

SEC Number 16283

File Number

**PHILIPPINE COMMERCIAL INTERNATIONAL
BANK, INC. AND SUBSIDIARIES**

(Company's Full Name)

PCIBank Tower I, Makati Avenue, Makati City

(Company's Address)

840-7000

(Telephone Number)

December 31, 1998

(Fiscal Year Ending)
(month & day)

SEC Form 11-A Annual Report

Form Type

Amendment Designation (if applicable)

Period Ended Date

(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA
Mandaluyong City

SEC FORM 11-A

ANNUAL REPORT PURSUANT TO SECTION 11
OF THE REVISED SECURITIES ACT AND SECTION 141
OF CORPORATION CODE OF THE PHILIPPINES

1. For the calendar year ended : December 31, 1998
2. SEC Identification Number : 16283
3. BIR Tax Identification Number : 050-000-487-355
4. Exact name of registrant as specified in its charter :
PHILIPPINE COMMERCIAL INTERNATIONAL BANK, INC.
5. Philippines
Province, Country or other
Jurisdiction of incorporation
or organization
6. (SEC Use Only)
Industry Classification Code:
7. PCIBank Tower 1, Makati Avenue
Makati City
0726
Postal Code
Address of principal office
8. (632) 840-7000
Registrant's telephone number, including area code
9. The Bank has not changed its applicable name, address nor fiscal year in the past year.
10. The following securities of the Bank are registered pursuant to Sections 4 and 8 of the RSA:

Title of Each Class	Number of Shares of Common Stock and Amount of Debt Outstanding
Common - P10 par value	<u>152,246,166</u> shares
11. Currently, common shares of the Bank are listed in the Philippine Stock Exchange Inc. ("PSE").

12. Check whether the Bank:

(a) has filed all reports required to be filed by Section 11 of the Revised Securities Act (RSA) and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the Bank was required to file such reports):

Yes [x] No []

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

Yes [x] No []

13. The aggregate market value of the voting stock held by non-affiliates as of December 31, 1998 is P4,662,130,672.80.

14. The Bank has not been involved in insolvency nor suspension of payments during the immediately preceding five years.

PHILIPPINE COMMERCIAL INTERNATIONAL BANK, INC.
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PART 1 - BUSINESS AND GENERAL INFORMATION

Item 1. Business

As a leading diversified financial company, PCIBank offers a wide array of products and services to its clients.

With a corporate history that traces its roots to July 8, 1938 – the date of establishment of the Philippine Bank of Commerce – PCIBank is the first Filipino-owned private commercial bank in the country. PCIBank's heritage ushered in its pioneering efforts in branch banking, automated banking, and export financing. PCIBank is also the first private bank to establish a remittance processing center or the Express Padala Center, which offers Filipino overseas contract workers a safe and fast means of sending their earnings to their families.

PCIBank continues to address clients' needs by providing greater access to its services via its extensive branch network. Last year, it opened 14 new branches and installed 48 ATMs in key locations nationwide. With these additional banking facilities, to date, PCIBank has a total of 280 branches and 267 ATMs strategically located nationwide. Through its thrift banking subsidiary, PCIB Savings, the Bank also introduced the In-Touch Banking Center, a kiosk located in shopping malls to cater to the banking needs of mall-goers and shops. PCIBank's membership in BancNet, as well as interconnection of the BancNet and Megalink, gives FASTeller International cardholders access to over 1,400 ATMs. Banking convenience was further stretched outside the country through PCIBank's tie-ups with Cirrus and Maestro.

Still as part of its continuing thrust to meet clients' needs, PCIBank launched innovative deposit products like the PCIBank Optimum which combines the features of a regular savings account and a time deposit and the PowerSavers Savings Account which is uniquely developed for children. It also re-introduced the PCIBank Equalizer which promises to double the clients' money in five years.

The clients' diverse needs are also addressed by PCIBank's subsidiaries. PCI Capital Corporation, the Bank's investment banking subsidiary is one of the major players in the industry. PCI Leasing and Finance, Inc. continued to be the country's largest issuer of Short-term Commercial Papers (STCP) in the financing industry. Bankard, Inc. blazed a trail with the innovative Bankard MF1, the first credit card that offers the convenience features of a credit card and an electronic stored-value cash card. PCIB CIGNA Life Insurance meanwhile introduced more new products in its second year of operations. The other subsidiaries provide able support in providing a wide range of other financial services through PCIB Asia Ltd.; PCIB Forex Brokers Corp.; PCIB Securities; PCI Express Padala (HK) Ltd.; PCI Express Padala, Inc.; PCIB Europe SpA; PCI Insurance Brokers, Inc.; PCI Automation Center, Inc.; PCIB Properties, Inc. and Maxicare PCIB CIGNA Healthcare Corporation.

Item 2. Properties

The Bank owns the land and head office buildings along Makati Avenue corner H. V. de la Costa St. where the executive offices and operating units are housed, as well as several of the branch premises. Other branch sites are being leased for periods ranging from 1 to 20 years.

The following branch sites (land and buildings) are owned by the Bank:

BRANCH	LOCATION
CALOOCAN AREA	
Malabon	694 Rizal Avenue, Malabon, Metro Manila
Meycauayan	Zamora St., Barrio Calvario Meycauayan, Bulacan
Sangandaan	628 A. Mabini St., Sangandaan, Caloocan City
CUBAO AREA	
Cubao	Aurora Blvd., cor. Notre Dame St., Cubao, Q. C.
Kamuning	Cor. Kamuning Road & T. Morato Ave., Q. C.
LUNETETA AREA	
Ermita	PCIBank Ermita Bldg., A. Mabini cor. Padre Faura Ermita, Mamila
Luneta	PCIBank Luneta Bldg. 707 T.M. Kalaw St., cor. Churruca St., Ermita, Manila
San Sebastian	PCIBank San Sebastian Bldg. 2070 C.M. Recto St., Samplaloc, Manila
Taft Ave.	Bankard Bldg., 2422 Taft Avenue, Malate Manila
QUEZON CITY AREA	
Heroes Hills	1050 Quezon Avenue, Quezon City
Novaliches	896 Quirino Hi-way, Novaliches, Quezon City
STA CRUZ AREA	
Sta. Cruz	PCIBank Sta. Cruz Bldg. 377 Plaza Sta. Cruz, Sta. Cruz, Manila
Tabora	817 Tabora St., Binondo, Manila
EASTERN METRO AREA	
Pasig-Capitol	Shaw Blvd., cor. Christian Route, Pasig City
San Juan	Units 102-103 Sunrise Cond. San Juan, M.M.
Concepcion Marikina	Bayan-Bayanan Avenue, Concepcion, Marikina City
LAGUNA-CAVITE AREA	
Calamba	Calamba Crossing National Hi-way, Calamba, Laguna
Cavite	Cor. P. Burgos & P. Julio Sts., Caridad, Cavite City
Gateway-Cavite	Gateway Business Park C. delos Reyes Ave., Gen. Trias, Cavite
Sta. Rosa	National Road Pulong Sta. Cruz., Sta Rosa, Laguna
MAKATI BUSINESS AREA	
Asia Tower	G/F Asia Tower cor. Paseo de Roxas & Buenavidez Sts., Makati City
Ayala-Locsin	L.V. Locsin Bldg. Ayala Ave., cor. Makati Avenue Makati City
Bel-Air	Country Space 1 Cond. Bldg. Sen. Gil Puyat Avenue, Bel Air Village, Makati City
J.P. Rizal	PCIBank J.P. Rizal Bldg. J.P. Rizal Ave. cor. Antipolo St., Makati City

BRANCH	LOCATION
Main Office	PCIBank Bldg., Tower 1 Makati Ave., cor. H.V. dela Costa St., Makati City
Makati Cinema Square Paseo de Roxas	Makati Cinema Square Pasong Tamo, Mkti. City G/F Universal RE Bldg. 106 Paseo de Roxas, Makati City
Salcedo-Makati	PCCI Bldg., 118 Alfaro St. Salcedo Vill., Mkti. City
SOUTHERN METRO AREA	
A. Santos-Paranaque Baclaran	Dr. A. Santos Ave., Sucat, Paranaque, Metro Manila 2/F Fuagumi Bldg., Redemptorist Road, Baclaran, Paranaque, Metro Manila
BF Homes Paranaque	Pres. Ave. cor. J. Elizalde Ave., BF Homes, Paranaque, Metro Manila
Las Pinas	Alabang-Zapote Road Pamplona Tres, Las Pinas, Metro Manila
Puerto Princesa	261 Rizal Ave., Puerto Princesa, Palawan City
CHINESE BANKING GROUP	
Dasmarinas Rizal Ave.-8 th Ave.	Cor. Dasmarinas St. & W Burke Sts., Binondo, Manila 2/F RA 8 th Ave., 414 Rizal Ave., Ext. Grace Park, Caloocan City
NORTHERN LUZON AREA	
Dagupan	A.B.Fernandez Ave., Dagupan City, Pangasinan
La Union	Quezon Ave., San Fernando, La Union
Laoag	Cor. Rizal 7 Balintawak Sts., Laoag City, Ilocos Norte
Urdaneta	Alexander St., Poblacion Urdaneta, Pangasinan
Vigan	Cor. Bonifacio & Quezon Ave., Vigan, Ilocos Sur
EASTERN LUZON	
Gapan	Tinio St., Gapan, Nueva Ecija
Munoz	T. Delos Santos St., Munoz, Nueva Ecija
Roxas-Isabela	23 Osmena Road, Bantug Mallig Plain, Roxas, Isabela
WESTERN LUZON AREA	
Angeles	PCIBank Bldg., Miranda St., Angeles City, Pampanga
Balanga	Antonio Banzon St. Balanga, Bataan
Luisita-Tarlac	Mc Arthur Hi-way, San Miguel, Tarlac, Tarlac
Malolos-Bulacan	Paseo del Congreso, San Agustin, Malolos, Bulacan
SOUTHERN LUZON AREA	
Batangas	Rizal Ave., cor. P. Burgos St. Batangas, Batangas City
Candelaria	Rizal cor. Valle Sts., Candelaria, Quezon
Lipa	131 C.M. Recto St. Lipa City, Batangas
San Pablo-Laguna	A. Alcantara cor. J.P. Rizal St., San Pablo City, Laguna
BICOL AREA	
Naga City	Gen Luna St., Naga City, Camarines Sur

BRANCH	LOCATION
CENTRAL VISAYAS AREA	
Cebu Financial Ctr. Lahug	Gorordo Ave., Lahug, Cebu City
Magallanes-Cebu	Magallanes cor. Plaridel Sts., Cebu City
Mandaue	National Hi-way 6014 Mandaue City
EASTERN VISAYAS AREA	
Ormoc	Cor. Burgos & Rizal Sts., Ormoc City, Leyte
WESTERN VISAYAS AREA	
Bacolod	Araneta cor. Gonzaga Sts., Bacolod City, Negros Occidental
Cadiz	Cabahug St., Cadiz, Negros, Occidental
Capitol Shopping Bacolod	Benigno Aquino Drive, Capitol Shopping, Bacolod City
Escalante	National Hi-way, Escalante, Negros Occidental
Kabankalan	Guanzon St., Kabankalan, Negros Occidental
Lacson-Bacolod	Lacson St. cor. Galo St. Bacolod City
Silay	Figuroa cor. Rizal St., Silay City, Negros Occ.
PANAY ISLAND AREA	
Antique	Carretas cor. Solana St., Panay Islands, San Jose, Antique
Iloilo (Iznart)	Iznart St., Iloilo City, Iloilo
Roxas City	Roxas Ave., cor. Pavia St., Roxas City, Capiz
NORTHERN MINDANAO AREA	
Del Pilar-Iligan	Quezon Ave., Iligan City, Lanao del Norte
Lapasan-Cagayan de Oro	C.M.Recto Hi-way Lapasan, Cag. De Oro City
Valencia-Bukidnon	M.L. Quezon St., cor. Ginuyaran Road, Valencia Bukidnon
Vamenta-Cag. de Oro	V. Castro St., Carmen District, Misamis Oriental
Velez-Cag. de Oro	Don Apolinar Velez Road, cor. Abojuela St., Cag. de Oro, Misamis Oriental
SOUTHERN MINDANAO AREA	
Kidapawan	Quezon Blvd., Kidapawan, North Cotabato
Mati	Rizal cor. Mabini Sts., Mati, Davao Oriental
Tagum	877 Rizal St., Tagum, Davao del Norte
CENTRAL MINDANAO AREA	
Dadiangas	Nat'l. Hi-way cor. Roxas Ave., Gen. Santos City, South Cotabato
Isulan	Sultan Kudarat
Koronadal	R. Alunan Ave., cor. Osmena St., Koronadal South Cotabato
Makakua-Cotabato	Makakua St., Cotabato City, Maguindanao
Tacurong	Alunan Hi-way, Tacurong Sultan Kudarat
WESTERN MINDANAO AREA	
Pagadian	F.S. Pajaras Ave., Pagadian City, Zamboanga del Sur
Zamboanga	Rizal St., Zamboanga City, Zamboanga del Sur

Item 3. Legal Proceedings

The Bank has several pending suits and claims. In the opinion of management, if the aforesaid suits and claims are decided adversely, the resulting liability, if any, will not have material effect on the Bank's consolidated financial position and operating results.

