Chinatrust

中國信託

investing in relationships

annual report 2010

cover story

In 2010, we marked 15 years of establishing the Chinatrust brand in the country, made meaningful by our collective efforts toward investing in relationships among our various stakeholders. Our cover image features representatives of our employees in close interaction with clients and associates, showing how focused we are on bringing the Chinatrust vision and values into the relationships we build on behalf of the Bank. We welcome many more years of investing in such relationships to secure the Bank's continued success in the Philippines.

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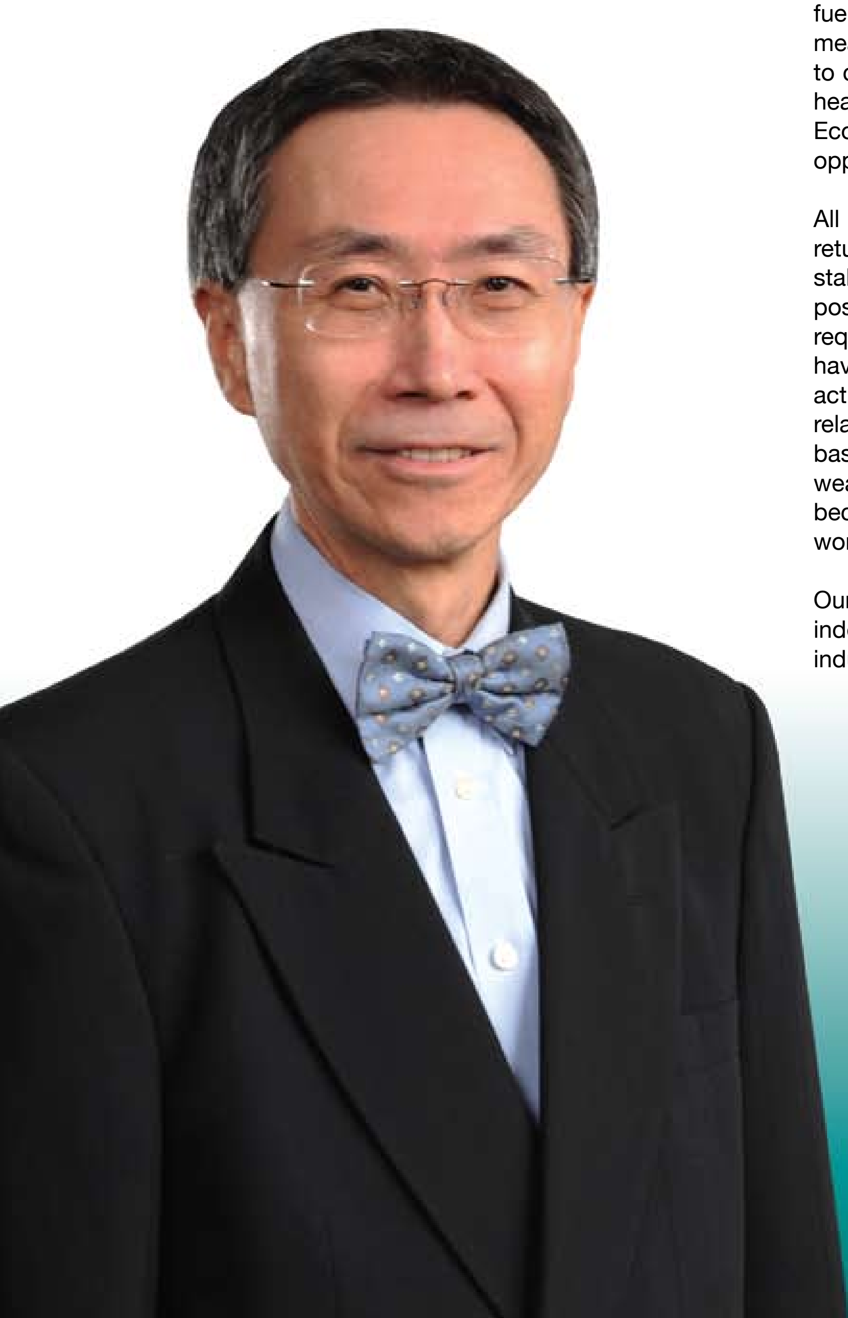
financial highlights

	2010	2009
		As restated
Total Assets	24,418,579	24,107,609
Total Loans and Receivables (Net)	16,113,468	16,823,635
Deposits	16,907,746	16,968,158
Capital Accounts	5,743,094	5,343,238
Net Income	409,978	339,263
Return on Average Equity	7.3%	6.7%
Return on Average Assets	1.6%	1.3%
NPL Ratio	1.7%	3.0%
NPL Cover	48%	35%
Earnings Per Share	1.65	1.37

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

message from the chairman



2010 came as a year the global community was eager to tackle and overcome. Many wanted to view it as the beginning of the post-financial crisis era, and thus start on the path to recovery. Consumers responded to these efforts by showing signs of returning confidence – a gradual but steady turnaround that translated into benefits particularly for Asian economies. In Taiwan, where our Parent Bank is based, total trade was fueled by increased global demand to reach record levels; meanwhile, the banking sector reported peak growth in loans to corporations and small and medium enterprises, as well as healthy loan ratios. Moreover, Taiwan and China signed the Economic Cooperation Framework Agreement in June, assuring opportunities for greater cross-strait economic interaction.

All these developments make us optimistic about Taiwan's return to robust economic health and long-term financial stability. Encouraged by such a setting, our Parent Bank has positioned itself to match our products and services with any requirements that the revitalized markets may demand. We have also created the China Business Development Team to actively spearhead our efforts in the China market, deepen relationships with Taiwanese clients, and build a strong local base. The lessons and experience we have gained from having weathered many past storms serve to light our path toward becoming the world's leading international Chinese bank, one worthy of being called a Taiwan Champion and Asian Leader.

Our progress on this front has been recognized by several independent and international publications in the financial industry. In 2010, our Parent Bank received numerous awards,

Our commitment as caring, trustworthy, and professional bankers has carried us through the difficulties and enabled us to remain competitive and motivated.

which included the following: Best Foreign Exchange Bank in Taiwan from *Global Finance* and *FinanceAsia*; Best Private Bank in Taiwan from *Euromoney*, *FinanceAsia*, *The Banker & PWM*; Best Cash Management Bank in Taiwan and Best Trade Finance Bank in Taiwan from *FinanceAsia*; and Best Domestic Bank in Taiwan from *The Asset*.

The Philippines, as a young and dynamic part of Asia, remains a significant factor in our bright vision and ambitious plans for the region. We are encouraged by the country's positive performance for the year, with GDP growth rising to 7.3%. The government has also pledged renewed efforts to raise investment rates and pump-prime the economy further.

While our major businesses have validated our direction and strategies, it has become even more important to emphasize the Chinatrust values wherever we operate. It is our commitment as caring, trustworthy, and professional bankers that has carried us through the difficulties and enabled us to remain competitive and motivated. Even as we aggressively strengthen and diversify our revenue sources, we will also continue investing in relationships – the ties we cherish with clients, regulators, suppliers, employees, and all other stakeholders who make up the Chinatrust community.

On our 15th year in the Philippines, we recognize the stalwart example set by our Parent Bank, which has spurred us to marshal our resources toward creating the best possible value for our customers. We likewise thank our Board of Directors and our senior officers for steering our businesses with prudence and innovativeness, en route to sustained health and profitability. We appreciate the guidance of our regulators, who help us rise to international standards. And we applaud our family of Chinatrust employees who have made each anniversary even more meaningful with their hard work and loyalty. To all of them and to all our clients, we pledge even bigger and brighter things to come for Chinatrust in the next 15 years and beyond.

WILLIAM T.Y. HON
Chairman of the Board

message from the president & CEO

We take great pride in the record of accomplishments that Chinatrust Philippines has established over our Bank's first 15 years in this country. Our consistently solid financial results, our diversified product range, our innovations in technology to further improve our services – these were certainly among the milestones we celebrated on our 15th anniversary. However, as we emphasized when we held our Anniversary appreciation dinner for clients, we valued even more the relationships that we had invested in throughout those years. These were the investments that enabled us to reinforce the Chinatrust brand in the Philippines, and will continue to yield valuable returns as we pursue sustained growth and leadership in our industry.

2010 brought increased economic activity and improved, albeit cautious, optimism under a new administration in the Philippines. Focusing on the opportunities that emerged from this setting, Chinatrust Philippines drew positive results as shown by our financial performance for the year. The Bank earned a net income of ₱409.98 million, or 21% higher than the previous year's level, driven by hefty increases in trading and securities gains. Non-interest income grew by 28% to ₱533.12 million. Trading gains surged by 133% to ₱250.67 million, as the Bank took advantage of improving market prices, while foreign exchange gain went up to ₱56.06 million. Total loans and receivables (net) reached ₱16.1 billion and total deposits stood at ₱16.9 billion. Our net interest income was ₱1.56 billion for the year.

Our capital base increased to ₱5.74 billion. Capital Adequacy Ratio (CAR) remained high at 25.33%, still more than double the regulatory requirement of 10%.

These investments will continue to yield valuable returns as we pursue sustained growth and leadership in our industry.

