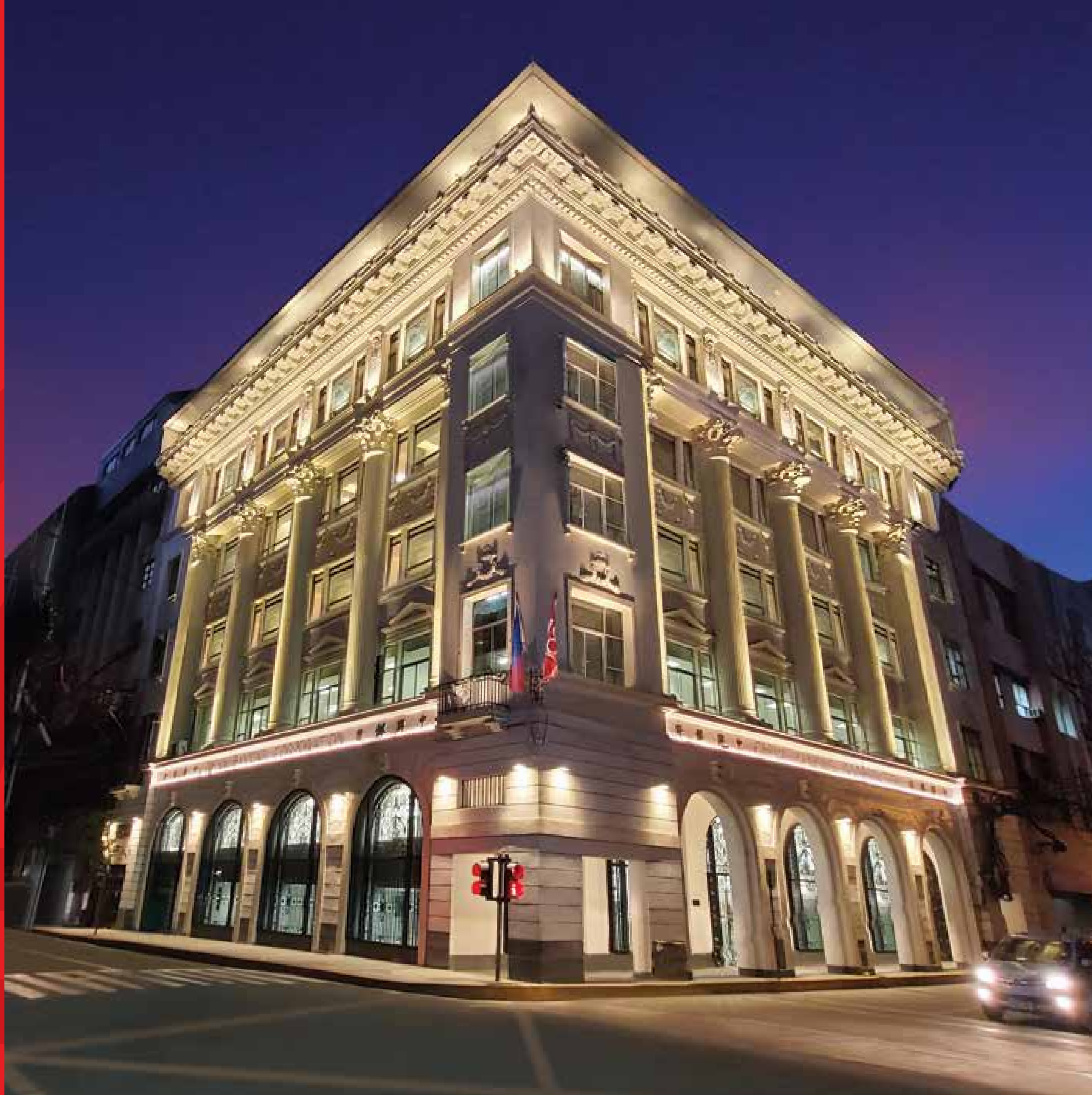

100 YEARS OF TRUST: THE CHINA BANK STORY

Celebrating the past
Embracing the future

BY RAUL RODRIGO
and NANCY PE RODRIGO
EDITED BY JOSE DALISAY

CHINABANK

100

1920 - 2020

100 YEARS OF TRUST: THE CHINA BANK STORY
Celebrating the Past. Embracing the Future

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Original China Bank building in Binondo restored to its original architecture
and design, a catalyst in the renewal of the world's oldest Chinatown.

PREFACE

Your Success Is Our Business

This centennial edition of the China Bank story is part of a bigger program to celebrate the Bank's 100th anniversary, highlighted by the centerpiece project, the faithful restoration to the original architecture and design of its original headquarters in Binondo, which also houses a museum.

The book has two main segments. The first two parts (Part 1 "A Different Kind of Bank 1920-1940" and Part 2 "Challenge and Response 1960-2010") cover the first nine decades of the Bank's history as told in the 90th anniversary edition of the book.

The second half of the book portrays the story of the last decade (Part 3 "Unprecedented Growth, 2010-2020") — the Bank's remarkable record of network expansion (Chapter 7 "Growing Fast Through Strategic Acquisitions") and growth beyond its Chinese-Filipino niche market (Chapter 8 "From a Businessman's Bank to a Bank for All"), and the establishment of new businesses (Chapter 9 "From a Niche Player to a Full-Service Bank").

After reaching the critical milestones of P1 trillion in assets and P100 billion in capital, the Bank looks forward to its second century (Part 4 "Embracing the Future"), with confidence in the new leadership team (Chapter 10 "A New Generation of Bankers") underpinning our optimism in our ability to meet the challenges of a digital world (Chapter 11 "Timely Innovation: Digital Transformation"). And beyond the first century, we expect the tradition of reliable partnerships to endure (Chapter 12 "Timeless Values and Time-Tested Relationships").

The themes, narratives, and stories throughout the book reveal the story of what China Bank is all about. It highlights the continuing commitment to support customers in good times and especially in tough times, resulting in a legacy of enduring partnerships through generations of customers. This was clearly demonstrated in the 1930s Great Depression, the post-World War 2 reconstruction, the economic crisis of 1983-1985, the 1997 Asian financial crisis, and the 2008 global financial crisis. This recurring theme is again seen in the unfolding stories in the extraordinary challenges posed by the pandemic that started in 2020. At the heart of the enduring partnerships is the intimate knowledge of customers, as captured in the timeless saying of Don Albino that "It is better to know people than to know money."

This culture of caring for clients and customers was indeed passed on from the founders to the next generations of bankers, together with the timeless values of integrity and doing things right as well as doing the right thing. This message is very well captured in the Bank's centennial TV commercial that says, "Times change, but values remain."

These timeless values were at the heart of the messages of former chairman Gilbert U. Dee and former president Peter SyCip Dee that introduced the 90th anniversary book. The original messages of Mr. Gilbert Dee, Mr. Hans Sy, Mr. Peter Dee, and Mr. Ricardo Chua (from the 2014 abridged version of the 90th book), are included in the annex. In fact, the museum showcases the Bank's historical narrative around these core values.

> **"Times change, but values remain"**

China Bank is one of the oldest listed companies in the country, yet it is also at the forefront of best practices in good governance as evidenced by its consistent top rankings in the country and ASEAN. The China Bank legacy of doing things right and doing the right thing is indelibly etched in its history, and best illustrated in a couple of stories.

The best example of *doing things right* is shown in the contrast between China Bank and another bank founded by Chinese businessmen in 1924, the Mercantile Bank of China. While it copied the China Bank model of hiring American managers and even hired China Bank officers, the similarities end there. Mercantile Bank collapsed in 1931 as a result of excessive lending without collateral to its own directors and from losses due to speculation in foreign exchange. China Bank, on the other hand, strictly demanded collateral for loans to its directors and other borrowers; it also did not engage in speculative transactions. (see pages 42-44; also in Wong Kwok-Chu, *The Chinese in the Philippine Economy 1898-1941,* Ateneo de Manila University Press, pages 142-148). The prudent conduct of banking even then was remarkable, way before the rules on DOSRI and related party transactions were conceptualized and enforced (the Central Bank of the Philippines was established only in 1949). Indeed, as the English financial journalist Hartley Withers wrote, "Good banking is produced not by good laws, but by good bankers."

The act of *doing the right thing* for depositors—even if you are not legally obligated to do so and at great cost—is best exemplified by Don Albino's decision to pay all depositors whose deposits were among those liquidated by the Japanese forces in WW2 (see page 71 for the transcript of US Congress hearings), because "it was the decent thing to do." This gesture was even more remarkable because China Bank received only 4% of its claims for war compensation from the US government and did not get any financial support from the Philippine government for their post-war reopening unlike other local banks.

This edition also contains a factual correction of a historical record. In the 90th anniversary edition of the book, based on the earliest available records at the time, China Bank shares were listed shortly before January 1947. Further research showed that China Bank shares were actually listed in the Manila Stock Exchange (now the Philippine Stock Exchange) in September 1927, one month after the opening of the MSE.

Just like the 90th anniversary edition, the book features inspiring stories of clients ("100 Years of Enduring Partnerships," pages 318-355). Many of them trace their stories from the first generation who chose to move from the Chinese mainland to the Philippines, then started with small ventures and grew their businesses while overcoming tremendous obstacles. One such story is that of Siak Long (Rosendo Chuakaw, "An Immigrant's Story," Chapter 3, pages 92-93).

The client's section was updated to include testimonies from the children or grandchildren of the original clients and to include stories from clients of China Bank Savings that continued the China Bank tradition of supporting entrepreneurs. These stories are a fitting tribute to the strength of their resolve and character, determination, old-fashioned hard work and, we are gratified to say, with some help from China Bank. These stories give life to Dee C. Chuan's vision as declared in the Bank's very first print advertisement that China Bank "shall minister understandingly to their banking requirements."

"Good banking is produced not by good laws, but by good bankers."

The book concludes with the story behind the authentic restoration of the Binondo building as a heritage project that includes a museum ("Preserving a Legacy", pages 356-381).

As the legacy of a century of enduring partnerships becomes the foundation for the next 100 years of constant and transformative change, certain things remain constant as guiding posts for the future. Investment banking legend Felix Rohatyn said it well: "At its core, banking is not simply about profits, but about personal relationships."

AEscucha

ALEXANDER C. ESCUCHA
Chairman, Centennial Committee

MESSAGE FROM THE CHAIRMAN

A Bridge Between Generations

I feel honored and delighted to be presenting this new book celebrating the centennial of China Bank to our clients, partners, staff, and the public at large. It has been asked why, only a decade after we published a coffee table book chronicling China Bank's rise to pre-eminence as an institution in Philippine banking, we saw it fit to come out with another one. Although the history remains essentially unchanged, this book is more than an updated edition; it is, rather, a window on the future, a rededication of the Bank to its founding ideals and also to its mission to persevere.

My greatest regret is that my father is no longer around to join us in marking this milestone. The consummate entrepreneur that he was, he would have appreciated our continuing commitment to supporting the Filipino entrepreneur, to playing our part as "the businessman's bank" that we have always been, a generator of growth and positivity even in challenging economic conditions. But indeed, he lives on in the Bank's legacy, in the values that will sustain us into our next century.

As his son and as a steward of the Bank for many years now, I feel acutely aware of my responsibility to act as a bridge between generations—not only in terms of my physical presence but more importantly in terms of a mindset that must harmonize the greatest strengths of our past with the brightest prospects of our future.

Like many traditional and once family-owned enterprises, China Bank has had to adapt and adjust to the realities and challenges of banking in this new age of globalization and digital technology. Business principles and practices have changed. Relationships that once could be sealed with a handshake now require a mountain of studies and signatures, none of which can guarantee that most essential of elements between partners: trust.

While China Bank must and will embrace the digital future, wasting no opportunity to ensure that we are centrally engaged in 21st-century banking and can offer our clients the cutting-edge services they expect, we will also bring to the table what no technology can buy: a century of trustworthiness.

I extend my warmest congratulations and felicitations to everyone who has contributed to that glorious century, and look forward to our next one with great optimism and audacity.

HANS T. SY
Chairman of the Board

MESSAGE FROM THE VICE CHAIRMAN

Enduring Values

It has been my family's distinct honor to have been associated with China Bank since its founding by my uncle Dee C. Chuan a century ago. Back then, the men who set it up had little to go on, aside from their capital, but their vision and audacity. Time would prove them right in striving to establish the country's first private commercial bank, one that catered to the needs of a growing business community in one of Asia's most important economies.

Since then China Bank has been led by many generations of outstanding individuals and managerial teams, each of whom have helped direct and shape the Bank into what it is today: a robust institution standing firmly on the bedrock of tradition but prepared and eager to take on the opportunities of this digital and globalized age. From challenge to challenge, from crisis to crisis, through boom and bust, these leaders have learned not only how to survive but how to prosper by ensuring as well the security and financial health of their clients.

Few enterprises attain the privilege of marking their first century, and it is always interesting and instructive to determine what accounts for their stability and longevity. Surely they must be doing something right—and doing it better than others. Especially in today's highly volatile business environment, where billions can be made and lost in minutes and companies can come and go in the wink of an eye, a strategic view of corporate growth is vital, so that aggressiveness can be balanced by prudence, and short-term profit by long-term sustainability.

In the earlier edition of this book published ten years ago, I remarked that, when queried about the secret to China Bank's success, "We work harder than others." Indeed that's still true; we push ourselves hard and put in the extra effort to achieve the results we want.

But more than just exerting physical and mental labor, we work under a set of shared values that have sustained us these past one hundred years, values without which our clients could have chosen any other bank. We have enshrined these values in our corporate profile, and while their precise formulation may have evolved over time, their core meanings and intents form the bedrock of our corporate philosophy, of why we do things the way we do.

Integrity lies at the heart of all our actions and decisions. A bank's most important asset is trustworthiness, and China Bank has maintained a solid reputation for the past century for its moral rectitude, at whatever cost; it will do right by its clients and by its sworn duty as the custodian of other people's money.

High performance standards have kept us at the top of the game. We demand much of ourselves, knowing that our customers expect no less. Success has been no excuse for laxity.

Commitment to quality keeps us focused on doing our best. We are constantly seeking to improve our services and to ensure their efficient delivery.

Concern for people drives us to think beyond the business of money, to create a safe, positive, and productive workplace, and help build a progressive and humane society.

Customer service focus is what our new leadership is all about—putting the customers and their needs at the center of our goals.

Resourcefulness and initiative are encouraged in all China Bankers, a new mindset that embraces innovation as the key to success in the future.

Efficiency keeps us on our toes and ahead of the curve. We are ever aware that even with a century behind us, we have no time to waste, and much yet to achieve.

Loyalty assures mutual respect and mutual benefit over time. We have treated our clients like true friends and family, providing them with support and guidance through thick and thin.

Fairness is the soul of justice, and maintains harmony and order in our corporate and personal engagements.

While we are retooling and retraining to adapt to the fluid business environment and provide responsive and creative solutions to new problems, some things will never change in the way we do business and the reasons why we are in business. Service to our clients is service to our economy, our country, and our people at large. That service is best provided with good hearts and clean hands.

GILBERT U. DEE
Vice Chairman

MESSAGE FROM THE PRESIDENT

Embracing the Future

The decision to join China Bank has become a most important milestone of my professional life, as it opened opportunities for me to help bring a venerable institution into a new era of dynamic growth as it enters its second century.

In a well-established bank's life, there are the key turning points and crucial transitions that determine whether it will be content to rest on its laurels and trade on little more than its reputation, or forge bravely into the future and take on new challenges and risks—not just to stay alive, but to stay ahead. We live in such times when innovation has become requisite to survival. Those who embrace it will at least stand a fair chance; those who do not are fated to fall by the wayside.

The last decade of the Bank's first century has seen its unprecedented transformation through the growth of its physical footprint and digital channels. The establishment of new businesses also enabled it to level up into a major industry player, with full-fledged capabilities to provide a complete offering of products and services for all market segments beyond its original niche of Chinese-Filipino entrepreneurs.

It has become my great privilege and responsibility to preside over the Bank at this historic juncture of its corporate life, to fully harness its enhanced capabilities to serve a broader market while continuing to stay true to its roots and core values. The continuing effort to be relevant to the latest generation of young and demanding clients brings with it a commitment to be prepared for the challenges of a digital future.

Preparation does not mean only the acquisition and deployment of new technologies and machines, and continuing improvement of process. These are important elements of the strategy, and critical enablers. But even more crucial to future-proofing the Bank will be reforming and modernizing the human element and the streamlining of the organization to bring to bear these new tools for the benefit of the customers.

When I first joined China Bank, I understood my mandate in very clear terms—to change the culture to leverage its strengths while addressing perceived weaknesses. A primary goal is to enhance teamwork across the China Bank group and not just among the units within the parent bank, which by itself has grown in unprecedented scale. It also means sometimes breaking the silos that our people had gotten used to operating within, thereby realizing the full potential of cooperation between those handling customer relationships with the product specialists, and harnessing synergies across subsidiaries and affiliates with their own boards of directors and management teams. This direction towards more openness and cooperation remains a work in progress, and I had no illusions that it would be a quick and easy job. The longer and nobler an institution's pedigree is, the harder in a sense it becomes to transform from within.

Resistance was to be expected, and it came, which was good. I happen to believe that healthy conflict can bear positive results, because it drives people to become more expressive and to question basic assumptions. Eventually, we showed that with the right training and motivation, with the retooling of mindsets, we could effect salutary and meaningful change, toward such new and vital goals as customer-centricity.