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

There were no matters submitted to a vote through the solicitation of proxies during the fourth quarter of the fiscal year covered by this report.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

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

DIVIDENDS PER SHARE - P1.50 in 1998, 1997 and 1996

STOCK PRICES

	<u>HIGH</u>	<u>LOW</u>
1998		
First Quarter	P 197.00	P 70.00
Second Quarter	200.00	140.00
Third Quarter	170.00	75.00
Fourth Quarter	167.00	70.00
1997		
First Quarter	P 410.00	P 332.50
Second Quarter	390.00	246.00
Third Quarter	257.50	120.00
Fourth Quarter	160.00	110.00

The number of shareholders of record as of December 31, 1998 was 5,584. Common shares outstanding as of December 31, 1998 were 152,246,166.40.

Top 20 stockholders as of December 31, 1998:

	<u>Name</u>	<u>Number of shares held</u>	<u>% to Total</u>
1.	Benpres Holdings Corp.	45,640,592	29.98
2.	PCD Nominee Corporation	37,115,188	24.38
3.	Consolidated Robina Capital Corporation	25,346,416	16.65
4.	Trans Middle East Philippines Equities, Inc.	15,975,880	10.49
5.	Meralco Pension Fund	11,412,463	7.50
6.	PCD Nominee Corporation	3,084,150	2.03
7.	Solid Finance Holdings Ltd.	2,405,790	1.58
8.	Solid Finance Holdings Ltd.	1,188,500	0.78
9.	Solid Finance Holdings Ltd.	699,950	0.46
10.	Edilberto S. Narciso, Jr.	470,236	0.31

	<u>Name</u>	<u>Number of shares held</u>	<u>% to Total</u>
11.	Jeffrey Reginald T. Ching	468,487	0.31
12.	Winnifred Natasha T. Ching	468,480	0.31
13.	DHS Investment, Inc.	420,311	0.28
14.	Antonio Steven L. Chan	358,988	0.24
15.	Lily Zenaida Chan	269,241	0.18
16.	Jorge A. Lichauco	250,000	0.16
17.	Ma. Antonietta L. Chan	215,393	0.14
18.	Ma. Teresa L. Chan	215,392	0.14
19.	Agvid Construction Corp.	194,156	0.13
20.	A. Chan Sugar Corporation	179,496	0.12

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

In 1998, PCIBank channeled its efforts towards ensuring that it remained strong and stable in the face of the Asian financial turmoil. Although the Bank was not spared by the economic crisis that continued to plague the region, the management strategies and action programs the Bank pursued since 1997 enabled the Bank to ride out the storm better than most financial institutions. Indicative of this strength is the Bank's BIS Tier 1 ratio which is estimated at 21%.

PCIBank posted a net income of P2.68 billion, a 26% decrease over the previous year's figures. Total resources stood at P 148.66 billion. Capital funds totaled P 24.59 billion. Gross earnings grew to P19.34 billion, while total expenses reached P 16.50 billion. Deposits generated totaled P95.73 billion, whereas total loan portfolio was pegged at P 82.33 billion.

Amidst 1998's environment of economic uncertainty, the Bank focused on the quality of its loan portfolio by implementing more stringent criteria and by tightening controls. Management also conducted a stress test of the Bank's loan portfolio to identify potential problem accounts and enhance the Bank's collateral position. More effective measures were also undertaken to contain the level of non-performing loans. A reduction in the bank's foreign exposure was sought so that FCDU loans were brought down to less than 22% of total portfolio. Moreover, the bank's provisioning levels were substantially increased to maintain a healthy balance sheet.

In 1998, management also continued to strengthen control over the Bank's expense base. Measures which were readily implemented significantly reduced overhead even as other steps were introduced to further control expenses over the long term.

For the immediate future, management will continue to focus on prudent loan portfolio management as well as work on improving the Bank's credit process and controls. Effective expense management will likewise continue to be pursued to ensure greater cost efficiency. Systems enhancement will be a key priority in support of continuing plans to pursue deposit generation efforts as well as enhance the Bank's quality of service to its customers.

Item 7. Financial Statements

The consolidated financial statements and schedules listed in the accompanying Index to Financial Statements and Supplementary Schedules (page 28) are filed as part of this Form 11-A (pages 30 to 55).

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

None.

PART III- CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Senior Management of the Bank

(1) The following are the members of the Board of Directors and senior management as of December 31, 1998:

<u>Office</u>	<u>Name</u>	<u>Age</u>
Chairman of the Board	EUGENIO LOPEZ, JR. Mr. Eugenio Lopez Jr., is the Chairman of the Board since April 21, 1986. He is also the Vice Chairman of the Executive Committee.	70
Vice Chairman	JOHN GOKONGWEI, JR. Mr. John Gokongwei, Jr. is the Vice Chairman of the Board since April 8, 1988. He is also the Chairman of the Executive Committee.	72
Directors	RAFAEL B. BUENAVENTURA Mr. Rafael B. Buenaventura is a Director since May 31, 1989. He is also the President and Chief Executive Officer since he assumed office on July 7, 1989.	60
	ROBERT COYIUTO, JR. Mr. Robert Coyiuto, Jr. is a Director since his election on June 6, 1989.	47
	WILLIAM T. GATCHALIAN Mr. William T. Gatchalian is a Director since his election on March 4, 1994.	49
	JOHNSON ROBERT GO Mr. Johnson Robert Go is a Director since his election on November 27, 1987.	64
	LANCE Y. GOKONGWEI Mr. Lance Y. Gokongwei is a Director since February 2, 1996. He is also the Bank's Assistant Treasurer.	32
	AUGUSTO ALMEDA LOPEZ Mr. Augusto Almeda Lopez is a Director since his election on May 23, 1986.	70
	MANUEL M. LOPEZ Mr. Manuel M. Lopez is a Director since his election on April 24, 1997.	56

<u>Office</u>	<u>Name</u>	<u>Age</u>
	RENATO B. MAGADIA Mr. Renato B. Magadia was reelected as Director on April 30, 1998.	60
	FERDINAND MARTIN G. ROMUALDEZ Mr. Ferdinand Martin G. Romualdez was re-elected as Director on April 30, 1998.	35

Executive Officers of the Bank

The names and ages of all executive officers are as follows:

<u>Office</u>	<u>Name</u>	<u>Age</u>
President	Rafael B. Buenaventura Mr. Buenaventura is the President and Chief Executive Officer since July 7, 1989.	60
Senior Executive Vice Presidents	Roberto L. Panlilio Mr. Panlilio is the Chief Operating Officer of Investment Banking and Non Banking Affiliates/Subsidiaries since his promotion on February 1, 1998.	44
	Edward D. Sy Mr. Sy is the Chief Operating Officer of the Unibank's Banking Operations. He joined the Bank in February 1998.	48
Executive Vice Presidents	Isidro C. Alcantara, Jr. Mr. Alcantara is the Head of the Corporate Banking Segment.	45
	Esperanza S. Osmeña Ms. Osmeña is the Bank's Treasurer and Head of Treasury & Funding Segment.	48
	Pablito H. Yap Mr. Yap is the Head of Risk Assets Management.	52
Senior Vice Presidents	Evelyna C. Avila Ms. Avila is the Head of Operations and Administrative Support Segment and Officer In Charge of PCI Automation Center.	47
	Rene D. Buenaventura Mr. Buenaventura is the President of PCI Leasing and Finance, Inc.	43

<u>Office</u>	<u>Name</u>	<u>Age</u>
	Gerard Lee B. Co Mr. Co is the Group Head of Visayas & Mindanao of the Retail and Commercial Banking Segments.	39
	Leonardo L. Tancuan, Jr. Mr. Tancuan is the Head of Chinese Banking Group.	63
	Elbert M. Zosa Mr. Zosa is the Head of Strategic Planning Segment.	52
First Vice Presidents	Shirley S. Ang Ms. Ang is the Head of Chinese Banking Center Account Management III Greenhills.	45
	Manolo C. Arzadon Mr. Arzadon is seconded to PCI Leasing as the Head of the Operations Group.	48
	Eliseo A. Aurellado Mr. Aurellado is seconded to PCIB Properties as Comptroller.	49
	Rolando R. Avante Mr. Avante is the Head of Domestic Funds Management of the Treasury & Funding Segment.	39
	Pier Angela P. Caguioa Ms. Caguioa is the Head of Treasury Marketing Unit.	38
	Arnaldo L. Cruz Mr. Cruz is seconded to PCI Automation as Head of Retail Banking Systems Division.	42
	Ramon S. David Mr. David is the Head of Corporate Banking Segment Division IV.	40
	Remigio I. David Mr. David is the Head of PCIB Europe, SpA.	48
	Marvin V. Fausto Mr. Fausto is the Head of Investment & Trading Division of Trust Banking Group.	37

<u>Office</u>	<u>Name</u>	<u>Age</u>
	Aurelia G. Galarrita Atty. Galarrita is the Head of Credit/Legal/Collection & Special Accounts Management Group.	48
	Josephine F. Gonzales Ms. Gonzales is the Head of Branch Banking Segment's Remittance Offices.	43
	Edgardo M. Herrera Mr. Herrera is the Head of Audit Group. He joined the Bank on February 1, 1998.	50
	Ma. Elena L. Jao Ms. Jao is seconded to PCI Automation as Head of Corporate Banking Systems Division.	49
	Ana Luisa S. Lim Ms. Lim is the Head of the Bank's Direct Banking and Customer Care Division.	39
	Melvin C. Lim Mr. Lim is the Head of Luzon Branches Division. He was promoted to FVP on August 1, 1998.	48
	Leslie G. Limsico Mr. Limsico is the Head of Foreign Exchange Management .	38
	Angeles Z. Lorayes Ms. Lorayes is the Head of Credit Policy and Administration.	49
	Clarissa G. Ocampo Ms. Ocampo is the Head of Account Management Department of Trust Banking Group.	43
	Jose Pastor Z. Puno Mr. Puno is the Head of Middle Market Division for Metro Manila and Luzon Areas.	48
	Agerico F. Reinoso, Jr. Mr. Reinoso is seconded to PCIB Cigna Life as Chief Finance Officer.	45

