Chinatrust 中國信託

April 15, 2010

The Philippine Stock Exchange, Inc.
4th Floor, Philippine Stock Exchange Centre
Exchange Road, Ortigas Center
Pasig City

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

Re : **2009 Annual Report (SEC Form 17-A)**

Madam:

We are pleased to furnish you with a copy of the Bank's SEC Form 17-A (2009 Annual Report) to be filed with the Securities and Exchange Commission in compliance with existing laws.

Thank you and best regards.

Very truly yours,

Maritess P. Elbinias

Atty. Maritess Parilla-Elbinias, VP
Legal Department, Head
Corporate Information Officer

Encl.: a/s

COVER SHEET

CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION
(Company's Full Name)

3rd Floor, Tower I, Ayala Triangle, Ayala Ave., cor. Paseo de Roxas, Makati City
(Company's Address: No. Street City/Town/Province)

848-5519
(Company's Telephone Number)

December 31	**4th Monday of May**
(Fiscal Year Ending)	**Annual Meeting**
(Month & Day)	

SEC17-A (2009 Annual Report)
(FORM TYPE)

(Amendment Designation If Applicable)

(Secondary License Type, if any)

LCU

Cashier **DTU**

AS095-008814
S.E.C. Reg. No.

Central Receiving Unit **File Number**

Document I.D.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended ------------------ December 31, 2009

2. SEC Identification Number ------------------ AS-095-008814

3. BIR Tax Identification No. ------------------ 004-665-166-000

4. Exact name of issuer as specified in its charter --------- **CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION**

5. Philippines
   Province, Country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
   Industry Classification Code:

7. 3rd Floor Tower One & Exchange Plaza, Ayala Triangle Ayala Avenue corner Paseo de Roxas, Makati City — 1226
   Address of Principal Office — Postal Code

(632) 848-5519
8 Issuer's telephone number, including area code

Not applicable
8. Former name, former address, and former fiscal year, if changed since last report.

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Stock, P10 par value	247,968,731

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

Yes [x]   No [ ]

If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange   Common

Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes [x] No [ ]

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

Yes [x] No [ ]

13. The aggregate market value of the voting stock held by non-affiliates of the registrant.

Number of shares held by non-affiliates multiplied by share price as of 4th quarter of 2009: 1,472,856 x P25.00 = P36,821,400.00

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission. ***Not Applicable.***

Yes [ ] No [ ]

DOCUMENTS INCORPORATED BY REFERENCE

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:

(a) Any annual report to security holders ------------- Not applicable

(b) Any proxy or information statement filed pursuant to SRC Rule 20 and 17.1(b)------Not applicable

(c) Any prospectus filed pursuant to SRC Rule 8.1-1--------- Not applicable

TABLE OF CONTENTS

PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

(1) Description of Business

Business Development. Chinatrust (Philippines) Commercial Bank Corporation ("Bank" or "Chinatrust") is the Philippine subsidiary of Chinatrust Commercial Bank, Ltd. ("CTCB") of Taiwan. CTCB is the biggest privately-owned commercial bank, the most awarded financial institution in the island nation, and one of the world's top two hundred (200) banks in terms of capital.

The Bank was incorporated on September 7, 1995 initially as Access Banking Corporation, and commenced operation on September 26, 1995 as a domestic commercial bank. The Bank has an authorized capital stock of P3.0 Billion.

On November 22, 1995, the Monetary Board approved the investment of CTCB in sixty percent ("60%") of the voting stock of Access Banking Corporation through the outright purchase of fifty percent ("50%") or P487.5 Million of its P975.0 million outstanding voting stock and an additional subscription of P262.5 million of the P275.0 million additional voting stock issued. On January 8, 1996, the Bank's name was changed to its present name - Chinatrust (Philippines) Commercial Bank Corporation.

The Bank's only affiliate, Chinatrust Forex Corporation ("CFC"), 40% of which is owned by the Bank, commenced commercial operation on May 21, 1997 to engage in foreign exchange dealership. As a result of tighter regulations resulting from the efforts of the government and the BSP to combat money laundering and to curb undue speculation on the currency, the CFC's Board of Directors, in its meeting last 29 January 2004, resolved to dissolve CFC subject to the final approval by the stockholders holding at least 2/3 of the outstanding capital stock of CFC. CFC ceased operations last June 30, 2004. As a requisite for the approval of the Securities and Exchange Commission ("SEC") to amend its articles of incorporation to shorten its corporate term, the final tax clearance is still being processed.

In line with the capital build-up program of the Bank, its Board of Directors approved in 1997 the issuance of 25 million common shares at P10.00 per share from its authorized capital stock via a stock rights offering to existing stockholders. This entitled the existing shareholders to subscribe to one (1) common share for every five (5) shares held. As of December 31, 1997, the stock rights offering was fully subscribed; partial payment to the subscription amounted to P209.99 million which resulted in the Bank's attainment of its P1.647 Billion capital, fully complying with minimum capital requirements of BSP of P1.625 billion by the end of the year. On March 31, 1998, all subscriptions to the stock rights were fully paid. On April 23, 1998, the SEC approved the stock rights offering.

On June 2, 1999, the Bank's share was listed in the Philippine Stock Exchange ("PSE") through an Initial Public Offering ("IPO") of 37,500,000 common shares from its unissued authorized capital stock. The proceeds of the IPO were utilized for branch expansion and investment in information technology.

In December 2000, CTCB substantially increased its equity in the Bank through the acquisition of shares held by a minority group, thus controlling approximately 91% of the Bank's capital stock, compared to 57% prior to the acquisition. A further acquisition of shares held by the public representing 9% of the Bank's equity was made by CTCB in

January 2001 through a tender offer at a price of PhP19.00 per share, the same price at which the shares from the minority group was acquired. To date, CTCB holds 99.41% of the Bank's outstanding capital stock.

On August 25, 2005, the Board of Directors of the Bank declared 15% stock dividends out of its unissued shares. It was subsequently approved by the shareholders in a special meeting called for the same purpose on December 22, 2005. The BSP later approved the 15% stock dividend on February 20, 2006. On April 4, 2006, 28,124,997 common shares representing the 15% stock dividends were issued to the Bank's shareholders and simultaneously listed with the PSE.

On March 30, 2007, the Bank's Board of Directors once again made another 15% stock dividend declaration, to be paid out of the Bank's unissued shares. The same was ratified by the shareholders during the Bank's annual shareholders' meeting held on June 28, 2007, and subsequently approved by the BSP on September 20, 2007. On November 15, 2007, an additional 32,343,734 common shares representing 15% stock dividends were listed in the PSE and issued to the Bank's stockholders of record as of record date.

Under the PSE Listing Rules, publicly listed companies like Chinatrust are required to maintain a Minimum Percentage of Public Ownership and Minimum Number of Stockholders. This rule, however, was lifted by the PSE Board in its meeting on August 10, 2005, but the same is still awaiting SEC approval. In the meantime, the PSE is not enforcing the rule on Minimum Percentage of Public Ownership and Minimum Number of Stockholders for publicly listed entities.

On June 25, 2009, the Bank's stockholders elected the following directors: William T.Y. Hon, William B. Go, Larry Hsu and Eric Wu and Mark Chen; Messrs. Edwin Villanueva and Ng Meng Tam were elected as independent directors. Messrs. William Hon and William B. Go continue to be the Chairman and Vice-Chairman of the Board, respectively.

Based on the data as of December 31, 2009 posted by Business World, out of the thirty-nine (39) universal and commercial banks operating in the Philippines, the Bank ranked 28th in terms of Total Assets; 23rd in terms of Total Loans; 26th in terms of Total Deposits; and 19th in terms of Total Capital.

(2) Business of Issuer

Products and Services. As a full-service commercial bank, the Bank offers various products and services, such as the following:

PESO DEPOSITS
Regular Savings Account
Ultimate 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

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

CONSUMER LOANS
CashBack Mortgage
Salary Stretch (Personal & Corporate)

CASH MANAGEMENT SERVICES

TRUST PRODUCTS

Bills Payment
Deposit Pick-up
Payroll Partner
SSSNet, BIR eFPS and Customs Duties
Ultimate Check Writer
NetBanking
eStatement/Mobile Statement
Visa Debit and Cash Card
Point-of-Sale
Night Depository Box
ATM Alliance and Settlement

Living Trust Accounts
Corporate Trust
Investment Management (Personal & Corporate)
Retirement Fund Management
Escrow Agency (Personal & Corporate)
Custodianship (Personal & Corporate)
Mortgage Trust Indenture

CORPORATE LENDING
General Working Capital Loans
Capital Expenditure Financing
Project and Structured Finance
Syndicated Financing
Trade Financing
Various Discounting Facilities

TREASURY SERVICES
Foreign Exchange
Forward Contracts

INVESTMENT SERVICES
Government Securities
USD Fixed Income Securities

PAYMENT AND REMITTANCE SERVICES
Remittance/Telegraphic Transfers

From the foregoing products and services, the Bank's revenues are categorized into three (3) major segments, namely: (1) Portfolio Products; (2) Transactional Banking Products; and (3) Exposure Management Products. The remaining revenues are classified under Others. Portfolio Product revenues consist of spreads earned on loans. Transactional Banking Product revenues consist of spreads earned on deposits as well as fees earned on trade finance. Exposure Management Product revenues consist of income earned from the investment portfolio and trading activities. Other revenues consist of fees earned on trust services, gain on sales of acquired assets, service fees and charges earned on all other banking activities. The contributions of the 3 major segments in terms of percentage to the Bank's total revenues during the last two years are as follows:

Major Segment	***2008***	***2009***
Portfolio Products	61.51%	56.93%
Transactional Banking Products	31.11%	23.47%
Exposure Management Products	-1.63%	7.34%

Status of New Products or Services. The Bank introduced the Centralized Post-Dated Check Warehousing services, Netbanking's Third Party Payment Information, Dollar Innovate Five-year Time Deposit in 2009.

Distribution Network. The Bank's products and services are made available to its clients through its offices, branch network, all automatic teller machines (ATMs), and for some services/products, thru its own ATM's or through other ATM networks. Likewise, some products can now be accessed through the internet. In addition to its Main Office Branch in Ayala, the Bank operates 23 branches as of end of December 2009.

Competition. The Bank faces competition from both domestic and foreign banks that operate in the Philippines. In the light of such competitive environment, the Bank focuses on key businesses to include consumer finance, the trading of fixed-income instruments and foreign exchange, the Taiwanese business, and selective corporate lending. By being a specialist, it is able to properly concentrate its resources and capital to ensure service excellence and good risk management and corporate governance. The Bank likewise adopts applicable business models from its parent bank and custom fits these to local market conditions. These efforts make the Bank a strong player in its chosen businesses.

Sources and Availability of raw materials and the names of principal supplies. **Not applicable.**

Dependence Upon a single/few customers. **– Not applicable.**

***Transactions with and/or dependence on related*.** Except in the ordinary course of business such as DOSRI loans, there are no transactions with and/or dependence on related parties.

Trademarks, Licenses, Franchises., etc. The Bank is also not dependent on any patents, trademarks, copyrights, licenses, franchises, and royalty agreements.

Effect of existing or probable government regulations*.* As a domestic commercial bank, the Bank is governed by the rules and regulations of the BSP. The Bank observes and complies with all government laws, rules and regulations that exist.

***Amount Spent on Research and Development*.** There are no major expenses on research and development activities and these are just incorporated into the ordinary business expense of the Bank.

Cost and effect of compliance with environmental laws. **Not applicable.**

Number of Employees. As of December 31, 2009, the Bank had five hundred twenty one (521) employees composed of 312 officers and 209 staff, with 497 regular employees and 24 probationary employees. The Bank has no existing employees' union. It has also no collective bargaining agreement.

In addition to salary, the Bank gives its employees fringe benefits, consisting of 13th month pay, mid-year bonus, Christmas bonus, performance bonus, medical allowance, health benefits, group life insurance, car plan, company car benefit, parking allowance, gasoline reimbursement, meal allowance, out-of-base allowance, salary loans, retirement pay loan, retirement benefits, and various leaves (sick, vacation, emergency, maternity, paternity, solo parent, etc.).

***Major Business Risks*.** The Bank's business activities are exposed to a variety of financial risks – market risks (including foreign exchange risk and price risk), credit risk, liquidity risk and interest rate risk. The Bank is strongly committed to judiciously managing risks. For this purpose, it has put in place the necessary processes and platforms that enable it to prudently manage all categories of risk. It is the presence of this risk infrastructure and consciousness that has made the Bank either a leader or a major player in businesses where the required core competency is astute risk management capability. The Bank's risk management programs seek to minimize potential adverse effects on its financial performance.

Market risk consists of foreign exchange risk and price risk. Essentially, this is the risk that the value of a currency position or financial instrument will fluctuate due to changes in foreign exchange rates and interest rates. The Bank uses forward exchange contracts to manage the foreign exchange risk in specific commercial transactions. The Bank maintains a rigid system of loss limits and action triggers that prompt management to immediately act in the event that these thresholds are breached. These actions may include, but are not limited to, the partial liquidation of existing positions in order to cut losses. The objective of these thresholds is to ensure that losses, if any, will be limited to what the Bank's earning capability can sufficiently cover.