With a new generation of professional managers at the helm possessing the capabilities, the vision, and the determination to navigate our way through the beginning of our second century, I am confident that China Bank will move on to achieve greater heights in the years ahead.

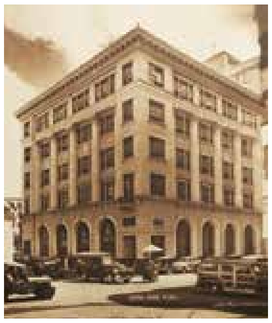
WILLIAM C. WHANG
President

A JOURNEY OF 100 YEARS: MILESTONES

1920
1945


1920
Dee C. Chuan leads a group of top Chinese Filipino businessmen to establish China Bank. The Bank opens for business on August 16, 1920 at No. 90 Rosario St., Binondo, Manila

1924
Transfers its growing operation to its own building on Juan Luna corner Dasmarinas Sts., Binondo, its head office for the next six decades



1925
Opens a branch in Xiamen, China

1927
Becomes one of the first companies to be listed on the Manila Stock Exchange

1929
Opens a branch in Shanghai, China

1931
The Great Depression adversely affects the Philippine banking sector; hit by runs, a rival bank goes under, but China Bank weathers the crisis unshaken

1942
The Japanese military shuts down China Bank, liquidates its assets, and jails its principal officers Albino SyCip and George Dee Se Kiat

1945
China Bank reopens and while working towards its own recovery, lends to key industries for post-war reconstruction and long-term development

1946
1970

1948
Opens China Bank Cebu, its first local branch

1949
Closes Xiamen and Shanghai branches when the Communists take over China

1954
Albino SyCip initiates the Liberty Wells project to provide potable water for millions of Filipinos

1955
Breaches the P100-million mark in assets, becoming the biggest local private commercial bank

1960
Opens its first branch in Manila, Sto. Cristo Branch

1965
Declares 100% stock dividend and increases its authorized capital stock from P10 million to P40 million

1969
Becomes the first bank in Southeast Asia to process deposits on-line, using the IBM 360

1970
Still the biggest local private commercial bank, with P566 million in resources

1971
1995

1973
Hits the P1-billion mark in assets; meets the Central Bank's requirement of a P100 million minimum paid-up capital for commercial banks

1975
Increases its Filipino ownership up to the 70% level required by the Central Bank, paving the way for China Bank's major branch expansion program

1977
Hikes capitalization to P300 million from P100 million; becomes one of the first banks authorized by the Central Bank to engage in foreign currency-denominated transactions

1982
Establishes CBC Properties and Computer Center, Inc. to provide computer-related services solely to China Bank and to manage its electronic banking and e-commerce requirements

1988


Launches TellerPhone, the first telephone banking service in the Philippines

1990
Joins seven other banks to create BancNet, the country's largest ATM network; transfers its corporate headquarters to its present location along Paseo de Roxas in Makati City

1990
Celebrates 70th anniversary

1991
Acquires its universal banking license

1995
Embarks on a five-year P150 million program to upgrade its technology infrastructure, acquiring leading-edge Dimension software from Kirchman Corp. and the latest IBM ES 9000 hardware

1996
2020

1996
Accesses the offshore capital markets for the first time by issuing US$50 million Floating Rate Certificate of Deposit (FRCD)

1997
Issues U$75 million FRCD; becomes the best capitalized bank during the Asian Financial Crisis after a 2 for every 3 shares stock rights offering

1998
Establishes China Bank Insurance Brokers, Inc. to provide direct insurance broking for retail and corporate customers, with a wide and comprehensive range of plans for life and non-life insurance

2005
Launches its Internet banking facility, China Bank Online

2007
Acquires Manila Bank and operates it as China Bank Savings; enters into a bancassurance joint venture with Manulife to form China Bank Manulife Life Assurance Corp.

cbs China Bank Savings

Manulife China Bank LIFE ASSURANCE CORPORATION

2012
Acquires Pampanga-based Unity Bank

2013
Acquires Planters Development Bank

2014
Merges Plantersbank, like Unity Bank, with China Bank Savings (the surviving bank); raises P8 billion from its stock rights offering

2015
Enters the credit card business and launches China Bank MasterCard; migrates to its new core banking system, Finacle Core Banking Solution (FCBS) from Infosys; incorporates its Investment Banking Group into a full-fledged investment house subsidiary, China Bank Capital

CHINABANK CAPITAL

2016
Establishes China Bank Securities to provide clients with stock brokerage, securities research, and analysis services

CHINABANK SECURITIES

2017
Gets investment grade credit rating of "Baa2" from Moody's; raises P15 billion from stock rights offer

2018
Signs US$150 million green bond agreement with International Finance Corporation (IFC)

2019
Raises P30 billion via maiden issue of fixed-rate retail bonds, one of the largest bond offerings for the year; begins restoration of the original head office in Binondo

2020
Marks its centennial; hits P1 trillion in assets and P100 billion in capital

CHINABANK 100 1920 - 2020

A JOURNEY OF 100 YEARS: LEADERS

1920 1925 1930 1935 1940 1945 1950 1955 1960 1965 1970 1975

- Dee C. Chuan - Chairman (1920-1940)
- Albino Z. SyCip - Vice Chairman (1920-1940)
- Dee C. Chuan - President (1920-1940)
- Albino Z. SyCip - Chairman (1940-1976)
- George Dee Se Kiat - Vice Chairman (1940-1954)
- Albino Z. SyCip - President (1940-1954)
- Dee K. Chiong - Vice Chairman (1946-1954)
- Marcelo L. Nubla - Vice Chairman (1955-1980)
- George Dee Se Kiat - President (1955-1979)

DEE C. CHUAN

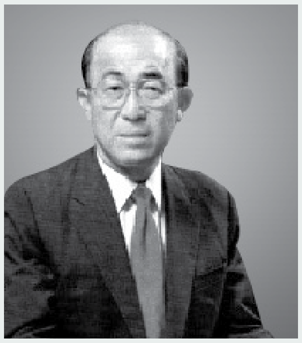
ALBINO Z. SYCIP

GEORGE DEE SE KIAT

DEE K. CHIONG

ROBERT DEE SE WEE

MARCELO L. NUBLA



EDWARD S. GO

1980	1985	1990	1995	2000	2005	2010	2015	2020

- Dee K. Chiong - Chairman (1977-1979)
- Dee K. Chiong - President (1979-1980)
- Robert Dee Se Wee – Chairman (1980-1981)
- Marcelo L. Nubla - Chairman (1981-1984)
- Robert Dee Se Wee – President (1981-1984)
- Gilbert U. Dee - Vice Chairman (1982-1988)
- Edward S. Go - Chairman (1985-1989)
- Peter S. Dee - President (1985-2014)
- Peter S. Dee - Chief Operating Officer (1985-1988)
- Gilbert U. Dee - Chairman (1989-2011)
- Hans T. Sy - Vice Chairman (1989-2011)
- Ricardo R. Chua - Chief Operating Officer (1995-2014)
- Henry Sy Sr. - Honorary Chairman (2004-2019)
- Hans T. Sy - Chairman (2011-present)
- Gilbert U. Dee - Vice Chairman (2011-present)
- Ricardo R. Chua - President (2014-2017)
- William C. Whang - President (2017-present)

GILBERT U. DEE

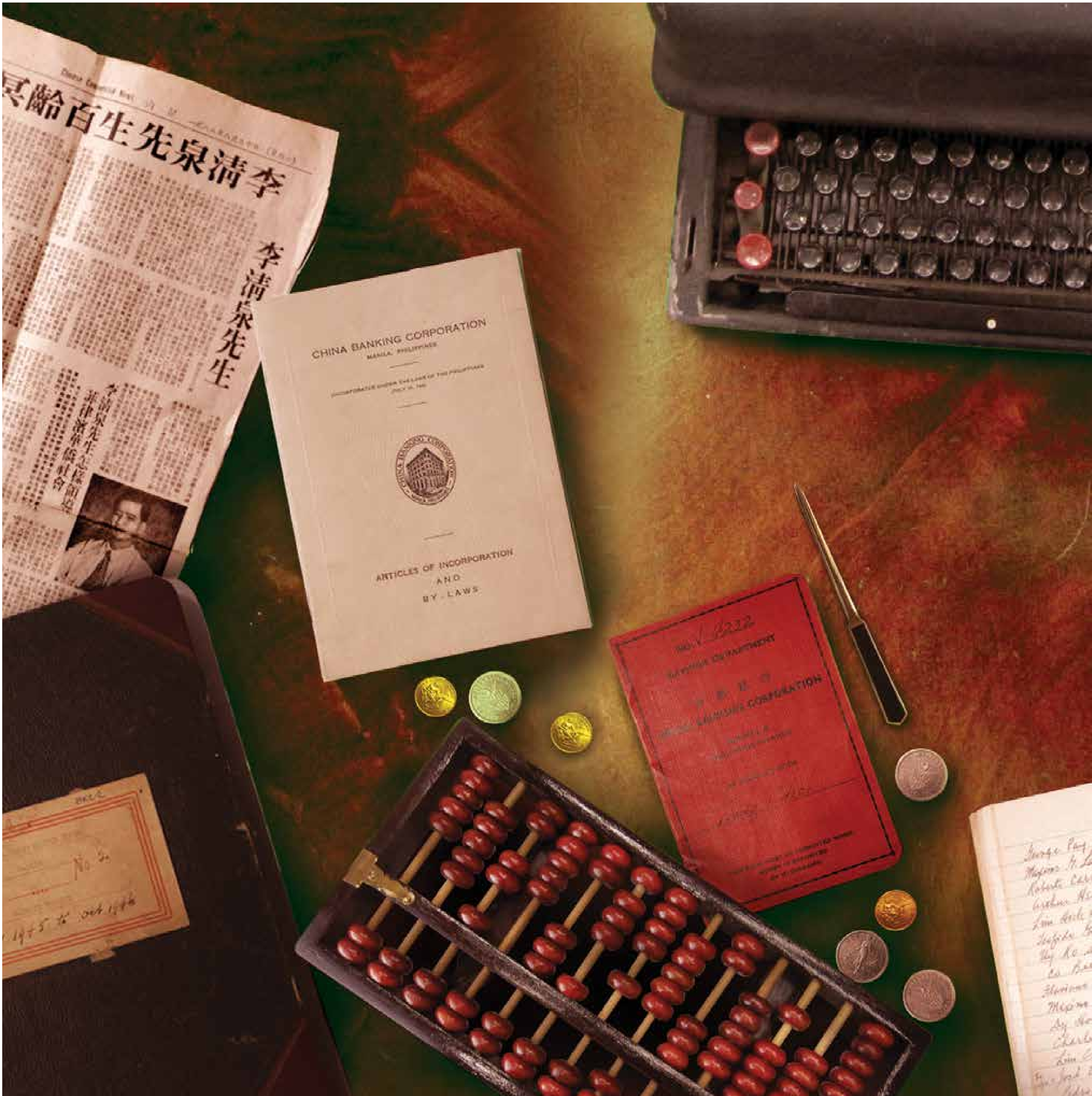
HENRY SY SR.

HANS T. SY

PETER S. DEE

RICARDO R. CHUA

WILLIAM C. WHANG


李清泉先生
CHINA BANKING CORPORATION
MANILA, PHILIPPINES
ARTICLES OF INCORPORATION
AND
BY-LAWS

PART 1

A DIFFERENT KIND OF BANK

1920-1960

CHAPTER 1

Beginnings
1920-1924

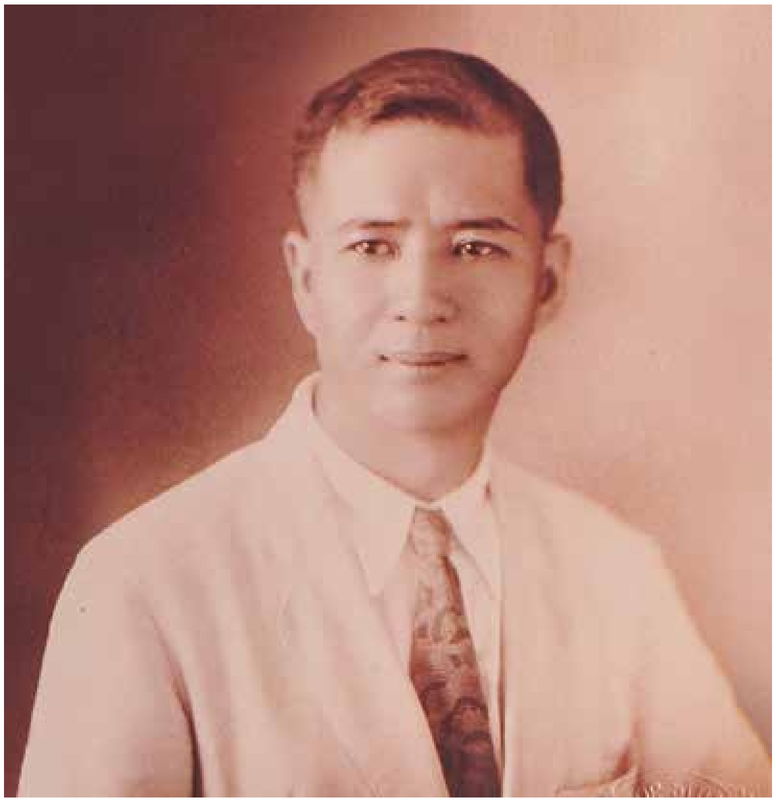
The young lumber magnate Dee C. Chuan leads a group of top Chinese tycoons in creating a new kind of bank for the Philippines.

Lumber king-turned-banker and philanthropist: Dee C. Chuan wanted a different kind of bank, one that would help Chinese businessmen access financing on an unprecedented scale. With the support of friends who shared his passion and vision, China Bank came to be. Dee C. Chuan was only 31 years old then.

"Many Chinese known by their countrymen to be worth half a million pesos are unable to get credit from the present banks." —DEE C. CHUAN

On the evening of December 19, 1919, eleven Chinese men gathered at the Oriental Club on Remedios Street corner Pennsylvania Street (now Leon Guinto Street) in Malate, Manila. The dinner was excellent and the company convivial—most of these men were business allies, colleagues in the Chinese Chamber of Commerce, and old friends besides. The Oriental Club was a Chinese-only establishment that was familiar ground. Nonetheless, this group of eleven Fujianese men was here not for fellowship, but to take up serious business. Present on this night were some of the biggest names in Philippine business—among them, the three richest Chinese in Manila, the top Chinese-Filipino lawyer and bar topnotcher, and the dynamic young president of the Chinese Chamber of Commerce, then only thirty-one.

It was this young man, Dee Ching Chuan (usually known as Dee C. Chuan) who had arranged for and presided over this meeting. After only fourteen years in business, he had become known as the "Lumber King"—the tycoon who ran the largest integrated logging and lumber conglomerate in the country. Despite his youth, Dee's keen mind, his humble and respectful personality, and his business vision had earned him enough respect to draw the other ten men to tonight's meeting. Ten of these men were Manila residents: Guillermo Cu Unjieng, Benito Siy Cong Bieng, Carlos Palanca Tan Guin Lay, Albino SyCip, Go Jocco, Uy Yetco, Antonio MH Limgenco, Yu Biao Son Tua, Vicente Gotamco, and Dy Buncio.



Cu Unjieng, who grew rich in textiles, import-export, insurance, and real estate; Palanca, a liquor and distillery magnate; and Siy, who engaged in abaca exports, rice milling, and shipping, were the three most prominent businessmen of their time. The young SyCip was a brilliant University of Michigan graduate who had come seemingly out of nowhere to best many more prominent rivals and top the 1913 bar exams. The last man present was a millionaire and former sugar trader from Java known as Oei Ik Tjoe (or Huang Yizhu, in Mandarin) who had amassed a huge fortune and now wanted to help his friend Dee and his colleagues achieve a dream.

Simply put, the group wanted to put up a new bank in Manila that would enable Chinese businessmen to access financing on an unprecedented scale. None of the existing banks such as First National City Bank and Hong Kong and Shanghai Bank would lend readily to Chinese businessmen. They would do it only for a few men like Cu Unjieng and Palanca, who after decades of striving had grown too big to be ignored. Dee said, "Many Chinese known by their countrymen to be worth half a million pesos are unable to get credit from the present banks."

The Philippines was then in the middle of an export boom in sugar, copra, and hemp, but the Chinese didn't have the bank financing necessary to buy and build the latest milling equipment for sugar and coconut oil. Already, the Chinese businessmen had missed the first great wave of bank lending for centrifugal sugar mills; during 1916-1918, the newly created Philippine National Bank (PNB) had lent millions of dollars for centrifugal sugar centrals to politically influential Filipino families like the Aranetas and the Montillas.

Unless the Chinese community was able to access financing in amounts much larger than it had ever had from its traditional lending systems, it would be unable to compete with the businessmen backed by the big banks. Slowly and inexorably, the Chinese would be forced away from the more dynamic and strategic areas of the economy. Already, the PNB financing to a few families allowed them to make huge fortunes in centrifugal sugar and displace the Chinese from their accustomed roles as muscovado sugar middlemen and exporters.