<u>Office</u>	<u>Name</u>	<u>Age</u>
	Rolando A. Rodriguez Mr. Rodriguez is seconded to PCIB Savings Bank as Chief Executive Officer.	47
	Gregorio V. Rubio Mr. Rubio is the Bank's Chief Compliance Officer.	50
	Candido Q. Santico, Jr. Mr. Santico is the Head of PCIB Saudi Desk Office.	57
	Antonio C. Santos, Jr. Mr. Santos is seconded to PCI Automation as Head of Subsidiaries and Remote Systems Division.	53
	Marirose Q. Sison-Garcia Ms. Sison-Garcia is seconded to Bankard, Inc. as Head of Merchant Acquiring Segment.	49
	Josefina E. Sulit Ms. Sulit is the Head of Trust Banking.	53
	Robert W. Sy Mr. Sy is the Head of Metro Manila Branches Division I. He was promoted to the rank of FVP on August 1, 1998.	39
	Rebecca S. Torres Ms. Torres is the Head of Information Resource Management and the Accounting, Reports & Reconciliation Group.	45
	Dennis B. Velasquez Mr. Velasquez is the overall Project Manager of Project Star.	45
	Aristotle L. Villaraza Mr. Villaraza is the Head of Corporate Finance Division.	47
	Celia Jessica L. Villarosa Ms. Villarosa is the Head of Human Resources Management since joining the Bank on July 16, 1998.	45
	Edward G. Wenceslao Mr. Wenceslao is the Head of Corporate Banking Division I.	42

Office
Vice Presidents

<u>Name</u>	<u>Age</u>
Antonina M. Cabuyadao Ms. Cabuyadao is the Head of Metro Manila Branches Division II.	52
Leslie Y. Cham Mr. Cham is the Head of Sta. Cruz Area.	33
Cecilio I. Cortez Mr. Cortez is the overall Chairman of the Fact Finding Committee.	60
Edna Christine P. Cruz Ms. Cruz is the Head Eastern Metro Area.	38
Wilfredo D. Cruz Mr. Cruz is the Head of Security and Investigation Division.	60
Helen U. Fargas Ms. Fargas is the Head of Metro Manila Branches Division III.	45
Lesmes L. Garate Mr. Garate is the Head of Visayas Branches Division.	47
Gina S. Go Ms. Go is the Head of Remedial Management Division II.	38
Lance Y. Gokongwei Mr. Gokongwei is the Bank's Assistant Treasurer .	32
Soledad Bernadette L. Inguito Ms. Inguito is the Head of Financial Institutions for Overseas Offices. She was promoted to the rank of VP on August 1, 1998.	37
Elizabeth L. Legarda Ms. Legarda is seconded to Bankard, Inc. as Head of Regional Operations and Bankard Travel.	45
Jesus A. Malilay, Jr. Mr. Malilay is the Head of Administrative Group of Branch Banking Segment.	45
Nicolas A. Montero Mr. Montero is the Head of Mindanao Branches Division.	58

<u>Office</u>	<u>Name</u>	<u>Age</u>
	Ma. Socorro S. Muntuerto Ms. Muntuerto is the Head of Human Resources Management of Visayas and Mindanao Divisions.	45
	Bella O. Navarra Ms. Navarra is the Executive Assistant to the Treasurer.	38
	Reginald C. Nery Mr. Nery is the Head of Information Systems (IS) Audit.	40
	Danilo V. Palugod Mr. Palugod is the Head of Treasury Support Operations Division.	50
	Domingo A. Ramos Mr. Ramos is the Head of Southern Mindanao Area.	50
	Raul G. Risos Mr. Risos is the Head of Relationship Banking in Lahug, Cebu.	51
	Nestor S. Romulo Mr. Romulo is the Head of Legal Services Group.	53
	Milagros M. Santos Ms. Santos is the Head of Audit Division II.	58
	Arsenio L. Severino Mr. Severino is the Head of Corporate Banking Division V.	42
	Bernadette A. Sevilla Ms. Sevilla is the Head of Specialized Lending Division.	40
	Ernesto R. Sison Mr. Sison is the Head of Subsidiaries Operation.	53
	Celia D. Sotto Ms. Sotto is the Head of Trade Services Division. She was promoted to the rank of VP on August 1, 1998.	48

<u>Office</u>	<u>Name</u>	<u>Age</u>
	Grace A. Sumalpong Ms. Sumalpong is the Head of Special Accounts Management - Visayas Division.	42
	Alejandro R. Sumayao Mr. Sumayao is the Head of Collection and Acquired Assets Administration Unit.	48
	Nestor J. Sunico Mr. Sunico is the Head of Remedial Management and Supervision Group.	48
	Heidi P. Ver Ms. Ver is seconded to PCI Automation as Officer In Charge of Central Operations Group.	43
	Aimee A. Yu Ms. Yu is the Head of Credit Administration Unit (CAU) of Central Eastern Visayas (Lahug). She joined the Bank on July 16, 1998.	52
	Edward J. Zshornack Mr. Zshornack is the Head of Treasury Risk and Product Management. He was promoted to the rank of VP on August 1, 1998.	35
Assistant Vice Presidents	Cynthia M. Avenir Ms. Avenir is seconded to PCI Automation as Head of Administrative Division.	50
	Jessie P. Balan Mr. Balan is the Head of Credit Administration Unit for Northern Mindanao.	50
	Antonio C. Castro Mr. Castro is a Senior Currency Trader of Foreign Exchange Management. He was promoted to the rank of AVP on August 1, 1998.	33
	Aurora M. Castro Ms. Castro is the Head of Product Management Core Deposits.	39
	Hilaria L. Ceniza Ms. Ceniza is the Head of Northern Metro Area.	45

<u>Office</u>	<u>Name</u>	<u>Age</u>
	Marilou L. Cesario Ms. Cesario is the Head of Corporate Banking Division I.	45
	Susie S. Cham Ms. Cham is the Head of Quezon City Area.	34
	Catherine L. Coseip Ms. Coseip is with the Treasury Marketing Unit, as Marketing Officer handling Chinese accounts.	32
	Elizabeth S. Costes Ms. Costes is the Head of General Services Division.	54
	Daniel I. De La Cruz Mr. De la Cruz is the Head of Western Mindanao Area.	50
	Grace De La Cruz Ms. de la Cruz is Head of Branch Operations.	43
	Carmelito V. Enriquez Mr. Enriquez is the Head of Loans and Discounts. He was promoted to the rank of AVP on August 1, 1998.	46
	Nenita C. Indiongco Ms. Indiongco is the Head of Corporate Banking Division II.	47
	Ma. Isabelita R. Isaac Ms. Isaac is the Head of Customer Care Division.	32
	Marianne Elizabeth Y. Latinazo Ms. Latinazo is seconded to PCIB Savings as Head of Product Management.	40
	Ma. Cleofe G. Layug Ms. Layug is the Head of Private Banking of Retail Banking.	54
	Jose A. Legaspi Mr. Legaspi is the Head of the General Accounting Division.	54

<u>Office</u>	<u>Name</u>	<u>Age</u>
	Elsa F. Leonardia Ms. Leonardia is the Head of Credit Administration Unit for Western Visayas.	47
	Roman G. Leus Mr. Leus is with Corporate Banking Division's Japan Desk.	36
	Ma. Alicia P. Libo-on Ms. Libo-on is the Head of Special Accounts Management Division II.	42
	Ma. Regina N. Lumain Ms. Lumain is PCIB Savings Bank Treasury Head.	36
	Maximo A. Magdalena Mr. Magdalena is the Head of PCIB Express Padala, Hong Kong.	50
	Edwin A. Manalastas Mr. Manalastas is the Head of Centralized Operations Division.	39
	Angelita C. Manulat Ms. Manulat is the Head of Central Visayas Area.	37
	Manuel A. Martinez Mr. Martinez is the Head of Proof and Transit Division.	56
	Henry A. Matute Mr. Matute is the Area Credit Marketing Officer of Eastern, Northern and Western Luzon Areas. He was promoted to the rank of AVP on August 1, 1998.	45
	Alan David L. Matutina Mr. Matutina is the Head of Makati Business District. He was promoted to the rank of AVP on August 1, 1998.	35
	Carlos Cesar B. Mercado Mr. Mercado is the Chief Trader of Foreign Exchange Management.	32
	Reynaldo B. Montalbo, Jr. Mr. Montalbo is the Head of PCI Forex.	37

Office

<u>Name</u>	<u>Age</u>
Merceditas P. Montesclaros Ms. Montesclaros is the Head of Luneta Area.	38
Gerardo V. Munda Mr. Munda is the Head of Cash Management.	36
Ibrahim M. Nuno Mr. Nuno is seconded to PCIB Properties as Head of Technical Projects and Services.	38
Neliza R. Oñate Ms. Neliza is the Head of Southern Metro Area. She was promoted to the rank of AVP on August 1, 1998.	41
Themistocles Padla Mr. Padla is the Head of Sales and Service Quality - IRM.	50
Rebecca Paguia Ms. Paguia is the Head of Systems & Methods Division II of Information Resource Management.	46
Ma. Bella C. Paguiligan Ms. Paguiligan is an Account Management Service Officer of Corporate Banking Division III. She was promoted to the rank of AVP on August 1, 1998.	42
Aurora G. Panopio Ms. Panopio is the Head of Corporate Banking Division V.	43
Manina B. Panopio Ms. Panopio is the Head of Information System Planning & Control. She was promoted to the rank of AVP on August 1, 1998.	47
Judith Pantangco Ms. Pantangco is the Head of Private Banking Group.	41
Jose Alfredo G. Pascual Ms. Pascual is the Head of Credit Administration Unit (CAU) of Southern Mindanao.	36

Office

<u>Name</u>	<u>Age</u>
Alberto M. Pedrosa Mr. Pedrosa is a Bond Senior Trader of Foreign Exchange Management. He was promoted to the rank of AVP on August 1, 1998.	30
Benormina G. Peñafiel Ms. Peñafiel is the Head of Acquired Assets Division.	53
Lutgarda B. Peralta Ms. Peralta is the Assistant Corporate Secretary of the Bank & the Corporate Secretary of all PCIBank subsidiaries.	36
Felixbello G. Perez Mr. Perez is the Head of Cubao Area. He was promoted to the rank of AVP on August 1, 1998.	46
Donald E. Quintana Mr. Quintana is the Head of Credit Administration Unit of Southern Luzon Area.	42
Shen C. Ratilla Ms. Ratilla is the Head of PCI Academy.	35
Gerardo Clemente C. Rivera Mr. Rivera is the Head of Domestic Support Unit of Domestic Funds Management.	31
William U. Rosario Mr. Rosario is the Head of Internal Audit Division.	54
Ma. Reymunda Carmen Sadang Ms. Sadang is the Head of Special Account Management Institute/Branch.	45
Pedro C. Samson Mr. Samson is the Head of Laguna-Cavite Area. He was promoted to the rank of AVP on August 1, 1998.	49
Cerwina Elenore A. Santos Ms. Santos is an Account Management Service Officer of Corporate Banking Division II. She was promoted to the rank of AVP on August 1, 1998.	30

Office

<u>Name</u>	<u>Age</u>
Gracia T. Saulog Ms. Saulog is an Account Management Service Officer of Corporate Banking Division IV . She was promoted to the rank of AVP on August 1, 1998.	43
Natividad S. Serafica Ms. Serafica is the Head of Special Account Management Group Division III.	52
Ma. Theresa S. Simbul Ms. Simbul is the Head of Western Luzon Area.	42
George C. Tan Ms. Tan is seconded to PCI Automation as Head of Network Communications & Engineering Division.	40
Marilyn D. Tan Ms. Tan is the Head of Chinese Banking Group.	42
Norberto G. Tan Mr. Tan is the Head of Credit Policy Supervision Group.	46
Carmelita O. Valencia Ms. Valencia is the Head of Special Accounts Management Group Division I.	49
Gary A. Vargas Mr. Vargas is the Head of Credit Cycle Division.	47
Velma M. Vargas Ms. Vargas is the Head of Credit Administration Unit (CAU) of Central Mindanao Area.	46
Luzviminda M. Vidal Ms. Vidal is the Head of Communications. She was promoted to the rank of AVP on August 1, 1998.	48
Ferdinand E. Yap Mr. Yap is the Head of Credit Administration Unit of Quezon City Area.	43
Joy T. Yap Ms. Yap is the Branch Manager of Del Monte Branch.	29