Credit risk is the risk that a borrower or issuer of a security held by the Bank will not pay the obligation when it falls due. The Bank manages its credit risk by setting limits for individual borrowers and group of borrowers. It also puts a cap on exposures to specific products, specific market segments, specific industries and specific loan tenors. The Bank likewise monitors borrower-specific credit exposures, and continually assesses the creditworthiness of counterparties. In addition, the Bank obtains security where appropriate, enters into collateral arrangements with counterparties and limits the duration of the exposures.

Liquidity risk is the risk that the Bank will be unable to meet its obligations as they fall due. To effectively manage liquidity risk, the Bank diversifies its funding sources and maintains a set of prudent trading limits, liquidity ratios, maximum maturity gaps, and maximum cumulative outflows per tenor bucket. In addition, the Bank maintains sufficient cash and marketable securities, supplemented by adequate credit facilities.

Cash flow and fair value interest rate risks arise from the possibility that changes in interest rates will affect future cash flows and fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities. Accordingly, limits on interest rate gaps for stipulated periods have been established by Management.

In addition to financial risks, the Bank is also exposed to operations risks. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Bank ensures that specific business policies, processes, procedures and staff are in place to monitor, identify, report and manage operational risks, including regulatory and reputational risks.

Item 2. Properties

Properties Owned

The Bank owns the following condominium units described hereunder:

- Three (3) units at the 15th Floor, Tower One & Exchange Plaza, Ayala Triangle, Ayala Avenue corner Paseo de Roxas, Makati City
- Commercial unit, the entire 12th Floor, BA Lepanto Building, Paseo de Roxas, Makati City
- Units 115 & 116 Makati Prime City, San Antonio Village, Makati City
- Residential unit, 4th Floor, Ylaya Mansion, Ylaya Street, Tondo, Manila
- Unit 1601 Summit One Tower, Shaw Blvd., Mandaluyong City
- Unit 1503 Le Triomphe H.V. Dela Costa Makati City
- Unit D-4 Cluster 3 Garden, San Juan City

There are no mortgage, liens, encumbrances or any limitations on the Bank's ownership of the foregoing units, except that the following units are subject of separate Contracts to Sell, the consideration of which has not yet been fully paid: Units 115 & 116 Makati Prime City, San Antonio Village, Makati City.

Description of Property the Bank intends to acquire in the next 12 months. There are no plans to acquire properties within the next twelve (12) months. However, the Bank will lease properties to serve as sites for its branches. These prospective sites are either being presently identified or currently the object of preliminary negotiations with the lessors.

Properties Leased

a. Offices

OFFICE	LOCATION	TERM	MONTHLY RENTAL	EXPIRY DATE
3rd Floor, Tower One & Exchange Center	Ayala Avenue, Makati City	5 years	P675,413.32	December 31, 2010
5th Floor, Tower One & Exchange Center	Ayala Avenue, Makati City	2 years	P146,221.60	December 31, 2010
11th Floor, Lepanto Building	Paseo de Roxas, Makati City	2 years	P 524,499.98	January 31, 2010

b. Condominium Units

LEASED PREMISES	LOCATION	TERM	MONTHLY RENTAL	EXPIRY DATE
Condominium Unit Salcedo Park	Makati City	1 year	107,431.40	April 6, 2010
House and Lot Ayala Alabang	Muntinlupa City	6 months	100,370.00	April 21, 2010
House and Lot Dasmariñas Village	Muntinlupa City	2 years	274,137.00	October 24, 2010
Condominium Unit Greenbelt Parkplace	Makati City	1 year	43,210.00	May 31, 2010
House and Lot, Samahan Heights	Subic Bay	1 year	57,455.36	December 31, 2010

c. Branches

NAME OF BRANCH	LOCATION	TERM	MONTHLY RENTAL	EXPIRY DATE
Alabang	Muntinlupa City	5 years	178,534.13	01-27-2012
Ayala	Makati City	5 years	498,446.07	12-31-2010
Angeles	Angeles City	5 years	38,808.00	06-14-2011
Binondo	Manila	5 years	157,172.40	05-31-2011
Buendia	Makati City	10 years	155,932.80	09-01-2013

Cagayan de Oro	Cagayan de Oro	7 years	101,808.00	10-31-2016
Carmona	Cavite	5 years	72,870.10	12-31-2010
Cavite	Cavite	5 years	66,701.83	12-31-2010
Cebu-Banilad	Cebu City	5 years	199,650.00	07-31-2010
Cebu-Magallanes	Cebu City	5 years	173,249.42	09-30-2011
Cebu-Mandaue	Mandaue City	5 years	122,430.00	11-30-2011
Davao	Davao City	5 years	120,700.20	06-30-2011
Del Monte	Quezon City	5 years	72,600.99	07-01-2012
Greenhills	San Juan City	5 years	198,924.00	07-31-2013
Kalookan	Kalookan City	5 years	105,000.00	07-31-2012
Las Piñas	Las Piñas City	5 years	152,628.00	05-31-2012
Leviste	Makati City	5 years	169,880.08	03-31-2011
Mabini	Manila	5 years	131,567.04	06-30-2014
Marikina	Marikina City	5 years	92,400.00	12-24-2011
Ortigas	Pasig City	5 years	295,475.61	07-07-2014
Rada	Makati City	5 years	142,864.14	06-30-2011
Subic	Zambales	5 years	$4,330.60	01-04-2014
Sucat	Paranaque City	5 years	80,847.72	02-28-2010

All lease contacts have renewal options upon the terms and conditions mutually acceptable to the Bank and the lessors.

Item 3. Legal Proceedings

Except for cases or proceedings, which are incidental to its business such as suits for sum of money, foreclosures, writs of possession, employee relations, and other cases arising from loan transactions and operations, the Bank has no material pending legal proceedings for or against it.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of the security holders during the fourth (4th) quarter of the year covered by the report.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Issuer's Common Equity and Related Stockholder Matters

1. Market Information

The Bank's shares are traded in the PSE. Market prices of the Bank's shares since 1st quarter of 2008 to 4th quarter of 2009 are as follows:

QUARTER	HIGH	LOW
4Q'09	25.00	23.00
3Q'09	25.00	23.00
2Q '09	25.00	20.00
1Q '09	27.50	27.00
4Q '08	No trade	No Trade

3Q '08	31.00	30.00
2Q '08	31.00	30.00
1Q '08	32.00	32.00

In 2009, the Bank's shares were last traded on December 4, 2009 with a closing price of P25.00.

As of February 3, 2010, which is the last practicable trading date prior to filing of this report, the information showed a closing price of P24.00.

There was no sale of any securities made by the Bank within the last three (3) years.

2. Holders

The number of shareholders of record as of December 31, 2009 is 103.
Common Shares outstanding as December 31, 2009 are 247,968,731.
The Top 20 Stockholders of record as of December 31, 2009, are as follows:

Name	Number of Shares Held	% to Total
Chinatrust Commercial Bank, Ltd.	246,495,812	99.41
PCD Nominee Corp. (Filipino)	752,014	00.30
Alfonso Lao	185,150	00.07
Arlene Ravalo Ulanday & or Bethel Ann Ravalo & or Eliodoro Ravalo	75,000	00.03
Chen Li Mei	65,992	00.03
Phil. Fire & Marine Insurance Corp.	51,974	00.02
Roberto Co San	39,675	00.02
Bettina V. Chu	29,095	00.01
Regan C. Sy	26,450	00.01
Ching L. Tan	13,225	00.01
Jaunita C. Go	13,225	00.01
Bienvenido T. Crisostomo	13,225	00.01
Bernardito U. Chu	13,225	00.01
Guat Tioc Chung	13,225	00.01
Oliverio Guison Laperal	13,225	00.01
Razul Z. Requesto	13,225	00.01
Ma. Socorro C. Palma Gil	10,580	00.00
PCD Nominee Corp. (Non-Filipino)	10,106	00.00
Roberto Chan Kwan	8,280	00.00
Tyrone P. Limkunhoy	6,612	00.00

3. Dividends

The Bank declared 15% stock dividends last August 25, 2005, which was subsequently approved by its shareholders on December 22, 2005. The BSP later approved the 15% stock dividend on February 20, 2006. On April 4, 2006, 28,124,997 common shares representing the 15% stock dividends were paid to the Bank's shareholders and simultaneously listed with the PSE.

On March 30, 2007, the Bank's Board of Directors once again made another 15% stock dividend declaration, to be paid out of the Bank's unissued shares. The same was ratified by the shareholders during the Bank's annual shareholders' meeting held on June 28, 2007, and subsequently approved by the BSP on September 20, 2007. On November 15, 2007, an additional 32,343,734 common shares representing 15% stock dividends were listed in the PSE and issued to the Bank's stockholders of record as of record date.

There are no restrictions that limit the Bank's ability to pay dividends on common shares nor that are likely to do so in the future. However, any dividend declaration to be made by the Bank is subject to approval by the BSP, SEC and PSE.

4. Recent Sales of Unregistered or Exempt Securities, Including Recent Issuance of Securities Constituting an Exempt Transaction

There has been no sale of exempt securities nor of securities constituting an exempt transaction within the past 3 years.

Item 6. Management's Discussion and Analysis or Plan of Operation.

1. Management Discussion and Analysis and Results of Operations (Last Three Years, 2009, 2008, 2007)

FY 2007 Compared to FY 2006

For the year ending December 31, 2007, Chinatrust net income softened to Php114 million mainly on account of unfavorable market condition brought about by risk aversion stemming from the sub-prime crisis which limited the Bank's revenue from its fixed-income business to P85 million in spite of an effective portfolio management and cautious trading. However, the Bank took advantage of the volatility in the foreign exchange market resulting to a hefty 55% growth in revenues from foreign exchange trading to P64.6 million from P41.6 million in the previous year. Net interest income of the Bank rose by 3.36% despite the decline in corporate loan portfolio due to paydowns by large corporations, which accessed the capital market for cheaper funds. The growth in net interest income was mainly on account of lower interest expense as average cost of funds went down to 4.14% from previous year's 5%. On the other hand, the lower cost of funds can be attributed to the robust growth in low-cost deposits which expanded by 23% in terms of average daily balance to P5.5 billion in 2007. Unlike other banks, Chinatrust's low-cost funds come largely from its unique cash management offerings and not from its borrower's maintaining balances. The Bank's fee income climb by 20% on the back of a P26 million increase in trust fees as cash resources and non-cash resources managed by the trust department posted an unprecedented growth of 700% and 108%, respectively.

The Bank set aside Php338.5 million as provisions for impairment and credit losses for the year, maintaining its conservative stance on loan loss provisioning.

Operating expense growth was kept at 13.25% despite the Bank's continued investment in its core businesses and the expansion of its branch network bringing the total number of branches to 23.

The Bank's capital adequacy ratio remains high in the industry at 27.31% as of December 31, 2007, way above the regulatory requirement of 10%. This has put the

Bank in an excellent position to invest in new businesses or in expansion of existing products and services.

FY 2008 Compared to FY 2007

Total resources of the Bank expanded by 34% to ₱26.58 billion this 2008 as compared to ₱19.90 billion level last year. Even with the prevailing global economic crisis, the loans and receivables – net surged by 41% to ₱18 billion as the corporate and mortgage loans posted a robust growth.

Non-performing loans (NPL) ratio as of December 31, 2008 improved to 3.93% from 6.28% in December 2007. The Bank's capital adequacy ratio remains high versus the industry at 21.50% as of December 31, 2008, way above the regulatory requirement of 10%.

Deposit level as of year-end 2008 stood at ₱18.90 billion, 47% higher than the December 2007 level of ₱12.84 billion.

For the year ending December 31, 2008, Chinatrust net income softened to ₱70 million from ₱114 million last year mainly on account of losses incurred on the trading of securities. Interest income dropped by 14.27% mainly attributable to lower average volume of interbank loans. However, interest expenses on deposit liabilities declined by 29.22% as the Bank's low-cost deposits' average daily balance (ADB) grew by 10.19% to ₱6.10 billion in 2008 from ₱5.54 billion last year coupled with a 24.67% decrease in the high-cost deposits' ADB. Chinatrust's low-cost funds come largely from its unique cash management offerings and not from its borrower's maintaining balances thus enabling the Bank to lower its average cost of funds to 3.54% per annum from prior year's 4.14% per annum.

The Bank's revenue from foreign exchange trading activities rose by 17.24% but fixed-income trading business suffered a loss due to the unfavorable market conditions as Philippine dollar denominated bonds were dumped by foreign investors resulting to unprecedented downward spiral of bond prices brought about by risk aversion. Operating expenses went down by 11.10% year on year from ₱1.29 billion to ₱1.14 billion as the Bank rein in on its operating expenses.