What these men had in mind was a huge leap for them all. None of these men were bankers or had any training in finance. For them to take on the international giants like Citibank and the local monoliths like PNB or the Bank of the Philippine Islands (BPI) was a tremendous challenge. But Dee C. Chuan was undaunted. He felt that he and his fellow Chinese businessmen were faced with a choice between taking on the risk of building a new bank or sinking into irrelevance. Dee wanted a new kind of bank—one that drew on both Eastern values and Western banking systems in order to serve its clients well, and enable them to participate in growing the economy.

To understand Dee and his vision, and the bank that resulted from his dream, we need to go back in time.

THE FUJIANESE IN THE PHILIPPINES 1700-1900

All the men dining at the Oriental Club that night had Fujianese roots; all except one or two had been born there. The Chinese of Fujian province have been emigrating to the Philippines for centuries, lured by the hope of making a better living on these shores. The south China province of Fujian is the size of England, but it is mountainous, with relatively little arable land—particularly in relation to its high population density. By 1500, the province had less cultivated land per person than any other in China. Its half-acre per head was half the national average. Predictably, famine struck Fujian often—228 times in the 17th century, 158 times in the 18th century. Fujian grew some fine teas for export, but by the 19th century their, tea trade was suffering from new and stiff competition from India and Ceylon. Moreover, the Fujian tea industry was risky—a single typhoon could devastate the tea fields and negate a year's work.

The Fujianese also had to contend with two national phenomena: population pressure and war. China underwent a population explosion in the 19th century, growing from 177 million in 1750 to 410 million in 1850. It also had to deal with the two Opium Wars (1839-1842, 1856-1860), the Taiping Rebellion (1850-1864), and many other disturbances of the peace, both great and small. After two centuries of rule, the Qing dynasty was decaying, and that growing weakness led to economic upheaval, social unrest, and paroxysms of violence.

The result was inevitable: between 1840 and 1888, more than two million Chinese left China, most from Fujian and Guangdong, and headed for Malaya, Java, Sumatra, the Philippines, Indochina, California, Hawaii, the West Indies, and Australia. It is safe to say that even more would have left if they could. The people of the Chinese diaspora became known as *huaquiao* or *huaren*—the overseas Chinese.

For the Fujianese, Manila was a frequent destination because, with favorable winds, it was only three or four days sailing by junk from the Fujian port of Xiamen (Amoy). So many of them came here that over 80% of all Chinese Filipinos today are of Fujianese descent. Most Chinese Filipinos today have single-syllable Chinese surnames, the most common of which are: Tan (陳), Ong (王), Lim (林), Go/Ngo (吳), Ng/Uy (黃), Chua (蔡), Sy/See/Si (施), Co(許) and Lee/Dy/Dee (李). Others have Chinese compound names such as Cojuangco, Yuchengco, SyCip, SyQuia, and Coseteng.

Many of the early Fujian Chinese were willing to put down roots in the Philippines. They converted to Christianity and cut off their Qing-era topknots. In time, their descendants

A bustling Chinatown, circa 1900s: The migrant Chinese made their home in Binondo and adjacent districts, turning the little enclave into a thriving commercial center.

became nearly indistinguishable from the Philippines' Malay majority—the *huanna,* as they called them.

But for most Fujianese who went to the Philippines in the 18th and 19th centuries, their sojourn abroad was meant to be temporary. Manila was close enough that the more prosperous immigrants could go back and forth every few years, and in time—and with good luck in business—they could go home to retire. For instance, Martin Co, the great-great-grandfather of former president Corazon C. Aquino, was born in Xiamen and then lived in the Philippines for many years. In the mid 1850s, he went back permanently to the family's ancestral village of Hongjian in Fujian. Men like these had come to Manila in the hope of "going home in silken robes"—the Chinese way of saying that they would retire as wealthy and respected men. No matter how comfortable or successful they were in Manila, these men always longed for *hsiang*—home.

The Spanish authorities were always uneasy with the immigrant Chinese who didn't convert to Catholicism. They felt disdain for the *sangley infiel*, the infidel Chinese, who they always suspected of plotting an uprising. In 1603, 1639, 1662, and 1686, the Spaniards massacred the Chinese in Manila; tens of thousands of Chinese were killed. But after each massacre and expulsion, the Spaniards were soon forced to reopen the ports for more Chinese immigrants. The

Castilian rulers saw the immigrants from Southern China as a necessary evil—unreliable by their standards, but vital for keeping the local economy running. Thus the Spaniards set a policy: the unassimilated Chinese were to be taxed heavily and closely monitored; converted, if possible; or ruthlessly suppressed, whenever necessary.

Because Spanish colonial authorities placed many restrictions on their economic activities, it didn't make sense for the Fujianese sojourners to farm or live off the land. But the Fujianese could and did become successful in trading.

Dee C. Chuan wanted a new kind of bank—one that drew on both Eastern values and Western banking systems in order to serve its clients well, and enable them to participate in growing the economy.

As merchants, the Fujianese could keep their assets mobile and be ready to go home—or evade Spanish persecution—at a moment's notice. They soon dominated local trading, running stores everywhere that sold basic goods to the consumers. They would also buy the local farmers' produce like sugar and rice to sell to the big foreign firms. Money lending was also a frequent occupation. The Fujianese immigrants provided the country with much of its early entrepreneurial talent. They founded a number of still prominent business houses—among them, the Lopez family of Iloilo, the Cojuangcos of Tarlac, and the Palancas.

The talent they brought over to the islands was not just entrepreneurial. The national hero Jose Rizal is the direct descendant of a 17th century immigrant from Jinjiang county in Fujian named Ke Yinan—or, as he was known here, Domingo Lam-Co. Domingo became fully assimilated and in the 1850s, following the Claveria Decree, his descendants took on the name Mercado, and later Rizal. Several Philippine presidents, including Emilio Aguinaldo, Sergio Osmeña, Elpidio Quirino, Ferdinand Marcos, Corazon Aquino, and Benigno Aquino III come from Chinese immigrant stock.

BINONDO AND ITS VALUES

Binondo was created in 1594 by Spanish Governor-General Luis Pérez Dasmariñas as a permanent settlement for converted Chinese immigrants (called *sangleys*) across the river from the walled city of Intramuros where the Spaniards resided. There in Binondo and the adjacent district of San Nicolas, the migrant Chinese—the *huaquiao*—built their own little world on streets such as Sacristia (now Roman Ongpin), Rosario (now Quintin Paredes), Abad Santos, Anloague (later Juan Luna), San Fernando, Mayhaligue, Dasmariñas, and Gandara. They established their own schools, newspapers, restaurants, and associations to preserve the continuity of their culture. In time, this little Chinese enclave became influential in Philippine culture in a way out of proportion with its size. Elements of their Hokkien dialect (such as *susi, ate, hikaw, bwisit, bakya*) and cuisine (such as *pancit, siopao, lugao, mami,* and so on) became part of the fabric of their Malay hosts' lives. By the 19th century, Binondo was the commercial center of the city and the colony, a bustling hive offering every kind of product from candles to jewelry to furniture.

The thriving ecosystem of Binondo was created and was supported by its own ethos. The Chinatown merchant's key values were simple: discipline, hard work, honesty, good credit standing, and wise spending. Manila's Chinatown was

(Opposite page) The new export economy after 1850 created a great demand for laborers, which led to the influx of more Chinese workers.

(Below) The enterprising Chinese immigrants also engaged in hemp-weaving.

(Left) One of the oldest places of Christian worship in the Philippines, Binondo Church was founded by the Dominican priests in 1596.

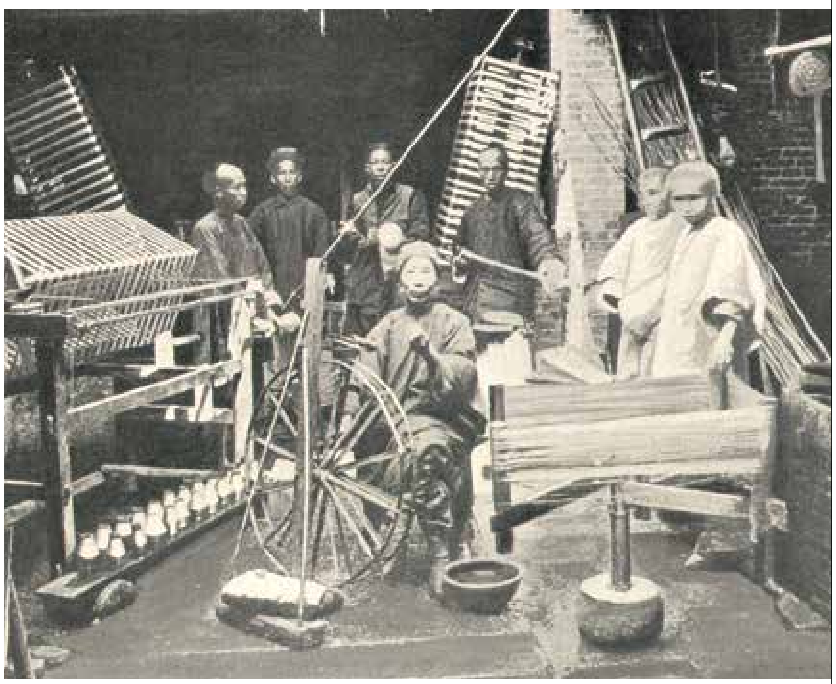
a small, tightly-knit, very informal, personalistic community where face-to-face interaction was and is very important. Over and above making a big profit on a single deal, these merchants valued mutual trust and the preservation of one's reputation within the larger community. A culture that was four thousand years old knew the importance of taking the long-term view. For them, what mattered most was *xinyong*—trustworthiness or word of honor.

In Binondo, the Fujianese merchants liked to say: *"Seng-li ke si tsue hia-e lang."* (All business operates through just one man.) That man's skills and sense of honor were the primary building blocks for success. These elements will make or break his business.

Bienvenido Tan, who comes from pure Fujian merchant stock, said: "[In Chinatown] a man's word was his bond, and much of the business was transacted on the basis of a verbal agreement, a nod of the head, a 'yes'. My maternal grandfather guaranteed a bank loan worth several millions of pesos for a friend. When the debtor did not pay, my grandfather paid the debt even if there was no document to prove the guarantee. Chinese businessmen do not consider the issuance of a receipt as a necessity in business."

In a business like trading or retail, liquidity is king, and the first index of success was the ability to give and get credit. A man with a solid reputation would earn a steady supply of easy credit. His goal was to be considered by lenders or wholesalers as a *shiong-keh*, a "top customer," an always reliable borrower. He would then be called a *ho-heng,* a good credit risk.

The value of *xinyong* interacts dynamically with other Chinese values such as *lian* (face), *guanxi* (connections), and



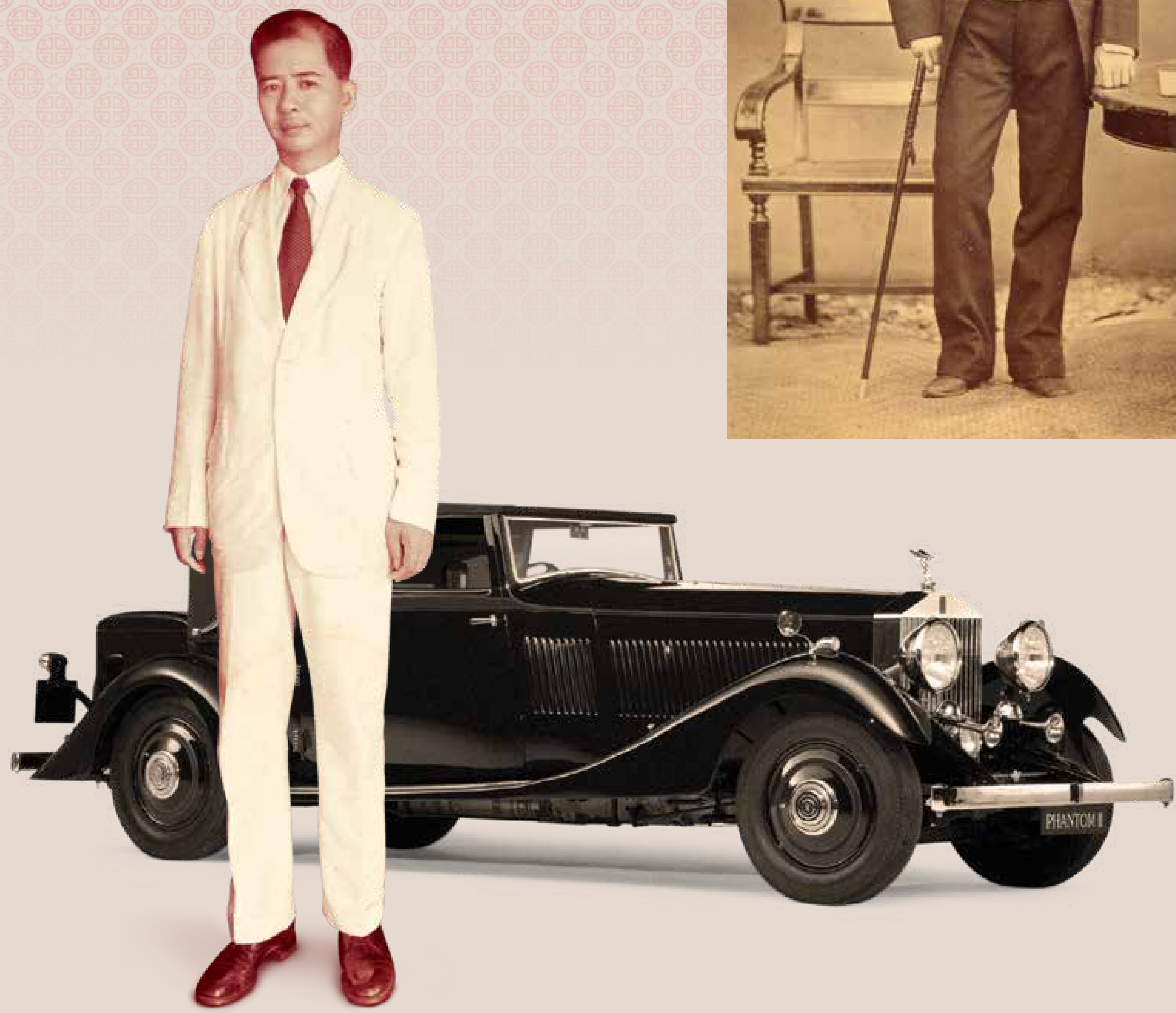
Chi Ku: "To eat bitterness"

In China, there is a phrase: *"chi ku"* —to eat bitterness. It means "to suffer." There was no expectation of an easy, happy life in ancient China, and the immigrants to the Philippines brought this same attitude with them. They were willing to take years of hard work, homesickness, and deprivation in the hope of building a better life for their families. Only a few of those who came here (such as Son Tua, the patriarch of the rich Tuason clan) were already prosperous merchants upon their arrival. Most came here as common laborers, but they had big dreams. The Dee family's patriarch, Dy Han Kia, came to Manila in the 1830s and worked in Manila as a common laborer for eighteen years, sleeping on a bench and saving almost all of his salary. He went back to his native village in Fujian fabulously wealthy.

Mall and banking tycoon Henry Sy came to Manila in 1936; he, too, came from humble beginnings: "My father was dirt poor. Every now and then he had to go to the market to buy supplies like soap and cooking oil from a wholesaler and bring it to our *sari-sari* store. He would carry the goods from Divisoria to Echague barefoot. I felt very bad." He pitied his father, who walked on hot asphalt streets on bare feet: "I said to myself then, 'This world is not enough. It is just not good enough. I must build a new one that is bigger and better.'" Because they were willing to suffer and work hard, these Fujianese immigrants built strong business legacies for their children to carry on. Henry Sy was the richest man in the Philippines for many years until his death in 2019.

(Right) A typical Chinese mestizo. In the 1750s up to the 1850s, the Chinese mestizos rose to a position of economic prominence in the Philippines.

(Below) Dee C. Chuan, was one of the well-educated Chinese in the Philippines who became a leading figure in business.



Over and above making a big profit on a single deal, Chinese merchants valued mutual trust and the preservation of one's reputation in the larger community.

bao (reciprocity). For instance, businessmen who had over time done each other favors (*renqing*) such as extending credit during difficult times, would build up a close relationship of reciprocity or *bao*. A good man never forgot the debt of gratitude owed to his benefactor. The granting of favors established *guanxi* (personal relations) that bound a man to his benefactor in a long-term relationship of respect.

In a small world like Binondo, a man who reneged on a deal faced risks that were both personal and business-related. Once word of his misdeeds got around, he would be ostracized by this small society, and he would find his access to credit increasingly being constricted. This would be an intolerable loss of face (*lian*). Thus, a sensible businessman acted to preserve and defend his *xinyong*. He sought to become known all over Binondo as a man whose word was as good as cash, and who would never renege on a deal.

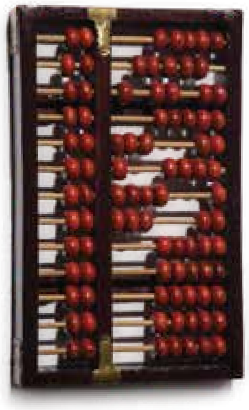
Eventually, as this man rose in the community, his mark of true status became his ability to stand as a third-party guarantor to other businessmen. By guaranteeing another man's debt, this man would demonstrate his own abundant liquidity. Moreover, he would become a de facto arbiter of other men's *xinyong*. Over time, a man like Benito Siy Cong Bieng (1865-1924) or Guillermo Cu Unjieng (1866-1953), who were often asked to provide third-party guarantees for other businessmen, accumulated a wealth of knowledge about Binondo business and businessmen. They knew who could and could not be trusted, who had reneged on a deal, and who had irreproachable *xinyong*. The system of third-party guarantees created a kind of pecking order among the Binondo businessmen.