<u>Office</u>	<u>Name</u>	<u>Age</u>
	Antonio C. Yniguez Mr. Yniguez is the Head of Operations Support Division of Trust Banking.	45
	Caroline May C. Yu Ms. Yu is the Head of Chinese Banking Account Management I Dasmarias .	36

Item 10. Executive Compensation

Information as to the aggregate compensation paid or accrued during the last two calendar years and to be paid in the ensuing calendar year to the Bank's Chief Executive and eleven of the most highly paid executive officers and the aggregate compensation to all other executive officers, follows:

A. Named Group

RAFAEL B. BUENAVENTURA
President/CEO
ROBERTO L. PANLILIO
Senior Executive Vice President
EDWARD D. SY
Senior Executive Vice President/COO
ISIDRO C. ALCANTARA
Executive Vice President
ESPERANZA S. OSMENA
Executive Vice President
Corporate Treasurer
PABLITO H. YAP
Executive Vice President
EVELINA C. AVILA
Senior Vice President
GERARD LEE B. CO
Senior Vice President
LEONARDO L. TANCUAN, JR.
Senior Vice President
ELBERT M. ZOSA
Senior Vice President

	{	1999	P 72,534,040
TOTAL SALARY	{	1998	51,869,695
	{	1997	35,930,150

B. Unnamed Group

All other Executive Officers	{	1999	P 173,527,700
as a group unnamed	{	1998	167,228,215
	{	1997	79,983,410

Item 11. Security Ownership of Certain Beneficial Owners and Management

(1) Common Stock shareholders owning 10% or more of the outstanding Common Stock are the following:

<u>Name and address</u>	<u>Number of Common Shares</u>	<u>% of Outstanding Common Stock</u>
Benpres Holdings Corp. 5th Flr., Chronicle Bldg. Tektite Road, Pasig, M.M.	45,640,592	29.98
PCD Nominee Corporation MSE Bldg. Ayala Ave., Makati City	37,115,188	24.38
Consolidated Robina Capital Corp. 29th Flr., Galleria Corp. Ctr. Ortigas Center, Pasig City	25,346,416	16.65
Trans Middle East Philippines Equities, Inc. 3rd Flr., Universal Reinsurance Bldg. Paseo de Roxas, Makati, Metro Mla.	15,975,880	10.49

(2) Common Stock Shareholdings of the Board of Directors and Senior Management

<u>Name</u>	<u>Number of Common Shares</u>	<u>% of Outstanding Common Stock</u>
Eugenio Lopez, Jr.	338	
John Gokongwei, Jr.	5	
Rafael B. Buenaventura	1	
Robert Coyiuto, Jr.	82	
William T. Gatchalian	20	
Johnson Robert Go	1,030	
Lance Y. Gokongwei	3	
Augusto Almeda Lopez	31	
Manuel M. Lopez	1	
Renato B. Magadia	66	
Ferdinand Martin G. Romualdez	33	
	<u>1,610</u>	
Executive Officers	<u>1,596</u>	
	<u>3,206</u>	0.01

Item 12. Certain Relationships and Related Transactions

not applicable

PART IV - EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 11-C

(a) Exhibits

The following exhibit is filed as a separate section of this report:

- (a) Subsidiaries of Philippine Commercial International Bank, Inc. The other exhibits as indicated in the Index to Financial Statements and Supplementary Schedules are either not applicable to the Bank or require no answer.

(b) Reports on SEC Form 11-C (Current Report)

No reports using SEC Form 11-C were filed from October 1, 1998 to December 31, 1998.


SIGNATURES

Pursuant to the requirements of the Revised Securities Act and the Corporation Code, the Bank has duly caused this annual report to be signed on its behalf by the following persons in the capacities stated below in the City of Makati on _____.

PHILIPPINE COMMERCIAL INTERNATIONAL BANK, INC.

By:

Board of Directors


EUGENIO LOPEZ, JR.
Chairman of the Board


JOHN GOKONGWEI, JR.
Vice Chairman

ROBERT COYIUTO, JR.
Director

WILLIAM GATCHALIAN
Director


JOHNSON ROBERT GO
Director


LANCE Y. GOKONGWEI
Director

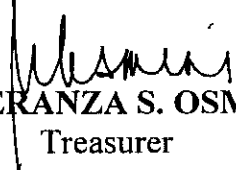

AUGUSTO ALMEDA LOPEZ
Director

MANUEL M. LOPEZ
Director


RENATO B. MAGADIA
Director


FERDINAND MARTIN G. ROMUALDEZ
Director


RAFAEL B. BUENAVENTURA
Director and President


ESPERANZA S. OSMEÑA
Treasurer


REBECCA S. TORRES
Chief Accountant

12 APR 1999

SUBSCRIBED AND SWORN to before me this ___th day of _____ 1999 at Makati City, affiants exhibiting to me their Community Tax Certificates, as follows:

Name	Community Tax Certificate Number	Date/Pace of Issue
Eugenio Lopez, Jr.	00460506	January 19, 1999 Pasig City
John Gokongwei, Jr.	06789270	February 26, 1998 Pasig City
Johnson Robert Go	06789269	February 26, 1998 Pasig City
Lance Y. Gokongwei	16603093	January 16, 1998 Pasig City
Augusto Almeda Lopez	00460500	January 19, 1999 Pasig City
Renato B. Magadia	00026741	February 15, 1999 Makati City
Ferdinand Martin G. Romualdez	16572258	January 14, 1999 Pasay City
Rafael B. Buenaventura	07797469	March 11, 1998 Makati City
Esperanza S. Osmena	18502781	February 13, 1999 Muntinlupa
Rebecca S. Torres	05760623	January 27, 1999 Paranaque City

Dec. No. 158
Page No. 32
Book No. XXXI
Series of 1999

M. Balasbas
MICHAELINA RAMOS BALASBAS
NOTARY PUBLIC UNTIL DEC. 31, 1999
PTR NO. 04400704 MAKATI 11-13-99
TIN 141-713-958-IBP 476722-1-2-99

**PHILIPPINE COMMERCIAL INTERNATIONAL BANK, INC.
INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES
SEC FORM 11-A**

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Consolidated Statements of Changes in Capital Funds for the Years Ended December 31, 1998, 1997 and 1996	33
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SUPPLEMENTARY SCHEDULES	
Report of Independent Public Accountants on Supplementary Schedules	*
A. Marketable Securities - (Current Marketable Equity Securities and Other Short-Term Cash Investments)	*
B. Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Affiliates)	*
C. Non-Current Marketable Equity Securities, Other Long-Term Investments in Stock, and Other Investments	*
D. Indebtedness of Unconsolidated Subsidiaries and Affiliates	*
E. Property, Plant and Equipment	*
F. Accumulated Depreciation	*
G. Intangible Assets and Other Assets	*
H. Long-Term Debt	*
I. Indebtedness to Affiliates and Related Parties (Long-Term Loans from Related Companies)	*
J. Guarantees of Securities of Other Issuers	*
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Subsidiaries of Philippine Commercial International Bank, Inc.	56

- These schedules, which are required by Part IV (c) of RSA Rule 48, have been omitted because they are either not required, not applicable or the information required to be presented is included in the Consolidated Financial Statements or in the Notes to Consolidated Financial Statements.



PCIBank Towers, Makati Avenue, Makati, Metro Manila, Philippines

**STATEMENT OF MANAGEMENT RESPONSIBILITY FOR
CONSOLIDATED FINANCIAL STATEMENTS**


SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA, Greenhills
San Juan, Metro Manila


The Management of Philippine Commercial International Bank, Inc. (PCIB) and its Subsidiaries is responsible for all information and representations contained in the consolidated statements of condition as of December 31, 1998 and 1997, and the related statements of earnings, changes in capital funds, and cash flows for each of the three years in the period ended December 31, 1998. The Consolidated Financial Statements have been prepared in conformity with generally accepted accounting principles 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 system of accounting and reporting that 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 Board of Directors reviews the Consolidated Financial Statements before such statements are approved and submitted to the Stockholders of PCIBank.

Sycip, Gorres, Velayo & Co., the independent auditors appointed by the stockholders, have audited the Consolidated Financial Statements of PCIBank and its Subsidiaries in accordance with generally accepted auditing standards and have expressed their opinion on the fairness of presentation upon completion of such audit in the attached report to the stockholders.


RAFAEL B. BUENAVENTURA
President and Chief Executive Officer


REBECCA S. TORRES
First Vice President and Chief Accountant

February 26, 1999

SGV & Co

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

SyCip Gorres Velayo & Co
An Arthur Andersen Member Firm

The Board of Directors and Stockholders
Philippine Commercial International Bank, Inc.
PCIBank Tower I, Makati Avenue
Makati City

6760 Ayala Avenue
1226 Makati City Philippines
632 891 0307
632 819 0872 Fax

We have audited the accompanying consolidated statements of condition of Philippine Commercial International Bank, Inc. (PCIBank) and Subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of earnings, changes in capital funds and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of PCIBank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Philippine Commercial International Bank, Inc. and Subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

SyCip, Gorres, Velayo - Co.

A. B. CABAL
Partner
CPA Certificate No. 15534
PTR No. 0456908
January 12, 1999
Makati City

February 26, 1999

**PHILIPPINE COMMERCIAL INTERNATIONAL BANK, INC.
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CONDITION

(Amounts in Thousand)

	December 31	
	1998	1997
RESOURCES		
Cash and Other Cash Items	P3,069,570	P3,515,306
Due from Bangko Sentral ng Pilipinas	1,786,328	2,282,134
Due from Other Banks	26,431,682	21,215,277
Interbank Loans Receivable	540,000	124,000
Trading Account Securities - net (Notes 2 and 9)	5,815,040	11,111,221
Investments in Bonds and Other Debt Instruments (Notes 3 and 16)	13,453,303	5,121,851
Receivables from Customers - net (Notes 4, 9 and 19)	82,337,358	87,543,808
Bank Premises, Furniture, Fixtures and Equipment - net (Notes 5 and 13)	5,581,389	4,746,569
Equity Investments - net (Notes 6 and 9)	1,083,371	1,049,302
Real and Other Properties Owned or Acquired - net (Notes 7 and 9)	1,935,731	471,073
Other Resources - net (Notes 8 and 9)	6,621,435	7,220,540
	P148,655,207	P144,401,081
LIABILITIES AND CAPITAL FUNDS		
Deposit Liabilities		
Demand	P5,800,596	P6,210,086
Savings	48,544,940	42,415,176
Time (Notes 2 and 10)	41,381,015	40,978,393
	95,726,551	89,603,655
Bills and Acceptances Payable (Notes 2, 4 and 11)	15,065,200	19,617,888
Marginal Deposits	172,848	139,758
Manager's and Treasurer's Checks	586,516	1,503,448
Accrued Taxes, Interest and Other Expenses (Note 17)	1,205,350	1,274,083
Unearned Income and Other Deferred Credits	276,570	132,019
Other Liabilities (Note 12)	10,068,410	9,083,711
	123,101,445	121,354,562
Minority Interest in Subsidiaries	961,246	897,177
Capital Funds (Notes 5, 6, 14, 16 and 17)	24,592,516	22,149,342
	P148,655,207	P144,401,081

See accompanying Notes to Consolidated Financial Statements.