The Bank set aside P257.2 million as provisions for impairment and credit losses for the year, maintaining its conservative stance on loan loss provisioning.

FY 2009 Compared to FY 2008

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

Net interest income climbed by 10.41% from Php1.35 billion to Php1.49 billion driven mainly by higher booking of corporate loans through major corporate finance deals and the sustained increase of the highly profitable consumer finance portfolio. The average balance of both Peso and US Dollar earning loans increased by Php2.01 billion in 2009 as compared to 2008. Interest expense declined by 0.27% brought about by maturities on borrowings partly offset by increase in interest expense of deposit liabilities by 3.32%. Year on year average volume for deposits increased by Php2.4 billion.

Non-interest income rose by 136.75% mainly due to higher fees and commissions amounting to Php187 million from Php94 million last year mainly on account of higher processing fees earned and credit related fees from corporate finance transactions. Moreover, a significant increase in both trading gain and foreign exchange of 934.75% was posted amounting to Php160.82 million from Php15.55 million last year. With the gradual recovery of global financial markets, the Bank took advantage of the improving market prices resulting to the hefty increase on trading and securities gain.

Operating expenses were well contained at 9% increase largely due to higher revenues. Cost to income ratio referring to the ratio of operating expenses (exclusive of bad debts written off/provisions for probable losses) to operating income is at 57% favorably better from 66% in 2008. The Bank set aside P285.63 million as provisions for impairment and credit losses for the year, maintaining its conservative stance on loan loss provisioning.

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

Key Financial Indicators

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

	December 31, 2009	December 31, 2008
Return on Average Equity (ROE)	6.52%	1.43%
Return on Average Assets (ROA)	1.31%	0.30%
Cost to Income Ratio	56.68%	66.30%

	December 31, 2009	December 31, 2008
Non-Performing Loan Ratio (NPL)	3.04%	3.93%
Non Performing Loan Cover	35%	46%
Capital Adequacy Ratio	22.96%	21.50%

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

- Return on Average Equity ---- Net Income divided by average total capital funds for the period indicated
- Return on Average Assets ---- Net Income divided by average total resources for the period indicated
- Cost to income ratio --- Total Operating expenses (excluding Gross Receipts Tax/GRT and Documentary Stamps Used/DST) divided by the sum of net interest income plus other income
- Non-Performing Loan Ratio --- Total non-performing loans divided by gross loan portfolio
- Non-Performing Loan Cover --- Total allowance for probable loan losses divided by total non-performing loans
- Capital Adequacy Ratio --- Total capital divided by risk-weighted assets

Additional Management Discussion and Analysis (for those with variances of more than 5% December 31, 2009 vs. December 31, 2008)

Balance Sheet –

Cash and other cash items decreased by 9% from Php320 million to Php351 million is mainly attributed to the lower levels of cash in vault and in ATM.

The 46% decline in due from Bangko Sentral ng Pilipinas, from Php3.54 billion to Php1.91 billion is brought about by lower peso deposits level subject to reserves. On the other hand, due from other banks grew by 27% from Php1.46 billion to Php1.86 billion is brought about by higher levels of due from foreign banks.

Interbank term loans decreased from Php715 million to Php3 million due to lower level of foreign currency interbank loans.

Financial assets at FVPL increased by 41% due to the increase in the volume of US dollar Held for Trading (HFT) – treasury notes. Also, the 40% increase in the available for sale investments was mainly attributable to higher volume of US dollar available for sale securities. Moreover, Held-to-maturity Investments (HTM) went up by 116% from Php98million to Php211.8 million on account of higher level of ROP bonds.

Net Loans and Receivables went down by 6% from Php18 billion to Php17 billion this year mainly on account of lower level of corporate and mortgage loan accounts partly offset by increase in personal loans.

Property and Equipment went down by 5% from Php197 million to Php188 million due to depreciation and amortization of property and equipment.

Investment properties stood at Php3.4 million from Php2.5 million, 38% higher than year-end 2008. This was brought about by various foreclosures in 2009. Likewise, other resources went up by 5% from Php125.4 million to Php131.2 million due to increase in miscellaneous assets – software.

Deposit Liabilities declined by 10% mainly attributable to the decrease in the volume of both Peso and Fcy high cost deposits as compared last year. Similarly, Bills payable decreased by 55% to Php647 million from Php1.43 billion mainly due to the decrease in US dollar borrowings from foreign banks.

Outstanding Acceptances climbed by 395% due to the higher volume of foreign currency acceptances. Reduction in managers checks were due to lower amount of check issuances outstanding at the end of December 2009.

Accrued Interest, Taxes and Other Taxes dropped by 12% due to lower accrued interest payable on high cost deposits.

Income Statement (variance analysis for December 31, 2009 vs. December 31, 2008)

Interest Income on loans and receivables increased by 13.24% mainly due to the higher average volume of both peso and dollar earning loans. On the other hand, Interest income on trading and investment securities posted an 18% decline compared to last year due to the lower average yield and drop in the average volume of dollar investments.

Also, Interest income on interbank loans dropped by 59% due to the decrease in the average volume of peso interbank call loans receivable and lower average interest rate of foreign currency interbank loans receivable.

Interest expense on borrowings posted a 58.77% decline from Php34 million to Php14 million due to maturities.

Service charges and commission income amounted to Php186.8 million, 98.22% higher as compared to last year. In addition, Trading gain amounted to Php107 million from Php60 million loss last year. On the other hand, foreign exchange gains posted a 29% decrease year on year from Php76 million to Php54 million.

Increase in Compensation and fringe benefits was caused by higher profit-sharing accrued this year mainly due to higher net income.

Moreover, provision for probable losses increased by 11.05% as compared last year, maintaining its conservative stance on loan loss provisioning.

The increase in the taxes and licenses expenses by 9.14% is attributable to higher gross receipt tax (GRT) expenses as a result of higher revenues this year.

Amortization of software licenses went down by 23% from Php24 million to Php18 million as certain software licenses were fully amortized last year.

Miscellaneous expenses surge by 30% as compared in the previous year mainly on account of higher advertising expenses, telephone, stationeries and supplies, management and professional fees, and litigation expenses.

Furthermore, Income Tax Provision went up by 16% due to higher revenues and reversals of deferred income tax relating to the full settlement and sale of various NPLs this year.

Material Events and Uncertainties:

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

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

3. Plan of Operations

The Bank attributes its healthy financial performance to a steady stream of interest revenues, a robust flow of non-interest income including treasury gains, credit related fees from corporate finance transactions, strong management of asset quality, and a tight lid on operating expenses to improve efficiency ratio.

Leveraging our Parent Bank franchise, we will continue to capitalize better on our advantages in our niche market. The Bank will also focus and take a stronger and more cohesive approach to the Bank's Institutional and Retail Banking businesses, where the bank will built even more aggressively on cross-sell opportunities in the prime sectors.

With its strong capitalization, the Bank continues to heavily invest in its new business strategy, which focuses on core markets where it is well positioned to build industry-leading franchises. Part of its investments would go to the relocation and renovation of certain branches, the continuous upgrading of its system for loans and cash management and the acquisition of a new treasury system.

Item 7. Financial Statements

The consolidated financial statements and schedules are filed as part of the Form 17-A.

INFORMATION ON INDEPENDENT ACCOUNTANT
(EXTERNAL AUDIT FEES (MC No. 14, Series of 2004)

(a) Audit and Audited-Related Fees

The Bank paid the following audit fees to Sycip Gorres Velayo & Co. (SGV) for the fiscal year indicated:

Fiscal Year	Amount
For 2007 paid in 2007	Php1,159,760.00

For 2007 paid in 2008	Php504,000.00
For 2008 paid in 2008	Php739,200.00
For 2008 paid in 2009	Php638,200.00
For 2009 paid in 2009	Php1,034,880.00

To date, SGV and CO. has unbilled charges of Php 776,160 for 2009 audit.

(b) Tax & Other Fees

For the fiscal year 2009, the Bank paid a total amount of P1,632,878 to its Tax Counsels, ACCRA, related to the tax assessments by Bureau of Internal Revenue (BIR).

Also, the Bank paid Constantino Guadalquiver & Co a total amount of Php702,105 for the purpose of performing tax audit functions as required by Court of Tax Appeals.

(c) Audit Committee's Approval Policies and Procedures for the above services

The engagement of the services of the Bank's external auditor is evaluated by the Audit Committee. Consistent with the provisions of the Code of Corporate Governance, the appointment of the external auditor nominated by the Board through the Audit Committee is subject to approval by the shareholders.

Item 8. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

The Bank has no disagreement with any of its external auditors in any matter of accounting principle, practice, or financial disclosures.

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Issuer-

1. Directors

The following directors shall hold office from date of elections until the next annual shareholders meeting or their resignation unless sooner terminated or removed in accordance with law:

WILLIAM T.Y. HON, Canadian citizen, assumed the position of Chairman of the Board on April 28, 2006. He was initially elected to the Board on October 21, 2005. He obtained his Master's in Business Administration from Concordia University in 1982 and his Bachelor's degree from L'Ecole des Hautes Etudes Commerciales in 1976. He is currently the Managing Director - Corporate Banking Division, International of Chinatrust Commercial Bank, LTD. In 2005, he was the President and CEO of Chinatrust Bank (USA). Prior to this, he worked with DBS Bank in Singapore as Managing Director and in Hong Kong as Managing Director and joint CEO of DBS-Kwong On Bank. Before that, he was with Bank of Montreal as General Manager and Country Head, Singapore. He is 54 years old.

WILLIAM B. GO, Filipino, has been the Vice Chairman of the Board since October 15, 2001. He also served as concurrent President from April 3, 2008 to January 31, 2009. A Certified Public Accountant, he earned his Bachelor of Science degree from the University of the East and a Master of Science in Business Administration degree from the University of Missouri. He is Chairman of Investors Securities, Inc. and Gama Enterprises, Inc.; Chairman and President of Big Blue Realty Corporation; and President of Serico, Inc. He served as the President of Philippine Bank of Communication from 1985 to 1995. Mr. Go has been with Chinatrust since 1995. He was President until October 15, 2001 when he resigned, and was elected as Vice Chairman. He is 70 years old.

MARK CHEN, a.k.a. Ching-Ming Chen, Taiwanese, is the President and CEO of the Bank. He received his Bachelor of Science in Public Finance degree from National Cheng-Chi University and a Master of Arts in Finance from the University of Iowa. He was the Executive Vice President and Head of Banking Operations Group from September 12, 2008 to January 31, 2009. Prior to joining the Bank, he held various positions in other institutions such as: Chief Country Officer of Chinatrust Commercial Bank in Vietnam as well as Branch Manager of Ho Chi Minh City Branch of Chinatrust Commercial Bank from 2006 to 2008. Prior to his assignment in Vietnam, he handled various leadership roles in ABN AMRO Taiwan, Asia Pacific Regional Center in Singapore, Bank of Asia in Thailand and ABN AMRO Shanghai from 1992 to 2006. He is 41 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 Senior Executive Vice President and Managing Director of Consumer Finance Group of Chinatrust Commercial Bank, Ltd. (Taiwan). He was Senior Vice President of McDonalds Restaurants, Taiwan from 1991 to 2003. He is 46 years old.

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 47 years old.

Independent Directors

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 a member of the Market Governance Board of the Philippine Dealing Exchange. He also holds directorships in the Makati Supermart Group, Testech Inc., and DFNN Inc. He is 59 years old.

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 N & M Land Development, Inc. He is 64 years old.

The independent directors have met and continue to meet all the qualifications and possess none of the disqualifications of an Independent Director under the Bank's Code of Corporate Governance, Section 38 of the Securities Regulation Code and relevant BSP rules.

2. Executive Officers

The following are the Bank's executive officers:

MARK CHEN, Taiwanese, is the President and Chief Executive Officer of the Bank. He received his Bachelor of Science in Public Finance degree from National Cheng-Chi University and a Master of Arts in Finance from the University of Iowa. He was Executive Vice President and Head of Banking Operations Group of the Bank from September 12, 2008 to January 20, 2009 when he was appointed President. Prior to joining the Bank, he held various positions in other institutions such as: Chief Country Officer of Chinatrust Commercial Bank in Vietnam as well as Branch Manager of Ho Chi Minh City Branch of Chinatrust Commercial Bank from 2006 to 2008. Prior to his assignment in Vietnam, he handled various leadership roles in ABN AMRO Taiwan, Asia Pacific Regional Center in Singapore, Bank of Asia in Thailand and ABN AMRO Shanghai from 1992 to 2006. He is 41 years old.

RAYMUNDO MARTIN M. ESCALONA Filipino, earned his Bachelor of Science in Commerce degree, Major in Management of Financial Institutions, at the De La Salle University. He joined Chinatrust Philippines on January 2, 2008 as Executive Vice President and Head of the Institutional Banking Group. Prior to this, he was 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 BD O; Vice President and Head of Large Local Corporates Unit and Deputy Corporate Banking Head in Deutsche Bank AG, Manila Branch; and Assistant Vice President of Relationship Management Unit in Citytrust. He is 49 years old.