For over two centuries, the informal Binondo system of lending based on *xinyong*, supplier's credit, promissory notes, and third-party guarantees sufficed to build many successful enterprises, such as those of Guillermo Cu Unjieng and Benito Siy Cong Bieng. But by the early 20th century, anyone who wanted to build a big business needed bank financing to achieve scale. For instance, industrial milling equipment for rice, sugar, lumber, or coconut oil required hundreds of thousands or even millions of dollars. This equipment also had to be bought abroad, which meant that any aspiring Chinese miller had to have a good relationship with an established local bank that had correspondent banks abroad so that letters of credit could be opened.

But the top banks in Manila were reluctant to lend to the Chinese, who were considered by the mainstream business community as suspect, alien, and unreliable. One problem was that the traditional Chinese businessmen regarded balance sheets, profit-and-loss statements, and cash flow statements as very private documents, which they would not readily show to outsiders. This made it very difficult for them to access financing from Western-oriented banks.

The deeper problem was the Spanish and American colonial discrimination against the Chinese. The Chinese so dominated the Philippines' retail trade that many of the mainstream bankers feared what might happen if more financing were available to them.

In 1919, there were only seven commercial banks in the Philippines: Philippine National Bank, Bank of the Philippine Islands, Philippine Trust Company, First National City Bank, Hong Kong and Shanghai Bank, Chartered Bank of India and Burma (CBI, later Standard Chartered Bank), and Yokohama Specie Bank. BPI and PNB lent, by and large, to the mainstream *mestizo* elite; the foreign banks lent mostly to their own nationals.



The Chinese businessmen in Singapore, Malaya, Thailand, and the Dutch East Indies, in contrast, were able to access a lot of bank financing. There was much less prejudice against them in the host countries. The authorities recognized how crucial they were to the local economy and they did not discriminate against them. In the Dutch East Indies, the Dutch relied on the immigrant Chinese to run the local opium monopoly and to collect taxes on a contract basis. The British were also ready to rely on Chinese as *compradors* in Hong Kong, Singapore, and the China treaty ports, and Chinese like Robert Ho-tung (1865-1952) were able to amass huge fortunes.

But a simple denial of bank financing to the Chinese in the Philippines would not have sufficed to keep these businessmen down. There was simply too much entrepreneurial talent and resources in Binondo looking for an outlet during an economic boom. Sooner or later, someone in this community would find the key to unlock the puzzle. The key was provided by a man from a Fujianese family named Dee.

THE DEE CLAN IN THE PHILIPPINES 1700-1900

Lee (pronounced "Dee" in Fujian) is written as 李 in Chinese, and means "plum." It is the most widespread surname in China, with about 7.9% of the Chinese population using this name. As of 2002, there were approximately 103 million people in China and 108 million worldwide with this surname. It is the world's most common family name.

Members of the Dee clan of Shizhen village (or Chiochun, in Hokkien) in Fujian began sojourning in the Philippines since the 1700s. The first ancestor of the most prominent branch of the Dee clan now in the Philippines was Dee Phi Phay, who

Xinyong

The Chinese word *xinyong* (信用) is composed of two characters—one that stands for "one's words" and the other for "use." *Xinyong* is literally "the use of one's word"—in traditional Chinese business, it was the use of one's reputation for honesty and reliability to gain credit and seal agreements. In the early 20th century, these traditional business practices based on trust were dismissed by many as obsolete. But in recent times, economic theorists have reestablished how important trust is to growth. Trust is an economic enabler and lubricant, which reduces the cost of transactions, gives rise to new forms of cooperation, and furthers business activities, employment, and prosperity. Trust is a form of social capital. It has been widely demonstrated that social trust benefits the economy and that a low level of trust inhibits economic growth. Of course, this was already well known among the 19th century Binondo businessmen such as the Dee family.

Binondo was founded as a Chinese town in 1594. Intended as a settlement for Catholic Chinese and their mestizo descendants, Binondo soon attracted the *indios* and other Chinese migrants.

lived around the late 1700s and the early 1800s. Dee Phi Phay was the first in a line that, seven generations later, would give rise to Peter SyCip Dee and Nancy Dee Yang. The Fujianese like to say: *"Hu bo ke sa tai"* (Wealth does not survive three generations). But the Dees have been successful and wealthy in the Philippines for seven generations.

In the early 1800s, Dee Phi Phay's son Dee Siu Gam (Li Shouyan in Mandarin) traveled to the Philippines. The junk he was riding on barely survived a storm, and two other junks bearing two of his Dee cousins sank. But Dee Siu Gam made it to Manila, where, after decades of work, he made his fortune. He retired back to Shizhen, where he raised seven sons and a daughter.

In the mid-1800s, the third generation of the Dee clan to sojourn to the Philippine Islands was Dy Han Kia (or Li Hanjia in Mandarin). He was the fifth of seven boys. Of the seven brothers, he was the shortest. He was so short that his Shizhen nickname was "We Kia" or "Kia the Shortie." We Kia was frail, so he was considered useless in the seaside village of Shizhen to help in farming or fishing. So his father, Dee Siu Gam, sent him to Manila to earn a living. When We Kia arrived in Manila, a fellow village mate and distant uncle nicknamed Sa-pang Hui met him at the docks and brought We Kia to join him in a woodworking shop in Manila.

Dy Han Kia worked diligently as a laborer in that *cha-diao* or lumber shop. He was so thrifty he didn't even rent an apartment or a room, but slept every night for eighteen years on the wood-working bench he used. For eighteen years, he entrusted almost all his monthly salary to his boss, building up a nest egg for going into business for himself. Eventually, Dy Han Kia went on his own and put up several businesses dealing in lumber, chests (*baul*) and other wooden items. He named his first business Guan Hoc (源福) , meaning "wellspring of good fortune." He wound up with at least eighteen stores in Manila and a huge fortune.

In the 1860s, Dy Han Kia went back to Shizhen a rich man. He built four mansions in his home village for the entire clan: one for his wife and his concubine, and three more for his six brothers—two brothers' families shared one mansion each. The Dee clan has since been known in Shizhen (Chio-Chun) village as the "Si Te Chu," or the "four mansions clan." When Dy Han Kia's sixth and younger brother, Dee Han Ding, died early at the age of forty-one, he took care of his late brother's sons, including the siblings Dee Chao Yi (Calixto Dyyco) and Dee Zhao Bei (Dy Chao Pak or Dy Pac).

After Dy Han Kia retired, he shared his wealth with all his relatives, laying out detailed wills in booklets given to each of the six brothers' families. His primary heir was a nephew, Dee Chao Si, but this nephew gambled away the bulk of his uncle's fortune, including eighteen stores in Manila. But there was enough left for his nephews Dee Chao Yi and Dee Zhao Bei to make their own lumber fortune in Manila.

In the early 1870s, Dee Chao Yi and Dee Zhao Bei arrived in Manila and set up their own lumber shop, Chengmei Lumber. The Chengmei office was at No. 83 Calle Arranque, Santa Cruz, Manila. Chengmei became very successful. Dee Chao Yi converted to Catholicism and was baptized Calixto

Dyyco. During his years in Manila, as was customary for the Fujianese sojourners, Calixto's wife Chen Shuangniang stayed behind in Shizhen to raise his family.

On August 13, 1888, the eldest of Calixto's sons was born in Shizhen. This was Dee Ching Chuan (or Li Qingqian in Mandarin). His name literally meant "Plum-Pure-Spring." From an early age, Dee C. Chuan showed signs of a keen intelligence and a strong personality. His father decided to invest a good deal in his education, confident that he would be the Dee family leader in the next generation.

The young Dee went to a primary school in Shizhen village from 1896 to 1899. Then in 1900 to 1901, he attended the Tongwen College on Gulangyu island near Amoy, which was run by British consulate officials, to learn English. By then, the Philippines, where the Dees made their fortune, was run by the Americans, and the young Dee needed to become fluent in the new *lingua franca*.

In 1901, at the age of thirteen, Dee C. Chuan traveled to Manila to live with his father, helping him out at Chengmei Lumber and going to a local public school. But his stay there would be short. Soon, Calixto decided that the still nascent American colonial school system was not enough to meet his son's needs. Calixto's decision's set up the key event in his son's formation—his move to Hong Kong.

"I am sure that it was Dee's inspiration that led me to take such an interest in the science of money and banking...." —MIGUEL CUADERNO

THE RISE OF DEE C. CHUAN

In 1903, Calixto Dyyco sent his son to study at St. Joseph's College in Hong Kong. Established in 1875 by the La Salle Brothers, St. Joseph's was the oldest Catholic boys' secondary school in the Crown Colony. Its high standards and good reputation soon made it a leading school for the sons of rich businessmen not just from China but from all over Southeast Asia. The St. Joseph's campus was then located halfway up Victoria Peak, above the Central district, not far from the headquarters of the Hong Kong and Shanghai Bank.

Dee C. Chuan stayed in Hong Kong for three years, from 1903 to 1906. There, he became very fluent in English and comfortable working in a cosmopolitan world, moving from Western to Chinese thinking and back again quickly. This experience made him an ideal man to bridge the gaps between east and west back in Manila.

His years in Hong Kong made a deep impression on Dee C. Chuan. He lived in a city that had electrical power, a modern bank (HSBC), newspapers, telegrams, urban planning, and trams. Even then, HSBC, founded in 1876, had become so intertwined with the life of Hong Kong that the British expats referred to it as "The Bank." As an adult, Dee C. Chuan would strive to bring some of these Western innovations to Fujian and to Manila.

There in St. Joseph's, Dee C. Chuan became friends with his schoolmates, Central Bank governor-to-be Miguel Cuaderno; the future president of the Philippines, Manuel A. Roxas of Capiz; and Manuel Go Tianuy of Cebu, son of tycoon Pedro Gotiaoco and uncle of John Gokongwei. Dee and Miguel Cuaderno became particularly close. Whenever Cuaderno's allowance did not arrive in time, Dee lent him money. To make extra cash, Cuaderno also worked as an intern at HSBC, which gave him some familiarity with bank operations. The two young men promised each other that when they got back to Manila, they would each found a bank. And in time they did: Dee would build China Bank and Cuaderno, the Philippine Bank of Commerce. Cuaderno also became the first governor of the Central Bank of the Philippines.

Miguel Cuaderno later said: "I am sure that it was Dee's inspiration that led me to take such an interest in the science of money and banking that I finally succeeded in organizing the biggest bank in the country, the Central Bank, and in being elected in 1956-1957, chairman of the board of governors of the World Bank and the International Monetary Fund."

In 1906, at the age of eighteen, Dee C. Chuan returned to the Philippines to work for his father and uncle Dy Pac in Chengmei Lumber. He quickly gained the trust of his father and uncle and got their go-ahead to expand the business. Dee bought several acres of land on Juan Luna Street in Tondo to create room for expansion, and spent P120,000 for a new sawmill for this land.

The great fortune of Dee C. Chuan, on top of his natural intellectual gifts, was that he was born into a family that had already achieved considerable business success in Manila. Thus, instead of having to spend his youth working as an apprentice in someone else's business, as was customary for most Fujianese immigrants, Dee was able to get a good education abroad and then begin his business career with a broad outlook and considerable resources at an early age. Before reaching twenty, he was already making bold business moves. By his mid-twenties, he was already a man to reckon with in Manila.

Dee C. Chuan attended St. Joseph's College, the oldest Catholic boys' secondary school in Hong Kong. His schoolmates included Manuel Roxas and Miguel Cuaderno.

Hong Kong

Manuel Roxas

Miguel Cuaderno

The Manchu rulers of China ceded Hong Kong to the British Empire after the First Opium War (1839–1842). Originally confined to Hong Kong Island, the colony's boundaries were extended in stages to the Kowloon Peninsula and the New Territories by 1898. Hong Kong was (along with Japan) one of the very first places in Asia to industrialize and modernize. For their new colony, the crown jewel of their empire in Asia, the British brought in electrical power, a modern tram system, newspapers, modern schools, a legal system, and much more. The colony had a modern bank in 1864, an electrical utility in 1890, and its tram system by 1888. In Hong Kong, many of the most aggressive and entrepreneurial Chinese learned how to compete in the new business environment, working as *compradors* for the British business houses like Jardine Mathieson, or by trading with them. It was here that Dee C. Chuan learned that a Chinese businessman like Robert Hotung could compete in this new world. It was here that Dee became a cosmopolitan, speaking several languages and moving comfortably among different worlds. And it was here that he got the inspiration to found his own bank in Manila.

By the 1920s, Dee C. Chuan was very likely the biggest individual lumber entrepreneur in the Philippines. He was in control of two concession sites that engaged in logging and saw milling, a company that annually manufactured and distributed millions of board feet of timber and logs, and an inter-island shipping firm that primarily served his own companies.

This was because in 1908, confident in his son's business ability, Calixto Dyyco retired back to the family village in China. Dee C. Chuan took over the family business, Chengmei Lumber. Dy Pac stayed on in Manila, but deferred to his nephew as the new head of the family business.

Over the next twenty-four years, Dee C. Chuan pursued a consistent policy of creating backward integration from the family's original business of lumber distribution. The new land he acquired in Tondo gave him the venue to go into lumber processing and manufacturing. The new sawmill was in full operation by 1912. Then he started acquiring existing logging companies to supply him with raw material, several ships to transport his lumber, and logging concessions in Negros and Camarines Sur to provide him with even more economies of scale. Soon he was the biggest lumber and logging magnate in the country, selling tens of millions of board feet of timber, logs, and wood products every year. He owned and ran Negros Philippines Lumber Company, Singbe Transportation Company, Dee C. Chuan and Sons, and Philippine Lumber Manufacturing Company, among other companies.

The Philippine "Lumber King" was not an imposing figure—he was 5'4" with a medium build. His fast rise in business would have created some tensions in Binondo's close-knit community if he had been brash and arrogant, but Dee had a genial, low-key personality that drew respect. When asked about his success, he was self-effacing. Dee said of himself: "I have no superior talents, but I am willing to think. Where there is one problem, I will think of it very carefully from one angle and then another, and then delve into it more deeply." He spoke Hokkien, English, Tagalog, and some Cantonese, which enabled him to move easily from one ethnic community to another. He did not gamble and lived a disciplined life.

Dee grew his lumber business with the support of his clan. In the 1920s, his younger brothers Dee Hong Lue and Dee K. Chiong (born 1912) joined him in Manila and entered the lumber business themselves. Dee's cousin and good friend Lee Thay Tay operated a sawmill on Teodora Alonzo St., Manila, which his son Lee Tek Hong expanded, giving the Dee lumber interests even more wood processing capacity. He married a Fujianese girl, Gan Tiak, in 1910. He and Gan Tiak had eight children; their oldest sons George Dee Se Kiat (born 1911) and Robert Dee Se Wee were expected to join and eventually run the family businesses.

But unlike many Chinese businessmen, Dee was willing to delegate many operational decisions in his lumber businesses to trusted confederates outside the family, such as the veteran American lumberman William W. Harris, as well as his righthand man, Francisco Go Chuico. Dee was a Chinese nationalist who believed in his people's potential, but he would readily recognize and reward a Westerner like Harris with the skills to contribute to his business. Harris was entrusted with running Dee's Negros lumber business for over two decades.

Dee's success owed to a number of factors—among them his skill in acquisitions, his interpersonal skills, and his vision in going for backward integration. But the other key move was his decision to conquer the export market, particularly the US, which at that time was beginning to rely a good deal on Philippine lumber, and also the Chinese market. The move into the American market expanded his earning potential and gave him a hedge against any downturn in the local construction demand. By 1921, a single lumber firm of Dee C. Chuan sold 5 million board feet to the US market, and had the potential

Dee C. Chuan donated schools to his home village of Shizhen: the Chengmei School for Boys and the Yude School for Girls. His family elders had earlier donated to the Longmen School in Shizhen.

to produce over 20 million board feet a year. The unassuming immigrant now had a truly international scope, and the resources and sales potential for a lasting business empire.

Within a dozen years after starting his career, Dee C. Chuan had grown so big and so prominent that by the time he turned thirty, the Chinese community called upon him to take on a role in an arena bigger than lumber.

FOUNDING THE BANK

To represent their interests to the new colonial power, the leading Chinese businessmen in Manila created in 1904 the Philippine Chinese General Chamber of Commerce (PCGCC). In its early years, 1904 to 1918, it was led by a small group of senior businessmen—primarily Benito Siy Cong Bieng (elected its head for nine terms between 1907 and 1916), Guillermo Cu Unjieng (its head for five terms), Yu Biao Son Tua, Rafael Gotauco, and others.