Following through on initiatives launched the year before, we continued to leverage on our Parent Bank franchise and realign our efforts more closely as we aspired to become truly global in our vision, systems, and operations. Under Basel II, we likewise kept pace with international standards as we set up an enterprise-wide risk management program, in addition to monitoring our risk-taking activities even more vigilantly.

2010 was also significant for the consolidation that we attained with our move to the new corporate headquarters in Fort Legend Towers, in the emerging business hub of Bonifacio Global City. With our teams gathered and guided together, we are primed for superior efficiency, synergy, and output as we turn our attention to the demands of the future.

Where shall we invest our resources next? In priorities that will secure our long-term global competitiveness. We have applied for a universal banking license that will allow Chinatrust Philippines to introduce more products and services to our ever growing client base. Being able to pursue our ventures into non-allied undertakings will likewise go a long way toward achieving our objectives of diversified revenue sources and increased profitability. And, as always, we will create and put our plans into action with a team spirit that thrives on the Chinatrust values: Caring. Trustworthy. Professional. The same strong values that have kept us in good stead for the past 15 years.

As we look back, we thank our Parent Bank for its unwavering support and our Board of Directors for their guidance; both have helped us overcome the difficulties along the way. We are likewise fortunate to have had a dedicated and hardworking corps of officers and staff, who have contributed in no small measure to the excellent track record of Chinatrust Philippines. Looking ahead, we reaffirm our investment in the relationships among our team, our business associates and suppliers, our customers, and our beneficiary-communities, all of whom give us reason to march into 2011 with confidence and enthusiasm.

MARK CHEN
President and CEO

performance review

As we celebrated our Bank's 15th year in the Philippines, we looked back and recalled the accomplishments that made this period memorable. We saw that from year to year, as Chinatrust Philippines grew, we were also building a solid foundation for long-term strength and stability through the relationships we created. We focused on our niche markets and asserted our presence with innovative products and services for our clients. We developed partnerships with our customers, believing that their success meant the Bank's as well. And we built a dynamic and healthy organization, able to respond swiftly to the demands and challenges that the Bank faced. Those 15 years stood on our continuing investment in the relationships that have helped us learn valuable lessons, gain experience, and move toward recovery and success.

In 2010, we saw once again how the right investment leads to results worthy of celebration. Our record for the year inspires us to continue what we started in the Bank's first 15 years in the Philippines.

Retail Banking

Amid increased competition, the Retail Banking Group registered a total pre-tax income after allocated cost of ₱119 million for 2010.

Strengthening sales channels and productivity while improving loan asset quality and ensuring portfolio health supplied the lending business with the appropriate response to the year's challenges. Personal Loans Public sales reached total revenues of ₱811 million, while the Corporate Salary Loan business contributed ₱55 million. Secured Lending registered new bookings of ₱649 million for the year.

Cash Management reported a 17% increase in booked deals, pushing incremental low-cost funds to rise 13% from the previous year. The newly acquired accounts came from educational institutions, insurance companies, manpower services, multi-level marketing or direct sales and lending firms. The float business income likewise received a hefty boost from SSS Pensioners' funding accounts, with volumes increasing by 65%.

Sales and Distribution saw a reorganized Sales Team primed for increased accountability and ownership of profitability targets and risk management objectives, as well as for pro-active cross-selling of Institutional, Treasury, and Trust products. Across the network, the renovation and relocation of branches showcased the Bank's global franchise look in thriving business centers. Noteworthy as well was the consolidation of business units in the Bank's new Fort Legend Towers head office in Bonifacio Global City; simultaneous with the move was the opening of the Bank's 24th branch in July.

As Chinatrust Philippines grew, we were also building a solid foundation for long-term strength and stability through the relationships we created.



Looking ahead, the Bank will rely further on stronger marketing and targeted selling efforts to improve float volumes from Bureau of Customs and Bureau of Internal Revenue payments. Moreover, it will beef up its electronic banking capabilities and product array to serve customers even more efficiently.

The Bank will also continue investing in the resources needed, including a new backroom application system, to strengthen its foothold in Personal Loans. These investments are aimed at producing faster turnaround time, more strategically located availment centers, stronger sales channels, and attractive offerings for the borrowing clients.

Treasury and Trust Services

Treasury capitalized on trading opportunities in 2010 to earn a pre-tax income after allocated cost of ₱427 million. Trading and foreign exchange gains reached ₱293 million, or a significant 98% increase from the previous year.

Aligning its treasury system with the rest of the Chinatrust offices, the Bank fully migrated to the Murex Trading System, which will allow it to support the requirements of the Expanded Derivatives License it has undertaken to secure. Treasury thus continued to invest in measures to expand the business, venture into other derivative products, and offer higher yielding products to the clients.

For Trust Services, assets under management were maintained at ₱3.6 billion. Its key role in strengthening relationships with Retail and Institutional Banking clients remained evident in its response to requirements for Special Deposit Accounts, escrow accounts, and retirement funds.

Institutional Banking

The Institutional Banking Group (IBG) underwent significant organizational adjustments in 2010 that served to further diversify its loan portfolio as well as to position newly aligned business units toward broadening non-interest revenue sources.

IBG secured four mandates of major corporate finance arrangements, which maintained the Bank's 8th ranking in the Philippine League Table for Lead Corporate Finance Mandates for two straight years. With closely monitored account acquisition and product conversions across Top-Tier, Middle Market, and Taiwan Business and Financial Institutions, IBG expanded its customer base and propelled deposit levels up by 121% to ₱7.5 billion for 2010.

Growth in the Liabilities portfolio is mainly attributed to strengthened account relationships given the necessary credit and product support complementing the selling initiatives. Alongside these, preservation of the asset quality remained on course. IBG NPLs were brought down to 0.51% at year-end, a marked improvement from last year's 2.43% ratio. Loan portfolio reached ₱8.4 billion, yielding pre-tax income after allocated cost of ₱56.7 million.

Loan utilization rate was recorded at 56.06%, effectively demonstrating the customers' steady reliance on and confidence in the Bank's servicing abilities that meet both their long-term and working capital financing requirements. These levels are expected to continue their uptrend as the Bank secures its Universal Banking license and reinforces its capabilities as well as competitiveness.

Support Services

Focusing on the investment in longer-term priorities for the Bank, the Banking Operations Group (BOG) strengthened operational risks and controls. The branches and head-office departments actively participated in audit and process improvement. Lessons and best practices learned from the Parent Bank led to the Four-Level Process Documentation, which will comprehensively reflect each department's policies and standard operating procedures.

BOG also laid the groundwork for more robust Trade and Treasury systems, which will provide the Bank with greater flexibility and better transaction-monitoring mechanisms. Likewise, it completed the initial sourcing and assessment for a new ATM Switch requisite, to result in full compliance with both Visa and BancNet requirements, streamlining and automating various ATM-related processes, MIS reporting, and a much improved and sophisticated card management system and infrastructure.

Consistent with the Bank's thrust on an effective Customer Relationship Management system, BOG's Customer Care Department closed the year within target at 85% Service Level. The independent, automated evaluation of incoming client interactions translated into more efficient servicing, thus reinforcing the Bank's customer-centric approach.

Meanwhile, the Retail Credit Risk Management Group had a full year of projects designed to improve the Bank's asset quality. The revised retail personal loan scorecard identified more effectively the various risk levels of Personal Loans Public, while the SAS software helped generate reports for more comprehensive analyses and effective control measurement tools for Corporate Salary Loan and Mortgage Individual Loan products. The collection system was likewise upgraded to control and manage overdue loans. Equally important was the enhancement of the credit application front-end system to integrate both personal and mortgage loans products into one automated processing system.

The integration of service quality led to the departmental expansion of Service Quality and Process Management (SQPM) in 2010. 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. SQPM launched an internal customer satisfaction survey during the year to measure employees' compliance with service level agreements as well as everyone's commitment to the Chinatrust values of being Caring, Trustworthy, and Professional.

Viewing the Chinatrust customer experience as the main business driver, the Bank created the Service Excellence Core Team to spearhead initiatives that had specific and meaningful impact on enhancing service quality. From telephone call 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.

The Institutional Credit Risk Management Group reorganized its Institutional Risk Monitoring Department and established three specialized units with clearly defined functions to strengthen the risk monitoring process and effectively support the internal customers' needs. Its support activities include credit documentation, custodianship of collaterals, credit limit set-up and control, post-lending monitoring, and preparation of management reports.

To improve the efficiency with which credit proposals from IBG are processed, weekly Risk Rating Meetings (RRM) were introduced in 2010. Credit proposals were then discussed thoroughly to identify major credit risks early on and structure credit facilities appropriately. Moreover, the Institutional Credit Control Department (ICCD) was established to exclusively handle the credit evaluation of proposals originating from IBG. With a department dedicated to manage the corporate risk-taking activities, the Bank's loan asset quality is seen to further strengthen in the coming year.

Information Technology investments targeted toward excellent service delivery ushered in major infrastructure improvements in 2010. The Bank upgraded the branch network infrastructure to Multi-Protocol Label Switching (MPLS) technology, which ensured continuous connectivity and lower risk of network-related downtime. In addition, Voice-Over-Internet Protocol (VOIP) was implemented Bankwide to facilitate conferencing as well as more cost-effective voice communication with provincial branches.



And, parallel with the consolidation of units in the new headquarters, Information Technology took the cue for building better data center facilities in preparation for the Bank's growing requirements, thus harnessing technology to boost the Bank's service leadership.