ANTHONY T. ROBLES Filipino, a Certified Public Accountant, obtained his Bachelor's degree in Commerce, Major in Accountancy, (cum laude), from the

University of Santo Tomas and a Master's degree in Business Administration from Ateneo de Manila University. He also completed the Pacific Rim Banker's Program at the University of Washington, USA. He is Executive Vice President and Head of the Bank's Retail Banking Group. Prior to joining Chinatrust, he was Executive Vice President at Planter's Development Bank in September 2004; Head of Wealth Management and Banking Services at Standard Chartered Bank in 2003 and Senior Vice President and Group Head of Retail Banking of Union Bank of the Philippines in 1999. He is 55 year old.

Mr. Robles resigned from the Bank on March 26, 2010.

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, Mr. Mendoza 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, Mr. Mendoza was also a faculty member of both the Ateneo de Manila University and De La Salle University Graduate School of Business, where he taught Organizational Behavior at the MBA level. He is 52 years old.

MARIA GRETCHEN S. MACABASCO Filipino, earned her Bachelor of Science in Business Management degree from the Ateneo de Manila University. She joined Chinatrust Philippines in August 2008, as Senior Vice President – Corporate Finance and Top Tier Head of Institutional Banking Group. Prior to joining the Bank, she was SVP – 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; Vice President – Working Capital Head of ABN AMRO Philippines; Asst. Vice President – Global Relationship Banking of Citibank Manila. She is 46 years old.

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

Malaysia and IT Training Officer for Information Technology Division. She is 44 years old.

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

3. Legal Proceedings

None of the directors and executive officers is personally involved in any material pending legal proceedings in any court or administrative agency of the government.

4. Significant Employee

There is no significant employee who is not an Executive Officer and who is expected to make significant contribution to the business.

5. Family Relationship

No family relationship exists among the Bank's directors and executive officers.

Item 10. Executive Compensation

1. Summary Compensation Table of Executive Officers

	IN MILLION PESOS			
Name	Annual Salary	Bonus	Others	Total
2008				
Executives (12)	46.21	11.61	18.58	76.40
2009				
Executives (10)	30.18	6.39	22.54	59.11
2010				
Executives (8)	28.63	6.61	8.37	43.61

In 2009, the Bank paid approximately P59.11 million as a total compensation to the following executive officers:

Mark Chen	President and CEO (from January 20, 2009)
William B. Go	President (up to January 20, 2009)
Rolando R. Avante	Executive Vice-President (resigned June 9, 2009)
Anthony T. Robles	Executive Vice-President (resigned March 26, 2010)
Raymundo Martin Escalona	Executive Vice-President
Edgardo A.M. Mendoza, Jr.	Senior Vice-President
Ma. Gretchen S. Macabasco	Senior Vice-President
Rogerio B. Panlasigui	Senior Vice-President (resigned July 1, 2009)
Huntley S. Uy	Senior Vice-President (resigned July 1, 2009)
Jimmy Arsenio Y. Samonte	Senior Vice-President (from Feb. 1, 2009)

For the year 2010, it is estimated that approximately P43.61 million will be paid to the following executive officers:

Mark Chen	President and CEO
William B. Go	Vice-Chairman
Anthony T. Robles	Executive Vice-President
Raymundo Martin M. Escalona	Executive Vice-President
Edgardo A.M. Mendoza, Jr.	Senior Vice-President
Ma. Gretchen S. Macabasco	Senior Vice-President
Vilma A. Noche	Senior Vice-President
Jimmy Arsenio Y. Samonte	Senior Vice-President

2. Compensation of Directors

The aggregate compensation by the Bank to its Directors, excluding the above executives and other officers, amounted to approximately P8.14 million in 2009. For the year 2010, it is estimated that approximately P12.08 million will be paid to the Directors.

3. Employment Contract

There is no employment contract between bank and the named Executive Officers.

4. Warrants and Options

There are no warrants or options held by Bank's President, the named executive officers and all officers and directors as a group.

5. Standard Agreements

Except for the per diem for attendance in the Board and Committee meetings and the Director's Fee under Sections 9 and 10, Article III of the Bank's By-Laws, as amended, there is no other standard arrangement by which the directors are compensated, or are to be compensated, directly or indirectly, for any services provided as a director for the last completed fiscal year and the ensuing year.

6. Other Arrangements

There are no other arrangement, including consultancy contracts pursuant to which any director of the registrant's was compensated, or is to be compensated, directly or indirectly, during the registrant's last completed fiscal year, and the ensuing year, for any service provided as a director.

Item 11. Security Ownership of Certain Beneficial Owners and Management

As of December 31, 2009, the following is the person or entity known to the Bank as owning more than 5% of the Bank's shares:

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

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

CTCB through a resolution of its Board of Directors may authorize the Bank's Chairman, William T.Y. Hon, and such other persons as it may deem fit to exercise the voting power over its shareholdings for and on its behalf.

1. Group Owning More Than 5% of Registrant's Voting Securities

Except for CTCB, there is no other person or group known to the Bank to be directly or indirectly the record or beneficial owner of more than 5% of any class of registrant's voting securities.

2. Security Ownership of Management as of December 31, 2009

a. Directors

Title of Class	Name, address of record owner and relationship with issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Common	**William B. Go 3rd Floor, Tower One, Ayala Triangle, Ayala Avenue, Makati City**	**William B. Go**	**Filipino**	**57**	**0.00**
Common	**William Hon 3rd Floor, Tower One, Ayala Triangle, Ayala Avenue, Makati City**	**William T.Y. Hon**	**Canadian**	**1**	**0.00**
Common	**Mark Chen 3rd Floor, Tower One, Ayala Triangle, Ayala**	**Mark Chen**	**Taiwanese**	**1**	**0.00**

	Avenue, Makati City				
Common	Eric Wu 3 Sung Shou Road Taipei, Taiwan, R.O.C.	Eric Wu	Taiwanese	1	0.00
Common	Larry Hsu 3 Sung Shou Road Taipei, Taiwan, R.O.C.	Larry Hsu	Taiwanese	1	0.00
Common	Ng Meng Tam Unit 508, ITC Building, 337 Sen. Gil Puyat Ave. Makati City	Ng Meng Tam	Filipino	1	0.00
Common	Edwin B. Villanueva VFL Advisors, Inc. 15F, Citibank Tower, 8741 Paseo de Roxas, Makati City	Edwin B. Villanueva	Filipino	1	0.00
				63	

b. Executive Officers

Title of Class	Name, address of record owner and relationship with issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Common	Mark Chen 3rd Floor, Tower One, Ayala Triangle, Ayala Avenue, Makati City	Mark Chen	Taiwanese	1	0.00
				1	

c. Directors and Officers

The aggregate shareholding of the directors and executive officers amounted to 63 shares of the Bank's total outstanding shares.

d. Change in Control.

There is no change in control of registrant and no change in control has occurred since the beginning of the last fiscal year.

There are also no arrangements known to the Bank, which may result in a change of control of registrant.

Item 12. Certain Relationships and Related Transactions

The Bank, in its regular course of trade and business, enters into transactions with its Directors, Officers, Stockholders, and Related Interests (DOSRI) involving mainly loans and these are disclosed to the *Bangko Sental ng Pilipinas* (BSP) in accordance with the Manual of Regulations for Banks.

All transactions of the Bank, whether with DOSRI, related parties or non-related parties, are conducted and entered in the Bank's best interest and on "arm's length basis".

There are no parties that fall outside the definition of "Related Parties" under SFAS/IAS No. 24 with whom the Bank or its related parties have a relationship that enables such parties to negotiate terms and material transactions that may not be available from other more clearly independent parties on an “arm’s length basis”.

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

The Bank has adopted a Manual of Corporate Governance, which is being continually revised to align with the world’s best and leading practices on corporate governance and comply with latest regulatory issuances.

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

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

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

- The Audit Committee is headed by Independent Director Edwin B. Villanueva as Chairman, with Eric Wu and Ng Meng Tam as Members. The members of the Audit Committee must possess accounting, auditing, or related financial management expertise and experience. Tasked primarily with assisting the Board in fulfilling its oversight responsibilities, the Audit Committee reviews the Bank's financial information, its systems of internal controls and risk management, the audit process, and compliance with significant applicable legal, ethical, and regulatory requirements. It monitors the Bank's compliance with approved internal policies and controls, as well as statutory regulations, emphasizing an accounting system that is 100% compliant with International Accounting Standards. The Committee facilitates free and open communication among Management, Compliance, Risk Management, Internal Audit, the external auditors, BSP examiners, and the Committee. It enjoys sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of audit reports, and appropriate action on audit recommendations. It is also empowered, among others, to appoint, compensate and oversee external audit engagements; review and comment on internal and external audit reports; and resolve financial reporting disputes between management and the auditor.

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

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

The Bank is generally in compliance with adopted leading practices on good corporate governance. It actively participates in the corporate governance surveys separately conducted by the Securities and Exchange Commission (SEC) and the Bangko Sentral ng Pilipinas (BSP), in collaboration with the Institute of Corporate Directors (ICD), which make 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 NRG Committee, 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 soundness, effectiveness and adequacy of 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.

PART V - EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C

Exhibits

The exhibits are incorporated by reference as set forth in the index attached hereto.

Reports on SEC Form 17-C

The following reports on SEC Form 17-C were filed during the last six (6) months period covered by this report:

Date Filed	Item
June 3, 2009	Item 4. Other Events – List of Stockholders as of Record Date
June 9, 2009	Retirement of Atty.Jose Nerio A. Salamillas, CFO
June 29, 2009	Results of Annual Shareholders' Meeting and Organizational Meeting of the Board of Directors
June 29, 2009	Resignation and Appointment of Compliance Officer
July 24, 2009	Certification of Independent Directors
August 25, 2009	Amendments to the By-Laws
September 4, 2009	Appointment of Chief Financial Officer
October 29, 2009	Press Release: Chinatrust Buendia-Pasong Tamo Branch Inauguration
November 10, 2009	Press Release: CFHC Chairman renews support for local subsidiary
December 9, 2009	Press Release: Chinatrust to Open Cagayan de Oro Branch
December 11, 2009	Amendment to Article Second of Articles of Incorporation
December 28, 2009	Certificate of Board Meeting Attendance 2009

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati APR 14 2010 day of April 2010.

By:

MARK CHEN
President and CEO
Principal Executive Officer

ANDRE P. PAYAWAL, FVP
Principal Financial Officer, Comptroller &
Principal Accounting Officer

ATTY. MARITESS P. ELBINIAS, VP
Assistant Corporate Secretary

The Bank has no Principal Operating Officer.

SUBSCRIBED AND SWORN to before me this APR 14 2010 day of April 2010 affiants exhibiting to me their Community Tax Certificates Nos./Passports, as follows:

NAMES	COMMUNITY TAX/PASSPORT NO.	DATE OF ISSUE	PLACE OF ISSUE
Mark Chen	Passport # 132009522	January 28, 2002	Thailand
Andre P. Payawal	27562868	January 29, 2010	Quezon City
Maritess P. Elbinias	Passport # SS0915619	April 7, 2006	Manila

Doc. No. 147;
Page No. 31;
Book No. IV;
Series of 2010.

ATTY. MARY ANGELINE S. TOL
NOTARY PUBLIC FOR MAKATI CITY
UNTIL DECEMBER 31, 2010
12th Floor, BA Lepanto Building
8747 Paseo de Roxas, Makati City
ROLL NO. 51630
PTR NO. 2116318/01-14-10/MAKATI CITY
IBP NO. 812554/01-13-10/CAVITE

EXHIBITS AND ANNEXES

1. STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

2. AUDITED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009 and 2008

Chinatrust
中國信託

Republic of the Philippines)
Makati City) S.S.

UNDERTAKING/CERTIFICATION

I, **MARITESS PARILLA-ELBINIAS**, of legal age, Filipino, with business address at 12th Floor, BA Lepanto Building, 8747 Paseo de Roxas, Makati City, after being duly sworn in accordance with law, hereby state and certify that:

1. I am the duly appointed Assistant Corporate Secretary of **CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION** (the "Bank"), a corporation duly organized and existing under and by virtue of the laws of the Philippines, with principal office at 3rd Floor, Tower One & Exchange Plaza, Ayala Triangle, Ayala Avenue corner Paseo de Roxas, Makati City;

2. As such, I hereby undertake/certify that Mr. William B. Go, Vice-Chairman is authorized to sign the Statement of Management Responsibility for and in behalf of the Bank and in relation to the filing of the Bank's SEC 17-A.

IN WITNESS WHEREOF, I have hereunto set my hand this 15th day of April 2010 at Makati City.

ATTY. MARITESS PARILLA-ELBINIAS
Assistant Corporate Secretary

SUBSCRIBED AND SWORN to before me this 15th day of April 2010, affiant exhibiting to me her Passport No. SS0915619 issued at Manila on April 7, 2006.