But in June 1919, a generational shift in PCGCC leadership began, to a new generation that was younger by twenty years or more than the generation of Siy Cong Bieng and Cu Unjieng. Dee C. Chuan was elected president of the PCGCC at the age of thirty-one. For the senior businessmen like Cu Unjieng, Palanca, and Siy Cong Bieng, all born in the 1860s, to be willing to turn over the organization to a man who was over twenty years younger seems remarkable. But they had spent their youth and young manhood working in a Spanish-run Manila, and Manila was rapidly becoming vastly different. The new educational system introduced by the Thomasites would soon create another kind of English-speaking culture. The Filipino political elite had already transitioned from the revolutionary leadership generation of Emilio Aguinaldo to a younger generation that was decades younger. The elite were now headed by young men in their forties like Manuel Quezon and Sergio Osmeña. The Binondo leaders like Palanca

"This Bank believes that there is ample room for Chinese merchants and others engaged in business pursuits to be represented in a cooperative and constructive way by a bank that shall minister understandingly to their credit requirements." —DEE C. CHUAN

and Siy must have seen that for the Chinese community to deal effectively with the American colonizers and the Filipino political elite, they needed younger men to speak for them—men comfortable in English and working in a cosmopolitan, polyglot world. Of these younger men, the best and most capable was Dee C. Chuan.

Even as he rose to the top of the Binondo business community, Dee remained respectful of his three most prominent elders in the community. He said: "In matters of wealth, I am not comparable to Cu Unjieng, nor with Siy Cong Bieng and Carlos Palanca in judgement and decision. But these elders placed much confidence in me and wanted me to do something for the [Chinese] community."

After 1919, the Chinese Chamber leadership shifted to a younger group of men in their thirties and forties: Dee C. Chuan, his brother Dee Hong Lue, Uy Yetco, Alfonso and Albino SyCip, Uy Cho Yee, Eduardo Co Seteng, and others. Of these men, Dee was the pivotal figure. He founded two Chinese newspapers (the *Chinese Commercial News* and the *Fookien Times)*, fought legal and informal discrimination against the Chinese, and built up close personal ties with both Manuel Quezon and Sergio Osmeña. For the next twenty-one years, Dee was seen as the paramount Chinese community leader.

Soon after his election, Dee began discussions with the other top businessmen in Chinatown for organizing a bank for Chinese businessmen—his dream since his Hong Kong student days with Miguel Cuaderno. Dee knew that the lack of bank financing would strangle many Chinese entrepreneurs' dreams of participating in the ongoing Philippine export boom. Dee himself was already exporting lumber to the US and had sufficient financial wherewithal to supply all his needs. But others in Binondo were not so fortunate. Dee also knew that during this period, the Chinese in other Southeast Asian colonies like Singapore, Malaya, and the Dutch East Indies were putting up many banks to serve their needs. Thus, the top Chinese entrepreneurs in these colonies like Tan Kah Kee and Lim Boon Keng were able to join in and profit immensely from the export boom in products like rubber and tin.

To form a Chinese bank in Manila, Dee faced two key problems: mobilizing the necessary capital, which he estimated to be around P5 million, and acquiring banking expertise. Mobilizing the capital to start the bank was the bigger problem. Most of the big Chinese businessmen in Manila were in retail, import-export, and trading, and did not have a lot of free capital not already invested in their businesses. Only a few of the very richest men, such as Guillermo Cu Unjieng in Manila and Pedro Gotiaoco in Cebu, had enough free cash to provide financing to other businessmen in terms of surety bonds and loans. Without enough capital, the new bank Dee envisioned would be unable to carry out its mission.

Fortunately, during a recent trip to Fujian, Dee had met an Indonesian Chinese businessman named Huang Yizhu (黄奕住 or Oei Ik Tjoe). Huang became the catalyst for the creation of China Bank. He was a very rich sugar trader from Fujian who spent three decades earning his fortune in Java. He began his working life as a barber and by hard work became a millionaire. After he accumulated a fortune of about 20 million yuan, Huang retired from the Java sugar trade and returned to Xiamen sometime after 1911, looking for future business prospects. Huang soon bought the Xiamen Telephone Company and set up the local water utility in Xiamen. Even after these acquisitions, and the building of several fine mansions, Huang still had millions left over to invest.


紀念冥壽一百週年
李清泉先生精神永垂不朽
A TRIBUTE TO
Mr. DEE C. CHUAN
100th Birth Anniversary
The Spirit of Entrepreneurship Lives On
中興銀行
China Banking Corporation

The *Chinese Commercial News* was established in October 1919 as the monthly newsletter of PCGCC under the presidency of Dee C. Chuan, with the objective of keeping Chinese businessmen up-to-date regarding the trends of the marketplace.

One day, while riding the train from Beijing to Shanghai, Huang Yizhu met Hu Bijiang (1888-1938), a former branch manager of the Bank of Communications. The Bank of Communications (交通银行 or Jiatong Yin Hang) was one of the first Chinese banks. It was founded in 1908, emerged as one of the first few major national and note-issuing banks in the early days of the Republic of China. It was chartered as "the Bank for developing the country's industries." At that meeting, Hu, who had recently left the Bank of Communications, proposed that Huang establish his own bank in China that would specialize in overseas Chinese businesses and foreign remittance. Huang agreed. Hu Bijiang became the general manager of the bank that Huang eventually set up in Shanghai in 1921, the China and South Sea Bank (中南銀行). Huang owned most of the shares, and he tapped additional capital from a fellow Fujianese millionaire from Java, Xu Jingren (徐靜仁). Even this investment took up only around 15% of his capital, so Huang still had millions in yuan left over. And this was where Dee C. Chuan came in.

Sometime between 1913 and 1919, Dee C. Chuan met Huang Yizhu during a visit to Xiamen. The two became good friends. After Dee became president of the Chinese Chamber, he contacted Huang, who agreed to support Dee's dream of a new bank in Manila. Huang became the equivalent of an "angel investor" for China Bank. Huang put in P1 million, bought 20% of the shares and took a board seat, but did not interfere with operations. He left the bank's affairs largely to his two sons Oei Yok Tjing (Oei Yok Cheng) and Oei Yok Kie, as well as his

Carlos Palanca

Guillermo Cu Unjieng

The Taipans of 1920

To be credible to the Chinese community, the new bank had to include in its board the top taipans of their day: Guillermo Cu Unjieng, Carlos Palanca, and Benito Siy Cong Bieng. The three tycoons had come from humble beginnings. Palanca (Tan Guin Lay) immigrated to the Philippines in 1884 and worked as an apprentice at a relative's hardware business for six years. He opened his own store in 1890 and then became a huge success in the distillery business. Siy arrived in Manila in 1886 at the age of eighteen; he worked at his brother's store. Eventually he started his own grocery on Santo Cristo St. and then put up a big import-export firm, Siy Cong Bieng and Company. Cu Unjieng also worked as a store apprentice, but by saving his earnings, he was able to put up his own textile firm, Cu Unjieng and Company. Soon, he was engaged in rice imports, commodity exports, foreign exchange, and remittances. By 1920, at the age of eighteen, Cu Unjieng amassed a personal fortune of P10 million. These were the men that Dee needed to help him put up China Bank.

Dee C. Chuan, second from right, enjoying an evening with friends at his home in Manila.

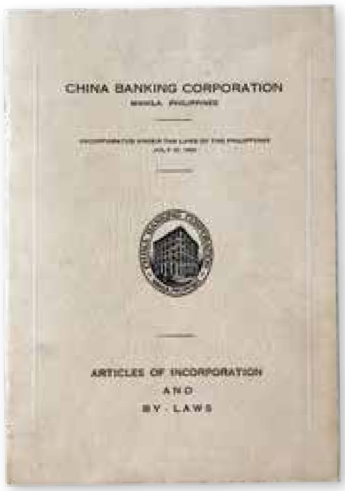
son-in-law Lee Siau Tong. He focused on his businesses in China. Lee Siau Tong, a skilled forex operator honed in the financial markets of Shanghai, ran the foreign department of China Bank for many years.

Huang's investment of P1 million created a wave of confidence in the Binondo business circle that the new bank would become a reality. Dee assembled a group of ten Chinese from Manila to provide the rest of the capital and form the board, along with himself and Huang: Guillermo Cu Unjieng, Benito Siy Cong Bieng, Carlos Palanca, Albino SyCip, Go Jocco, Uy Yetco, Antonio MH Limgenco, Yu Biao Son Tua, Vicente Gotamco, and Dy Buncio. Dee chose the new bank's board to give a broad representation of the various industries that the Chinese were engaged in. These included: alcohol and distillery, Palanca; lumber, Dee; trading and general merchandise, Siy Cong Bieng, Yu Biao Son Tua; hardware, Uy Yetco; textiles, Go Jocco; dry goods, Guillermo Cu Unjieng; lumber, Gotamco; tobacco, Limgenco.

On December 19, 1919 (as we have seen at the beginning of this chapter) these eleven men met at the Oriental Club and agreed to form the China Banking Corporation. Its Chinese name is Zhong Xing Yin Hang (literally, "China Prosper Bank"). In Hokkien, it is Tiong Hieng Gun Hang. Yin hang is the Chinese term for bank—meaning, literally, "silver institution."

At incorporation in 1920, China Bank had an authorized capital of P10 million—of which P5,106,400 were subscribed by around 500 Chinese businessmen—with paid-up capital of P2,579,800. By 1924, its paid-up capital more than doubled to P5.713 million and remained at that level for decades, until 1957. By October 1937, China Bank was 91% owned by Chinese, with the remaining 9% owned by Filipinos, Americans, and other nationals. Dee himself owned about 7% of the shares of the Bank.

Dee foresaw a bank with a mixture of cultures and banking practices that merged Western and Eastern approaches. Just as Dee had hired and trusted an American, William Harris, with his lumber business, he acknowledged the need to hire American financial expertise for his new bank. He hired Henry J. Belden, a bank executive who had come over from New York to help establish the PNB in 1916, to manage the start-up process and organization of China Bank. But Belden declined to be the first China Bank general manager because of an offer to run the local office of Morgan Guaranty. (Belden would eventually become president of the Mercantile Bank of China, a top executive of People's Bank and Trust, and then the Manila branch of AG&P.) Belden's assistant, however, J.W. McFarren, accepted the position and became the first China Bank GM from 1920 to 1922. In 1922, Eugene E. Wing, formerly an executive with the Citibank subsidiary, International Banking Corporation, took over the GM position from McFarren; Wing managed China Bank's operations until 1936.



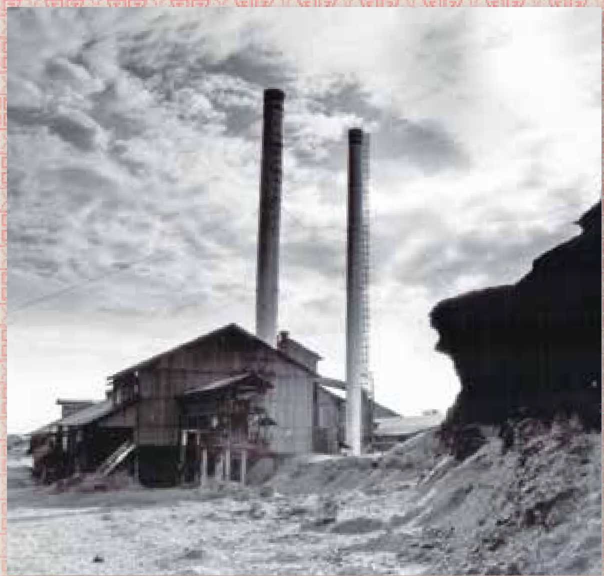
China Bank was incorporated on July 19, 1920 with an authorized capital of P10 million.

OPEN FOR BUSINESS

On August 16, 1920, China Bank opened for business at No. 90 Calle Rosario (now Quintin Paredes Street) Binondo, Manila. Dee C. Chuan made sure that the Bank's first print advertisement announced: "This bank is entering the local financial field of commercial banking because it believes that there is ample room for Chinese merchants and others engaged in business pursuits to be represented in a cooperative and constructive way by a bank that shall minister understandingly to their credit requirements."

Having established the Bank, Dee C. Chuan was content to have its operations run on his behalf by Eugene Wing and later, Albino SyCip. He was not a banker and he valued the operational rigor that men like McFarren and Wing brought in and taught to the young China Bankers. Dee also brought into the Bank some Chinese professionals who had been trained in international banks in Shanghai, such as T. Sheng Wang and Dong Pao Loh. China Bank also formed correspondent relationships with some of the top banks in mainland China, such as Bank of China and the Shanghai Commercial Bank. By these methods, he established a bank that lived up to international standards.

But Eugene Wing could not speak any form of Chinese and was not equipped to judge a Chinese loan applicant's *xinyong*. He wasn't part of the culture. Most of China Bank's clients did not have the extensive financial records that would be required by a Citibank or HSBC. Thus, Wing was authorized to grant loans only up to P25,000. The board approved all loans in excess of P25,000. It was at the board level that the special Chinese character of the bank emerged.



An old sugar mill in the Philippines

Spotting entrepreneurs on the rise

By providing millions in financing to many aspiring entrepreneurs, China Bank provided a springboard to success for many of the big tycoons of today. The first big loans to the Sy, Gokongwei, and Cojuangco families came from China Bank. For instance, the Cojuangco family's first sugar mill was financed by a 1927 loan from China Bank. Still many more fortunes were made by other families, both Chinese and non-Chinese, who were perhaps not as famous as others, but whose companies were substantial nonetheless; these families also relied on China Bank for financing. Over the decades, China Bank demonstrated a gift for spotting the talented young entrepreneur on the rise, providing him with resources to boost his ascent.

"I have no superior talents, but I am willing to think. Where there is one problem, I will think of it very carefully from one angle and then another, and then delve into it more deeply." —DEE C. CHUAN

Dee C. Chuan with his wife, Gan Tiak.

China Bank's eleven-man board of directors collectively set policies and made the big decisions, following the recommendations of the three standing committees on administration, appraisement, and loans. Loan discussions at the board level often revolved around one board member asking another, "Do you know this man? Will you vouch for him and his business?" Following traditional Chinese practice, a businessman's personal ties and the Chinese community's assessment of his *xinyong* were crucial in accessing loans.

Being among the most prominent members of a tightly-knit community, the China Bank board members either knew a loan applicant directly or else had easy access to trusted confidants who did, and could therefore supply them with detailed information about the applicant.

The board scrutinized not just an applicant's financial information, but also his character —if he gambled, drank heavily, had a second or even third family, or had other personal liabilities that could possibly affect the viability of his business and hence his ability to repay a loan. A simple way of putting it was that China Bank saw itself lending not to a company but to a person, and that person's character was his paramount asset. The Binondo proverb remained the touchstone: *"Seng-li ke si tsue hia-e lang"* (All business operate through just one man). As one source puts it: "In approving loans, the board of directors bases its decision upon the integrity, responsibility, and financial reputation of the borrowers."

But the Bank also brought in a Western approach for dealing with loan applications. The Chinese historian Wong Kwok-Chu in his book *The Chinese in The Philippine Economy: 1898-1941*, wrote: "[The CBC directors] were nonetheless strict in demanding from others collateral for loans. They seldom granted clean, or unsecured credit facilities, and if they did, they demanded personal and third-party guarantees. When the Philippine Chinese Charity Association sought a loan of P15,000, all of its fifteen directors were involved in the written guarantee. As a general rule, credit facilities granted to clients required not only promissory notes cosigned by the borrowers, but also solid securities like share certificates, real estate, and insurance bonds. [CBC director] Go Jocco's credit facilities, for instance, were

In 1926, when he was already a successful timber baron, Dee C. Chuan built his mansion, a three-storey neoclassical villa, in Gulangyu, Xiamen—an international settlement set up in the Treaty Port era.

On this island, one would find foreign consulates, the grand houses of foreigners and of rich overseas Chinese who made their wealth in Southeast Asia. The mansion is featured in Ronald G. Knapp's *Chinese Houses of Southeast Asia*.

Gan Tiak with Helen Bau SyCip, wife of Albino SyCip.

guaranteed by personal signatures and real estate mortgages. . . . These and many other similar cases attested to CBC's strict approach in seeking adequate collateral of approximate value for loans and overdraft accounts from its clients."

Wong added: "In demanding collateral from even the most trusted clients, CBC was in reality managing fairly successfully the transition from relying predominantly on personalized *xinyong* patterns to the more impersonal and government-regulated world of modern finance."

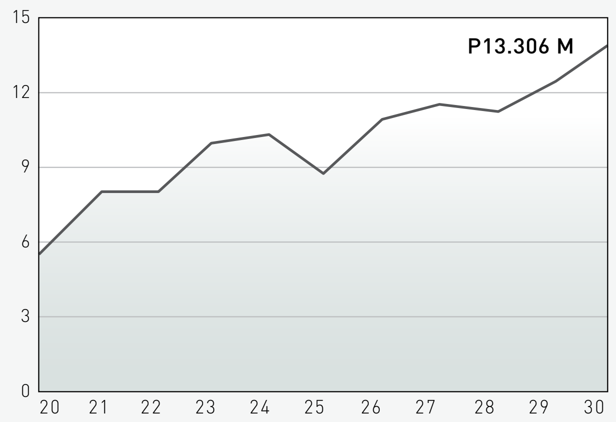
In addition, to make sure all bank transactions were aboveboard, the board also appointed two "inspectors" who functioned as auditors. These inspectors, such as Li Seng Giap, Siy Chong Fu, Yap Tian Sang, and Yu Khe Thai, were all leading businessmen with considerable savvy. Siy Chong Fu had a Ph.D. in economics from Columbia University and Yu Khe Thai was one of the country's biggest hardware and automotive tycoons. The inspectors were authorized to look into anything that aroused their curiousity and verify that the bank was carrying out its fiduciary responsibilities properly.