**PHILIPPINE COMMERCIAL INTERNATIONAL BANK, INC.
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF EARNINGS

(Amounts in Thousand, Except Per Share Data)

	Years Ended December 31		
	1998	1997	1996
INTEREST EARNINGS			
On receivables from customers	P11,726,807	P11,602,411	P8,373,233
On investments and trading account securities	1,860,596	1,940,310	1,329,616
On deposits with banks	912,584	543,998	206,639
On interbank loans receivable	52,236	420,989	448,944
	14,552,223	14,507,708	10,358,432
INTEREST EXPENSE			
On deposit liabilities	5,166,343	4,327,544	2,980,693
On bills and acceptances payable	1,408,266	2,299,843	1,662,614
	6,574,609	6,627,387	4,643,307
NET INTEREST EARNINGS	7,977,614	7,880,321	5,715,125
PROVISION FOR PROBABLE LOSSES ON LOANS AND OTHERS (Notes 9 and 21)	3,463,934	2,372,264	617,512
NET INTEREST EARNINGS AFTER PROVISION FOR PROBABLE LOSSES	4,513,680	5,508,057	5,097,613
OTHER EARNINGS			
Exchange profit, commissions, trading gain and others (Note 6)	4,783,393	3,914,133	3,234,678
Gain from reduction of equity interest in subsidiary (Note 6)	-	340,835	-
	4,783,393	4,254,968	3,234,678
OTHER EXPENSES			
Compensation and fringe benefits (Note 15)	2,682,463	2,373,130	2,172,890
Occupancy (Notes 5 and 13)	1,256,247	975,141	854,919
Taxes and licenses (Note 17)	765,761	667,847	516,994
Miscellaneous	1,759,785	1,781,812	1,472,419
	6,464,256	5,797,930	5,017,222
EARNINGS BEFORE INCOME TAX	2,832,817	3,965,095	3,315,069
PROVISION FOR INCOME TAX (Note 17)			
Current	408,446	467,340	409,962
Deferred	(319,370)	(192,703)	(146,876)
	89,076	274,637	263,086
EARNINGS BEFORE MINORITY INTEREST IN EARNINGS OF SUBSIDIARIES	2,743,741	3,690,458	3,051,983
MINORITY INTEREST IN EARNINGS OF SUBSIDIARIES	64,069	61,114	57,315
NET EARNINGS	P2,679,672	P3,629,344	P2,994,668
Earnings Per Share (Note 18)			
Basic	P17.60	P23.84	P19.67
Diluted	17.59	23.83	19.66

See accompanying Notes to Consolidated Financial Statements.

**PHILIPPINE COMMERCIAL INTERNATIONAL BANK, INC.
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL FUNDS
(Amounts in Thousand, Except Per Share Data)

	Years Ended December 31		
	1998	1997	1996
CAPITAL STOCK (Note 14)			
Preferred	₱533	₱533	₱533
Common	1,522,462	1,522,462	1,522,420
	1,522,995	1,522,995	1,522,953
CAPITAL PAID IN EXCESS OF PAR VALUE	4,566,979	4,566,979	4,566,855
REVALUATION INCREMENT IN PROPERTY (of which ₱53,920, ₱42,402, and ₱31,796 have been accumulated as additional depreciation charges to operations as of December 31, 1998, 1997 and 1996, respectively) (Note 5)	1,153,638	1,153,638	1,159,796
EQUITY ADJUSTMENT FROM TRANSLATION (Note 14)	84,460	92,525	19,264
RETAINED EARNINGS			
Appropriated (Note 16)			
Balance at beginning of year	513,889	506,658	500,072
Transfer from unappropriated retained earnings	8,098	7,231	6,586
Balance at end of year	521,987	513,889	506,658
Unappropriated (Notes 6, 14, 16 and 17)			
Balance at beginning of year	14,299,316	10,905,636	8,145,981
Net earnings	2,679,672	3,629,344	2,994,668
Transfer to appropriated retained earnings	(8,098)	(7,231)	(6,586)
Cash dividends:			
Preferred	(64)	(64)	(64)
Common - ₱1.50 per share	(228,369)	(228,369)	(228,363)
Balance at end of year	16,742,457	14,299,316	10,905,636
	₱24,592,516	₱22,149,342	₱18,681,162

See accompanying Notes to Consolidated Financial Statements.

**PHILIPPINE COMMERCIAL INTERNATIONAL BANK, INC.
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousand)

	Years Ended December 31		
	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES			
Net earnings	P2,679,672	P3,629,344	P2,994,668
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Provision for probable losses on loans and others	3,463,934	2,372,264	617,512
Depreciation and amortization	515,215	427,229	359,583
Cash dividends received from subsidiaries	134,105	88,961	95,115
Minority interest in earnings of subsidiaries	64,069	61,114	57,315
Amortization of deferred charges in subsidiary	33,619	34,781	36,212
Gain from reduction of equity interest	-	(340,835)	-
Provision for deferred income tax	(319,370)	(192,703)	(146,876)
Equity in net earnings of subsidiaries	(171,198)	(135,888)	(91,335)
Changes in operating resources and liabilities:			
Decrease (increase) in:			
Trading account securities	5,098,106	(3,032,211)	(1,881,027)
Other resources	722,406	(1,974,581)	(554,205)
Increase (decrease) in:			
Manager's and treasurer's checks	(916,932)	(60,150)	495,795
Accrued taxes, interest and other expenses	(68,733)	(613,817)	771,973
Unearned income and other deferred credits	144,551	(288,673)	394,843
Other liabilities	984,699	1,662,566	2,836,820
Net cash provided by operating activities	12,364,143	1,637,401	5,986,393
CASH FLOWS FROM INVESTING ACTIVITIES			
Net additions to bank premises, furniture, fixtures and equipment	(1,350,035)	(991,709)	(725,729)
Decrease (increase) in:			
Investments in bonds and other debt instruments	(8,331,452)	(1,795,175)	532,373
Receivables from customers	638,383	(5,652,386)	(27,188,676)
Equity investments	(5,041)	219,981	(22,244)
Net cash used in investing activities	(9,048,145)	(8,219,289)	(27,404,276)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of common stock	-	166	1
Payment of cash dividends	(228,433)	(228,433)	(228,427)
Increase (decrease) in:			
Deposit liabilities	6,122,896	8,563,006	21,615,269
Bills and acceptances payable	(4,552,688)	6,263,122	2,461,754
Marginal deposits	33,090	33,178	(250,621)
Net cash provided by financing activities	1,374,865	14,631,039	23,597,976
(Forward)			

	Years Ended December 31		
	1998	1997	1996
NET INCREASE IN CASH AND CASH EQUIVALENTS	₱4,690,863	₱8,049,151	₱2,180,093
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items	3,515,306	2,208,926	1,619,268
Due from Bangko Sentral ng Pilipinas	2,282,134	5,503,604	5,866,668
Due from other banks	21,215,277	11,225,036	5,931,537
Interbank loans receivable	124,000	150,000	3,490,000
	27,136,717	19,087,566	16,907,473
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items	3,069,570	3,515,306	2,208,926
Due from Bangko Sentral ng Pilipinas	1,786,328	2,282,134	5,503,604
Due from other banks	26,431,682	21,215,277	11,225,036
Interbank loans receivable	540,000	124,000	150,000
	₱31,827,580	₱27,136,717	₱19,087,566
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	₱6,577,804	₱6,667,319	₱4,406,266
Income taxes	270,551	475,495	362,035

See accompanying Notes to Consolidated Financial Statements.

**PHILIPPINE COMMERCIAL INTERNATIONAL BANK, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Thousand, Except Per Share Data)

1. Summary of Significant Accounting Policies

Cash and Cash Equivalents

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

Principles of Consolidation

The consolidated financial statements consist of the accounts of Philippine Commercial International Bank, Inc. (PCIBank), Bankard, Inc. (Bankard), PCI Capital Corporation (PCI Capital), PCI Leasing and Finance, Inc. (PCI Leasing), PCIB CIGNA Life Insurance Corporation (PCIB CIGNA), PCI Express Padala (HK) Limited, PCIB Europe S.p.A., PCI Insurance Brokers, Inc. (PCI Insurance Brokers), PCIB Securities, Inc. (PCIB Securities), PCI Express Padala, Inc., PCI Automation Center, Inc. (PCI Automation), PCI Realty Corporation, PCIB Savings Bank, Inc. (PCIB Savings) and PCIB Properties, Inc. (PCIB Properties). Except for PCI Leasing (100% owned in 1997 and 1996), Bankard and PCIB CIGNA which are 80%, 65.09% and 50% owned (but with active management participation by PCIBank), respectively, all subsidiaries are 100% owned. Material intercompany balances and transactions have been eliminated in consolidation.

PCIB CIGNA's financial statements have been prepared in conformity with generally accepted insurance accounting principles and reporting practices in the Philippines which are designed primarily to show the Company's ability to meet its obligations to policyholders. In certain respects, these principles and practices differ from generally accepted accounting principles followed by other business enterprises in determining financial position and operating results. The more significant of these principles and practices are as follows: a) policy acquisition costs are charged to current operations as incurred rather than amortized over the premium-paying period of the policies; and b) premiums due and legal policy reserves are computed based on actuarial assumptions which are in accordance with insurance regulations.

Equity investments in unconsolidated subsidiaries and other companies where PCIBank exercises significant influence are accounted for under the equity method. Other equity investments where PCIBank has no significant influence are carried at cost less allowance for permanent decline in market value.

Under the equity method, PCIBank recognizes in its consolidated statements of earnings its share in the earnings or losses of the investee as well as increases or decreases in its ownership percentage or equity in the net assets of the investee. The cost of the investments is increased by PCIBank's equity in net earnings of the investee and decreased by its equity in the net losses of and by dividends received from the investee since dates of acquisition.

Accounts of foreign investee companies are maintained in the currencies of the countries in which they operate. Adjustments resulting from the translation of foreign currency financial statements into Philippine pesos are shown as Equity Adjustment from Translation, a separate component of Capital Funds.

Trading Account Securities/Investments in Bonds and Other Debt Instruments

Trading account securities are carried at the lower of aggregate cost or market. Gains or losses on sales are included in exchange profit, commissions, trading gain and others account in the consolidated statements of earnings. Management believes that the early application of Exposure Draft (ED) No. 30, as discussed below, will not have a material effect on the consolidated financial statements.

Investments in bonds and other debt instruments are stated at cost adjusted for amortization of premiums and accretion of discounts less any allowance for permanent decline in market value.

On March 30, 1998, the Monetary Board (MB) of the BSP through BSP Circular No. 161 approved the rules and regulations governing investments in all debt and marketable equity securities. The MB requires the classification and valuation of investments in all debt and marketable equity securities in accordance with the following:

<u>Classification</u>	<u>Valuation</u>
a) Investments in bonds and other debt instruments	Amortized cost; provision for permanent decline in market value is included in the statements of earnings.
b) Trading account securities	Fair market value; gains and losses on revaluation to market are included in the statements of earnings.
c) Available for sale securities	Fair market value; gains or losses on revaluation to market are included as a separate component of capital funds until realized.
d) Underwriting accounts	Fair market value; gains or losses on revaluation to market are included as a separate component of capital funds until realized.

The Accounting Standards Council (ASC) has approved the distribution of ED No. 30, "Accounting for Investments in Debt and Marketable Equity Securities of Banks". This ED will amend ASC Statement No. 19, "Summary of Generally Accepted Accounting Principles for the Banking Industry" to make the classification and valuation principles for investments in debt and marketable equity securities of banks consistent with BSP Circular No. 161.

Receivables from Customers

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

Unearned discount is credited to operations over the term of the loan using the interest method. Interest income on nondiscounted receivable is accrued, except on past due receivables in accordance with existing BSP regulations.

Receivables are classified as nonaccruing in accordance with BSP Circular No. 143, or when in the opinion of management, collection of interest or principal is doubtful. Receivables are not reclassified as accruing until interest and principal payments are brought current or the receivable is restructured in accordance with existing BSP regulations, and future payments appear assured.