ATTY. MARY ANGELINE S. TOL
NOTARY PUBLIC FOR MAKATI CITY
UNTIL DECEMBER 31, 2010
12th Floor, BA Lepanto Building
8747 Paseo de Roxas, Makati City
ROLL NO. 51630
PTR NO. 2116318/01-14-10/MAKATI CITY
IBP NO. 812554/01-13-10/CAVITE

Doc. No. 155
Page No. 32
Book No. IV
Series of 2010.

Chinatrust
中國信託

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of **CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION** is responsible for all information and representations contained in the financial statements for the year ended December 31, 2009. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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

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

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

WILLIAM B. GO
Vice Chairman

MARK CHEN
President

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

SUBSCRIBED AND SWORN to before me this _____ day of APR 14 2010 2010 affiants exhibiting to me their Community Tax Certificate, as follows:

NAMES	COMMUNITY TAX/PASSPORT NO.	DATE OF ISSUE	PLACE OF ISSUE
William B. Go	28654786	March 10, 2010	Makati
Mark Chen	Passport # 132009522	January 28, 2002	Thailand
Andre P. Payawal	27562868	January 29, 2010	Quezon City

ATTY. MARY ANGELINE S. TOL
NOTARY PUBLIC FOR MAKATI CITY
UNTIL DECEMBER 31, 2010
12th Floor, BA Lepanto Building
8747 Paseo de Roxas, Makati City
ROLL NO. 51630
PTR NO. 2116318/01-14-10/MAKATI CITY
IBP NO. 812554/01-13-10/CAVITE

Doc. No. 148;
Page No. 31;
Book No. IV;
Series of 2010.

Chinatrust (Philippines) Commercial Bank Corporation

Financial Statements
December 31, 2009 and 2008
and for the Years Ended December 31, 2009, 2008 and 2007

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

SGV & Co
ERNST & YOUNG

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Phone: (632) 891 0307
Fax: (632) 819 0872
www.sgv.com.ph

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Chinatrust (Philippines) Commercial Bank Corporation, which comprise the statements of financial position as at December 31, 2009 and 2008, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2009, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

SYCIP GORRES VELAYO & CO.

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

March 12, 2010

CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION
STATEMENTS OF FINANCIAL POSITION

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

See accompanying Notes to Financial Statements.

CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION
STATEMENTS OF INCOME

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

See accompanying Notes to Financial Statements.

CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPRORATION
STATEMENTS OF COMPREHENSIVE INCOME

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

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

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

See accompanying Notes to Financial Statements.

CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION
STATEMENTS OF CASH FLOWS

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

(Forward)

	Years Ended December 31		
	2009	2008 (As restated - Note 2)	2007 (As restated - Note 2)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Available-for-sale investments	**(₱3,444,916,481)**	(₱3,628,416,043)	(₱7,459,478,067)
Held-to-maturity investments	**(175,785,375)**	(58,595,934)	(106,066,578)
Property and equipment (Note 8)	**(54,785,363)**	(41,746,495)	(86,145,820)
Computer software costs	**(24,948,403)**	(14,281,056)	(14,810,144)
Proceeds from disposals of:			
Available-for-sale investments	**3,145,267,368**	3,473,885,832	9,133,831,077
Investment properties (Note 9)	**–**	21,349,486	12,571,685
Property and equipment (Note 8)	**8,590,641**	18,938,498	21,456,707
Compute software costs	**–**	–	228,870
Proceeds from maturity of held-to-maturity investments	**57,000,000**	64,000,000	14,500,000
Dividends received	**508,200**	511,050	512,850
Net cash provided by (used in) investing activities	**(489,069,413)**	(164,354,662)	1,516,600,580
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of bills payable	**9,193,400,000**	12,447,197,769	25,098,793,414
Settlement of bills payable	**(9,944,045,360)**	(11,505,526,450)	(27,627,670,130)
Net cash provided by (used in) financing activities	**(750,645,360)**	941,671,319	(2,528,876,716)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,972,769,309)**	1,839,593,571	(2,268,866,767)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items	**351,253,539**	188,751,714	199,372,111
Due from Bangko Sentral ng Pilipinas	**3,536,491,101**	3,443,045,304	2,572,550,941
Due from other banks	**1,457,052,884**	341,006,935	383,167,668
Interbank loans receivable	**715,280,000**	247,680,000	3,334,260,000
	6,060,077,524	4,220,483,953	6,489,350,720
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items	**319,525,532**	351,253,539	188,751,714
Due from Bangko Sentral ng Pilipinas	**1,909,190,000**	3,536,491,101	3,443,045,304
Due from other banks	**1,855,613,683**	1,457,052,884	341,006,935
Interbank loans receivable	**2,979,000**	715,280,000	247,680,000
	₱4,087,308,215	₱6,060,077,524	₱4,220,483,953

OPERATIONAL CASH FLOWS FROM INTEREST			
Interest received	**₱2,127,769,974**	₱1,876,555,779	₱2,356,789,398
Interest paid	**(685,181,991)**	(504,332,742)	(814,511,378)

See accompanying Notes to Financial Statements.

CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION
NOTES TO FINANCIAL STATEMENTS

1. General Information

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

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

The accompanying financial statements of the Bank were authorized for issue by the board of directors (BOD) of the Bank on March 12, 2010.

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 financial statements are presented in Philippine pesos, and all values are rounded to the nearest peso except when otherwise stated.

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

Statement of Compliance

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

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

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

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

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

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

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

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

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

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

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

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

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

Significant Accounting Policies

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

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

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

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

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

Prior to 2008
For financial reporting purposes, the monetary assets and liabilities of the FCDU are translated in Philippine pesos based on the PDS closing rate prevailing at end of the year, and foreign currency-denominated income and expenses, at the PDSWAR for the year. Foreign exchange differences arising from restatements of foreign currency denominated assets and liabilities are credited to or charged against operations in the period in which the rates change.

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

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

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

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

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

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

'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 - 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 gains (losses) - net' in the statement of income. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded in 'Miscellaneous income' when the right to receive payment has been established.

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 gains (losses) - 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 2009 and 2008, the Bank did not apply hedge accounting treatment for any of its derivatives transactions.

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

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

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

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

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

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

AFS investments
AFS investments are 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 or loss on AFS investments’ in other comprehensive income of the statement of comprehensive income. For AFS debt securities, impact of translation on foreign currency-denominated securities is reported in the statement of income. For AFS equity securities considered as non-monetary items, impact of translation on foreign currency-denominated securities is included in unrealized gains and losses taken in other comprehensive income.

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

When the security is disposed of, the cumulative gain or loss previously recognized in other comprehensive income is recognized as ‘Trading and securities gains (losses) - 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 effective interest rate. Dividends earned on holding AFS investments are recognized in the statement of income as ‘Miscellaneous income’ when the right of payment has been established. Losses arising from impairment of such investments are recognized as ‘Provisions on impairment and credit losses’ in the statement of income.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<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, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be recognized based on the original effective interest rate of the asset. The financial assets, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized.

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

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 impairment and credit losses'.

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

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

Restructured loans
This may involve extending the payment arrangements and agreement on new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original effective interest rate, is recognized in 'Provision for impairment and 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 charges, fees and commissions', over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

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

Revenue Recognition

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

Interest income

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as financial assets at FVPL and AFS investments, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or

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

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

Service fees and commissions

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

Dividends

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

Trading and securities gains (losses) - net

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

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

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

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

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

Bank premises	30 years
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 in the 'Depreciation and amortization' caption 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.

Subsequent Events

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

Segment Reporting

The 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.

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

Effective in 2010
PFRS 3, *(Revised) Business Combinations* and PAS 27, *Consolidated and Separate Financial Statements (Amended)*
The revised standards are effective for annual periods beginning on or after July 1, 2009. PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. PAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by PFRS 3 (Revised) and PAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. PFRS 3 (Revised) will be applied prospectively while PAS 27 (Amended) will be applied retrospectively with a few exceptions. Adoption of these revised standards will not have a significant impact to the Bank's financial statements.

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

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

Philippine Interpretation IFRIC 17, *Distributions of Non-Cash Assets to Owners*
This Interpretation is effective for annual periods beginning on or after July 1, 2009 with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability. The Bank does not expect the Interpretation to have an impact on the financial statements as the Bank has not made non-cash distributions to shareholders in the past.

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

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

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

PFRS 8, *Operating Segment Information*
- Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

PAS 1, *Presentation of Financial Statements*
- Clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

PAS 7, *Statement of Cash Flows*
- Explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

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

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

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

PAS 39*, Financial Instruments: Recognition and Measurement*

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

Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*

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

Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*

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

Effective 2012

Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*

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

Effective in 2013

PFRS 9, *Financial Instruments*

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

3. Significant Accounting Judgments and Estimate

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

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

Judgments

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

(b) Determination of whether a financial instrument is quoted in an active market
The Bank classifies financial instruments by evaluating, among others, whether the instrument is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination of whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions conducted on an 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, 2009 and 2008, HTM investments are carried at ₱211.8 million and ₱98.0 million, respectively (see Note 6).

(d) Operating leases
The Bank has entered into commercial property leases on its investment property portfolio. The Bank has determined based on the evaluation of the terms and conditions of the arrangements (i.e., the lease does not transfer the ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the 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) *Functional currency*
PAS 21 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:

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

Estimates

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

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

As of December 31, 2009 and 2008, allowance for impairment and credit losses on loans and receivables of the Bank amounted to ₱1.5 billion and ₱1.5 billion, respectively (see Note 11). Loans and receivables, net of allowance for impairment and credit losses, are carried at ₱16.8 billion and ₱17.9 billion as of December 31, 2009 and 2008, respectively (see Note 7).

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

As of December 31, 2009 and 2008, net derivative asset amounts to ₱10.2 million and ₱0.7 million, respectively (see Note 26).

(c) *Impairment of AFS equity investments*
The Bank treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Bank treats 'significant' generally as 20% or more of the original cost of

investment, and ‘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, 2009 and 2008, AFS equity investments are carried at ₱13.1 million and ₱13.2 million, respectively (see Note 6).

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

The Bank recognized deferred tax assets as of December 31, 2009 and 2008 amounted to ₱440.0 million and ₱448.4 million, respectively. Deferred tax assets on excess MCIT over RCIT amounting to nil and ₱9.5 million as of December 31, 2009 and 2008 respectively, and deferred tax asset on accrued rent expense - PAS 17 amounting to ₱2.6 million and ₱3.9 million as of December 31, 2009 and 2008, respectively, were not recognized (see Note 20).

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

The expected rate of return on plan assets of 6% in 2009 and 2008, was based on the average historical premium of the fund assets. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of statement of financial position dates. The present value of the retirement obligation of the Bank as of December 31, 2009 and 2008 amounted to ₱57.7 million and ₱77.5 million, respectively (see Note 18).

The net retirement asset balance as of December 31, 2009 and 2008 amounted to ₱9.5 million and ₱9.9 million, respectively (see Note 18).

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

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

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

As of December 31, 2009, the net carrying value of property and equipment and investment properties amounted to ₱187.8 million and ₱3.4 million, respectively. As of December 31, 2008, the net carrying value of property and equipment and investment properties amounted to ₱197.3 million and ₱2.5 million, respectively (see Notes 8 and 9).