Even here, though, a Chinese, personalistic approach can also be seen—in that the inspectors were not outsiders to the world of Binondo and the Bank; they weren't brought in from a British audit firm like Fleming & Williamson or Hunter & Bayne, which then dominated the prewar audit business in Manila. The inspectors were either related to the board members or were their very close friends. Siy Chong Fu was the nephew of Benito Siy Cong Bieng and Yu Khe Thai was a very good friend of both Dee C. Chuan and Albino SyCip; three of his daughters eventually married sons of Dee and SyCip. "Inspector" was a position of great delicacy, and the board preferred to entrust it to people they knew very well.

With its combination of modern organization and practices, and an in-depth understanding of the way Chinese-Filipino businessmen did business, China Bank steadily grew and flourished. By the end of 1920, after less than five months of operations, the Bank had P9.745 million in resources and P5.32 million in deposits. By 1930, China Bank had P20.291 million in resources and P13.306 million in deposits. By 1940, it had P31.77 million in resources and P21.566 million in deposits. It was by then one of the country's biggest banks, a powerful magnet for the deposits of Chinese businessmen, and their bank of choice for loans and letters of credit.

Dee didn't live a long life, but he lived long enough to see China Bank fulfill his dream.

CHINA BANK DEPOSITS
1920-1930
In Million Pesos



Dee C. Chuan with his family in China in 1930.

Gan Tiak with some of her children: Edward, Grace, Henry, and Herbert

Gan Tiak

Sisters Gan Tiak (standing) and Gan Suat

CHAPTER 2

Setting the Values 1924-1940

Albino SyCip helps to lead the Bank for over four decades, and sets the corporate DNA of China Bank—its values, vision, and way of dealing with clients.

A serious and formal man who usually started his work day at 7:30 a.m. , Don Albino Z. SyCip, co-founder of China Bank and also known as the "Dean of Philippine Banking," operated China Bank in the same manner as he walked—carefully and steadily.

Albino SyCip was known as “the dean of Philippine banking”—the man who personified the values of the ideal banker.

In 1924, two key events in the life of the Bank occurred. First, China Bank moved to new premises on Dasmariñas St., just around the corner from its first home on Rosario St. The Bank had grown so quickly in just four years that it now needed its own building—a seven-story neoclassical edifice that is still its Binondo headquarters today.

But the more important event was the second one—the entry of a new figure into full-time management of the Bank. In 1924, the Bank’s board persuaded founding director Albino SyCip, then only thirty-five, to cut back on his flourishing law practice and join the Bank as vice president. Albino initially focused on client relations and personnel matters, but eventually he became involved in all aspects of bank operations—especially after Eugene Wing resigned as GM in 1936. Albino would remain at the Bank for fifty-three years, rising to become president and chairman. He resigned in 1977 at the age of eighty-nine because of ill health. Because he ran the Bank for so long and was so influential in the development of several generations of young China Bankers, Albino SyCip was the man who more than anyone else set the Bank’s culture—its corporate DNA, so to speak. Even more than Dee C. Chuan, Albino SyCip put the stamp of his own personality on the China Bank way of operating.

At first glance, the Michigan-trained lawyer seemed like a counter-intuitive choice for running the Bank. Albino had no training in finance or accounting. He wasn't a visionary businessman on the same scale as a Benito Siy Cong Bieng or Dee C. Chuan. But he had other—and in the long run, more important—traits. He had an uncompromising integrity and a keen mind, and he always put the welfare of the Bank first, even above his own. In difficult times, he kept calm and focused, and in good times, he continually pushed the Bank to innovate and become even better. Albino was a child of the 1880s, when Binondo was lit by kerosene lamps, but nonetheless, he was a progressive force in the Bank. He pushed for the introduction of the first IBM mainframe computer and online operations to Philippine banking in 1967. A man from a horse-drawn era brought the Bank into the digital age.

By the 1960s, Albino was commonly referred to in the industry as "the dean of Philippine banking"—the man who personified the values of the ideal banker.

"BIN-LO"

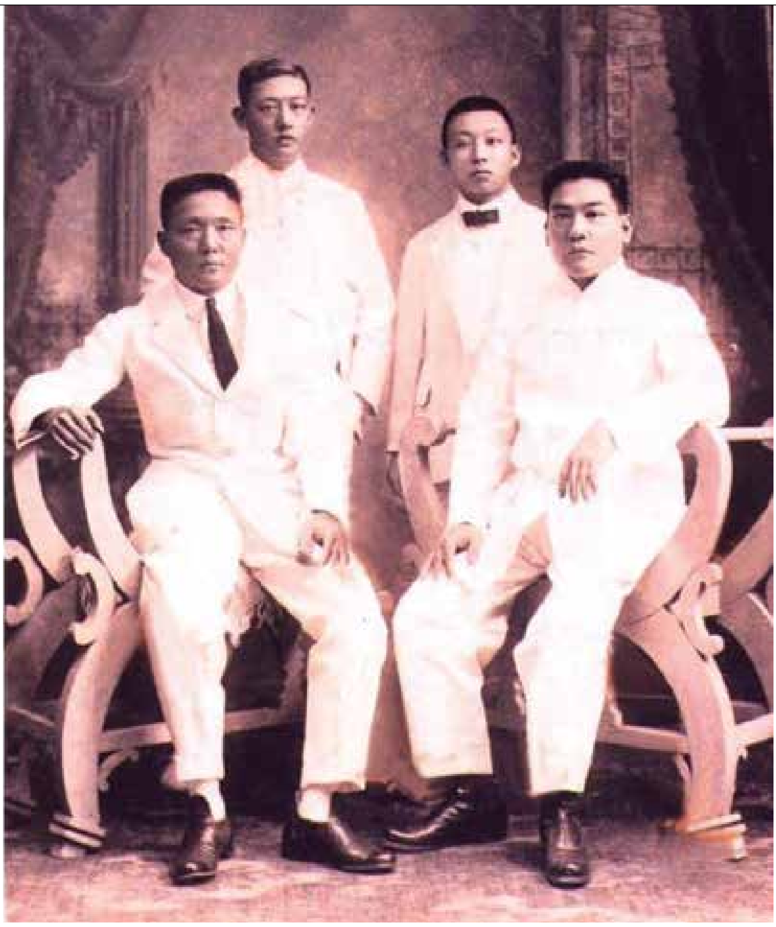
Albino SyCip was born in Binondo on December 17, 1887, to Sy Ching Cip (Jose Zarate SyCip) and his wife Yu Lan. In Mandarin, his name was Xue Min Lao, or Sy Bin Lo in Hokkien. Thus he was called "Bino" or "Bin-lo" by his Chinese friends.

Albino's father, Jose Zarate SyCip, was born in the early 1850s in Jinjiang county, Fujian, and arrived in Manila in the late 1860s, at the age of fourteen. He worked hard and saved up money to start his own trading businesses in Binondo. In Manila, Sy Ching Cip acquired Spanish citizenship and was baptized Jose Zarate SyCip. He took on the middle name Zarate—apparently to honor the Spaniard who was his baptismal godfather. (Even Jose's grandson Washington SyCip used Zarate as a middle name—even though his actual middle name was Bau.)

By the 1880s, Jose had grown rich from trading in Manila. His wife, Yu Lan, put up her own cigar and cigarette factory. They owned vast tracts of land in the Cagayan Valley, a distillery in Hagonoy, Bulacan, and a 472-hectare sugar plantation in Manjuyod, Negros Occidental. The SyCip plantation remained in the family until they gave it up for land reform in 2000.

Jose SyCip and Yu Lan had six sons—of whom, four, Eusebio, Policarpio, Alfonso (1883-1969), and Albino (1887-1978), lived to adulthood. They also had two daughters—Unchong SyCip Lin and Felisa SyCip Godinez.

Of their children, Albino and his older brother Alfonso became the most prominent in Philippine business. Alfonso SyCip (who was Xue Fen Shi in Mandarin or Sy Pun Su in Hokkien) was the right-hand man of Benito Siy Cong Bieng and helped him build his companies into some of the country's largest. The Siy companies prospered throughout Alfonso's



The SyCip brothers: (From left) Eusebio, Alfonso, Albino, and Policarpio.

stint with them. When Benito died in 1926, Alfonso stayed on briefly to help his sons, but he moved on in 1928 to Yek Hua Trading Corporation, which he and his brother owned. (In his absence, the Siy companies soon fell into decline.) With his brother preoccupied with the Bank, Alfonso became president of Yek Hua and he expanded its operations into Cebu, Iloilo, Xiamen, and Shanghai. Alfonso was elected chairman of the Philippine Chinese General Chamber of Commerce for several years between 1934 and 1941. He was also a China Bank director for many years.

His younger brother Albino's intellectual gifts were apparent even at an early age. A Methodist missionary, Rev. Ernest Lyons, who tutored Albino in English, spotted his talent and helped him get a high school scholarship in Ann Arbor, Michigan. He left Manila in 1905 at the age of seventeen, and in 1908, Albino graduated from Ann Arbor High School as valedictorian. Initially, Albino intended to become a doctor, but his first trip to the anatomy room at a medical school changed his mind. Too squeamish for medicine, Albino decided instead on a career in law. He went to the University of Michigan Law School, where he was a member of the *Law Journal* and a top debater.

In 1912, Albino graduated from the University of Michigan with honors. At this point, he was given by one of his professors a letter of introduction to the prominent Manila judge Clyde DeWitt, later the founder of the big law firm DeWitt Perkins Ponce Enrile (of which the founding Filipino partner was Alfonso Ponce Enrile, father of former Senate president Juan Ponce Enrile). But DeWitt was an examiner for the Manila bar exams in 1913, so, in an early display of his character, Albino delayed introducing himself to DeWitt until after the bar exams were over.

On the way home to Manila via steamship, Albino met Helen Bau Vonglin, who just graduated with an A.B. in music from the Conservatory at Oberlin College in Ohio. Her father's family, the Baus, was the founder and owner of the *Chinese Commercial Press*, the biggest publisher in China. Since the voyage home by ship from Los Angeles to Manila took four weeks, Albino and Helen had time to get to know one another. They eventually got married in 1916 and had five children: David, Alexander, Washington, Elizabeth, and Paz.

Once back in Manila, Albino took bar review classes under Jorge Bocobo and then at night tutored a dozen Chinese students in English for income. When the results came out, Albino SyCip had topped the March 1913 bar examinations. He was a total unknown in Manila law circles, but he bested 117 other men, including his bar reviewer Jorge Bocobo, the future senator Francisco Delgado, and his own tutor, Ernest Lyons. Albino was the first Chinese-Filipino lawyer. This triumph launched him into instant prominence. In Philippine society, the bar topnotchers are expected to have brilliant careers in law or politics. The bar exam batch of 1914, for instance, included among its topnotchers Claro Recto, Jorge Vargas, Jose Yulo, and Benigno Aquino Sr.

Albino joined the prominent law firm of Edward Williams and practiced civil, criminal, and corporate law for the next eleven years. He also became the preferred corporate lawyer for big Chinese firms like Yu Khe Thai's Yutivo and Sons Hardware, which trusted a fellow Chinese more readily than they would a big-time American lawyer. Albino became one of Yutivo's founders and incorporators, because Yu Khe Thai liked and trusted him.

Edward Williams moved back to the US in 1920, so the partnership was dissolved. Albino built up his own flourishing practice and also set up SyCip, Hanson and Winkle, a trading firm. In 1928, the company would be reorganized into Yek Hua Trading, co-owned and run by Albino and Alfonso.

Soon after passing the bar, Albino SyCip met Dee C. Chuan for the first time. The men were two of a kind—forward-looking young Chinese men trained abroad who wanted to help their community adjust and thrive in this brave new world. The two men become good friends. It became logical for Dee to invite his friend to join the founding board of the new bank in 1919. The Dee-SyCip tie grew even deeper when Dee's oldest son, George, married Alfonso SyCip's daughter Mary in 1935.

Like Dee C. Chuan, Albino saw himself as someone who could bridge different worlds. His Michigan training combined with his Fujianese background made him a credible interlocutor whether he was dealing with a Senate president, an American governor-general, or a shopkeeper from Roman Ongpin St. He joined both the all-Chinese Oriental Club and the Wack Wack Golf Club, a club for rich Americans and Filipinos, and felt perfectly comfortable in both.

Albino chose not to live with his fellow Chinese in Binondo or Sta. Cruz, and instead established his home in the suburb of Sta. Mesa. Moreover, in his home, English was the medium of communication. This was the language in which Albino and Helen first communicated; their dialects, Hokkien (Fujianese) and Shanghainese, were mutually unintelligible. So his five children grew up most comfortable in English.

Albino SyCip insisted that his children be educated not in the Chinese-language schools preferred by many Manila

"My father always told us when we were children, 'I don't want any of you in China Bank. If you do well, and I promote you, they would say it is nepotism. That embarrasses me. But if you do not do well, it embarrasses me even more.'" —WASHINGTON SYCIP

Chinese or in the private schools such as the Ateneo de Manila preferred by elite Filipinos, but in the American colony's public schools. Albino told his sons: "We're all going to be living here; we should get to know the people here." So young Washington and his older brothers, David and Alex, went to Burgos Elementary School and V. Mapa High School, where most of their classmates were ethnic Filipinos.

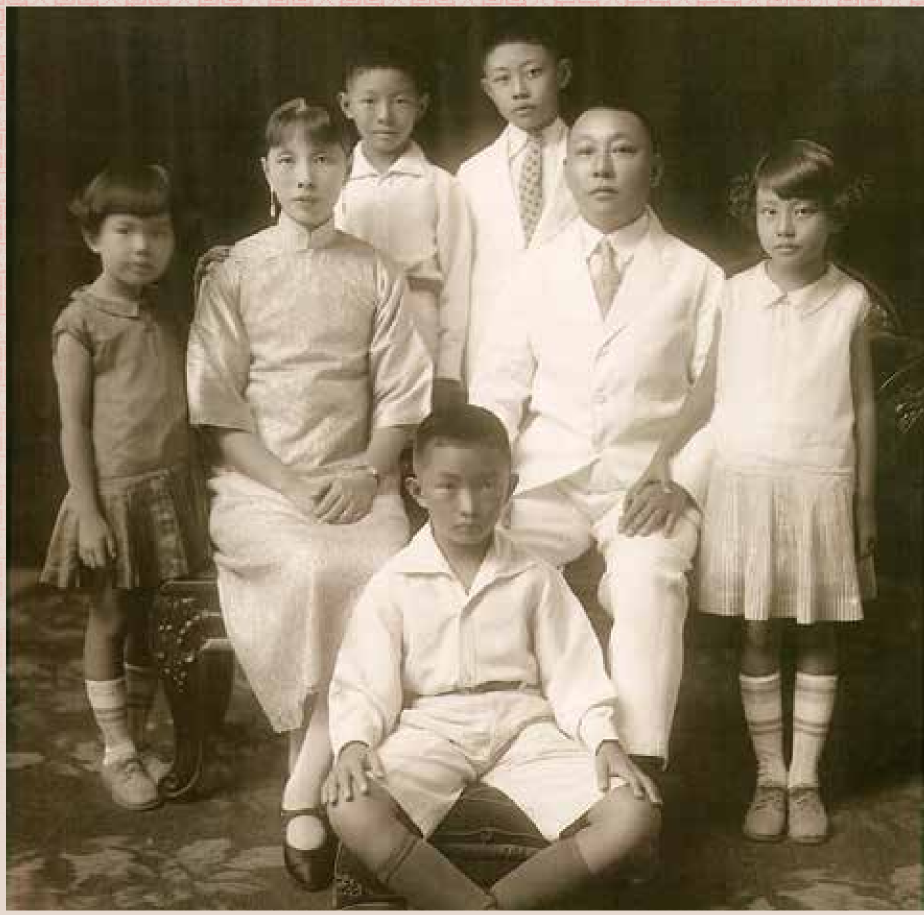
Wash said: "My father said that we should not only know the ethnic Chinese or the upper income group—which is the group we would get to know if we went to La Salle or Ateneo . . . .The SyCip family—meaning me, my two brothers and two sisters—we very quickly integrated into Philippine society, which many of the ethnic Chinese families have not done."

Albino was a wealthy man who could afford to have his sons chauffered around Manila, but David, Alex, and Wash took public transportation such as the Meralco buses to get to school. Sometimes they would walk part of the way, taking a short cut across some big water pipes that crossed the Pasig River at Mendiola. Wash said: "He would not take us to school in his car, because the average student at that time had no car in his family. So he would tell us that if we would arrive at school in cars and the other students had none, we might feel superior to them."

Albino had received much of his education in Methodist schools and baptized his children as Presbyterians, but he was not a doctrinaire Christian. The Bible was read aloud at home every evening, and the SyCip children went to church occasionally with their mother. But Albino SyCip preferred to spend his Sundays on the golf course. He said: "On Sunday, it is better to be on the golf course thinking of God, than in church thinking of the golf course." Wash SyCip said: "You might say that we were Christians, but that we were not church-going Christians." Albino was a devoted golfer who despite his diminutive frame managed to score several holes-in-one during his long golfing career. He would joke that he could drive the ball very straight because he liked to live a straight life.

