 5759
Fax: (045) 625 5723

Cagayan de Oro Branch
Units 4 & 5, Ground Floor, Gateway Tower I
Limketkai Center, Cagayan de Oro City
Tel.: (088) 231 6700 / 231 6701
Fax: (088) 231 6702

Carmona Branch*
National Highway, Barrio Maduya
Carmona, Cavite
Tel.: (046) 430 3291 / 430 3292
Fax: (046) 430 3293

Cavite Branch*
Ground Floor, PRB Building
Gen. Aguinaldo Highway
Palico, Imus, Cavite
Tel.: (046) 471 9884 / 471 9886
Fax: (046) 471 9888

Cebu - Banilad Branch
Ground Floor, The Forum
Archbishop Reyes Avenue, Cebu City
Tel.: (032) 233 3800 / 233 3818 / 415 8111/ 415 9292
Fax: (032) 233 3808

Cebu - Magallanes Branch
Ground Floor, Tokyu Building
79 Magallanes Street, Cebu City
Tel.: (032) 253 3725 / 253 4740 / 253 7637
Fax: (032) 254 5167

Cebu - Mandaue Branch
Ground Floor, Diamond Plaza
National Highway, Mandaue City
Tel.: (032) 346 5176 / 346 7198 / 346 7318
Fax: (032) 346 7198

Davao Branch*
Ground Floor, Brightstone Building
Monteverde Avenue corner
Gempasaw Street, Davao City
Tel.: (082) 228 6851 / 228 6857
Fax: (082) 228 6854

Subic Branch*
SBDMC Park, Rizal corner
Argonaut Highway, Subic, Olongapo City
Tel.: (047) 252 1381 / 252 1390
Fax: (047) 252 1382

PERSONAL LOANSÕRELEASING OFFICES

Cagayan de Oro Branch
Mezzanine Floor, Units 4 & 5
Gateway Tower I, Limketkai Center
Cagayan de Oro City
Tel.: (088) 231 6703 / 231 6704
Fax: (088) 231 6702

Cebu - Magallanes Branch
2nd Floor, Tokyu Building
79 Magallanes Street, Cebu City
Tel.: (032) 412 7590 / 415 8168 / 415 8898
Fax: (032) 415 8492 / 415 8869

* *Branches which also serve as Personal Loans' Releasing Offices*

MORTGAGE BANKINGÕS RELEASING OFFICE

Cebu - Banilad Branch
Ground Floor, The Forum
Archbishop Reyes Avenue, Cebu City
Tel.: (032) 231 6031
Fax: (032) 233 3808

CHINATRUST 24/7 CUSTOMER CARE

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1800 10 8401234

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AAVA
AAVA Office
Narra Street, Ayala Alabang Village
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Alabang
G/F, Paragon Corporate Centre
Industry corner Trade Streets
Madrigal Business Park, Alabang
Muntinlupa City

Alabang Country Club
Acacia Avenue, Ayala Alabang Village
Muntinlupa City

Amertron
Bomaheco Building
Km. 17 West Service Road
South Superhighway
Para–aque City

Ayala
Mezzanine, Tower One & Exchange Plaza
Ayala Avenue corner Paseo de Roxas
Makati City

Binondo
G/F, State Centre Building
Juan Luna Street, Binondo Manila

Buendia ÐPasong Tamo
G/F, Burgundy Corporate Tower
252 Sen. Gil Puyat Avenue, Makati City

Del Monte
G/F, Van Allen Building
243 Del Monte Avenue, Quezon City

Greenhills
G/F, LGI Building
Ortigas Avenue, San Juan, Metro Manila

Kalookan
Rizal Avenue corner 3rd Avenue
Kalookan City

Las Pi–as
G/F, RRDC Building
National Road, Manuela Subdivision
Pamplona Tres, Las Pi–as City

Lepanto
G/F, Lepanto Building
8747 Paseo de Roxas, Makati City

Leviste
G/F, Athenaeum Condominium
160 L.P. Leviste Street, Salcedo Village
Makati City

Mabini
G/F, Unit B Echelon Tower
A. Mabini Street, Malate, Manila

Ortigas
G/F, Unit 101 Prestige Tower
Emerald Avenue, Ortigas Center
Pasig City

Rada
G/F, SEDCCO I Building
Legaspi corner Rada Streets
Makati City

Sucat
Units N and O, Columbia Airfreight Complex
Ninoy Aquino Avenue
Para–aque City

PROVINCIAL ATMS

Angeles
G/F, JEV Building
MacArthur Highway, Balibago
Angeles City, Pampanga

Cagayan de Oro
Units 4 & 5, Gateway Tower One
Limketkai Center, Cagayan de Oro City

Carmona
National Highway, Barrio Maduya
Carmona, Cavite

Cavite
G/F, PRB Building
Gen. Aguinaldo Highway, Imus, Cavite

Cebu - Banilad
Ground Floor, The Forum
Archbishop Reyes Avenue, Cebu City

Cebu - Magallanes
Ground Floor, Tokyu Building
79 Magallanes Street, Cebu City

Cebu - Mandaue
Diamond Plaza, National Highway
Mandaue City, Cebu City

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

Davao
Ground Floor, Brightstone Building
Monteverde Avenue corner
Gempasaw Street
Davao City

St. Martin
Poblacion, Bocaue, Bulacan

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

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Eriberto Pedro Antonio C. Roxas
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RISK MANAGEMENT

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Vice President

TREASURY

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First Vice President / Group Head

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Ma. Iraida B. Recto
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Dollar Time Deposit
Dollar Innovate Five-Year Time Deposit

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Deposit Pick-up
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Collections for SSS, BIR and Customs Duties
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NetBanking
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Point-of-Sale
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TREASURY SERVICES
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Forward Contracts

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Retirement Fund Management
Escrow Agency (Personal and and Corporate)
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Mortgage Trust Indenture

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Export Bills
Import / Export Letters of Credit
Standby Letters of Credit
Trust Receipts

INVESTMENT SERVICES
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USD Fixed Income Securities

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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.

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