4. Financial Instruments and Fair Value Measurement

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

	2009		2008	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
FINANCIAL ASSETS				
Loans and receivables				
Cash and other cash items	**₱319,525,532**	**₱319,525,532**	₱351,253,539	₱351,253,539
Due from BSP	**1,909,190,000**	**1,909,190,000**	3,536,491,101	3,536,491,101
Due from other banks	**1,855,613,683**	**1,855,613,683**	1,457,052,884	1,457,052,884
Interbank loans receivable	**2,979,000**	**2,979,000**	715,280,000	715,280,000
Loans and discounts				
Institutional banking	**8,288,418,162**	**8,287,917,742**	9,744,529,313	9,747,436,177
Retail banking	**3,410,251,428**	**3,132,698,776**	2,970,248,936	2,609,322,084
Mortgage banking	**2,438,208,971**	**2,429,967,761**	2,349,582,969	2,348,683,507
Small business loans	**386,383,559**	**386,383,559**	420,668,585	420,668,585
Accrued interest receivable	**334,119,101**	**334,119,101**	377,844,388	377,844,388
Other receivables	**573,415,058**	**573,415,058**	478,410,479	478,410,479
Unquoted debt securities	**1,392,839,073**	**1,380,733,650**	1,604,955,142	1,589,833,662
Other assets	**27,290,530**	**27,290,530**	22,869,423	22,869,423
Subtotal	**20,938,234,097**	**20,639,834,392**	24,029,186,759	23,655,145,829
Financial assets at FVPL				
Held-for-trading				
Government debt	**690,172,079**	**690,172,079**	496,863,523	496,863,523
Derivative assets	**10,855,720**	**10,855,720**	1,690,879	1,690,879
Subtotal	**701,027,799**	**701,027,799**	498,554,402	498,554,402
AFS investments				
Government debt	**1,508,334,904**	**1,508,334,904**	1,073,521,355	1,073,521,355
Unquoted equity securities	**13,115,150**	**13,115,150**	13,163,149	13,163,149
Subtotal	**1,521,450,054**	**1,521,450,054**	1,086,684,504	1,086,684,504
HTM investments				
Government debt	**211,820,728**	**216,467,550**	98,002,854	98,079,648
	₱23,372,532,678	**₱23,078,779,795**	₱25,712,428,519	₱25,338,464,383
FINANCIAL LIABILITIES				
Financial liabilities at FVPL				
Derivative liabilities	**₱668,311**	**₱668,311**	₱1,030,737	₱1,030,737
Other financial liabilities at amortized cost				
Deposit liabilities				
Demand	**4,624,783,830**	**4,624,783,830**	3,856,006,069	3,856,006,069
Savings	**2,442,728,670**	**2,442,728,670**	2,233,854,322	2,233,854,322
Time	**9,900,645,770**	**9,800,834,999**	12,814,129,876	12,697,570,904
Subtotal	**16,968,158,270**	**16,868,347,499**	18,903,990,267	18,787,431,295

(Forward)

	2009		2008	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Bills payable	**₱646,800,000**	**₱646,800,000**	₱1,431,556,080	₱1,431,556,080
Outstanding acceptances	**18,996,988**	**18,996,988**	3,838,026	3,838,026
Manager's checks	**40,161,695**	**40,161,695**	53,990,478	53,990,478
Accrued interest and other expenses	**327,056,089**	**327,056,089**	381,809,855	381,809,855
Other liabilities	**653,701,067**	**653,701,067**	728,278,289	728,278,289
	₱18,655,542,420	**₱18,555,731,649**	₱21,504,493,732	₱21,387,934,760

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

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

	2009			
	USD		**PHP**	
	High	**Low**	**High**	**Low**
Unquoted debt securities	**4.0%**	**2.9%**	**–**	**–**
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%**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Credit Risk

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

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

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

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

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

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

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

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

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

On the Retail Banking side, risk is managed through rigid screening and prudent credit evaluation for individual loan applications and stringent accreditation criteria for companies availing of the corporate salary loan product. For individual borrowers, credit scoring is in place to capture the level of risk of every account. Application data pass through an automated application scorecard that evaluates their creditworthiness. Accredited companies, on the other hand, are assessed for financial stability, credit experience, market potential and industry standing. The credit process is supported by standard procedures based on sound credit policies that are designed to ensure identification and mitigation of risk.

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

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

All these measures are implemented in order to maintain a diversified and sound loan portfolio and to detect signs of weaknesses early on in order to protect the interests of the Bank. The Bank monitors its nonperforming loan ratio, and compares these ratios against the banking industry average.

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

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

	2009	2008
Loans and receivables		
Due from BSP and other banks	**₱3,764,803,683**	₱4,993,543,985
Interbank loans receivables	**2,979,000**	715,280,000

(Forward)

	2009	2008
Loans and discounts		
Institutional banking	**₱8,288,418,162**	₱9,744,529,313
Retail banking	**3,410,251,428**	2,970,248,936
Mortgage banking	**2,438,208,971**	2,349,582,969
Small business loans	**386,383,559**	420,668,585
Accrued interest receivable	**334,119,101**	377,844,388
Other receivables	**573,415,058**	478,410,479
Unquoted debt securities	**1,392,839,073**	1,604,955,142
Other assets	**27,290,530**	22,869,423
Subtotal	**20,618,708,565**	23,677,933,220
Financial assets at FVPL		
Held-for-trading		
Government debt	**690,172,079**	496,863,523
Derivative assets	**10,855,720**	1,690,879
Subtotal	**701,027,799**	498,554,402
Available-for-sale investments		
Government debt	**1,508,334,904**	1,073,521,355
Unquoted equity securities	**13,115,150**	13,163,149
Subtotal	**1,521,450,054**	1,086,684,504
Held-to-maturity investments		
Government debt	**211,820,728**	98,002,854
Total	**23,053,007,146**	25,361,174,980
Commitments and contingent assets (Note 24)	**4,579,545,339**	5,331,631,127
Maximum credit risk exposure	**₱27,632,552,485**	₱30,692,806,107

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

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

Credit-related commitments risks

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

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

	2009						
	Loans and Receivables		**Other Financial Assets**		**Off-Balance Sheet Exposures**		
	Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Total**
Financial intermediaries*	**₱2,620,414**	**15.58**	**₱6,188,966**	**99.35**	**₱901,321**	**19.68**	**₱9,710,701**
Manufacturing	**2,442,311**	**14.52**	**–**	**–**	**1,090,165**	**23.81**	**3,532,476**
Transport, storage and communications	**2,112,510**	**12.56**	**–**	**–**	**20,924**	**0.46**	**2,133,434**
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**
Public administration and defense	**965,189**	**5.74**	**–**	**–**	**–**	**0.00**	**965,189**
Construction	**123,264**	**0.73**	**–**	**–**	**–**	**0.00**	**123,264**
Agriculture, hunting and forestry	**72,543**	**0.43**	**–**	**–**	**45,000**	**0.98**	**117,543**
Electricity, gas and water	**5,581**	**0.03**	**–**	**–**	**213,171**	**4.65**	**218,752**
Others**	**7,405,445**	**44.01**	**40,406**	**0.65**	**549,875**	**12.01**	**7,995,726**
Total	**18,376,946**	**109.23**	**6,229,372**	**100.00**	**4,579,545**	**100.00**	**29,185,863**
Allowance for impairment and credit losses	**(1,473,509)**	**(8.76)**	**–**	**–**	**–**	**–**	**(1,473,509)**
Unearned interest discount	**(79,802)**	**(0.47)**	**–**	**–**	**–**	**–**	**(79,802)**
	₱16,823,635	**100.00**	**₱6,229,372**	**100.00**	**₱4,579,545**	**100.00**	**₱27,632,552**

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

	2008						
	Loans and Receivables		Other Financial Assets		Off-Balance Sheet Exposures		
	Amount	%	Amount	%	Amount	%	Total
Financial intermediaries*	₱4,742,666	26.43	₱6,670,235	90.00	₱713,027	13.37	₱12,125,928
Manufacturing	3,588,699	20.00	–	–	2,080,674	39.03	5,669,373
Transport, storage and communications	1,030,047	5.74	–	–	1,250	0.02	1,031,297
Real estate, renting and business activities	916,195	5.11	–	–	55,052	1.03	971,247
Wholesale and retail	825,265	4.60	–	–	891,273	16.72	1,716,538
Construction	145,930	0.81	–	–	200,649	3.76	346,579
Agriculture, hunting and forestry	51,735	0.29	–	–	–	–	51,735
Public administration and defense	9,370	0.05	–	–	18,229	0.34	27,599
Electricity, gas and water	2,115	0.01	–	–	1,337,600	25.09	1,339,715
Others**	8,268,724	46.07	744,700	10.00	33,877	0.64	9,047,301
Total	19,580,746	109.11	7,414,935	100.00	5,331,631	100.00	32,327,312
Allowance for impairment and credit losses	(1,505,124)	(8.39)	–	–	–	–	(1,505,124)
Unearned interest discount	(129,382)	(0.72)	–	–	–	–	(129,382)
	₱17,946,240	100.00	₱7,414,935	100.00	₱5,331,631	100.00	₱30,692,806

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

The Bank generally considers concentration risk as excessive when the ratio of a particular 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, 2009 and 2008, 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 borrowing accounts (i.e., Corporate accounts of Institutional banking group, Small business loans excluding sole proprietorships, and Mortgage banking loans-CTS financing on a with recourse facility) of the Bank. The objectives of the system are the following:

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

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

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

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

	2009						
	Neither Past Due nor Specifically Impaired				Past Due but not Specifically Impaired	Specifically Impaired	Total
	High Grade	Standard Grade	Substandard Grade	Others			
	(In Thousand Pesos)						
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	95,320	116,501	–	–	–	–	211,821
Total	₱9,390,215	₱11,802,564	₱247,140	₱1,235,270	₱299,750	₱1,631,380	₱24,606,319

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

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

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

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

See Note 11 for the detailed information with respect to the 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 as of December 31, 2009 and 2008:

	2009	2008
	(In Thousand Pesos)	
Institutional banking		
Performing	**₱–**	₱40,908
Non-performing	**55,513**	12,543
Small business loans		
Performing	**3,958**	–
Non-performing	**–**	–
Mortgage banking		
Performing	**2,275**	–
Non-performing	**–**	–
	₱61,746	₱53,451

Restructured performing and non-performing loans (NPL) of the Bank, net of specific impairment allowances as determined by PAS 39, as of December 31, 2009 and 2008, amounted to ₱50.9 million and ₱13.0 million, respectively.

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

	2009	2008
Secured	**₱169,863,540**	₱371,771,080
Unsecured	**1,446,232,187**	1,388,580,164
	₱1,616,095,727	₱1,760,351,244

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

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

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

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

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

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

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

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

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

	2009		2008	
	Amount	**%**	Amount	%
Secured by:				
Real estate	**₱2,871,154,109**	**17.07%**	₱2,925,374,945	16.30%
Government guarantee	**2,384,836,832**	**14.17%**	2,946,488,453	16.42%
Hold-out on deposits	**363,685,058**	**2.16%**	396,565,120	2.21%
Mortgage trust indenture	**221,774,072**	**1.32%**	548,932,502	3.06%
Standby letter of credit	**45,329,504**	**0.27%**	42,711,276	0.24%

(Forward)

	2009		2008	
	Amount	**%**	Amount	%
Chattel	**₱33,257,703**	**0.20%**	₱80,872,497	0.45%
Special Deposit Account	**11,069,317**	**0.07%**	17,060,446	0.10%
Shares of stock	**2,141,489**	**0.01%**	2,951,906	0.02%
	5,933,248,084	**35.27%**	6,960,957,145	38.79%
Unsecured	**12,443,698,564**	**73.96%**	12,619,788,066	70.32%
	18,376,946,648	**109.23%**	19,580,745,211	109.11%
Allowance for impairment and credit losses	**(1,473,509,023)**	**(8.76%)**	(1,505,123,698)	(8.39%)
Unearned interest discount and capitalized interest	**(79,802,273)**	**(0.47%)**	(129,381,701)	(0.72%)
	₱16,823,635,352	**100.00%**	₱17,946,239,812	100.00%

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

	2009	2008
Type of collateral	Fair Value	
Real Estate	**₱288,802,743**	₱242,968,131
Chattel	**61,230,000**	115,153,056
Standby letter of credit	**42,000,000**	42,000,000
Hold-out on deposits	**1,000,000**	–
Mortgage trust indenture	**–**	189,145,830

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, 2009 and 2008 amounted to ₱0.2 billion and ₱1.8 billion, respectively.

Liquidity Risk and Funding Management

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

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

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

	2009				
	On demand	**1 to 3 months**	**6 to 12 months**	**Greater than 1 year**	**Total**
Deposit liabilities					
Demand	**₱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**

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

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

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

	2009					
	Up to 1 month	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Beyond 1 Year**	**Total**
			(In Thousand Pesos)			
Commitments	**₱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**
Total	**₱329,800**	**₱378,658**	**₱2,378,687**	**₱1,482,673**	**₱7,584**	**₱4,577,402**

	2008					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 Year	Total
			(In Thousand Pesos)			
Commitments	₱3,434,716	₱888,162	₱315,994	₱400,000	₱99,600	₱5,138,472
Contingent liabilities	9,763	101,582	1,250	30,181	18,334	161,110
Total	₱3,444,479	₱989,744	₱317,244	₱430,181	₱117,934	₱5,299,582

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 2009 and 2008 were as follows:

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

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

	2009								
	Up to 1 month	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**2 years**	**3 years**	**4 years**	**Greater than 5 years**	**Total**
Assets									
Loans and receivables									
Cash and other cash items	**₱319,526**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱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**

	2008								
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	2 years	3 years	4 years	Greater than 5 years	Total
Assets									
Loans and receivables									
Cash and other cash items	₱351,254	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱351,254
Due from BSP	2,636,491	900,000	–	–	–	–	–	–	3,536,491
Due from other banks	1,457,053	–	–	–	–	–	–	–	1,457,053
Interbank loans receivable	715,280	–	–	–	–	–	–	–	715,280
Loans and discounts - gross	3,408,627	2,069,396	1,309,528	1,314,833	5,224,413	2,711,782	1,891,565	1,650,601	19,580,745
Other assets	4,161		–	–	18,708	–	–	–	22,869
Subtotal	8,572,866	2,969,396	1,309,528	1,314,833	5,243,121	2,711,782	1,891,565	1,650,601	25,663,692
Financial assets at FVPL	1,691	279	–	–	50,423	–	326,890	119,272	498,555
AFS investments	12,785	–	–	17	–	392	–	1,073,491	1,086,685
HTM investments	–	52,162	5,115	–	36,001	4,725	–	–	98,003
Total financial assets	8,587,342	3,021,837	1,314,643	1,314,850	5,329,545	2,716,899	2,218,455	2,843,364	27,346,935
Liabilities									
Financial liabilities at FVPL									
Derivative liabilities	1,031	–	–	–	–	–	–	–	1,031
Other financial liabilities at amortised cost									
Deposit liabilities	12,389,703	5,110,464	734,178	122,061	262,571	145,857	107,297	31,859	18,903,990
Other liabilities									
Bills payable	1,213,306	–	–	218,250	–	–	–	–	1,431,556
Outstanding acceptances	3,838	–	–	–	–	–	–	–	3,838
Manager's checks	53,990	–	–	–	–	–	–	–	53,990
Accrued interest and other expenses	381,810	–	–	–	–	–	–	–	381,810
Other liabilities	728,278	–	–	–	–	–	–	–	728,278
Total financial liabilities	14,771,956	5,110,464	734,178	340,311	262,571	145,857	107,297	31,859	21,504,493
Asset-liability gap	(₱6,184,614)	(2,088,627)	₱580,465	₱974,539	₱5,066,974	₱2,571,042	₱2,111,158	₱2,811,505	₱5,842,442