Human Resource and Administration

In a year of celebration, challenge, and change, the Human Resource and Administration Group (HRAG) ensured that the Bank's most valuable investment – the employees – stood well-prepared for the tasks that came their way. It spearheaded "Project HOME", the consolidation and move to the Bank's new head office at the Fort Legend Towers in Bonifacio Global City.

HRAG also focused on improved employee benefits, such as the Home Acquisition Loan (HALO), which afforded employees lower than market rates; alongside the annual flu vaccination, the discounted Cervical Cancer vaccination for employees and their dependents was also offered.

Keeping pace with organizational changes, HRAG provided support through training programs that equipped officers and staff with the skills needed for their new roles and higher responsibilities. It conducted teambuilding activities to drive team cohesiveness and focus toward shared goals, and initiated venues such as Faceblog for direct employee feedback and dialogue. It likewise created new opportunities for employees to put into action the Chinatrust values through activities of the "Rekindling Employee Values" (REV) program.

HRAG was at the forefront of celebrations for the Bank's 15th Anniversary as well. During the formal dinner dubbed "Sparkling at 15: A Red Carpet Event", 47 service awardees were honored for their loyalty and contribution to the Bank's successful track record in the Philippines.

In December 2010, the Parent Bank launched the annual Global Employee Opinion Survey. HRAG rallied employees to respond to the online survey, encouraging them to "let their voices be heard" on issues such as Compensation and Benefits, Performance Management and Communication, and Training and Development. These initiatives, along with sustained efforts to foster the "We Are Family" spirit as well as pride in the Chinatrust brand, reflected HRAG's unwavering commitment to take care of the Bank's human resource investment. The first 15 years is only the beginning.

management discussion and analysis

Chinatrust's audited net income went up by 20.8% to ₱410 million in 2010 from ₱339 million in 2009, driven by a hefty increase in trading gains and better margins on account of lower funding costs. This performance translated to a 7.3% return on equity (ROE) and 1.6% return on assets (ROA).

Revenues moved up by 9% as non-interest income grew by 28%. The increase was pushed mainly by higher trading and foreign exchange gains, which surged to ₱307 million in 2010 from ₱161 million in 2009. This resulted as the favorable economic environment led the Bank to take advantage of opportunities in the bond markets, where interest rates had fallen last year. Net interest income rose by 3.6%, from ₱1.502 billion to ₱1.556 billion. The improvement was spurred by a 32% decrease in interest expenses on deposit liabilities, attributable to the ₱748.5 million drop in average volume of high-cost deposits. Meanwhile, low-cost deposits climbed by 5%, from ₱4.6 billion in 2009 to ₱4.8 billion in 2010. Chinatrust continued to source low-cost funds largely from its unique cash management offerings, and not from its borrowers' maintaining balances.

The Bank maintained its conservative stance on loan loss provisioning. It set aside ₱286.9 million as provisions for impairment and credit losses for the year, thus making sure that it remained well-prepared for any eventuality.

Operating expenses were kept flat at ₱1.2 billion versus the previous year, as the Bank continued to improve productivity from economies of scale. Cost to income ratio was reported at 51.8% in 2010, from 56.5% in 2009. The figure indicated a satisfactory level of efficiency implemented by the Bank.

Asset quality showed a significant advance in 2010. Non-performing loans (NPL) ratio as of December 31, 2010 improved to 1.66%, nearly halved from 3.04% in December 2009. Further, the Bank once again manifested its financial strength with a high capital adequacy ratio, which stood at 25.33% for 2010. The figure placed it considerably above industry as well as the regulatory requirement of 10%.

risk management

Investing in relationships that promote long-term growth also means exercising prudence in managing the resources of Chinatrust Philippines and in carrying out its risk-taking activities. With this in mind, the Board of Directors 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:

Chief Risk Officer (CRO)

As the Enterprise-Wide Risk Management (EWRM) champion, the CRO facilitates the execution of EWRM processes and infrastructure toward achieving the Bank's business objectives.

The CRO manages and develops a comprehensive process for assessing, identifying, monitoring, and reducing pertinent business risks that may interfere with the Bank's objectives and goals. He ensures that the Bank complies with its internal operating policies and procedures and any external legal, regulatory or contractual requirements.

The CRO governs the following Risk Groups:

Institutional Credit Risk Management Group (ICRMG)

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

ICRMG 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 bi-monthly Account Plans for accounts dimensioned to have weaknesses.

In addition to credit risk acceptance, ICRMG also handles credit administrative support, including corporate banking legal documentation preparation, reviewing, and custodianship, credit limit control, special asset 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 and monitoring.

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

Retail Credit Risk Management Group (RCRMG)

RCRMG 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 distinguishes 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 are 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 Risk Management 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 informed management decisions, RCRMG conducts regular portfolio reviews. Results are incorporated in the Consumer Finance Products Portfolio Review (CFPPR), which analyzes and monitors profiles and trends in the portfolio as well as progress on test programs.

Market Risk Management Department (MRMD) – Market Risk, Liquidity Risk and Interest Rate Risk in the Banking Book (IRRBB)

MRMD manages the Market Risk, Liquidity Risk, and Interest Rate Risk in the banking book. It sets limits by taking into account the market predictions, capital, annual budgets, the experience of the risk-taking units, and the Bank's risk appetite. It also reviews the management of the Bank's assets and liabilities, and reviews and recommends appropriate investment strategies. Further, it endorses and oversees the effective administration of Market, Liquidity Risks, and IRRBB policies.

MRMD reviews, establishes, and evaluates compliance with parameters for Market, Liquidity Risks, and IRRBB as well as investments concentration. It guides the Board on Market and Liquidity Risks and related issues, recommends to the Board the appropriate liquidity levels, and proposes to the Board the necessary Liquidity Contingency Plan and Contingency Capital Funding Plan.

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.

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, MRMD performs a funding gap analysis using estimated cash flows.

Enterprise-Wide Risk Management Department (EWRMD)

The Bank manages risks and comprises a variety of existing departments or functions ("risk functions") that identify and manage particular risks. However, each risk function varies in capability and how it coordinates with other risk functions. A central goal and challenge of EWRMD is improving this capability and coordination, while integrating the output to provide a cohesive picture of risk for stakeholders and improve the organization's ability to manage the risks effectively.

A key function of EWRMD is to consolidate all risks reported by the risk monitoring units. All risks are assessed, evaluated, monitored, and reported to the RMC with appropriate recommendations as consolidated by EWRMD. It also ensures the implementation of all RMC policies and directives, and periodically reviews operational risk reports as well as monitors the execution of action plans for major operational risk events.

EWRMD promotes a risk-aware organization culture, develops and continuously improves the operational risk management framework and approach, establishes risk assessment approach, establishes operational risk indicators, and monitors the change of operational risk. Moreover, it supervises the softer risks such as the Reputational Risk and Compliance Risk management.

Compliance Risk

Compliance Risk arises from the Bank's failure to enact appropriate policies, procedures, or controls to ensure its operations conform with laws, regulations, contractual arrangements, and other legally binding agreements and requirements.

According to the Basel Committee on Banking Supervision, Compliance Risk is defined as "the risk of legal or regulatory sanctions, material financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organization standards, and codes of conduct applicable to its banking activities."[1]

The Bank's Compliance is an independent function that identifies, assesses, advises, monitors and reports on the Bank's Compliance Risk. It creates a system that is an inherent process, and not merely an add-on to the operation of the Bank. It fosters a culture of compliance that works through all levels of the Bank's organization and affords the Bank a strong compliance risk appetite.

The Bank's Compliance Unit monitors compliance with the laws, rules and standards issued by the Bangko Sentral ng Pilipinas (BSP), Securities and Exchange Commission (SEC), Anti-Money Laundering Council (AMLC), Philippine Deposit Insurance Corporation (PDIC), and other supervisory/regulatory institutions.

The function of managing Compliance Risk does not fall on just the Compliance Unit of the Bank, but rather involves the participation and cooperation of all Bank units. All employees are required to be aware of the risks involved for non-compliance with the rules/standards set by the regulatory bodies.

Compliance, being an important part of the Bank's business activities, makes Compliance Risk material to the Bank. Failure to follow the rules provided by regulatory bodies could lead to substantial financial losses in the form of fines and penalties and suspension or even revocation of banking license.

Reference: [1]Basel Committee on Banking Supervision Paper on Compliance and the Compliance Function in Banks, April 2005

Strategic Risk

Strategic Risk is the current and potential impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.

This Strategic Risk is a function of the compatibility of the Bank's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals, and the quality of implementation.

Information Security Unit (ISU) – Information Security Risk

Information Security Risks are threats to and vulnerabilities in 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 includes appropriate administrative, technical, and physical safeguards based on the size, complexity, nature, and scope of the Bank's operations.

corporate social responsibility

Among the relationships that Chinatrust Philippines holds dear are those we have formed with beneficiaries outside the confines of the Bank. Year after year, we have reached out to them in various activities that exemplify our value of "Caring" and share the "We Are Family" spirit with those who need it most.