Wash recalled that whenever ethical principles were concerned, the elder SyCip "was always very, very strong: 'You have to do what is right,' he would say. " Albino SyCip's favorite maxim was from the Bible: *Do unto others as you would have them do unto you.* Albino printed and distributed to clients and friends thousands of small cards bearing the Golden Rule and its equivalents from Islam, Confucianism, and other religions.

In a speech in 1965, Albino said: "I am not a philosopher nor a scholar nor a religionist. I have, however, in my fumbling and limited way, tried to call attention to and to practice, however imperfectly, Jesus' teaching that *'Thou shalt love thy neighbor as thyself.'* I believe with all my heart and all my mind that this principle, the Golden Rule, if applied in individual relations as well as in the relations of societies and of nations, is the one



Albino and Helen SyCip with their children. Standing from left are Paz, Alex, David, and Elizabeth. Seated in front is Washington.

Albino as family man

To his children, Albino was a strict but affectionate father. He stressed the importance of academic achievement and the need to learn the true value of money. He was willing to spend considerable sums for their education—even sending several of them abroad to universities like Columbia for further schooling. But he wanted his children to make their own way in the world. In the early 1930s, his children began to enter college and decide on careers. Several of them, like David, Washington, and Elizabeth, were mathematically gifted, and were logical candidates for a banking career. But Albino told them to stay away from China Bank.

Wash recalled: "My father always told us when we were children, 'I don't want any of you in China Bank. I do not own the Bank. I am only one of the shareholders. If you do well and I promote you, they would say it is nepotism. That embarrasses me. But if you do not do well, it embarrasses me even more.' So he said that we should keep out of the Bank."

Albino felt that he should set an example for his partners in the Bank and make the point that leadership in the Bank, especially at the very top, had to be earned. It was not a birthright. Wash, in particular, took his father's lesson to heart; when he founded and built up his own firm, SyCip Gorres and Velayo (SGV), he told his children that none of them could join the accounting firm.

On June 7, 1926, the US Supreme Court headed by Chief Justice William Howard Taft (opposite page, below) ruled that the Bookkeeping Law was unconstitutional. This was a triumph for Albino SyCip who was the key strategist in working against the said law. The law made it unlawful for any person or corporation to keep its account books in a language other than Spanish, English or a local Philippine dialect.

effective antidote to the moral degeneration amongst men and therefore among nations. For the love that Jesus taught makes of all men one family. It recognizes no distinction; it is an absolute injunction. It is deceptively simple but it is rich and deep in meaning. A man who loves his neighbor—and everyone is his neighbor—looks not at the other's skin, his station in life, his political beliefs or his religious creed. He believes in the Fatherhood of God and the brotherhood of men."

ALBINO'S CONVICTIONS

Yet, Albino's religious beliefs, as idealistic as they sounded, could not be called fuzzy, feel-good, or weak. He knew how to fight for what he believed in, and he would persevere and make his way past every obstacle—regardless of whether his opponent was the Philippine legislature, the Kempeitai, or even the total liquidation of China Bank.

Albino made his reputation as a national figure with one such battle—the five-year struggle against the Bookkeeping Law. In early 1921, the Philippine legislature passed this law, Act No. 2972, which read in part: "It shall be unlawful for any person, company, or partnership or corporation engaged in commerce, industry or any other activity for the purpose of profit in the Philippine Islands, in accordance with existing law, to keep its account books in any language other than English, Spanish or any local dialect." The colonial government felt compelled to do this because the local Chinese kept their books in a language that its internal revenue agents couldn't understand and therefore they had difficulty ascertaining if the correct taxes were being paid.

But the Chinese-Filipino community reacted very strongly against the Bookkeeping Law, because if it was carried out, many Chinese merchants would be forced to keep books in a language that *they* didn't understand. They would be unable to keep track of the condition of their businesses; an unscrupulous bookkeeper or shop assistant could rob them blind.

As head of the PCGCC, Dee C. Chuan mobilized a massive effort to repeal the law, aided primarily by Albino SyCip as the chief legal strategist. Albino began strenuous lobbying efforts in both Manila and Washington. During the fight over the law, Albino's good friend Dean Conrado Benitez criticized him in a newspaper article. Benitez believed that as a Filipino citizen, SyCip's first obligation was to the Philippines and its interests, not to the affected Chinese merchants who were predominantly not citizens of the colony. Albino replied that the citizenship of the merchants didn't matter; to him, the parties involved in the dispute were incidental. What was important to him was the injustice that the new law would inflict.

Because of the battle over the new law, Albino happened to be in Washington D.C. on June 30, 1921 on a lobbying visit when his third son was born. Hence, he chose to name this son Washington. Wash's older brother Alex subsequently

liked to joke that it was a good thing that their father wasn't in Vladivostok, Walla Walla, or Buffalo at the time.

For his part, Dee C. Chuan mobilized considerable resources to back Albino's efforts: the campaign to repeal the Act cost the Chinese-Filipino business community more than P167,000 over the next five years. Between 1921 and 1923, Dee C. Chuan and Albino SyCip were able to elicit statements of support for their position from the Chinese government, from members of the insular committee of the US House of Representatives, from various chambers of commerce in the United States and elsewhere, and then bring these to the attention of the Philippine Legislature. The Filipino solons agreed to discuss a repeal or modification of the law, but all proposed changes were defeated decisively in the legislature in 1923.

Dee C. Chuan and Albino SyCip did not admit defeat. They went one step further: challenging the constitutionality of the Bookkeeping Law before the Philippine Supreme Court, by using the test case Yu Cong Eng vs. Trinidad (271 U.S. 500,

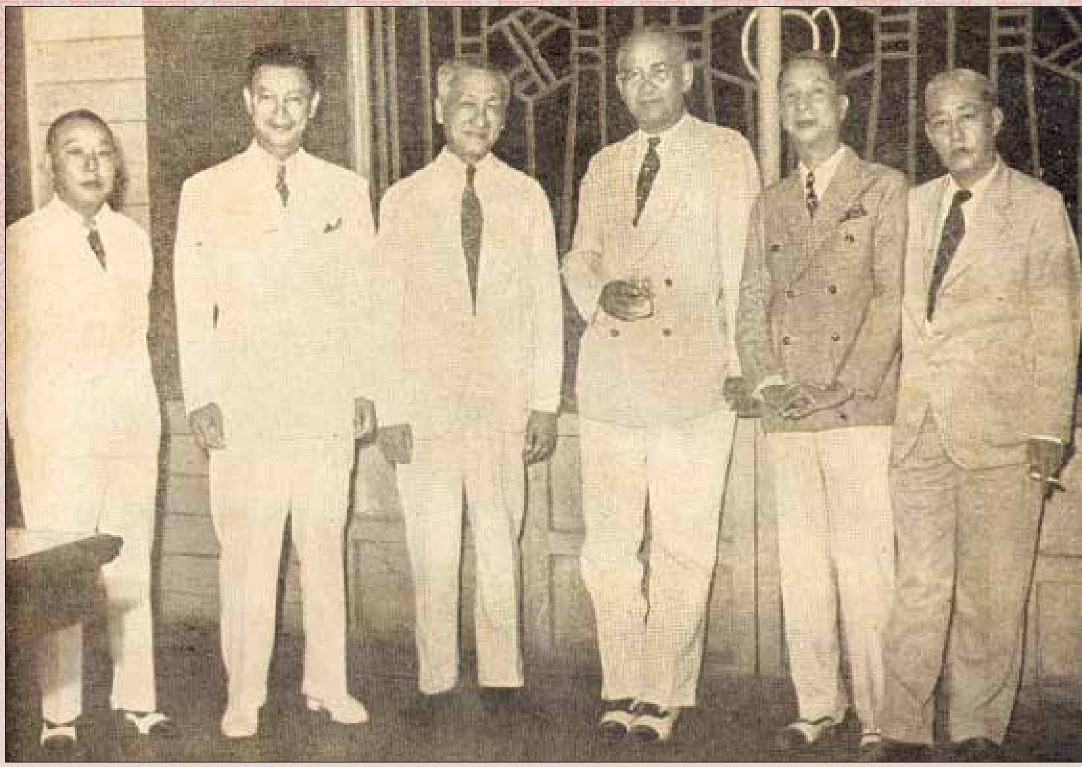
The Shanghai Bund was the financial hub of East Asia in the early 20th century until the Communist takeover in China. The numerous buildings along the Huangpu River used to house banks and trading houses from Europe, the United States, and Japan. The Bund is now a famous tourist destination. (Inset) The Russo-Chinese Bank.

46 S. Ct. 619, 70 L.Ed. 1059). In a brief, SyCip asserted: "Yu Cong Eng is a Chinese merchant engaged in the wholesale lumber business in Manila; that he neither reads, writes nor understands the English or Spanish language or any local dialect; that he keeps the books of account of his business in Chinese characters; that by reason of his ignorance of the English and Spanish languages and of all local dialects, he is unable to keep his books in any other language than his own; that, even if he should employ a bookkeeper capable of keeping his books in the English or Spanish language, he would have no means of personally revising or ascertaining the contents or correctness of the books thus kept; that the employment of such a bookkeeper, unless he should be a linguist, would entail as a necessary consequence the employment of a translator or interpreter familiar with the Chinese language and the language or dialect in which such books might be kept, in order to enable the petitioner to ascertain by hearsay the contents thereof; that he would be completely at the mercy of such employees, who, if dishonest, might cheat and defraud him of the proceeds of his business, and involve him in criminal or civil liability in its conduct; that under the provisions of the act he is prohibited from even keeping a duplicate set of accounts in his own language, and would, in the event of the enforcement of the law, be compelled to remain in total ignorance of the status of his business; and that the enforcement of the act would drive the petitioner and many other Chinese merchants in the Philippines who do 60% of the business of the Islands and who are in like circumstance, out of business."

SyCip's efforts did not succeed. In 1925, the Philippine Supreme Court ruled that the Bookkeeping Law was constitutional. Dee C. Chuan and Albino SyCip took their last recourse: an appeal to the US Supreme Court. Albino SyCip told the US Supreme Court that the act, if enforced, would deprive the petitioners, and the 12,000 Chinese merchants whom they represented, of their liberty and property without due process of law, and deny them the equal protection under the law.

Albino SyCip was not the lead counsel of record in Yu Cong Eng vs. Trinidad. In the Philippines, the lead counsel of record was Atty. Gabriel LaO. In the US, the lead counsel of record were Frederic Coudert, Allison D. Gibbs, and Mahlon B. Doing. But Albino was the key legal strategist and the guiding spirit behind the case. Yet he preferred to let his seniors like LaO take the more prominent role of lead counsel. Nonetheless, his importance and contributions were known and understood by the legal community.

On June 7, 1926, the US Supreme Court ruled that the Bookkeeping Law was unconstitutional, and thereby repealed it. Chief Justice William Howard Taft, the former



President Sergio Osmeña, third from left, was a friend and neighbor of Albino SyCip, extreme left.

Albino with the presidents

Partly because of their triumph over the Bookeeping Act, Dee C. Chuan and Albino SyCip began to deal a lot with the country's top Filipino leaders, Manuel Quezon and Sergio Osmeña. Soon the professional relationship was also personal, and Dee and Albino became warm friends with Quezon and Osmeña. Osmeña's house in Sta. Mesa was just across the street from Albino's, and Wash, Albino's son, remembered attending many parties in the Osmeña home when he was young. Dee and Albino served as the liaison between the Chinese community and the political leadership of the colony. During other incidents, such as an outbreak of anti-Chinese rioting in 1924, Dee C. Chuan and Albino SyCip were the men who smoothed things over and restored good relations.

Albino SyCip's friendship with President Manuel Quezon, third from left, ensured that the Chinese community had good relations with government.

Wash recalled that whenever ethical principles were concerned, the elder SyCip "was always very, very strong: 'You have to do what is right.'" Albino SyCip's favorite maxim was from the Bible: "Do unto others as you would have them do unto you."

US president and former Philippine governor-general, wrote: "In view of the history of the Islands and of the conditions there prevailing, we think the law to be invalid, because it deprives Chinese persons situated as they are, with their extensive and important business long established, of their liberty and property without due process of law, and denies them the equal protection of the laws . . . it is not within the police power of the Philippine Legislature, because it would be oppressive and arbitrary, to prohibit all Chinese merchants from maintaining a set of books in the Chinese language, and in the Chinese characters, and thus prevent them from keeping advised of the status of their business and directing its conduct."

This vindication by the US Supreme Court was a huge triumph for SyCip and Dee. It made them the two most prominent Chinese in the colony. Then Senate president Manuel L. Quezon, though he had supported the law, went to SyCip's house in Sta. Mesa to congratulate him for his victory. Quezon and SyCip then worked out a viable compromise on bookkeeping requirements (embodied in Commonwealth Act 3292): the government agreed that the Chinese could keep their books in their own language, and a reliable independent auditor familiar with both English and Chinese would examine the accounts, provide a full translation, and submit a sworn statement to the government attesting to the accuracy of its figures.

Only a month after the country opened its first stock exchange in August 1927, China Bank already made history as one of the first companies to publicly list on the Manila Stock Exchange.

Albino SyCip and Dee C. Chuan had triumphed against the Western colonizers, by using their own institutions and methods. In a time when many Chinese had seen their country humiliated and pillaged by imperial powers and derided as the "sick man of Asia," Albino's victory in the Bookkeeping Law case showed that one of their own had the talent to compete with the white man as an equal.

SETTING THE VALUES, GROWING THE BANK

The battle over the Bookkeeping Law gave Albino immense prestige within the Binondo business community—a development that in turn helped the growth of China Bank. The Binondo business community apparently decided that if there was a man they could trust with their money, it was Albino SyCip.

As we have seen, in 1924, Albino SyCip joined China Bank on a more regular basis as vice president, and at first he focused on personnel matters and client relationships. He could do what the GM, Eugene Wing, could not—which was to mingle with the Chinese customers, build up relationships of trust, and examine their creditworthiness according to the standards of *xinyong*. These clients were easily convinced of his integrity and good will, and for loan applications, they would open up to him about the condition of their businesses much more readily than they ever would for an outsider, a *gweilo*.

Albino understood the cultural imperatives of *lian* and *bao* and *guanxi*, of "face" and reciprocity and smooth relationships. He himself had tremendous "face" within the community—but

Being a leading figure in business, Albino SyCip would play host to prominent businessmen. In the photo on the right, Albino (front row, leftmost) with his guests, including Gen. Douglas MacArthur (last row, 4th from right, between two ladies), Jean MacArthur (seated, 4th from left), former General Electric President Carrol Grinnell (last row, 2nd from left), and acting High Commissioner to the Philippines James Weldon Jones (front row, rightmost).

In the photo below, Albino, seated extreme left, hosts a dinner for Stephen Zuellig, seated center, whose family ran a trading house in the Philippines in the 1900s and who later became the chairman of Zuellig Group, a leading healthcare services provider in Asia.

(Opposite page) Taft Avenue was the major thoroughfare in old Manila connecting north and south. It was where government offices and business companies were located.

this was made all the more powerful because he was low-key and unassuming, and did not like to draw attention to himself or his achievements. As the *Tao Te Ching* says: "When you are content to be simply yourself, and don't compare or compete, everybody will respect you."

Given his cosmopolitan nature and international background, Albino also became the logical man to travel to China and set up the China Bank branches there. He opened up the Bank's office in Xiamen in 1925 and in Shanghai in May 1929. Since Albino had married a Shanghainese girl from an impeccable local family, the Baus, his father-in-law's connections gave him an easy entry into the elite circles of Shanghainese business. Of course, this was on top of the Bank's already existing and very warm relationship with founding director Huang Yizhu and the Shanghai-based Bank of China and South Sea.

The Bank's entry into mainland China gave it profitable new lines of business—primarily, the remittances from Chinese sojourners in the Philippines back to their families in Fujian, and the opening of letters of credit for traders shipping goods to and from China. The Bank became so entwined with the Fujianese sojourners' lives that frequently in the 1930s, a new immigrant fresh off the boat from Xiamen would be instructed to go to the China Bank office in Binondo, where, he was told, its staff would be glad to help him.

The entry of China Bank into Shanghai also gave Albino SyCip and his branch staff the chance to build personal and professional ties with the so-called "Shanghai-Jiangsu clique" of the top Chinese banks and bankers which then ruled Chinese finance. For the Bank, the most notable of these contacts were the Bank of China—then led by Chang Kia Ngau, (张嘉璈, or Zhāng Jiā'áo, 1889-1979) and later by Tsuyee Pei (1893-1982)—and the Shanghai Commercial Bank, led by Kuangpu (KP) Chen (陳光甫, 1880-1976).

Both banks would later become investors in China Bank, and their presidents, Pei and Chen, would sit on the board of China Bank. Albino became good friends with all three—Pei, Chang, and Chen. In the Bank's hour of need in 1931, and then again after the end of WW II, Chang, Pei, and Chen would be of great help to him and China Bank.

Albino's many good friendships became a competitive advantage for the Bank. Because of his excellent relationships with people from various sectors, Albino had a finger on the pulse of the economy and could count on being warned about important developments. Because of a nugget of information he overheard in the Wack Wack Golf Club locker room, Albino was able to sell the Bank's entire stock of gold coins to Citibank at a hefty profit. In the late 1930s, when the bubble in local mining stocks burst, Albino knew about the brewing trouble well ahead of time and stopped the Bank from lending any more money against collateral of mining shares, well before the other banks did.