Market Risk

Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates; foreign currency exchanges rates, equity prices and other market changes. The 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 for December 31, 2009 and 2008:

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

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

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

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

Foreign Exchange Risk

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

	2009			2008		
	USD	**Others**	**Total**	USD	Others	Total
Assets						
Loans and receivables						
Cash and other cash items	**₱5**	**₱–**	**₱5**	₱5	₱–	₱5
Due from BSP and other banks	**1,342,429**	**18,226**	**1,360,655**	94,482	8,194	102,676
Interbank loans receivable	**–**	**–**	**–**	–	–	–
Loans and discounts - net	**20,821**	**–**	**20,821**	399,012	2,351	401,363
Other assets	**–**	**109,596**	**109,596**	–	126,793	126,793
Total assets	**1,363,255**	**127,822**	**1,491,077**	493,499	137,338	630,837
Liabilities						
Other financial liabilities at amortised cost						
Deposit liabilities	**–**	**302**	**302**	–	311	311
Outstanding acceptances	–	–	–	–	2,351	2,351
Other liabilities	–	–	–	–	433	433
Total liabilities	**–**	**302**	**302**	–	3,095	3,095
Net exposure	**₱1,363,255**	**₱127,520**	**₱1,490,775**	₱493,499	₱134,243	₱627,742

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

Information relating to the Bank's currency derivatives is contained in Note 26. The Bank has outstanding foreign currency spot transactions (in equivalent peso amounts) of ₱1.2 billion (sold) and ₱1.2 billion (bought) as of December 29, 2009, and ₱475.8 million (sold) and ₱476.2 million (bought) as of December 24, 2008.

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

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

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

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

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

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

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

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

The tables below show the sensitivity of the 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, 2009 and 2008. The sensitivity of equity to interest rate movements is the present value of future cash flows discounted at the market rate.

2009

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

2008

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

Currency	Decrease in bps	Sensitivity of net interest income	Sensitivity of Equity 1 month	3 months	6 months	1 year	2 years	5 years	7 years	10 years up	Total
					(In Thousand Pesos)						
	-15	(₱966)	₱62	₱789	₱(2,120)	₱884	₱4,003	₱4,830	₱24	₱1,246	₱9,718
PHP	-20	(1,288)	83	1,051	(2,826)	1,178	5,334	6,431	31	1,680	12,962
(in 000s)	-25	(1,610)	103	1,314	(3,531)	1,472	6,662	8,027	39	2,093	16,179
	-15	50	–	(13)	(8)	(50)	–	27	–	159	115
USD	-20	67	–	(17)	(11)	(66)	–	36	–	211	153
(in 000s)	-25	84	–	(22)	(14)	(83)	(1)	44	–	261	185

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

	2009 Up to 1 month	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Beyond 1 year**	**Total**
			(In Thousand Pesos)			
Financial Assets						
Loans and receivables						
Cash and other cash items	**₱319,526**	**₱–**	**₱–**	**₱–**	**₱–**	**₱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**	**₱–**

	2008 Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
			(In Thousand Pesos)			
Financial Assets						
Loans and receivables						
Cash and other cash items	₱351,254	₱–	₱–	₱–	₱–	₱351,254
Due from BSP and other banks	4,093,544	900,000	–	–	–	4,993,544
Interbank loans receivable	715,280	–	–	–	–	715,280
Loans and discounts - gross	10,940,676	3,295,861	3,167,429	2,017,178	159,601	19,580,745
Other Assets	4,161	–	–	–	18,708	22,869
Financial assets at FVPL						
Government debt	–	279	–	–	496,585	496,864
Derivatives	1,691	–	–	–	–	1,691
AFS investments	–	–	–	17	1,086,668	1,086,685
HTM investments	–	52,162	5,115	–	40,726	98,003
Total financial assets	16,106,606	4,248,302	3,172,544	2,017,195	1,802,288	27,346,935

(Forward)

	2008					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
			(In Thousand Pesos)			
Financial Liabilities						
Financial liabilities at FVPL						
Derivative liabilities	₱1,031	₱–	₱–	₱–	₱–	₱1,031
Other financial liabilities at amortised cost						
Deposit liabilities						
Demand	3,856,006	–	–	–	–	3,856,006
Savings	2,233,854	–	–	–	–	2,233,854
Time	6,049,550	5,127,063	828,728	155,111	653,678	12,814,130
Bills payable and outstanding acceptances	1,217,144	–	–	218,250	–	1,435,394
Manager's checks	53,990	–	–	–	–	53,990
Accrued interest and other expenses	381,810	–	–	–	–	381,810
Other liabilities	728,278	–	–	–	–	728,278
Total financial liabilities	14,521,663	5,127,063	828,728	373,361	653,678	21,504,493
Repricing gap	₱1,584,943	(₱878,761)	₱2,343,816	₱1,643,834	₱1,148,610	₱5,842,442
Cumulative gap	₱1,584,943	₱706,182	₱3,049,998	₱4,693,832	₱5,842,442	₱–

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

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

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

	2009		
	Less than 3 months	**3 months to 1 year**	**Greater than 1 year**
Peso-denominated			
Financial assets			
Due from BSP	**3.5%**	**–**	**–**
Due from other banks	**2.2%**	**–**	**–**
Financial assets at FVPL	**5.1%**	**6.7%**	**7.3%**

(Forward)

	2009		
	Less than 3 months	**3 months to 1 year**	**Greater than 1 year**
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%**	**–**	**–**

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

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, 2009 and 2008, the capital adequacy ratio of the Bank, as reported to the BSP, is 22.9% and 21.5%, respectively.

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

BSP issued Circular No. 639 dated January 15, 2009 covering the Internal Capital Adequacy Assessment Process (ICAAP) which supplements the 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. Based on the results of the presentation, as per recommendations of BSP, the Bank is working on further enhancement of its ICAAP.

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

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

6. Trading and Investment Securities

Financial assets at FVPL consist of the following:

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

Net unrealized gain (loss) for the years ended December 31, 2009, 2008 and 2007 on revaluation to market of financial assets at FVPL amounting to (₱3.2 million), ₱1.8 million and (₱32.6 million), respectively, are included under 'Trading and securities gain - net' in the statements of income.

AFS investments consist of the following:

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

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

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

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

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

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

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

Interest income on trading and investment securities consists of:

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

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

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

Net gain (loss) on derivative transactions amounting to ₱9.9 million, ₱8.3 million, and (₱7.4 million) for the years ended December 31, 2009, 2008 and 2007, respectively, are included under 'Foreign exchange gain - net' in the statement of income.

7. Loans and Receivables

This account consists of:

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

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

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

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

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

The effective interest rates of ‘Loans and discounts’, ‘Unquoted debt instruments’ and ‘Sales contract receivables’ range from 3.1% to 4.0% in 2009 and 4.0% to 6.1% in December 31, 2008 for foreign currency-denominated receivables, and from 13.0% to 14.0% in 2009 and from 12. 6% to 14.8% in 2008 for peso-denominated receivables.

The Bank’s loan portfolio includes non-risk loans, as defined under BSP regulations, totaling ₱1.3 billion and ₱1.7 billion as of December 31, 2009 and 2008, respectively.

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

Interest income accrued on loans and receivables includes unwinding of the allowance for impairment and credit losses amounting to ₱13.5 million and ₱12.5 million as of December 31, 2009 and 2008, respectively.

8. Property and Equipment

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

	2009					
	Bank Premises	Computer Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Total
Cost						
Balance at beginning of year	**₱98,587,158**	**₱117,468,987**	**₱68,274,148**	**₱67,908,278**	**₱196,271,268**	**₱548,509,839**
Additions	**29,239**	**15,929,103**	**23,517,371**	**6,997,923**	**8,311,727**	**54,785,363**
Disposals and reversals	**–**	**(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 reversals	**–**	**(2,039,068)**	**(14,415,674)**	**(766,068)**	**25,000**	**(17,195,810)**
Balance at end of year	**29,131,522**	**112,343,739**	**26,430,792**	**57,639,793**	**164,288,785**	**389,834,631**
Net Book Value at end of year	**₱69,484,875**	**₱19,015,241**	**₱42,465,899**	**₱16,500,485**	**₱40,294,210**	**₱187,760,710**

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

9. Investment Properties

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

	2009	2008
Cost		
Balance at beginning of year	**₱4,606,010**	₱28,867,860
Additions	**1,389,360**	583,969
Disposals/others	**–**	(24,845,819)
Balance at end of year	**5,995,370**	4,606,010

(Forward)

	2009	2008
Accumulated Depreciation		
Balance at beginning of year	**₱2,149,471**	₱2,700,493
Depreciation	**466,390**	672,226
Reversals and other adjustments	**–**	(1,223,248)
Balance at end of year	**2,615,861**	2,149,471
Net Book Value at End of Year	**₱3,379,509**	₱2,456,539

The aggregate fair value of the investment properties of the Bank are ₱6.5 million and ₱4.3 million as of December 31, 2009 and 2008, respectively. The fair value of the Bank's investment properties has been arrived at on the basis of recent sales of similar properties in the same areas 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:

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

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

The movements in computer software costs follow:

	2009	2008
Cost		
Balance at beginning of year	**₱207,223,242**	₱193,088,194
Additions	**24,948,403**	14,281,056
Disposals	**(1,056,836)**	(146,008)
Balance at end of year	**231,114,809**	207,223,242
Accumulated Amortization		
Balance at beginning of year	**167,670,193**	143,625,904
Amortization	**18,566,217**	24,190,293
Disposals	**(1,056,836)**	(146,004)
Balance at end of year	**185,179,574**	167,670,193
	₱45,935,235	₱39,553,049

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

Movements in the allowance for impairment and credit losses follow:

	2009					
	Loans and Receivables					
	Institutional Banking	**Mortgage Banking**	**Small Business Loans**	**Retail Banking**	**Other Receivables**	**Total**
Balance at beginning of year	**₱339,846,107**	**₱13,847,826**	**₱15,901,032**	**₱1,004,103,964**	**₱131,424,769**	**₱1,505,123,698**
Provisions for (recovery from) impairment and credit losses	**3,526,129**	**8,553,155**	**(35,772)**	**226,074,347**	**47,515,561**	**285,633,420**
Accounts charged off and others	**(273,355,823)**	**30,039**	**(14,756,908)**	**–**	**(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**

	2008					
	Loans and Receivables					
	Institutional Banking	Mortgage Banking	Small Business Loans	Retail Banking	Other Receivables	Total
Balance at beginning of year	₱511,628,504	₱2,474,497	₱16,232,806	₱772,836,907	₱123,265,849	₱1,426,438,563
Provisions for (recovery from) impairment and credit losses	2,549,669	11,373,329	(344,139)	231,267,057	12,358,567	257,204,483
Accounts charged off and others	(174,332,066)	–	12,365	–	(4,199,647)	(178,519,348)
Balance at end of year	₱339,846,107	₱13,847,826	₱15,901,032	₱1,004,103,964	₱131,424,769	₱1,505,123,698

Impairment Assessment

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

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

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

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

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

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

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

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

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

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

	2009			2008		
	Specific Impairment	**Collective Impairment**	**Total**	Specific Impairment	Collective Impairment	Total
Loan and discounts	**₱12,921,816**	**₱225,196,043**	**₱238,117,859**	₱1,173,342	₱243,672,574	₱244,845,916
Other receivables	**30,401,482**	**17,114,079**	**47,515,561**	831,683	11,526,884	12,358,567
Total	**₱43,323,298**	**₱242,310,122**	**₱285,633,420**	₱2,005,025	₱255,199,458	₱257,204,483

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

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

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

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

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

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

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

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

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

12. Deposit Liabilities

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

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

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

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

Interest expense on deposit liabilities consists of:

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

13. Bills Payable

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

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

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

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

14. Accrued Interest and Other Expenses

This account consists of:

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

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

15. Other Liabilities

This account consists of:

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

16. Maturity Analysis of Assets and Liabilities

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

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

17. **Equity**

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

	2009		2008		2007	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Common stock - ₱10 par value						
Authorized	**300,000**		300,000		300,000	
Issued and outstanding						
Balance at beginning of the year	**247,969**	**₱2,479,687**	247,969	₱2,479,687	215,625	₱2,156,250
Stock dividends declared	**–**	**–**	–	–	32,344	323,437
Balance at end of the year	**247,969**	**₱2,479,687**	247,969	₱2,479,687	247,969	₱2,479,687

The shares of the Bank are listed in the PSE.