In support of education, the Bank contributed 20 computer units to five beneficiary elementary schools in the 1st District of Zamboanga del Sur through the Taipei Economic and Cultural Office (TECO) in the Philippines. These beneficiaries were Kawit Elementary School, Dumalian Elementary School, Santiago Elementary School, San Pedro Central Elementary School, and Macasing Elementary School in Pagadian City. Chinatrust Philippines was represented at the donation turnover by Vice Chairman William Go and President and CEO Mark Chen, with TECO representative Donald Lee. Attending in behalf of the beneficiaries were Congressman Victor Yu of the 1st District of Zamboanga del Sur and Supt. Victorina Perez of Pagadian City.

Using the Bank's nationwide branch network, we have again participated in the "Tulong Barya Para Sa Eskwela" project of the Bangko Sentral ng Pilipinas. We placed collection boxes at our frontlines and enjoined customers to donate whatever change they could for the benefit of public elementary schools.

The Bank capped the year by bringing Christmas cheer to sick and terminally ill patients at the Pediatric Ward of the Philippine General Hospital (PGH), the country's largest government healthcare institution. With funds raised from employees' contributions, Bank employee-volunteers purchased basic necessities and assembled these into over a hundred care packages. They handed these out as Christmas presents after entertaining and sharing holiday meals with the hospital's patients and their families.

Chinatrust Philippines has always taken pride in the high level of social awareness and volunteerism among its employees. In 2010, the Bank had every reason to champion and celebrate the cause of good corporate citizenship once again.

We reached out through various activities that exemplified our value of "Caring" and shared the "We Are Family" spirit with those who needed it most.

corporate governance

Over the years, a consistent investment in sound corporate governance principles and practices has become a vital part of the Chinatrust Philippines culture. The Board Committees and Directors take the lead in this advocacy, as evidenced by the many initiatives and regular activities they have spearheaded to ensure that the Bank's systems and processes are aligned with international governance standards. In 2010, the returns from such an investment contributed once again to a stellar year for the Bank.

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 has the full power and authority to act on behalf of the Board during intervals between regularly scheduled board 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 members of the Executive Committee are William T.Y. Hon as Chairman, William B. Go, and Mark Chen.

The Nomination and Review Committee*, which also functions as the Bank's "Committee on Corporate Governance" and "Compensation and Remuneration Committee," develops and recommends corporate governance guidelines for the Bank. The Committee also evaluates current and prospective Directors and their qualifications to serve on the Board and presents recommendations to the Board regarding nominees for Director. As such, it 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 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, it considers competence, candor, attendance, preparedness, and participation in meetings. It monitors not only the Board's achievements, effectiveness, and its 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. As Compensation and Remuneration Committee, the NRC sets the policy on remuneration of Directors and Officers to ensure that their compensation is consistent with the Bank's culture, strategy, and the business environment. The NRC is headed by William T.Y. Hon as Chairman, with William B. Go, Edwin B. Villanueva, and Ng Meng Tam as Members. Messrs. Villanueva and Ng Meng Tam have been determined by our Board of Directors to be independent under the PSE listing standards.

*(*Note: The committee has been renamed as the Nomination, Remuneration and Governance Committee (NRGC), subject to approval by the SEC of the Bank's amended By-Laws.)*

The Audit Committee is responsible for recommending to the Board the appointment or termination of the Bank's independent auditors; providing an open avenue of communication between the independent registered public accounting firm and the Board; and reviewing significant accounting policies and internal controls. Tasked primarily with assisting the Board in fulfilling its oversight responsibilities over all audit-related matters, 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. It is headed by Independent Director Edwin B. Villanueva as Chairman, with Eric Wu and Independent Director Ng Meng Tam as Members. The members of the Audit Committee have been determined by the Board to possess accounting, auditing, or related financial management expertise and experience.

The Risk Management Committee is responsible for the development and oversight of the Bank's Risk Management Program and 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 these 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 RMC is headed by William T.Y. Hon as Chairman, with William B. Go, Larry Hsu, Eric Wu, and Mark Chen as Members.

The Trust Committee reviews and approves the quality and movement of the Bank's trust assets, including the opening and closing of trust and other fiduciary accounts; the 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 Trust Committee is headed by Larry Hsu as Chairman, and William T.Y. Hon, William B. Go, Mark Chen, and the Trust Officer as Members.

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 Bachelor's degree from L'Ecole des Hautes Etudes Commerciales in 1976. He is currently the Executive Vice President – International Country Management 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 55 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 a Master of Science in Business Administration degree from the University of Missouri, Kansas City, U.S.A. He is Chairman of Investors Securities, Inc. and Gama Enterprises, Inc.; Chairman and President of Big Blue Realty Corporation; and President of Serico, Inc. He also holds various directorship positions in other institutions. He served as the President of Philippine Bank of Communication from 1985 to 1995. Mr. Go founded Chinatrust Philippines in 1995 and served as President until October 15, 2001, when he was elected Vice Chairman. He is 71 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 Bachelor's degree in Public Finance from National Chengchi University in Taiwan, and Masters in Finance at the University of Iowa in the U.S.A. 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 42 years old.

LARRY HSU, a.k.a. Hsu Chun-Jen, Taiwanese, is a member of the Board. He graduated with a Bachelor's 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 49 years old.

ERIC WU a.k.a. Wu Hsin-Hao, Taiwanese, is a member of the Board. He graduated with a Master's degree in Business Administration from the National Taiwan University. He is currently Executive Vice President and Global Payments and Lending Head of Chinatrust Commercial Bank, Ltd. (Taiwan). He was Senior Vice President of McDonalds Restaurants, Taiwan from 1991 to 2003. He is 48 years old.

INDEPENDENT DIRECTORS

NG MENG TAM, Filipino, is an Independent Director of Chinatrust Philippines, having been re-elected last October 25, 2007. 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 High Pointe Property, Inc. He is 65 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 Master's 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 the Vice Chairman of the Market Governance Board of the Philippine Dealing Exchange. He also holds directorships in the Makati Supermart Group, Testech Inc., and DFNN Inc., Iwave Inc., and CDC/Quadrillion group, and serves as Adviser to the Board of Philratings, Inc. He is 60 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 Bank's 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 – 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 50 years old.

MARIA GRETCHEN S. MACABASCO, Filipino, earned her Bachelor of Science in Business Management degree from the Ateneo de Manila University. She is Senior Vice President – Top Tier Head of Institutional Banking Group. Prior to joining the Bank in August 2008, she was Senior Vice President – Head of Trade of Australia and New Zealand Bank, Manila Branch. She also served as First Vice President – Structured Products Group Head at Philippine Bank of Communications. For almost 6 years, she was with ABN AMRO Philippines, where her last role was Vice President – Working Capital Head. Prior to that, she worked for almost 16 years with Citibank N.A. Manila where her last job was as a Relationship Manager, Assistant Vice President – Global Relationship Banking. She is 47 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 banks: the 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 53 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 N.A. 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 45 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, U.S.A. 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 41 years old.

CECILIA E. TABUENA, Filipino, graduated with a Bachelor of Science degree in Commerce, Major in Marketing Management and Bachelor of Arts in Psychology from De La Salle University. She also finished her Master of Business Administration, Major in Finance, from Peter F. Drucker Graduate School of Management, Claremont Graduate University in California, U.S.A. She started as a Money Market Trader at All Asia Capital and Trust Company, then moved to The Long Term Credit Bank of Japan as a Corporate Finance Associate, based in Los Angeles, California. She returned to the Philippines to join Citibank, N.A. as Equities Research Analyst before taking several positions and later on becoming the Vice President and Senior Transactor of the Bank's Corporate Finance Department. In 2003, she became part of the DCM team of Citi's Emerging Markets Sales and Trading prior to being appointed as the Head of Debt Capital Markets. In 2008, she moved to Security Bank Corporation as First Vice President and Head of Fixed Income Securities Distribution. She joined Chinatrust Philippines' Institutional Banking Group as Senior Vice President in May 2010. She is 43 years old.

board of directors

Seated:

1 **WILLIAM T.Y. HON**
Chairman

2 **WILLIAM B. GO**
Vice Chairman

Standing:

5 **MARK CHEN**
President and CEO

3 **LARRY HSU**
Director

4 **ERIC WU**
Director

6 **NG MENG TAM**
Independent Director

7 **EDWIN B. VILLANUEVA**
Independent Director

statement of management's responsibility for financial statements

The Management of **CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION** is responsible for all information and representations contained in the financial statements for the year ended December 31, 2010. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains 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 at December 31, 2010 and 2009, and January 1, 2009 and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Chinatrust (Philippines) Commercial Bank Corporation as at December 31, 2010 and 2009, and January 1, 2009 and its financial performance and its cash flows for each of the three years in the period ended December 31, 2010 in accordance with Philippine Financial Reporting Standards.

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

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

SYCIP GORRES VELAYO & CO.