Allowance for Probable Loan and Other Losses

Provision for probable losses is set up at the higher of the estimated amount of losses in the Bank's receivable portfolio and other assets based on BSP Circular No. 164, or on management's evaluation of the collectibility and realizability of receivables and such other assets, prevailing economic conditions, and prior loss experiences. Actual losses are written off against the allowance for probable losses when management believes that the collectibility and realizability of receivables and such other assets are unlikely.

The MB of the BSP requires banks to set up on a regular basis, valuation reserves or allowances for probable losses against loans and other risk assets in accordance with the following:

Classification	Allowance
a) Unclassified	0%
b) Loans especially mentioned	5%
c) Substandard	25%
d) Doubtful	50%
e) Loss	100%

The 25% allowance for probable losses on secured loans classified as "Substandard" shall be set up as follows: 12.5% by December 31, 1998 and 25% by April 15, 1999. Allowance for probable losses on loans classified as "Loans Especially Mentioned", regardless of collateral, shall be set up as follows: 2.5% by December 31, 1998 and 5% by April 15, 1999. Allowance for probable losses on loans and other risk assets classified as "Substandard" – unsecured, "Doubtful" and "Loss" shall be set up immediately.

In October 1997, the MB through BSP Circular No. 143 (as amended by BSP Circular Nos. 159 dated March 24, 1998 and 164 dated April 1, 1998) required banks to set aside general loan-loss provisions equivalent to 2% of total loan portfolio in addition to the allowance for probable losses on individually identified uncollectible accounts. However, all loans which are considered non-risk under existing regulations are excluded from the computation. Banks are required to comply with the 2% general reserves as follows: 1% by October 1, 1998, 1 ½% by April 1, 1999 and 2% by October 1, 1999. Also included in the 2% loss provisioning are the loans granted by trust departments of banks either directly or through various trust funds or managed accounts. This Circular also redefined the classification of past due loans as follows:

- a) loans payable monthly with three installments in arrears or with a total amount of arrearages equal to 20% or more of the outstanding loan balance:
- b) loans payable quarterly, half-yearly and annually with one installment in arrear or with total amount of arrearages equal to 20% or more of the outstanding loan balance; and
- c) loans payable daily, weekly or semi-monthly, with total arrearages equal to 10% or more of the outstanding loan balance.

Bank Premises, Furniture, Fixtures and Equipment

Land, buildings and building improvements acquired by PCI Bank prior to August 23, 1994 are stated at appraised values as determined by an independent firm of appraisers as of March 2, June 25 and August 23, 1994. Subsequent acquisitions are stated at cost. The appraisal increase resulting from the revaluation was credited to Revaluation Increment in Property shown as a separate component of Capital Funds in the consolidated statements of changes in capital funds.

Leasehold rights and improvements, furniture, fixtures and equipment are stated at cost less accumulated depreciation and amortization.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Cost of leasehold rights and improvements is amortized over the estimated useful lives of the improvements or the terms of the applicable leases, whichever is shorter.

Repairs and maintenance are charged to expense as incurred; significant renewals and betterments are capitalized. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is reflected as income or loss for the year.

Discounts Earned

Discounts are taken up into income upon receipt from member establishments of charges arising from credit availments by the credit cardholders. These discounts are computed based on certain agreed rates and are deducted from amounts remittable to the member establishments.

Purchases by the credit cardholders which are collected on installment are recorded at the cost of the items purchased plus certain percentage of cost. The excess is credited to deferred income account and is shown as a deduction from Receivables from Customers in the consolidated statements of condition. The deferred income is taken into income over the installment term and is computed based on the interest method.

Advance payments made by cardholders are entitled to rebates determined by Bankard, Inc. Such rebates are shown as deductions from discounts earned.

Income on Receivables Financed

Income of PCI Leasing on receivables financed with short-term maturities is recognized using the interest method.

Interest and finance fees on receivables financed with long-term maturities, and the excess of the aggregate rentals and residual value of the leased equipment over its cost are initially credited to unearned income and amortized over the term of the note or lease using the sum-of-the-months' digits method but not exceeding the interest rates specified in the promissory notes or lease contracts.

Real and Other Properties Owned or Acquired

Real and other properties owned or acquired are stated at the total outstanding exposure at the time of acquisition or at bid price, whichever is lower. Non-refundable capital gains and documentary stamp taxes incurred in connection with foreclosures paid for by PCIBank, form part of the acquisition cost of the foreclosed properties, provided that such acquisition cost does not exceed appraised value. Other foreclosure expenses are charged to operations as incurred. Management does periodic appraisals of the estimated realizable values of these properties and provides for any significant shortfalls from the net recorded values and the estimated realizable values by a charge against operations.

Other Resources

The excess of the purchase price of business acquisitions over the fair market value of its net assets as at acquisition date is included in Deferred Charges shown under Other Resources. This is amortized over the remaining corporate life of PCIBank.

Expenses incurred prior to the start of commercial operations of some of the subsidiaries which have been capitalized are being amortized over a five-year period from the start of their commercial operations.

Real Estate

Real estate inventories and investments in real estate of PCIB Properties are stated at cost. Investments in real estate represent cost of land acquired for home building, home development, and other types of real estate development. Upon commencement of land development, the cost of these properties, including development cost incurred, is reclassified to real estate inventories. Under existing BSP regulations, an expanded commercial bank is allowed to own up to 100% equity in a non-financial allied undertaking among which is a company engaged in home building and home development.

Retirement Plans

PCIBank, Bankard, PCI Capital, PCI Leasing, PCI Insurance Brokers, PCIB Securities and PCI Automation's retirement expense is determined using the entry age actuarial cost method. This method reflects service both rendered and to be rendered by employees to the date of valuation and spreads the cost evenly over all other periods of service making up the working lives of participating employees. Unrecognized experience adjustments and past service costs are now amortized over the expected remaining working lives of employees.

Most of the officers and staff of PCIB Properties and PCIB Savings are seconded by PCIBank. Accordingly, the retirement benefits of said officers and employees are determined and provided for by PCIBank and are charged to such subsidiaries as part of compensation and fringe benefits of such officers and employees.

Retirement expense of non-seconded staff of PCIB Savings is determined using the accrued benefit actuarial cost method. Under this method, the current service cost is the present value of retirement benefits payable in the future in respect of services in the current period. The past service cost is the present value of the units of benefits payable in the future in respect of services rendered prior to valuation date. Unfunded past service costs are amortized over the remaining working lives of employees.

PCIB CIGNA accrues retirement benefits in compliance with Republic Act (RA) No. 7641. Normal cost is charged to current operations while past service cost is amortized over the approximate working lives of employees.

Deferred Income Tax

Deferred tax assets and liabilities are recognized for the estimated future tax effects attributable to temporary differences between the financial reporting bases of assets and liabilities and their related tax bases and net loss carryforwards. Deferred tax assets and liabilities are measured using the tax rate expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is provided for the portion of deferred tax assets which is not expected to be realized in the future. Deferred tax assets also include excess of minimum corporate income tax over regular corporate income tax.

Foreign Exchange Transactions

Foreign currency resources and liabilities of PCIBank and its subsidiaries are stated at prevailing Philippine Dealing System weighted average rates at the end of the year. Gains or losses arising from foreign exchange transactions are included in determining net earnings for the year.

Derivative Instruments

PCIBank is a counterparty to various foreign currency and interest rate swap contracts. These contracts are entered into as a service to customers and as a means of reducing PCIBank's foreign exchange and interest rate exposures.

For a forward contract designated as a hedge, the difference between the contracted forward rate and the spot rate at contract date is deferred and recognized as income or expense over the life of the hedged instrument while gain or loss in the revaluation of the forward contract is recognized currently in the consolidated statements of earnings. For a forward contract not designated as a hedge, the difference between the contracted forward rate and the forward rate available for the remaining maturity of the contract is recognized currently in the consolidated statements of earnings.

The differentials paid or received under the interest rate swap agreements are accrued and recognized over the life of the agreements as swap cost or income. In the case of an early termination of an interest rate swap, gains or losses are deferred and amortized as an adjustment to the yield of the related debt instrument over the remaining period originally covered by the terminated swap.

Earnings Per Share

For the year ended December 31, 1998, PCIBank adopted ASC Statement of Financial Accounting Standards (SFAS) No. 29, "Earnings Per Share". Basic earnings per share is computed based on the weighted average number of common shares outstanding. Diluted earnings per share is computed based on the average number of common shares outstanding during the year plus the weighted average number of potential common shares pertaining to convertible preferred shares. Both basic and diluted earnings per share amounts are computed after giving retroactive effect to stock dividends declared during the year, if any.

Adoption of ASC SFAS No. 29 does not have any impact on the basic and diluted earnings per share in prior years.

2. Trading Account Securities

This account is shown at net of allowance for market decline of ₱32,991 and ₱384,874 as of December 31, 1998 and 1997, respectively (see Note 9).

PCIBank's government securities with face value of ₱250 million as of December 31, 1998 and ₱54 million as of December 31, 1997 are pledged as collaterals to secure short-term bills payable to local banks amounting to ₱450 million and ₱54 million as of December 31, 1998 and 1997, respectively.

PCIBank's Philippine government debt papers and private bonds with face value of US\$9.6 million as of December 31, 1997 were also pledged as collaterals to secure short-term time deposit placements of a foreign bank amounting to US\$7.8 million as of December 31, 1997.

3. Investments in Bonds and Other Debt Instruments

This account substantially pertains to PCIBank.

Costs and market values of investments in bonds and other debt instruments are as follows:

	1998	1997
Cost	₱13,453,303	₱5,121,851
Market value	12,355,049	4,882,865

PCIBank's investments in bonds and other debt instruments are mostly issued by the Philippine government and private corporations which PCIBank has been holding since acquisition. PCIBank intends to hold these investments until maturity.

Government securities of PCIB CIGNA totaling ₱37,500 in 1998 and 1997 were on deposit with the Insurance Commission in accordance with the provision of the Insurance Code as security for the benefit of policyholders and creditors of the Company.

4. Receivables from Customers

Major classifications of receivables from customers are as follows:

	1998	1997
Loans and discounts	₱77,251,291	₱80,231,035
Customers' liabilities on acceptances, import bills, and trust receipts	8,201,942	7,363,581
Bills purchased	1,826,953	4,009,157
	87,280,186	91,603,773
Allowance for probable loan losses (see Note 9)	(4,164,226)	(2,845,314)
Deferred income and unearned discounts	(778,602)	(1,214,651)
	₱82,337,358	₱87,543,808

As of December 31, 1998 and 1997, PCIBank has nonperforming loans amounting to about ₱6.93 billion (of which ₱4.77 billion is secured) and ₱4.16 billion (of which ₱2.80 billion is secured), respectively.

As of the date of this report, ₱273 million of the nonperforming loans as of December 31, 1998 has been settled through dacion en pago.

Loans and discounts amounting to ₱75,848 and ₱93,739 as of December 31, 1998 and 1997, respectively, are pledged as collaterals with the BSP to secure borrowings under rediscounting privileges (included in Bills and Acceptances Payable, see Note 11).

5. Bank Premises, Furniture, Fixtures and Equipment

This account consists of:

	1998	1997
At cost:		
Land	₱386,352	₱380,338
Buildings and building improvements	2,308,125	1,551,287
Furniture, fixtures and equipment	3,239,786	2,950,819
Leasehold rights and improvements – net	349,448	298,756
	6,283,711	5,181,200
Accumulated depreciation	(2,035,674)	(1,668,445)
	4,248,037	3,512,755
Appraisal increase:		
Land	737,297	737,297
Buildings and building improvements	416,341	416,341
	1,153,638	1,153,638
Accumulated depreciation	(53,920)	(42,402)
	1,099,718	1,111,236
Building under construction	233,634	122,578
	₱5,581,389	₱4,746,569

Depreciation and amortization expenses (including depreciation on appraisal increase of ₱11,518 in 1998, and ₱11,540 in 1997 and 1996) amounted to ₱515,215 in 1998, ₱427,229 in 1997 and ₱359,583 in 1996.