In December 2000, Chinatrust Taipei substantially increased its equity in the Bank through the acquisition of shares held by a minority group. As a result of this acquisition, Chinatrust Taipei controlled approximately 91% of the Bank's capital stock compared to 57% prior to the acquisition. The General Banking Law of 2000 allows foreign banks to own up to 100% of Philippine incorporated banks, compared to 60% under the previous law. A further acquisition of shares held by the public representing approximately 4% of the Bank's equity was made by Chinatrust Taipei in January 2001 through a tender offer at a price of ₱19 per share, the same price at which the shares from the minority group was acquired. In May 2001, Chinatrust Taipei purchased another 4% of the outstanding shares at a price of ₱18.3 per share.

Under the rules of the PSE, the Bank, being a stock exchange-listed entity, is required, among others, to maintain a minimum ownership reserved to the public equivalent to at least 20% of its outstanding capital stock. In its meeting held in August 2005, the BOD of PSE approved the removal of the rule on minimum public ownership as a continuing listing requirement. However, the said amendment is not yet effective as it is still subject to approval by the Philippine SEC.

As discussed in Note 5, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's unimpaired capital (regulatory capital) as reported to the BSP, which is determined on the basis of regulatory accounting practices which differ from PFRS in some respects. Specifically, under existing banking regulations, the combined capital accounts of each commercial bank should not be less than an amount equal to ten percent (10%) of its risk assets.

As of December 31, 2009 and 2008, the number of holders of the Bank's outstanding common shares is 160 and 168, respectively.

18. **Retirement Plans**

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

The date of the last actuarial valuation is December 31, 2009.

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

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

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

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

	2009	2008
Present value of funded obligation	**₱57,711,181**	₱77,533,774
Fair value of plan assets	**(74,197,903)**	(88,544,338)
Surplus	**(16,486,722)**	(11,010,564)
Unrecognized actuarial losses	**7,036,519**	2,514,963
Unamortized transition liability	**–**	(2,585,820)
Unrecognized asset due to asset ceiling	**–**	1,134,213
Net retirement asset	**(₱9,450,203)**	(₱9,947,208)

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

	2009	2008
Balance at beginning of year	**₱2,514,963**	(₱7,432,245)
Actuarial loss losses (gains) on the present value of the defined benefit obligation	**4,521,556**	9,947,208
Balance at end of year	**₱7,036,519**	₱2,514,963

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

	2009	2008
Balance at beginning of year	**(₱9,947,208)**	(₱5,231,596)
Retirement expense	**13,571,018**	13,003,938
Contribution paid	**(13,074,013)**	(17,719,550)
Balance at end of year	**(₱9,450,203)**	(₱9,947,208)

The actual return on plan assets amounted to (₱2.2) million, ₱9.6 million and ₱10.2 million for the years ended December 31, 2008, 2007 and 2006, respectively.

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

	2009	2008
Balance at beginning of year	**₱77,533,774**	₱103,232,036
Current service cost	**12,470,180**	17,290,482
Interest cost	**8,288,360**	8,671,491
Benefits paid	**(38,235,249)**	(22,839,338)
Actuarial gains	**(2,345,884)**	(28,820,897)
Balance at end of year	**₱57,711,181**	₱77,533,774

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

	2009	2008
Balance at beginning of year	**₱88,544,338**	₱95,859,747
Expected return on plan assets	**4,557,823**	5,597,991
Contributions paid	**13,074,013**	17,719,550
Benefits paid	**(38,235,249)**	(22,839,338)
Actuarial losses	**6,256,978**	(7,793,612)
Balance at end of year	**₱74,197,903**	₱88,544,338

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

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

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

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

Information on the Bank’s retirement plan follows:

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

19. Leases

The Bank leases a portion of the equipment and premises of its head office and branches. The lease contracts are for periods ranging from 1 to 10 years and are renewable at the Bank's option under certain terms and conditions. Various lease agreements include escalation clauses, most of which bear an annual rent increase of 5% to 10%. The lease agreements do not have contingent rent provisions.

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

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

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

20. Income and Other Taxes

Under Philippine tax laws, the RBU of the Bank is subject to percentage and other taxes (presented as 'Taxes and licenses' in the statement of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp taxes (DST). Income taxes include the corporate income tax, as discussed below, and final taxes paid at the rate of 20%, which is a final withholding tax on gross interest income from government securities and other deposit substitutes. Taxes and licenses incurred by the Bank amounted to ₱141.0 million, ₱129.2 million and ₱188.7 million in 2009, 2008 and 2007, respectively.

Republic Act (RA) No. 9337, *An Act Amending National Internal Revenue Code*, provides that the RCIT rate shall be 35% until December 31, 2008. Starting January 1, 2009, the RCIT rate shall be 30%. Interest expense allowed as a deductible expense is reduced by 42% starting November 1, 2005 until December 31, 2008. Starting January 1, 2009, interest expense allowed as a deductible expense shall be reduced by 33% of interest income subjected to final tax.

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

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

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

Provision for income tax consists of:

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

Components of the recognized net deferred tax assets follow:

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

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

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

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

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

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

Details of the Bank's excess MCIT over RCIT are as follows:

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

21. Income and Expenses

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

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

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

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

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

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

22. Trust Operations

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

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

In compliance with existing BSP regulations, 10% of the 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% 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, 2009, the reserve for trust functions amounted to ₱4.2 million.

23. Segment Information

Business Segments

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

Treasury - principally provides money market, trading and treasury services, as well as the management of the 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% 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):

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

(Forward)

	2008				
	Treasury	Institutional Banking	Retail Banking	Others	Total
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

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

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

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

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

24. Commitments and Contingent Assets and Liabilities

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

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

	2009	2008
Credit commitments	**₱4,326,080**	₱5,138,472
Trust department accounts (Note 22)	**3,676,611**	3,408,954
Inward bills for collection	**1,434,851**	9,613
Unused commercial letters of credit	**251,322**	161,110
Outward bills for collection	**15,640**	2,034
Traveler's check unsold	**–**	860
Others	**2,144**	32,049

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

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

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

25. Related Party Transactions

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

In the ordinary course of business, the Bank has loans transactions with investees and with certain directors, officers, stockholders and related interests (DOSRI). Existing banking regulations limit the amount of individual loans to DOSRI, 70% of which must be secured, to the total of their

respective deposits and book value of their respective investments in the Bank. In the aggregate, loans to DOSRI generally should not exceed the respective total regulatory capital or 15% of total loan portfolio, whichever is lower.

BSP Circular No. 423 dated March 15, 2004 amended the definition of DOSRI accounts. The following table shows information relating to the loans and other credit accommodations as reported to the BSP classified as DOSRI accounts under regulations existing prior to said circular, and new DOSRI loans, other credit accommodations and guarantees granted under BSP circular No. 423 as of December 31, 2009 and 2008:

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

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

			Elements of Transactions			
		Nature of	Statement of Financial Position		Statement of Income	
Related Party	Relationship	Transaction	**2009**	2008	**2009**	2008
Officers and employees	Officers and employees	Loans and receivable	**₱17,916,758**	₱17,371,595	**₱–**	₱–
		Interest income	–	**–**	**1,803,437**	1,508,889
Chinatrust-New York	Affiliate	Due from other banks	**40,900,490**	119,136,900	**–**	–
Chinatrust-Taipei	Affiliate	Due from other banks	**27,584,893**	279,478,280	**–**	–
		Bills payable	**415,800,000**	950,400,000	–	–
		Interest income	–	–	**6,042**	–
		Interest expense	–	–	**131,250**	910,486
Chinatrust-Hongkong	Affiliate	Due from other banks	**6,893,825**	300,071	**–**	–
Chinatrust-Tokyo	Affiliate	Due from other banks	**5,045,270**	54,505,733	**–**	–

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

For the year ended December 31, 2009 and 2008, borrowings availed and settled within the year from affiliates amounted to ₱5.1 billion and ₱6.5 billion, respectively. There are no other transactions with affiliates and other related parties other than those described above.

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

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

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

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

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

26. Derivative Financial Instruments

The table below shows the fair values of derivative financial instruments entered into by the Bank, recorded as derivative assets or derivative liabilities, together with the notional amounts. The notional amount is the amount of a 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, 2009 and 2008 and are not indicative of either market risk or credit risk (amounts in thousands).

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

	2008		
	Assets	Liabilities	Notional Amount
Freestanding derivatives:			
Currency forwards and swaps			
BUY:	₱872	₱287	USD1,320
USD/PHP			
SELL:	819	744	USD4,000
USD/PHP			
	₱1,691	₱1,031	

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

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

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

27. **Financial Performance**

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

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

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

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

	2009	2008	2007
Return on average equity (a/b)	**6.5%**	1.4%	2.3%
a.) Net income	**₱332,856,561**	₱69,920,411	₱113,874,032
b.) Average total equity	**5,105,087,127**	4,904,363,424	4,887,283,997
Return on average assets (c/d)	**1.3%**	0.3%	0.4%

(Forward)

	2009	2008	2007
c.) Net income	**₱332,856,561**	₱69,920,411	₱113,874,032
d.) Average total assets	**25,371,719,606**	23,112,153,070	26,083,398,379
Net interest margin on average earning assets (e/f)	**6.0%**	6.0%	6.2%
e.) Net interest income	**1,495,783,462**	1,354,753,274	1,434,918,787
f.) Average interest earning assets	**24,808,878,346**	22,464,166,738	22,986,576,613

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

SGV & Co
Ernst & Young

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines
Phone: (632) 891 0307
Fax: (632) 819 0872
www.sgv.com.ph

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

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Chinatrust (Philippines) Commercial Bank Corporation
3rd Floor, Tower One and Exchange Plaza, Ayala Triangle
Ayala Avenue corner Paseo de Roxas, Makati City

We have audited, in accordance with Philippine Standards on Auditing, the financial statements of Chinatrust (Philippines) Commercial Bank Corporation (the Bank) for the year ended December 31, 2009 and have issued our report thereon dated March 12, 2010. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of retained earnings available for dividend declaration as of December 31, 2009 is the responsibility of the Bank's management. This schedule is presented for the purpose of complying with SEC Memorandum Circular No. 11, Series of 2008 and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

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

March 12, 2010

CHINATRUST (PILIPPINES) COMMERCIAL BANK CORPORATION
3rd Floor, Tower One and Exchange Plaza, Ayala Triangle
Ayala Avenue corner Paseo de Roxas, Makati City

RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
DECEMBER 31, 2009

Unappropriated retained earnings, as adjusted to available for dividend declaration, beginning		₱1,910,671,514
Net income during the year closed to retained earnings		332,856,561
Less: Non-actual/ unrealized income net of tax		
Equity in net income of associate/ joint venture	–	
Unrealized foreign exchange gain-net (except those atributable to cash and cash equivalents)	13,076,766	
Unrealized actuarial gain	–	
Fair value adjustment (M to M gains)	(3,233,638)	
Provision for DTA	(8,371,832)	
Fair value adjustment of Investment Property/AR- ICCS resulting to gain	16,141,792	
Adjustment due to deviation from PFRS/ GAAP - gain		
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under PFRS	17,609,210	35,222,298
Add: Non-actual losses		
Depreciation on revaluation increment (after tax)	–	
Adjustment due to deviation from PFRS/ GAAP - loss	–	
Loss on fair value adjustment of investment property (after tax)	–	–
Net income actually earned during the year		297,634,263
Add/Less:		
Dividend declaration during the period	–	
Appropriations of Retained Earnings during the period	(4,218,875)	
Reversal of appropriations	–	
Effects of prior period adjustments	–	
Treasury shares	–	(4,218,875)
Total retained earnings, available for dividend declaration, ending		2,204,086,902

INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY SCHEDULE

The Stockholders and the Board of Directors
Chinatrust (Philippines) Commercial Bank Corporation
3rd Floor, Tower One and Exchange Plaza, Ayala Triangle
Ayala Avenue corner Paseo de Roxas, Makati City

We have audited, in accordance with Philippine Standards on Auditing, the financial statements of Chinatrust (Philippines) Commercial Bank Corporation (the Bank) included in this Form 17-A and have issued our report thereon dated March 12, 2010. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Bank's management and are presented for purposes of complying with Securities Regulation Code Rule 68.1 and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Christian G. Lauron
Partner
CPA Certificate No. 95977
SEC Accreditation No. 0790-A
Tax Identification No. 216-474-781
PTR No. 2087541, January 4, 2010, Makati City

March 12, 2010