Christian G. Lauron

Christian G. Lauron
Partner
CPA Certificate No. 95977
SEC Accreditation No. 0790-A
Tax Identification No. 210-474-781
PTR No. 2641531, January 3, 2011, Makati City

April 1, 2011

statements of financial position

	December 31, 2010	December 31, 2009 (As restated - Note 2)	January 1, 2009 (As restated - Note 2)
ASSETS			
Cash and Other Cash Items (Notes 12, and 16)	**₱334,084,617**	₱319,525,532	₱351,253,539
Due from Bangko Sentral ng Pilipinas (Notes 12 and 16)	**4,262,903,803**	1,909,190,000	3,536,491,101
Due from Other Banks (Notes 16 and 25)	**615,146,557**	1,855,613,683	1,457,052,884
Interbank Loans Receivable (Notes 16)	**2,640,002**	2,979,000	715,280,000
Financial Assets at Fair Value through Profit or Loss (Notes 6 and 16)	**675,479,270**	701,027,799	498,554,402
Available-for-Sale Investments (Notes 6 and 16)	**1,370,939,919**	1,521,450,054	1,086,684,504
Held-to-Maturity Investments (Notes 2, 6 and 16)	**255,357,743**	211,775,027	97,998,471
Loans and Receivables (Notes 7, 11, 16 and 25)	**16,113,468,432**	16,823,635,352	17,946,239,812
Property and Equipment (Notes 8 and 16)	**249,755,844**	187,760,710	197,279,769
Investment Properties (Notes 9 and 16)	**2,884,173**	3,379,509	2,456,539
Deferred Tax Assets (Notes 16 and 20)	**361,163,908**	440,025,959	448,397,791
Other Assets (Notes 10 and 16)	**174,754,649**	131,245,932	125,416,457
	₱24,418,578,917	₱24,107,608,557	₱26,463,105,269

LIABILITIES AND EQUITY			
LIABILITIES			
Deposit Liabilities (Notes 12 and 16)			
Demand	**₱4,849,431,949**	₱4,624,783,830	₱3,856,006,069
Savings	**2,434,664,132**	2,442,728,670	2,233,854,322
Time	**9,623,650,234**	9,900,645,770	12,814,129,876
	16,907,746,315	16,968,158,270	18,903,990,267
Bills Payable (Notes 13 and 16)	**569,920,000**	646,800,000	1,431,556,080
Outstanding Acceptances (Notes 16)	**17,247,342**	18,996,988	3,838,026
Manager's Checks (Notes 16)	**32,062,964**	40,161,695	53,990,478
Accrued Interest, Taxes and Other Expenses (Notes 14 and 16)	**268,744,697**	335,778,648	392,135,946
Income Tax Payable (Note 20)	**3,781,474**	9,677,155	948,458
Other Liabilities (Notes 15 and 16)	**875,982,380**	744,798,149	760,998,435
	18,675,485,172	18,764,370,905	21,547,457,690
EQUITY			
Common Stock (Note 17)	**2,479,687,310**	2,479,687,310	2,479,687,310
Additional Paid-in Capital (Note 17)	**53,513,675**	53,513,675	53,513,675
Surplus (Notes 17 and 22)	**3,230,548,188**	2,820,570,214	2,481,307,430
Cumulative Translation Adjustments	**(15,029,477)**	(6,442,775)	–
Net Unrealized Loss on Available-for-Sale Investments (Note 6)	**(5,625,951)**	(4,090,772)	(98,860,836)
	5,743,093,745	5,343,237,652	4,915,647,579
	₱24,418,578,917	₱24,107,608,557	₱26,463,105,269

See accompanying Notes to Financial Statements.

statements of income

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

See accompanying Notes to Financial Statements.

statements of comprehensive income

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

See accompanying Notes to Financial Statements.

statements of changes in equity

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

See accompanying Notes to Financial Statements.

statements of cash flows

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

(Forward)

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

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

See accompanying Notes to Financial Statements.

notes to financial statements

1. General Information

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

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

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

2. Summary of Significant Accounting Policies

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

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

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

Changes in Accounting Policies and Disclosures

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

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

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

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

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

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

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

New Standards and Interpretations

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

Improvements to PFRS

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

Improvements to PFRSs 2008

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

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

Improvements to PFRSs 2009

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

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

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

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

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

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

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

Significant Accounting Policies

RBU
As at reporting date, foreign currency monetary assets and liabilities of the RBU are translated in Philippine peso based on the Philippine Dealing System (PDS) closing rate prevailing at statement of financial position date foreign currency-denominated income and expenses, at the exchange rates as at the date of the transaction. Foreign exchange differences arising from restatements of foreign currency-denominated assets and liabilities in the RBU are credited to or charged against profit or loss in the year in which the rates change. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

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

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

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

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

Initial recognition of financial instruments

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

Determination of fair value

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

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

'Day 1' difference

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

Financial assets or financial liabilities at fair value through profit or loss

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

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

Derivative financial instruments

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

For the purpose of hedge accounting, hedges are classified primarily as either: a) a hedge of the fair value of an asset, liability or a firm commitment (fair value hedge); or b) a hedge of the exposure to variability in cash flows attributable to an asset or liability or a forecasted transaction (cash flow hedge). In 2010 and 2009, the Bank did not apply hedge accounting treatment for any of its derivatives transactions.

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

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

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

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

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

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

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

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

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

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

<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 in 2010 and 2009.

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

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

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

<u>Derecognition of Financial Assets and Liabilities</u>
Financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when:
- the rights to receive cash flows from the asset have expired; or

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

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

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

<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.

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.

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

Financial assets carried at amortized cost
For financial assets carried at amortized cost such as loans and receivables, due from other banks and HTM investments, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be recognized based on the original EIR of the asset. The financial assets, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Property and Equipment

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

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

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

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

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

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

Investment Properties

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Provisions

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

Contingent Liabilities and Contingent Assets

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

Income Taxes

Current taxes

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

Deferred taxes

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

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

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

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

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

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

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

The Bank does not have any dilutive potential common shares.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Significant Accounting Judgments and Estimate

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

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

<u>Judgments</u>

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

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

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

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

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

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

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

a) the currency that mainly influences sales prices for financial instruments and services (this will often be the

currency in which sales prices for its financial instruments and services are denominated and settled);
b) the currency in which funds from financing activities are generated; and
c) the currency in which receipts from operating activities are usually retained.

Estimates

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

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

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

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

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

(c) *Impairment of AFS equity investments*
The Bank treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Bank treats 'significant' generally as 20.0% or more of the original cost of investment, and 'prolonged' as greater than 12 months. In addition, the Bank evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

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

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

The Bank recognized deferred tax assets as of December 31, 2010 and 2009 amounting to ₱361.2 million and ₱440.0 million, respectively. Details of unrecognized temporary differences are discussed in Note 20.

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

The expected rate of return on plan assets of 6.0% in 2010 and 2009, was based on the average historical premium of the fund assets. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of statement of financial position dates. As of December 31, 2010 and 2009, the present value of the retirement obligation of the Bank amounted to ₱72.9 million and ₱57.7 million, respectively (see Note 18).

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

(f) *Impairment of nonfinancial assets*

Property and equipment, chattel mortgage properties, intangible assets

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

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

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

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

4. Financial Instruments and Fair Value Measurement

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

	2010		2009	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
FINANCIAL ASSETS				
Loans and receivables				
Cash and other cash items	**₱334,084,617**	**₱334,084,617**	₱319,525,532	₱319,525,532
Due from BSP	**4,262,903,803**	**4,262,903,803**	1,909,190,000	1,909,190,000
Due from other banks	**615,146,557**	**615,146,557**	1,855,613,683	1,855,613,683
Interbank loans receivable	**2,640,002**	**2,640,002**	2,979,000	2,979,000
Loans and discounts				
Institutional banking	**8,293,766,676**	**8,293,441,584**	8,288,418,162	8,287,917,742
Retail banking	**3,076,217,453**	**2,879,486,131**	3,410,251,428	3,132,698,776
Mortgage banking	**2,372,046,195**	**2,317,638,551**	2,438,208,971	2,429,967,761
Small business loans	**517,699,821**	**559,744,264**	386,383,559	386,383,559
Accrued interest receivable	**233,952,598**	**233,952,598**	334,119,101	334,119,101
Other receivables	**514,327,531**	**514,327,532**	573,415,057	573,415,058
Unquoted debt securities	**1,105,458,158**	**1,099,735,361**	1,392,839,073	1,380,733,650
Other assets	**42,765,329**	**42,765,329**	27,290,530	27,290,530
Subtotal	**21,371,008,740**	**21,155,866,329**	20,938,234,096	20,639,834,392

(Forward)

Financial assets at FVPL				
Held-for-trading				
Government debt	**666,375,419**	**666,375,419**	690,172,079	690,172,079
Derivative assets	**9,103,851**	**9,103,851**	10,855,720	10,855,720
Subtotal	**675,479,270**	**675,479,270**	701,027,799	701,027,799
AFS investments				
Government debt	**1,358,051,602**	**1,358,051,602**	1,508,334,904	1,508,334,904
Unquoted equity securities	**12,888,317**	**12,888,317**	13,115,150	13,115,150
Subtotal	**1,370,939,919**	**1,370,939,919**	1,521,450,054	1,521,450,054
HTM investments				
Government debt	**255,357,743**	**226,520,000**	211,775,027	216,467,550
	₱23,672,785,672	**₱23,428,805,518**	₱23,372,486,976	₱23,078,779,795

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

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

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

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

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

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

- Level 1 - quoted market prices in active markets for identical assets or liabilities; when fair values of listed equity and debt securities, as well as publicly traded derivatives at the reporting date are based on quoted market prices or binding dealer price quotations, without any deduction for transaction costs, the instruments are included within Level 1 of the hierarchy.
- Level 2 - those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); for all other financial instruments, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other revaluation models; and
- Level 3 - those with inputs for the asset or liability that are not based on observable market data (unobservable inputs); instruments included in Level 3 are those for which there are currently no active market.