6. Equity Investments

This account consists of:

	1998	1997
Investments carried at equity method:		
Acquisition cost:		
First Private Power Corporation (20% owned)	P320,000	P320,000
Taal Land, Inc. (33.33% owned)	170,000	170,000
PCI Travel Corporation (35% owned)	4,424	4,424
Maxicare (30% owned)	83,333	-
Experian Systems, Inc. (50% owned)	-	3,125
	<u>577,757</u>	<u>497,549</u>
Accumulated equity in net earnings:		
Balance at beginning of year	90,091	43,164
Equity in net earnings for the year	171,198	135,888
Dividends received	(134,105)	(88,961)
Balance at end of year	<u>127,184</u>	<u>90,091</u>
Investments carried at cost:		
Acquisition cost	402,464	482,571
Allowance for permanent decline in market value (see Note 9)	(24,034)	(20,909)
	<u>378,430</u>	<u>461,662</u>
	<u>P1,083,371</u>	<u>P1,049,302</u>

In 1998, the stockholders of Experian Systems, Inc. (the Company) approved the liquidation of the Company. The completion of the liquidation is held pending the completion of the required documentation of the liquidation process. In recognition of this, PCIBank provided a 100% allowance for the nonrealization of the investment in the Company and carried such investment at cost net of the related allowance for permanent decline in market value.

The equity in net earnings of P171,198 in 1998, P135,888 in 1997 and P91,335 in 1996 are included in exchange profit, commissions, trading gain and others in the consolidated statements of earnings.

PCI Leasing completed the initial public offering of its capital stock in January 1997. Such transactions decreased PCIBank's ownership interests in PCI Leasing from 100% to 80%. Under the equity method of accounting for investments in shares of stock, any increases or decreases in the equity in net assets of the investee arising from capital stock transactions should be recognized as gains or losses in the current period. Accordingly, PCIBank recognized a gain of P340,835 in 1997 on such transaction.

Accumulated equity in net earnings of subsidiaries, which forms part of the unappropriated surplus, are not available for distribution as dividends.

Under BSP regulations, the use of the equity method of accounting for investments in shares of stock is allowable only where ownership is more than 50%. The use of the equity method of accounting for equity interest of 20% or more is being made for financial reporting purposes to comply with the provisions of SFAS No. 11 issued by the ASC and is not intended for BSP reporting purposes.

7. Real and Other Properties Owned or Acquired

This account is shown at net of allowance for probable losses of ₱180,900 and ₱100,595 as of December 31, 1998 and 1997, respectively (see Note 9).

8. Other Resources

This account consists of:

	1998	1997
Accrued interest receivable	₱1,240,469	₱1,250,811
Deferred tax assets - net (see Note 17)	927,501	608,132
Accounts receivable	764,279	613,277
Foreign currencies and other cash items on hand	480,933	556,699
Sundry debits	387,843	457,149
Returned checks and other cash items in process of collection	338,576	1,415,018
Residual value of leased equipment (net of unamortized income on residual value of ₱89,047 in 1998 and ₱199,574 in 1997)	314,225	276,072
Deferred charges	291,518	218,527
Prepaid expenses	242,132	423,957
Investments in real estate	126,590	123,187
Real estate inventories	54,594	104,796
Other investments – at cost which approximates market	51,942	67,966
Stationery and supplies unissued	38,419	42,041
Sales contract receivable	6,830	8,221
Miscellaneous checks and other cash items	–	1,699
Miscellaneous	1,675,870	1,101,123
	6,941,721	7,268,675
Allowance for other probable losses (see Note 9)	(320,286)	(48,135)
	₱6,621,435	₱7,220,540

In 1998, deferred tax assets include the minimum corporate income tax amounting to about ₱50 million due on PCIBank and PCI Capital in accordance with the provisions of RA No. 8424. Said tax will be credited against the normal income tax liabilities of PCIBank and PCI Capital for the three immediately succeeding taxable years.

Miscellaneous assets in 1998 include advances made by PCIBank to the PCIBank Gratuity Fund amounting to about ₱640 million to finance the past service credits of officers and employees who availed of its early retirement program.

9. Allowance for Probable Losses

Changes in allowance for probable losses are summarized as follows:

	1998	1997
Balance at beginning of year		
Trading account securities	₱384,874	₱59,757
Receivables from customers	2,845,314	1,320,889
Equity investments	20,909	909
Real and other properties owned or acquired	100,595	63,955
Other resources	48,135	25,148
	3,399,827	1,470,658
Provisions charged to operations	3,463,934	2,372,264
Accounts charged-off	(1,372,976)	(11,346)
Reversals and others	(768,348)	(431,749)
Balance at end of year		
Trading account securities	32,991	384,874
Receivables from customers	4,164,226	2,845,314
Equity investments	24,034	20,909
Real and other properties owned or acquired	180,900	100,595
Other resources	320,286	48,135
	₱4,722,437	₱3,399,827

Reversals and others include reversals of allowance for market decline done upon sale of trading account securities.

10. Time Deposits

Time deposits include unsecured Euro-Certificates of Deposits amounting to US\$215,100 and ₪4,600,000 as of December 31, 1998 and US\$436,500 and ¥7,850,000 as of December 31, 1997.

11. Bills and Acceptances Payable

This account consists of:

	1998	1997
Bills payable to:		
Other banks and financial intermediaries	₱9,281,942	₱12,359,376
Private firms, individuals and others	4,973,908	5,428,016
BSP – rediscounting (see Note 4)	75,848	93,739
Outstanding acceptances	733,502	1,736,757
	₱15,065,200	₱19,617,888

12. Other Liabilities

This account consists of:

	1998	1997
Due to other banks	P5,682,415	P1,436,849
Bills purchased contra	1,500,972	3,428,575
Accounts payable	870,833	1,073,028
Deposits on lease contracts	465,106	584,815
Interoffice float items - net	318,623	468,686
Withholding taxes payable	236,868	218,127
Payment orders payable	166,544	310,441
Sundry credits	129,679	182,447
Other credits	94,918	56,747
Due to BSP	56,088	166,664
Due to Treasurer of the Philippines	18,421	18,613
Time deposit – special financing	–	13,565
Miscellaneous	527,943	1,125,154
	P10,068,410	P9,083,711

13. Lease Commitments

PCIBank leases the premises for most of its branch offices including those of some subsidiaries for periods generally ranging from 1 to 20 years, renewable upon mutual agreement of both parties. Annual rentals on these lease contracts amount to P282,899 in 1998, P184,097 in 1997 and P153,398 in 1996. Most of the lease contracts have terms not exceeding five years.

14. Capital Stock

PCIBank's capital stock consists of:

	1998	1997	1996
Serial preferred stock			
12% cumulative, nonparticipating, convertible preferred stock "A" - P10 par value			
Authorized and issued - 53,284 shares	P533	P533	P533
Common stock - P10 par value			
Authorized – 260,000,000 shares			
Issued - 152,246,166 shares in 1998 and 1997 and 152,242,035 shares in 1996	1,522,462	1,522,462	1,522,420
	P1,522,995	P1,522,995	P1,522,953

The following are the features of the serial "A" preferred stock:

- a. Convertible into common stock at the option of the holders on a share-for-share basis and by cash payment of a conversion premium;
- b. Redeemable at PCIBank's option;
- c. Not entitled to vote; and
- d. Upon conversion or redemption, such shares shall be deemed cancelled and shall not be subject to reissuance. The corresponding authorized number of shares of the preferred stock shall be cancelled accordingly, upon amendment of the Articles of Incorporation.

On April 24, 1998, March 21, 1997 and April 26, 1996, the Board of Directors declared the payment of cash dividends of ₱1.50 a share to common stockholders of record as of May 8, 1998, April 30, 1997 and May 31, 1996, respectively.

On May 16, 1997, the Board of Directors approved the stock rights offering of PCIBank at a total offer price of ₱5 billion to be done in four equal tranches. The record date of such offering is subject to the approval of the Philippine Stock Exchange (PSE). The offer price of each share will be based on a 20% discount on the final weighted average market price of PCIBank's shares derived from a 15 trading day period prior to the record date. As of December 31, 1998, PCIBank's proposed stock rights offering is still pending approval by the PSE.

Under existing BSP rules, PCIBank's equity investments in its foreign subsidiaries are considered nonmonetary; hence, it is not revalued for fluctuations in exchange rates and remain valued at historical cost. However, under SFAS No. 8, "Accounting for the Effects of Changes in Foreign Exchange Rates", the financial statements of foreign subsidiaries are required to be translated into local currency before application of the equity method of accounting for equity investments. The resulting accumulated equity adjustment from translation is presented as a component of capital funds in the consolidated statements of condition. The equity adjustment from translation is presented only for financial statement purposes to conform with SFAS No. 8 and is not intended for BSP reporting purposes.

The determination of PCIBank's compliance with regulatory requirements and ratios is based on the amount of PCIBank's "unimpaired capital" (regulatory net worth) reported to the BSP. Regulatory net worth is determined on the basis of regulatory accounting policies, which differ from generally accepted accounting principles in some aspects (mainly in the period of amortization for goodwill, the recognition of equity earnings from subsidiaries and deferred income tax).

15. Retirement Plans

PCIBank's existing Provident and Gratuity Funds have been integrated into a single unified retirement benefit plan to cover all of its regular and permanent officers and employees, as follows:

- o Provident Fund - contributory plan wherein the members and PCIBank contribute the equivalent of 6% (3% by members and 3% by PCIBank) of the members' basic monthly salaries.
- o Gratuity Fund - noncontributory plan wherein PCIBank provides a fund for the gratuity pay of its members in accordance with the rates agreed upon under the Collective Bargaining Agreement.

The benefits are based on the officers and employees' years of service and latest compensation. Total retirement expense for the retirement plans of PCIBank and some of its consolidated subsidiaries charged to operations amounted to ₱118,740 in 1998, ₱164,587 in 1997 and ₱184,523 in 1996.

The effect in 1998 and 1997 of the change in the amortization period for unrecognized experience adjustments and past service cost, in compliance with ASC Statement No. 24, "Retirement Benefit Costs", is not material.

As of April 1, 1997, the latest actuarial valuation of PCIBank's retirement plan, the actuarial present value of retirement benefits amounted to ₱801,084. The fair value of the plan assets amounted to ₱492,713. The unfunded present value of retirement benefits amounted to ₱308,371. The principal actuarial assumptions used to determine retirement benefits were an investment yield of 18% per annum and salary increases of 10%. Actuarial valuations are made at least every two years. PCIBank's annual contribution to the retirement plan consists of a payment covering the current service cost and an amortization of the unfunded actuarial accrued liability for the year.

As of April 1, 1998, the latest actuarial valuation of PCI Capital's retirement plan, the actuarial present value of retirement benefits amounted to ₱11,816. The fair value of the plan assets amounted to ₱3,977. The unfunded present value of retirement benefits amounted ₱7,839. The principal actuarial assumptions used to determine retirement benefits were an interest rate of 10% compounded annually and salary increases of 8%, compounded annually. Actuarial valuations are made every three years. PCI Capital's annual contribution to the retirement plan consists of a payment covering the current service cost for the year plus a payment toward funding the actuarial accrued liability.

As of March 1, 1997, the latest actuarial valuation of Bankard's retirement plan, the actuarial present value of retirement benefits amounted to ₱18,928. The fair value of the plan assets amounted to ₱10,578. The unfunded present value of retirement benefits amounted to ₱8,350. The actuarial value of vested benefits amounted to ₱10,924. The principal actuarial assumptions used to determine retirement benefits were an investment yield of 10% and salary increase rate of 7% compounded annually. Actuarial valuations are made at least every three years. Bankard's annual contribution to the retirement plan consists of a payment covering the current service cost for the year plus a payment toward funding the actuarial accrued liability.