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

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

5. Financial Risk and Capital Management Objectives and Policies

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

Financial risks arise primarily from the use of financial instruments which include:
- Credit risk
- Market risk
- Liquidity risk

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

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

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

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

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

The following are the different Risk Groups governed by the CRO:
- Institutional Credit Risk Management Group (ICRMG)
- Retail Credit Risk Management Group (RCRMG)
- Market Risk Management Department (MRMD) - Market Risk , Liquidity Risk and IRRBB
- Enterprise-Wide Risk Management Department (EWRMD)
- Compliance Risk
- Information Security Unit (ISU) - Information Security Risk

<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), ICRMG is mainly responsible for the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

	2010	2009
Loans and receivables		
Due from BSP and other banks	**₱4,878,050,360**	₱3,764,803,683
Interbank loans receivable	**2,640,002**	2,979,000
Loans and discounts (Note 7)		
Institutional banking	**8,293,766,676**	8,288,418,162
Retail banking	**3,076,217,453**	3,410,251,428
Mortgage banking	**2,372,046,195**	2,438,208,971
Small business loans	**517,699,821**	386,383,559
Accrued interest receivable	**233,952,598**	334,119,101
Other receivables	**514,327,531**	573,415,057
Unquoted debt securities (Note 7)	**1,105,458,158**	1,392,839,073
Other assets (Note 10)	**42,765,329**	27,290,530
Subtotal	**21,036,924,123**	20,618,708,564
Financial assets at FVPL (Note 6)		
Held-for-trading government debt	**666,375,419**	690,172,079
Derivative assets	**9,103,851**	10,855,720
Subtotal	**675,479,270**	701,027,799
Available-for-sale investments (Note 6)		
Government debt	**₱1,358,051,602**	₱1,508,334,904
Unquoted equity securities	**12,888,317**	13,115,150
Subtotal	**1,370,939,919**	1,521,450,054

(Forward)

Held-to-maturity investments (Note 6)		
Government debt	**255,357,743**	211,775,027
	23,338,701,055	23,052,961,445
Credit commitments and other credit related liabilities (Note 24)	**7,079,449,560**	4,579,545,339
	₱30,418,150,615	₱27,632,506,784

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

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

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

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

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

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

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

(Forward)

Allowance for credit losses	**(1,192,228)**	**(7.40)**	**–**	**–**	**–**	**–**	**(1,192,228)**
Unearned interest discount and capitalized interest	**(77,670)**	**(0.48)**	**–**	**–**	**–**	**–**	**(77,670)**
	₱16,113,468	**100.00**	**₱7,225,233**	**100.00**	**₱7,079,450**	**100.00**	**₱30,418,151**

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

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

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

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

The Bank considers concentration risk to be present in its loans and receivables when the total exposure to a particular industry or sector exceeds 25% of the total loan portfolio. The BSP considers that credit concentration risk exists when the total loan exposure to a particular industry or economic sector exceeds 30% of the total loan portfolio. As of December 31, 2010 and 2009, following both the Bank's policy and BSP regulations, the Bank does not have significant loan concentration to any particular industry.

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

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

- Moody's
- Standard and Poor's

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Nonperforming Loans

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

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

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

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

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

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

Collateral and credit risk mitigation techniques

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Market Risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<u>Interest Rate Risk</u>

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

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

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

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

2010

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

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

2009

Currency	Increase in bps	Sensitivity of net interest income	Sensitivity of Equity								
			1 month	3 months	6 months	1 year	2 years	5 years	7 years	10 years up	Total
			(In Thousand Pesos)								
PHP (in 000s)	15	₱617	₱1,501	₱532	(₱2,506)	₱3,090	₱1,986	(₱590)	₱–	₱22	₱4,035
	20	823	2,001	709	(3,342)	4,121	2,648	(787)	–	29	5,379
	25	1,029	2,502	886	(4,177)	5,151	3,310	(983)	–	36	6,725
USD (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	₱–	(₱22)	(₱4,035)
	-20	(823)	(2,001)	(709)	3,342	(4,121)	(2,648)	787	–	(29)	(5,379)
	-25	(1,029)	(2,502)	(886)	4,177	(5,151)	(3,310)	983	–	(36)	(6,725)
USD (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

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

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

	2009					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
Financial Assets						
Loans and receivables						
Cash and other cash items	₱319,526	₱–	₱–	₱–	₱–	₱319,526
Due from BSP and other banks	2,844,804	920,000	–	–	–	3,764,804
Interbank loans receivable	2,979	–	–	–	–	2,979
Loans and discounts - gross	9,694,560	2,408,938	4,572,111	1,519,029	182,309	18,376,947
Other Assets	13,111	–	–	–	14,180	27,291
Financial assets at FVPL						
Government debt	–	21,237	12,804	89	656,042	690,172
Derivatives	10,856	–	–	–	–	10,856
AFS investments	–	–	–	–	1,521,450	1,521,450
HTM investments	30,105	–	11,519	–	170,197	211,821
Total financial assets	12,915,941	3,350,175	4,596,434	1,519,118	2,544,178	24,925,846
Financial Liabilities						
Financial liabilities at FVPL Derivative liabilities	668	–	–	–	–	668
Other financial liabilities at amortised cost						
Deposit liabilities						
Demand	4,624,784	–	–	–	–	4,624,784
Savings	2,442,729	–	–	–	–	2,442,729
Time	4,505,221	3,968,588	516,026	276,358	634,453	9,900,646
Bills payable and outstanding acceptances	665,797	–	–	–	–	665,797
Manager's checks	40,162	–	–	–	–	40,162
Accrued interest and other expenses	327,056	–	–	–	–	327,056
Other liabilities	653,701	–	–	–	–	653,701
Total financial liabilities	13,260,118	3,968,588	516,026	276,358	634,453	18,655,543
Repricing gap	(₱344,177)	(₱618,413)	₱4,080,408	₱1,242,760	₱1,909,725	₱6,270,303
Cumulative gap	(₱344,177)	(₱962,590)	₱3,117,818	₱4,360,578	₱6,270,303	₱–

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

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

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

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

	2010		
	Less than 3 months	**3 months to 1 year**	**Greater than 1 year**
Peso-denominated Financial assets			
Due from BSP	**3.0%**	–	–
Due from other banks	**0.2%**	**–**	**–**
Financial assets at FVPL	**3.1%**	**3.9%**	**6.3%**
AFS investments	**–**	**–**	**7.6%**
HTM investments	**3.4%**	**5.3%**	**6.6%**
Loans and receivables	**5.3%**	**8.0%**	**13.5%**
Financial liabilities			
Deposit liabilities	**1.6%**	**3.4%**	**5.5%**
Bills payable	**3.1%**	**–**	**–**
Foreign currency-denominated Financial assets			
Due from other banks	**0.1%**	**–**	**–**
Financial assets at FVPL	**–**	**–**	**5.9%**
AFS investments	**–**	**–**	**5.3%**
HTM investments	**–**	**–**	**5.3%**
Loans and receivables	**3.6%**	**3.2%**	**3.9%**
Financial liabilities			
Deposit liabilities	**0.8%**	**1.7%**	**1.4%**
Bills payable	**1.0%**	**–**	**–**

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

Prepayment Risk

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

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

Equity Price Risk

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

Capital Management

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

6. Trading and Investment Securities

Financial assets at FVPL consist of the following:

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

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

AFS investments consist of the following:

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

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

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

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

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

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

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

Interest income on trading and investment securities consists of:

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

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

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

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

7. Loans and Receivables

This account consists of:

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

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

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

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

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

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

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

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

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

8. Property and Equipment

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

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

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

9. Investment Properties

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

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

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

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

10. Other Assets

This account consists of:

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

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

The movements in computer software costs follow:

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

11. Allowance for Credit Losses

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

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

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

Impairment Assessment

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

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

a. Specific (individual) assessment

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

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

b. Collective assessment

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

12. Deposit Liabilities

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

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

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

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

Interest expense on deposit liabilities consists of:

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

13. Bills Payable

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

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

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

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

14. Accrued Interest, Taxes and Other Expenses

This account consists of:

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

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

15. Other Liabilities

This account consists of:

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

16. Maturity Analysis of Assets and Liabilities

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

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

(Forward)

	₱12,801,609	**₱12,886,868**	**₱25,688,477**	₱10,115,990	₱15,544,977	₱25,660,920
Less: Allowance for impairment and credit losses (Note 11)			**(1,192,228)**			(1,473,509)
Unearned discount and capitalized interest (Note 7)			**(77,670)**			(79,802)
	₱12,801,609	**₱12,886,868**	**₱24,418,579**	₱10,115,990	₱15,544,977	₱24,107,609
Financial Liabilities						
Financial liabilities at FVPL						
Derivative liabilities	**4,597**	**–**	**4,597**	668	–	668
Other Financial liabilities at amortized cost						
Deposit liabilities	**16,696,363**	**211,383**	**16,907,746**	16,607,297	360,861	16,968,158
Bills payable	**569,920**	**–**	**569,920**	646,800	–	646,800
Outstanding acceptances	**17,247**	**–**	**17,247**	18,997	–	18,997
Manager's checks	**32,063**	**–**	**32,063**	40,162	–	40,162
Accrued interest and other expenses	**258,818**	**–**	**258,818**	327,056	–	327,056
Other liabilities	**755,147**	**–**	**755,147**	653,701	–	653,701
	18,337,669	**211,383**	**18,545,538**	18,294,681	360,861	18,655,542
Nonfinancial Liabilities						
Accrued interest, taxes and other expenses	**9,927**	**–**	**9,927**	8,723	–	8,723
Income tax payable	**3,781**	**–**	**3,781**	9,677	–	9,677
Other liabilities	**116,239**	**–**	**116,239**	90,429	–	90,429
	129,367	**–**	**129,947**	108,829	–	108,829
	₱18,467,036	**₱211,383**	**₱18,675,485**	₱18,403,510	₱360,861	₱18,764,371

17. Equity

Capital stock consists of the following (in thousands):

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

The shares of the Bank are listed in the PSE.