As of May 1, 1996, the latest actuarial valuation of PCI Leasing's retirement plan, the actuarial present value of retirement benefits amounted to ₱4,801. The fair value of the plan assets amounted to ₱4,878. The principal actuarial assumptions used to determine retirement benefits were an interest rate of 15% and salary increases of 10% compounded annually. Actuarial valuations are made at least every three years. PCI Leasing's annual contribution to the retirement plan consists of payments covering the normal and past service costs.

As of July 1, 1997, the latest actuarial valuation of PCI Insurance Brokers' retirement plan, the actuarial present value of retirement benefits amounted to ₱6,011. The fair value of the plan assets amounted to ₱1,329. The unfunded present value of retirement benefits amounted to ₱4,681. The principal actuarial assumptions used to determine retirement benefits were an investment yield of 9% per annum and salary increases of 7%. Actuarial valuations are made at least every three years.

As of May 1, 1998, the latest actuarial valuation of PCIB Securities' retirement plan, the actuarial present value of retirement benefits amounted to ₱1,084. The fair value of the plan assets amounted to ₱162. The unfunded present value of retirement benefits amounted to ₱923. The principal actuarial assumptions used to determine retirement benefits were an interest rate of 10% compounded annually and salary increases of 8% compounded annually. Actuarial valuations are made annually. PCIB Securities' annual contribution to the retirement plan consists of a payment covering the current service cost and an amortization of the unfunded actuarial accrued liability.

As of July 1, 1998, the latest actuarial valuation of PCIB Savings' retirement plan for its nonseconded officers and staff, the principal actuarial assumptions used to determine retirement benefits were an investment yield of 12% per annum and salary increases of 10%. PCIB Savings' annual contribution to the retirement plan consists of a payment covering the current service cost and an amortization of the unfunded actuarial liability for the year.

These funds are being managed by PCIBank's Trust Banking Group.

16. Trust Operations

Securities and other properties (other than deposits) held by PCIBank in fiduciary or agency capacities for its customers are not included in the accompanying consolidated statements of condition since these are not assets of PCIBank.

In compliance with the requirements of the General Banking Act relative to PCIBank's trust functions: a) government securities owned by PCIBank with face value amounting to ₱260,000 are deposited with the BSP as of December 31, 1998 and 1997, respectively, and b) a certain percentage of PCIBank's trust income is transferred to appropriated retained earnings. The yearly transfer is required until the appropriated retained earnings for trust functions is equivalent to 20% of PCIBank's authorized capital stock.

Additionally, in accordance with BSP memorandum dated October 1, 1993, the common trust funds managed by PCIBank Trust Banking maintain a due from BSP account amounting to ₱993,629,084 and ₱1,463,638 as of December 31, 1998 and 1997, respectively, to meet the 13% reserve requirement on peso-denominated common trust funds and other similarly managed funds.

17. Income and Other Taxes

PCIBank and its subsidiaries are subject to percentage and other taxes (presented as taxes and licenses in the consolidated statements of earnings) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax and documentary stamp taxes. Income taxes are basically paid at the rates of 20%, which is a final withholding tax on gross interest income from government securities, commercial papers and other deposit substitutes and 34% in 1998 and 35% in 1997 and 1996 on net taxable income. These income taxes as well as deferred income taxes are presented in the consolidated statements of earnings as provision for income tax.

On December 11, 1997, RA No. 8424 entitled "An Act Amending the National Internal Revenue Code, As Amended, And For Other Purposes" (the Act), was passed into law effective January 1, 1998. Among others, the Act includes the following significant revisions to the rules of taxation:

- a. Change in the corporate income tax rate from 35% to 34% in 1998, 33% in 1999 and 32% in 2000 and onwards;
- b. Imposition of minimum corporate income tax of 2% of gross income (net of interest expense and cost of direct service);
- c. Imposition on the employer of a final tax on grossed up monetary value of fringe benefits granted to employees (except rank and file) at the following rates: 34% in 1998; 33% in 1999 and 32% in 2000 and onwards;
- d. Reduction of the interest expense allowed as a deductible expense by an amount equivalent to a certain percentage of the interest income subjected to final tax as follows: 41% starting January 1, 1998, 39% starting January 1, 1999 and 38% starting January 1, 2000 and onwards; and
- e. Introduction of a three-year net operating loss carryover.

Up to 1997, income earned by PCIBank's Foreign Currency Deposit Unit (FCDU) is exempt from all forms of local taxes or burdens, except: (a) gross onshore income which is subject to 10% final withholding tax, and (b) all other income not classifiable as onshore or offshore income which is taxed at the usual bank taxes. Offshore income is not subject to income tax.

As provided by RA No. 8424, which took effect on January 1, 1998, income derived by the FCDU from foreign currency transactions with local commercial banks including branches of foreign banks authorized by the BSP to transact business with FCDUs are subject to 10% final tax. Also, interest earned on deposits with other FCDUs are subject to 7½% final tax.

Following is a summary of the total income and other taxes paid or incurred by PCIBank and its subsidiaries:

	1998	1997	1996
Taxes and licenses	P765,761	P667,847	P516,994
Provision for income tax			
Current*	358,898	467,340	409,962
Minimum corporate income tax	49,548	—	—
	408,446	467,340	409,962
	P1,174,207	P1,135,187	P926,956

* Inclusive of the final withholding taxes as previously discussed.

Significant components of the net deferred tax assets are as follows:

	1998	1997	1996
Deferred income tax assets (liabilities) on:			
Allowance for probable loan and other losses	P1,020,688	P681,760	P455,193
Leasing income differential between capital lease and operating lease method	(177,343)	(115,230)	(84,061)
Unamortized past service cost contribution	52,345	45,638	44,702
Minimum corporate income tax	49,548	—	—
Unfunded retirement benefits	513	462	—
Advance rentals received during the year	285	313	493
Accrual for contingencies	—	238	—
Unrealized foreign exchange gain	(18,535)	(5,049)	(898)
Net loss carryover of PCIBank – net of allowance for non-realizability of P13,544 in 1998	—	—	—
	P927,501	P608,132	P415,429

A reconciliation between the statutory income tax rate and the effective income tax rate follows:

	1998	1997	1996
Statutory income tax rate	34.00%	35.00%	35.00%
Tax effect of:			
FCDU income	(29.37)	(15.68)	(16.41)
Change in future tax rate	6.06	0.88	—
Tax paid interest	(5.45)	(6.12)	(6.04)
Nondeductible interest expense	4.63	—	—
Tax exempt interest	(3.04)	(2.28)	(2.10)
Equity in net earnings of subsidiaries	(2.09)	(1.20)	(0.96)
Gain from reduction of equity interest in subsidiary	—	(3.80)	—
Others - net	(1.60)	0.13	(1.55)
Effective income tax rate	3.14%	6.93%	7.94%

The provision for deferred income tax includes the minimum corporate income tax which is creditable against PCIBank's and PCI Capital's regular income tax for the three immediately succeeding years. Provision for deferred income tax pertaining to PCIBank's net loss carryforward is fully provided for.

The accumulated balance of the provision for deferred income tax credited to unappropriated retained earnings account of PCIBank and its subsidiaries amounting to P927,501, P608,132 and P415,429 as of December 31, 1998, 1997 and 1996, respectively, are not available for dividend declaration.

18. Earnings Per Share

The basis of earnings per share calculations follow (number of shares, in thousand):

	1998	1997	1996
a) Net earnings	P2,679,672	P3,629,344	P2,994,668
b) Dividends to preferred shares	64	64	64
c) Weighted average number of outstanding common shares	152,246	152,246	152,242
d) Weighted average number of potential common shares (pertaining to convertible preferred shares) (see Note 14)	53	53	53
e) Weighted average number of outstanding and potential common shares (c+d)	152,299	152,299	152,295
f) Earnings per share:			
Basic [(a-b)/c]	P17.60	P23.84	P19.67
Diluted [a/e]	17.59	23.83	19.66

19. Related Party Transactions

In the ordinary course of business, PCIBank and its nonbanking financial subsidiaries have loan transactions with their other affiliates, and with certain directors, officers, stockholders and related interests (DOSRI). Under existing policies of PCIBank and its subsidiaries, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks. The General Banking Act and BSP regulations limit the amount of loans by PCIBank and its nonbanking financial subsidiaries to each subsidiary and affiliate to 25% of their capital funds. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of his deposit and book value of his investment in PCIBank and/or any of its lending and nonbanking financial subsidiaries. In the aggregate, loans to DOSRI generally should not exceed the total capital funds or 15% of the total loan portfolio of PCIBank and/or any of its lending and nonbanking financial subsidiaries, whichever is lower. PCIBank and its nonbanking financial subsidiaries are in compliance with such regulations as of December 31, 1998 and 1997.

20. Commitments and Contingent Liabilities

In the normal course of the operations of PCIBank and its subsidiaries, there are various outstanding commitments and contingent liabilities, such as guarantees, commitments to extend credit, forward exchange contracts, etc., which are not reflected in the accompanying consolidated financial statements. Management does not anticipate losses from these transactions that will adversely affect their operations.

PCIBank is contingently liable to a government agency with respect to the payments received in 1986 from two borrowers for their past due obligations with PCIBank consisting of the principal amount of ₱103,585 and interest recognized in 1986 of ₱36,973. These obligations were liquidated from the sales proceeds of the pledged shares of stock of a company, which were sequestered by the said government agency in 1986. PCIBank is required to return the amounts received to the government if the shares of stock are adjudicated by the courts to be ill-gotten and, therefore, the pledge thereof shall be held invalid.

There are pending tax assessments and preassessments from the Bureau of Internal Revenue. PCIBank and some of its subsidiaries, through their tax counsel, are contesting these assessments and preassessments on the ground that the actual situations were not considered which, if considered, will not give rise to material tax deficiencies.

Several suits and claims remain unsettled. In the opinion of management, the suits and claims, if decided adversely, will not involve sums having a material effect on PCIBank and its subsidiaries' consolidated financial position and operating results.

The following is a summary of various financial instruments with off balance sheet risk at their notional amounts (peso equivalent) which PCIBank has contracted:

	1998	1997	1996
Foreign exchange forwards:			
Commitments to sell	₱25,239,412	₱21,567,084	₱32,709,406
Commitments to purchase	30,131,501	32,044,365	42,377,354
Foreign exchange spot:			
Sale	483,575	816,222	76,241
Purchase	341,175	214,660	76,236
Foreign currency options:			
Put	—	614,382	262,900
Interest rate swaps	551,874	4,051,110	—

As stated in Note 1, these commitments are generally provided as a service to customers. These are also used to hedge resources and liabilities denominated in foreign currencies and unhedged trading profits. PCIBank monitors foreign currency transactions and positions against predetermined limits to ensure maximum profitability with reasonable risk-taking.

21. Present Economic Events

The economic slowdown in the Asian region since July 1997 continues to affect the Philippines and have led to a substantial depreciation in the value of the peso against the US dollar and volatile interest rates, among others.

PCIBank and its subsidiaries have made a provision for probable loan and other losses of about ₱3.46 billion in 1998 and ₱2.37 billion in 1997 taking into account the effects of these economic events, in particular the inherent credit and valuation risks in receivables from customers and investments. Management is continuously evaluating the impact of these economic events on PCIBank's and its subsidiaries' financial statements and will recognize such effects as these are known and estimable.

SUBSIDIARIES OF PHILIPPINE COMMERCIAL INTERNATIONAL BANK, INC.

Bankard, Inc.

PCI Leasing and Finance, Inc.

PCI Capital Corporation

PCIB Securities, Inc.

PCI Express Padala (HK) Limited

PCI Express Padala, Inc.

PCIB Europe S.p.A

PCI Insurance Brokers, Inc.

PCI Automation Center, Inc.

PCIB Savings Bank, Inc.

PCIB Properties, Inc.

PCIB CIGNA Life Insurance Corporation

PCI Realty Corporation