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

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

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

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

As discussed in Note 5, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's unimpaired capital (regulatory capital) as reported to the BSP, which is determined on the basis of regulatory accounting practices which differ from PFRS in some respects. Specifically, under existing banking regulations, the combined capital accounts of each commercial bank should not be less than an amount equal to ten percent (10.0%) of its risk assets.

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

18. Retirement Plans

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

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

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

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

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

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

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

Movements in accumulated unrecognized actuarial gains of the Bank follow:

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

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

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

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

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

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

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

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

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

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

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

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

Information on the Bank's retirement plan follows:

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

19. Leases

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

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

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

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

20. Income and Other Taxes

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

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

In addition, current tax regulations provide for the ceiling on the amount of entertainment and representation (EAR) that can be claimed as a deduction against taxable income. Under the regulation, EAR allowed as deductible expense for a service company like the Bank is limited to the actual EAR paid or incurred but not to exceed 1.0% of net revenue. EAR of the Bank amounted to ₱2.7 million, ₱2.1 million and ₱3.1 million (included under 'Miscellaneous Expenses' in the statement of income) in 2010, 2009 and 2008, respectively (Note 21).

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

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is subject to 10.0% income tax. With respect to other loan-related income, which are not in the nature of interest, but are considered part of the loan transaction, these shall also be exempt from tax in accordance with Section 3(b) of Revenue Regulations (RR) 14-77. The FCDU's other income, those that are not classified as onshore or offshore under R.A. 9294 such as non-loan related income, is subject 30.0% RCIT based on net taxable income (or 2.0% MCIT based on gross income, if applicable). In addition, interest income on deposit placements with other FCDUs and offshore banking units (OBUs) is taxed at 7.5%. RA No. 9294, which became effective in May 2004, provides that the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.0% income tax.

Provision for income tax consists of:

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

Components of the recognized net deferred tax assets follow:

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

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

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

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

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

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

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

NOLCO:

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

Excess MCIT over RCIT:

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

21. Income and Expenses

Service fees and commission income consist of:

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

Miscellaneous income consist of:

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

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

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

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

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

22. Trust Operations

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

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

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

23. Segment Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

24. Commitments and Contingent Assets and Liabilities

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

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

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

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

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

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

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

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

25. Related Party Transactions

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

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

BSP Circular No. 423 dated March 15, 2004 amended the definition of DOSRI accounts. The following table shows information relating to the loans and other credit accommodations as reported to the BSP classified as DOSRI accounts under regulations existing prior to said circular, and new DOSRI loans, other credit accommodations and guarantees granted under BSP circular No. 423 as of December 31, 2010 and 2009:

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

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

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

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

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

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

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

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

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

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

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

26. Derivative Financial Instruments

The table below shows the fair values of derivative financial instruments entered into by the Bank, recorded as derivative assets or derivative liabilities, together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as of December 31, 2010 and 2009 and are not indicative of either market risk or credit risk (amounts in thousands).

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

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

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

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

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

27. Financial Performance

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

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

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

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

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

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

28. Supplementary Information Required Under Revenue Regulations 15-2010

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

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

The details of taxes and licenses account follow:

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

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

Details of the GRT remitted in 2010 follow:

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

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

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

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

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

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

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

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

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

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

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

taiwan branch directory

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Chengde Branch
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1F., No. 376, Jhongshan Rd.
Hualien City, Hualien County 970
Taiwan, R.O.C.
Tel.: 886-3-8340566

West Hualien Branch
1F., No. 835, Jhongshan Rd.
Hualien City, Hualien County 970
Taiwan, R.O.C.
Tel.: 886-3-8572161

KAOHSIUNG CITY

Bo-ai Branch
1F., No. 88, Bo-ai 2nd Rd.
Zuoying District, Kaohsiung City 813
Taiwan, R.O.C.
Tel.: 886-7-5567909

Cianjhen Mini Branch
1F., No. 480, Rueilong Rd.
Cianjhen District, Kaohsiung City 806
Taiwan, R.O.C.
Tel.: 886-7-7261066

East Kaohsiung Branch
1F., No. 29, Cingnian 1st Rd.
Lingya District, Kaohsiung City 802
Taiwan, R.O.C.
Tel.: 886-7-5351885

Jiouru Mini Branch
1F., No. 551, Jiouru 1st Rd.
Sanmin District, Kaohsiung City 807
Taiwan, R.O.C.
Tel.: 886-7-3805558

Kaohsiung Branch
1F., No. 168, Jhongjheng 4th Rd.
Qianjin District, Kaohsiung City 801
Taiwan, R.O.C.
Tel.: 886-7-2318141

Minzu Branch
1F., No. 97, Minzu 2nd Rd.
Sinsing District, Kaohsiung City 800
Taiwan, R.O.C.
Tel.: 886-7-2386567

North Kaohsiung Branch
1F., No. 52, Mingcheng 2nd Rd.
Sanmin District, Kaohsiung City 807
Taiwan, R.O.C.
Tel.: 886-7-3461199

Sanmin Branch
1F., No. 366, Jiouru 2nd Rd.
Sanmin District, Kaohsiung City 807
Taiwan, R.O.C.
Tel.: 886-7-3161155

Sinsing Branch
1F., No. 206, Minsheng 1st Rd.
Sinsing District, Kaohsiung City 800
Taiwan, R.O.C.
Tel.: 886-7-2262325

South Kaohsiung Branch
1F., No. 21, Yisin 2nd Rd.
Cianjhen District, Kaohsiung City 806
Taiwan, R.O.C.
Tel.: 886-7-3366768

Youchang Mini Branch
1F., No. 803-3, Houchang Rd.
Nanzih District, Kaohsiung City 811
Taiwan, R.O.C.
Tel.: 886-7-3681699

KAOHSIUNG CITY

Cingnian Branch
1F., No. 315, Sec. 2, Cingnian Rd.
Fongshan District, Kaohsiung City 830
Taiwan, R.O.C.
Tel.: 886-7-7777668

Fongshan Branch
1F., No. 85-1, Jhongshan Rd.
Fongshan District, Kaohsiung City 830
Taiwan, R.O.C.
Tel.: 886-7-7451199

Gangshan Branch
1F., No. 388, Gangshan Rd.
Gangshan District, Kaohsiung City 820
Taiwan, R.O.C.
Tel.: 886-7-6235500

Wujia Branch
1F., No. 699, Wujia 2nd Rd.
Fongshan District, Kaohsiung City 830
Taiwan, R.O.C.
Tel.: 886-7-8215101

KEELUNG CITY

Keelung Branch
1F., No. 150, Sinyi Rd.
Sinyi District, Keelung City 201
Taiwan, R.O.C.
Tel.: 886-2-24221166

MIAOLI COUNTY

Toufen Branch
1F., No. 951, Jhonghua Rd.
Toufen Township, Miaoli County 351
Taiwan, R.O.C.
Tel.: 886-37-695678

NANTOU COUNTY

Nantou Mini Branch
1F., No. 220, Jhongshan St.
Nantou City, Nantou County 540
Taiwan, R.O.C.
Tel.: 886-49-2207711

PINGTUNG COUNTY

Pingtung Branch
1F., No. 450, Zihyou Rd.
Pingtung City, Pingtung County 900
Taiwan, R.O.C.
Tel.: 886-8-7383000

TAICHUNG CITY

Chunggang Branch
1F., No. 400, Sec. 1, Taichung Port Rd.
West District, Taichung City 403
Taiwan, R.O.C.
Tel.: 886-4-23149999

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

Keboguan Branch
1F., No. 179, Sec. 1, Taichung Port Rd.
West District, Taichung City 403
Taiwan, R.O.C.
Tel.: 886-4-23101258

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 Mini Branch
1F., No. 77, Yucai N. Rd.
North District, Taichung City 404
Taiwan, R.O.C.
Tel.: 886-4-22231666

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 CITY

Dali Branch
1F., No. 20, Dongrong Rd.
Dali District, Taichung City 412
Taiwan, R.O.C.
Tel.: 886-4-24813333

Fongyuan Branch
No. 545, Jhongjheng Rd.
Fongyuan District, Taichung City 420
Taiwan, R.O.C.
Tel.: 886-4-25201010

TAINAN CITY

Central Tainan Branch
1F., No. 167, Sec. 1, Minsheng Rd.
West 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

Rende Mini Branch
1F., No. 478, Zhongshan Rd.
Rende District, Tainan City 717
Taiwan, R.O.C.
Tel.: 886-6-2798099

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.
West 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
1F., No. 410, Jhongshan Rd.
Jiali District, Tainan City 722
Taiwan, R.O.C.
Tel.: 886-6-7221335

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

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

TAITUNG COUNTY

Nei Li Mini Branch
1F., No. 262, Sec. 1, Zhonghua Rd.
Zhongli City, Taoyuan County 320
Taiwan, R.O.C.
Tel.: 886-3-4611998

Taitung Branch
1F., No. 279, Jhongshan Rd.
Taitung City, Taitung County 950
Taiwan, R.O.C.
Tel.: 886-89-339898

TAOYUAN COUNTY

Bade 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 Township, 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
1F., 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 unit directory

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Ho Chi Minh City Branch
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District 1, Ho Chi Minh City
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Tel.: 848-39101888
Fax: 848-39101999

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

Kowloon Branch
26th Floor, 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
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New York Branch
3rd Floor, 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
Roppongi Hills Mori Tower
37th Floor, 10-1 Roppongi 6-Chome
Minato-Ku, Tokyo 106-6137 Japan
Tel.: 81-3-54138168
Fax: 81-3-54138140

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Bangkok 10330 Thailand
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Fax: 66-2-2566480

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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 Floor, 41B Ly Thai To Street
Hanoi, Vietnam
Tel.: 84-4-38249088
Fax: 84-4-38249099

London Representative Office
7th Floor, 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)
Wisma Tamara, 15th-17th Floors, J1 Jend.
Sudirman, Kav. 24, Jakarta 12920
Indonesia
Tel.: 62-21-25578787
Fax: 62-21-5206378

Bandung Area

Bandung Branch
Wisma Lippo, 7th Floor
J1. Jend. Gatot, Subroto
No. 17, Bandung 40262
Indonesia
Tel.: 62-22-7305900
Fax: 62-22-7308878

Bandung - Dago Branch
J1. Ir. H. Juanda (J1 - Dago)
No. 56, Bandung 40115 Indonesia
Tel.: 62-22-4218708
Fax: 62-22-4265101

Jakarta Area

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

Pluit Branch
Ruko CBD Pluit Blok S/11
Jl. Pluit, Selatan Raya, Jakarta 14450
Indonesia
Tel.: 62-21-66673100
Fax: 62-21-66673411

Surabaya Area

Darmo Branch
Ruko Bukit Darmo Golf
B2 No. 20-21 Bukit Darmo Boulevard
Surabaya 60226, Indonesia
Tel.: 62-31-7322277
Fax: 62-31-7322266

Surabaya Branch
Wisma Intiland (ex Wisma Dharmala)
6th Floor, 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.)
22939 Hawthorne Boulevard
2nd Floor, Torrance, CA 90505
U.S.A.
Tel.: 1-310-7912828
Fax: 1-310-7912877

California Area

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

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.
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Fax: 1-732-650-1161

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 Street, Flushing
New York 11355
U.S.A.
Tel.: 1-718-886-5600
Fax: 1-718-886-0646

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 Street
Ontario, M2N 6K1
Canada
Tel.: 1-416-590-2822
Fax: 1-416-590-1788

chinatrust philippines directory

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31st Street corner 3rd Avenue
Bonifacio Global City, Taguig City 1634
Tel.: (02) 9889-CTP
Fax: (02) 576 7935

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
8th Floor, Tower One & Exchange Plaza
Ayala Avenue, corner Paseo de Roxas
Makati City
Tel.: (02) 759 4989 / 811 8545 / 848 5311 / 848 5519 / 848 5520 / 848 5521 / 848 6524
Fax: (02) 759 4990

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

Bonifacio Global City Branch
Ground Floor, Fort Legend Towers
31st Street corner 3rd Avenue, Bonifacio Global City, Taguig City
Tel.: (02) 659 3686 / 811 8565 / 811 8567 / 811 8731 / 811 8788
Fax: (02) 811 8566

Buendia-Pasong Tamo Branch
Ground Floor, Burgundy Corporate Tower
252 Sen. Gil Puyat Avenue
Makati City
Tel.: (02) 889 0018 / 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) 723 8645 / 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 Piñas Branch
Ground Floor, RRDC Building
National Road, Manuela Subdivision
Pamplona Tres, Las Piñas 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
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) 646 4361

Ortigas Branch
Ground Floor, Unit 101 Prestige Tower
Emerald Avenue, Ortigas Centre
Pasig City
Tel.: (02) 632 0402 / 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 2994 / 893 7500 / 893 9415
Fax: (02) 893 9837

Sucat Branch
Units N & O Columbia Airfreight Complex
Ninoy Aquino Avenue, Parañaque 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) 322 5599 / 322 5616 / 625 5758 /
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 3308 / 233 3800 / 233 3818 / 415 7788 / 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 / 415 8168
Fax: (032) 254 5167

Cebu - Mandaue Branch
Ground Floor, Diamond Plaza Building
National Highway, Mandaue City
Tel.: (032) 346 5176 / 346 5561 / 346 7198 / 346 7318
Fax: (032) 346 7198

Davao Branch
Ground Floor, Brightstone Building
Monteverde Avenue corner
Gempesaw Street, Davao City
Tel.: (082) 221 4854 / 221 8741 / 228 6851 / 228 6856 / 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

MORTGAGE BANKING'S RELEASING OFFICE (VisMin Area)

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

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Alabang, Muntinlupa City

Alabang
Ground Floor, 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
Parañaque City

Binondo
Ground Floor, State Centre Building
Juan Luna Street, Binondo Manila

Bonifacio Global City
Ground Floor, Fort Legend Towers
31st Street corner 3rd Avenue
Bonifacio Global City, Taguig City

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

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

Greenhills
Ground Floor, LGI Building
Ortigas Avenue, San Juan, Metro Manila

Kalookan
Rizal Avenue corner 3rd Avenue
Kalookan City

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

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

Mabini
Ground Floor, Unit B Echelon Tower
2100 A. Mabini Street, Malate, Manila

Marikina
J.P. Rizal corner E. dela Paz Street
San Roque, Marikina City

Market! Market!
2nd Floor, 1A Entrance, Fashion Market Area
Market! Market! Building, Bonifacio Global City, Taguig City

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

Rada
Ground Floor, SEDCCO I Building
Legaspi corner Rada Streets
Makati City

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

PROVINCIAL ATMS

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Angeles City, Pampanga

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

Carmona
National Highway, Barrio Maduya
Carmona, Cavite

Cavite
Ground Floor, 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

Subic
Subic Bay Industrial Park-1
Rizal Highway corner Argonaut Highway
Subic Bay Freeport Zone

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

chinatrust philippines officers

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Therese Marie A. Marin
Randy A. Vidal
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Zimar B. Mendiola
Assistant Vice President

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Senior Vice President / Group Head

Aleli C. Dela Cruz
Benson Yang
Assistant Vice Presidents

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Assistant Vice President

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Caezar O. Gutierrez
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Assistant Vice President

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Assistant Vice President

INFORMATION TECHNOLOGY

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Elmer C. Beloy
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Vice Presidents

Francisco D. Maramba
Assistant Vice President

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Senior Vice President

Ma. Cristina C. Talastas
Vice President

Ma. Cristina C. Callañga
Assistant Vice President

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Ingrid U. Militante
Mark Dennis S. Tan
Cecilia S. Treyes
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First Vice President / Group Head

Jayzel A. Marcial
Vice President

TREASURY

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Justin Benedict G. dela Rosa
Ma. Iraida B. Recto
Vice Presidents

Mary Anne G. Bernal
Rowena R. Bauzon
Arlene Amparo R. Matundan
Assistant Vice Presidents

TRUST AND INVESTMENT SERVICES

Lalaine C. Sta. Ana
First Vice President

products and services

PESO DEPOSITS

Regular Savings Account

Ultimate Deposit Checking Account

Ultimate Earner

Regular Peso Time Deposit

Special One-Year Time Deposit

FOREIGN CURRENCY DEPOSITS

Dollar Savings Account

Dollar Time Deposit

Dollar Innovate Five-Year Time Deposit

CASH MANAGEMENT SERVICES

Bills Payment

Deposit Pick-up

Payroll Partner

Collections for SSS, BIR and Customs Duties

Ultimate CheckWriter

NetBanking

eStatement / Mobile Statement

Visa Debit and Cash Card

Point-of-Sale

Night Depository Box

ATM Alliance and Settlement

CONSUMER LOANS

Housing Loan

Salary Stretch (Personal and Corporate)

CORPORATE LENDING

General Working Capital Loans

Structured Finance

Syndicated Financing

Trade Financing

Various Discounting Facilities

TREASURY SERVICES

Foreign Exchange

FX Forward Contracts

Peso Government Securities

USD Government Bonds

Corporate Bonds

PAYMENT AND REMITTANCE SERVICES

Remittances / Telegraphic Transfers

TRUST PRODUCTS

Living Trust Accounts

Corporate Trust

Investment Management (Personal and Corporate)

Retirement Fund Management

Escrow Agency (Personal and and Corporate)

Safekeeping (Personal and Corporate)

Mortgage Trust Indenture

INTERNATIONAL TRADE

Documents Against Payment/ Acceptance

Open Accounts

Export LC Advising

Export Bills

Import / Export Letters of Credit

Standby Letters of Credit

Trust Receipts

vision statement

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

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

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

We are Chinatrust.

mission statement

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

We commit to our...

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

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

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

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

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

Business Partners, to foster lasting and mutually beneficial relationships.

Chinatrust
中國信託

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