Albino said: "It was a very timely step. When the bank examiner came to our bank, he was surprised to find that we had only one loan outstanding against mining shares. The borrower in this case was Mr. Harris, and the amount was P20,000 against Atok shares. This loan, however, was duly paid as Mr. Harris was financially sound."

Over and above these business achievements, Albino's greatest contribution to the Bank was probably the personal example he set for everyone. Every weekday, he would arrive in the Bank by 7:30 a.m., ready for work. Albino would not tolerate any instance of dishonesty in the Bank, and would weed it out promptly, regardless of the person's rank—whether it was a messenger fraudulently passing around envelopes for funeral contributions *(abuloy)* for nonexistent relatives, or a senior officer manipulating the Bank's foreign exchange operations. He frowned on employees who gambled or womanized. Albino let it be known that he did not borrow money from his own bank. Albino set this limitation on himself several decades before the Central Bank started setting limits on DOSRI (directors, officers, shareholders, and related interests) loans in the late 1950s.

His onetime subordinate and protege, Wilfredo Tecson, said in 1967: "I have seen how scrupulous Don Albino has been in all his business dealings. To my knowledge, he has not borrowed a single centavo from the China Banking Corporation. Nor has he allowed any personal relationship or interest color his judgment in bank matters."

Tecson added: "Although occupying high positions, Don Albino is humble in word and in manners. He would sometimes say that he, a lawyer by profession, had become a banker only by accident, and as he had never had any formal study or training as a banker, he feels less competent than his subordinates who have had the necessary training and academic background. But his humble admissions belie his firm grasp of sound banking principles and practices. As a matter of fact, there were occasions when accounting reports submitted to him had to be revised when he unerringly pointed to some figures which required correction or adjusting. He has the knack of wading through a mass of figures to draw out simple facts and conclusions, to the surprise of the Bank's accountants. An obsession of Don Albino that impressed me over my many years working with him is his overriding concern for the safety of his Bank. There is nothing he does that is not calculated to protect and strengthen the Bank. Indeed, I have yet to meet a banker as dedicated as he."

Wilfredo "Willy" Tecson (born Chen Wu Liang in January 1922) was a young man of mixed Cantonese/Kapampangan

"Don Albino was so kind and humble and soft-spoken that he made you want to be as kind and humble as him. He had that kind of effect on his people in China Bank."

—JOSIE GARCES, DON ALBINO'S SECRETARY

heritage who joined the Bank in 1937 at the age of fifteen. His father was a bartender at the Army and Navy Club, and as the eldest of eight children, the young Tecson needed to help his father support his siblings. So he joined China Bank as a messenger.

Willy Tecson later recalled: "Several months after I was employed, I was operated on for an inflamed appendix. While recuperating at home, I was visited not once but twice by Don Albino. I naturally felt embarrassed that I was receiving so much attention from the head of the institution who, I presumed in my young mind, must have more important matters to occupy his time and attention than visiting a sickly lowly junior clerk like me. It is his abiding interest in his men and sincere concern for their health and welfare that characterizes Don Albino's relationship with them. Little wonder then that his staff members are loyal to him and respect him."

He added: "Some months after my operation, I was even more pleasantly surprised when he called me to his office to inquire what collegiate course I was intending to enroll in, since he had learned that I was about to graduate from high school and that I had obtained high scholastic marks. I was still unsure about what kind of career I really wanted, but my conversation with Don Albino that day helped me decide on a banking career, and I have had no cause to regret my decision since."

Albino's personal example was influential not just on Tecson but on all the senior managers of the Bank of that era and later eras—men like TS Wang, Lee Siau Tong, Yap Tian Sang, LL Pan, Tan Kim Liong, and George Pay. One-time assistant auditor Ricardo Liong once wrote: "As Chairman of the Bank, SyCip was serious and formal. He expressed his joy only with a simple smile and I haven't heard him laugh audibly in public. His friends said he operated his bank in the same manner as he walked—carefully and steadily. . . . He personally met all the new staff and interviewed other higher-ranking recruits. . . . No taller than five feet or heavier than 100 pounds, he sported a crew cut and wore a pair of tortoise-shell glasses."

A Thursday luncheon meeting at the Cosmos Club, top floor, CBC Building attended by officers and employees of the Bank, including George Dee Se Kiat, Dee K. Chiong, and Tan Kim Liong, circa 1939.

Liong added: "Aside from the janitors, he was the first to arrive in the office after finishing his daily golf session. I had the misfortune of working in the mezzanine floor of the chairman's office because my colleagues and I were on a daily eight-hour alert—no horse play, no loafing, and no fun. . . . Setting an example, he demanded upright moral character and decency from his staff. There was an unwritten rule against gambling, womanizing, nightclubbing, and seeking favors from the Bank's clients. It was so strict that some colleagues resorted to asking friends in placing jai-alai and horse racing bets. Banking then was a boring profession but it provided a lifetime job if one could remain honest."

Liong also wrote down what he considered to be Albino's primary maxim as a banker: To know people is better than to know money. "[Don Albino] reminded me [of it] constantly in Chinese. Evidently he valued friendship more than wealth. Translating this advice into banking, he warned me to look into a person's character first before his assets. This is also an advice to curb one's greed for wealth without showing concern and compassion for others."

Late in life, SyCip expounded further on his warning against greed. He believed that the Bank should never focus on short-term profit making; instead it should always consider the overall well-being of society. He said: "What is good for the whole will be good for the part, and what is temporarily good for one at the expense of the other will sooner or later operate to destroy the whole."

To Albino, China Bank had to think about the long term and the big picture. The best guarantee that the Bank would be around for the long term would be to stay true to its values: honesty, hard work, fairness, loyalty, concern for people, respect, conservative financial management, and the belief

Wilfredo Tecson

Protégé: Willy Tecson

SyCip saw the potential in his young messenger. By dint of hard work, Wilfredo "Willy" Tecson was soon promoted to junior clerk at the Bank. Whenever someone was absent, Tecson would volunteer to take over his desk for the day; by this method, working in every section of the bank, he learned everything a bank staffer had to do. SyCip saw that he was dedicated and intelligent and decided to groom him for better things. By the late 1940s, Tecson knew the ins and outs of all aspects of bank operations. He earned a BSC in accounting *summa cum laude* and a master with honors in the same subject from Far Eastern University. By the late 1950s, SyCip would promote Tecson to vice president of China Bank. He later said that Tecson was his intended successor as president.

"The Bank would minister understandingly to a Chinese businessman's credit requirements."

—DEE C. CHUAN

that the welfare of the Bank and that of its clients were essentially one and the same.

CRISIS: THE GREAT DEPRESSION

The first big test of the Bank's values began in October 1929, when the Great Depression started. It created economic havoc worldwide. US industrial production dropped 46% between 1929 and 1932, and over 11,000 of the 25,000 US banks went out of business. Unemployment in the US rose to 25% and in other countries it went as high as 33%.

By 1930, the Philippines began to feel the effects of the Depression. The contraction of the US economy caused a contraction in the demand for Philippine exports. The value of Philippine exports to the US dropped 17.8% in 1930, 20.7% in 1931, and 14% in 1932. Employers cut jobs and wages, particularly in the agricultural sector. In Central Luzon and Negros, peasant unrest was on the rise, and communist and socialist organizers began to make great gains.

As the severe economic conditions began to bite, even some major Chinese firms in Manila went out of business, such as the trading firm Ty Camco Sobrino, run by Ty Hoan Chay, a major China Bank shareholder. China Bank founding director Go Jocco, a textile magnate who had diversified into oil processing, rice sack production, and fertilizers, ran into severe business reverses during the Depression. Another China Bank founding director, Guillermo Cu Unjieng, lost almost P2 million speculating on sugar and foreign exchange during this period.

Overall, some 10,000 Chinese sojourners in the Philippines were put out of work. In 1931 alone, 4,532 Chinese left the Philippines and went back to China, overcome by the hard times. Several hundred of them were so hard up that they had to ask for free tickets for the voyage home from the Philippine Chinese Charity Association *(Shanju Gongsuo)*.

Wong Kwok Chu, a Chinese historian, wrote: "Confronted with tough economic conditions, most Chinese adopted a strategy of business rationalization, either by cutting back production, as in the lumber industry, or by minimizing costs through wage reduction and retrenchment, as in textiles, groceries, and hardware. Those with heavy stocks and liquidity problems resorted to price-cutting in order to move their goods in a weak market."

But there was a limit to how much good price-cutting, retrenchment, or production cutbacks could do, when confronted with conditions as harsh as the Great Depression. At some point, many of China Bank's debtors were less and less able to repay their loans. The Bank also found itself experiencing some pressures from the overall weakness of the economy. In 1932, China Bank had P18.67 million in resources and P11.49 million in deposits, compared to P21.1 million in resources and P13.93 million in deposits in 1931. As some of the weaker debtors began to default, China Bank found that some of their third-party guarantors also defaulted

Dee C. Chuan, seated center, with Dee Chian Hong, father of Joaquin Dee, seated right, and other colleagues in the 1930s.

on their obligations. In addition, some of the real estate and shares that were pledged to the Bank as collateral for these sour loans were hard to sell at fair value in a depressed economy.

But despite this, the Bank didn't resort to the usual solution of banks in distress—that of passing on the pressure to its clients by calling in loans. China Bank strove to use its power to foreclose on loans judiciously, by relying on its ability to discriminate between the clients who were merely undergoing temporary reverses and those who had gone irreversibly over the edge.

In the early 1930s, the US colonial Bureau of Banking exerted pressure on China Bank to cut credit lines and call in loans for its troubled borrowers. But China Bank resisted the pressure, knowing that moves like this would drive these debtors out of business. In a sense, China Bank had some obligation to hold back, because some of its biggest debtors were also board members like Carlos Palanca.

But the Bank stood firm also because it felt that a larger idea was at stake: that by being patient and understanding of the business cycle of a skillful and honorable debtor, the Bank stood a better chance of recovering the full amount of the loan, plus its interest. Foreclosing on a loan would mean China Bank had to accept pennies on the dollar. But by giving a talented and solid businesssman like Carlos Palanca some time to get his businesses affairs back in order, both debtor and creditor would come out ahead. With the breathing space given to him by China Bank, Carlos Palanca managed to pay off his indebtedness to the Bank and then he left the board in 1936. (He was replaced on the board by his fellow distillery magnate Dee Chian Hong of La Fortuna Distillery.) The Bank also cut back on its loans to its own directors and stockholders, so that in a few years, these were down to more prudent and manageable levels.

On the other hand, if the Bank was as strict about foreclosure as the Bureau of Banking preferred, it would in the long run harm the Bank—particularly given its clientele, who were frequently traders who now and then encounter temporary cash-flow problems. This was the essence of what Dee C. Chuan meant when he said the Bank would "minister understandingly to a Chinese businessman's credit requirements."

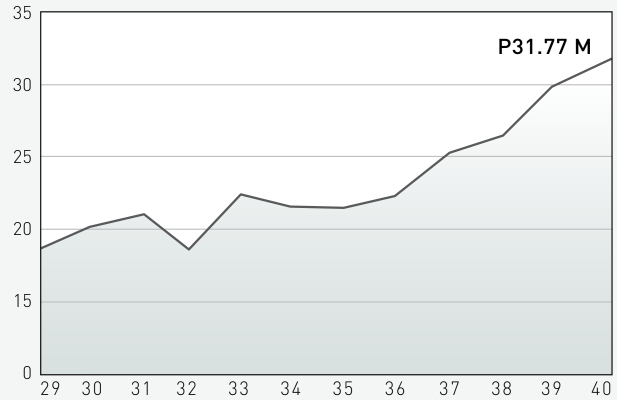
In the future, regulatory and rating agencies, such as the Central Bank and Standard and Poors', would remonstrate

Albino SyCip always said: "To know people is better than to know money." He warned the Bank to look into a person's character first before his assets.

against the Bank's "understanding" lending policies, but in the end, both of them would acknowledge the essential wisdom behind its thinking. The Bank had some rough times during the 1930s, like everyone else, but when the storm passed, it clearly came out ahead. By 1940, China Bank had P31.77 million in resources and P21.56 million in deposits, more than 50% better than its level in 1932.

The Great Depression served to highlight the solidity of China Bank, because in 1931, its major competitor in the Chinese community collapsed due to bad loan decisions, insider abuse, and a series of bank runs. In January 1924, a group of Chinese businessmen founded the Mercantile Bank of China (MBC). It was organized primarily by Dee C. Chuan's major competitor in lumber, Rafael M. Gotauco. The MBC's leaders also included Khu Yek Chiong, JJ Gochioco, SC Choy, Cu Yeg Keng, Yu Ping Kun, and Quirino Uy Quioco. From 1926 to 1931, the MBC was led by Khu, Gochioco, and SC Choy as president, vice president, and managing director, respectively.

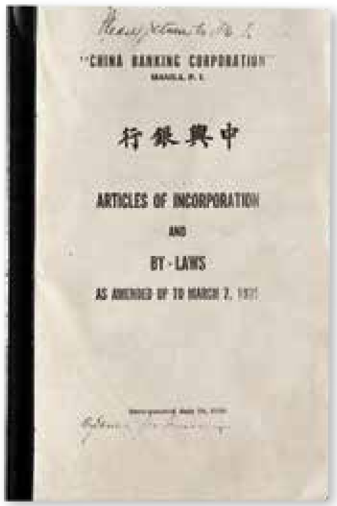
CHINA BANK RESOURCES DURING THE GREAT DEPRESSION
1929-1940
In Million Pesos



The MBC was a smaller and weaker bank, without as much capital as China Bank and not as sophisticated in its operations—and, it has to be said, without the same integrity. The MBC had P2 million in authorized capital and P1 million paid up. Between 1924 and 1931, MBC attracted P4 million in deposits. But it did not inspire a lot of confidence, relative to China Bank, which had a better reputation. MBC suffered three bank runs in only seven years—in October 1926, August 1931, and September 1931. The last one ended the bank.

A bank examiner later said that the lack of confidence was due to "the fact known to the Chinese that several members of the board of directors [are] taking undue advantage of their positions, have committed irregularities, and have borrowed heavily from the institution to promote their personal interests." By April 1930, its directors owed P1.5 million out of the Bank's total loan portfolio of P2.5 million, or 60%. At one point the percentage reached 65%. Moreover, by late 1931, the MBC had lent out 80% of its deposits, choosing to leave very little by way of reserves despite the fact the world was already in a depression.

In addition, the MBC engaged in risky ventures like forex speculation and overexposure to the textile industry. MBC president Khu was later found to have engaged in defrauding his own bank, by delaying payments and manipulating exchange rates in his favor. The board of directors also helped themselves to the deposits of the bank by lending themselves large sums without adequate collateral, much of it with each other's third-party guarantees. By 1929, two thirds of its loans were either "clean" (uncollateralized) or else are secured only by a third-party guarantee. By 1930, "more than



80% of the loans and other advances are unsecured. Some of the securities offered are also undesirable, being either insufficient, slow liquidating in nature or stocks of closed corporations."

By September 18, 1931, all these factors—a poor reputation, low collateral, low reserves, weak balance sheet—combined to force the MBC out of business. Even an attempt by Dee C. Chuan to lend a hand failed; the bank was too far gone. By the time it closed, MBC had only P140,000 in cash, compared to outstanding loans and other receivables of nearly P3 million, claims by depositors and creditors totaling over P1.8 million, and shareholders' funds, surplus, and undivided profits of more than P1.3 million. There began a lengthy legal process of liquidating the bank. By the time World War II broke out in December 1941, the liquidation process was still going on.

The MBC bank run also created a domino effect that hit China Bank. The irony about bank runs in a depression is that they can take down even perfectly sound banks, as panic and the herd mentality take hold of the public.

Albino SyCip later wrote: "Soon after the Mercantile Bank of China failed, although we did our very best to help it, some of its directors spread adverse rumors against China Banking Corporation. As a result, there was a run against this Bank. I was in Shanghai at the time. Mr. Dee C. Chuan wired me about the run and asked me to do what I could to help the Bank. I received the wire on a Sunday morning and I immediately went to see Dr. KP Chen. He told me to see Mr. Chang Kia Ngau [the Bank of China's GM]. After I had explained everything to both Dr. Chen and Mr. Chang, the

Albino SyCip with Yu Khe Thai

Interrelated

The smooth functioning of China Bank's board was based not just on a confluence of values and business interests, but also on warm friendships. Albino, for instance, was very close to Chiang Kai Shek College founder, Yu Khe Thai. These friendships in turn helped shape the next generation of bank leadership through the intermarriage of their offspring. Dee C. Chuan's son George married Alfonso Sycip's daughter Mary. His second son Robert married a daughter of Yu Khe Thai. Yu's two other daughters Helen and Ana married Albino's sons David and Wash. Sons-in-law were also part of the picture: Guillermo Dy Buncio (himself the son of a founder) and Marcelo Nubla married daughters of founder Antonio MH Limgenco. Over time, as sons suceeded their fathers on the board, the Bank continued to function very smoothly, helped along by the interconnection of bloodlines and long shared histories.

Although Dee C. Chuan and Albino SyCip led China Bank in the same era, they were rarely photographed together. This 1930s photo of them with bankers and businessmen is one of those rare photos.

A devoted golfer, Albino SyCip strengthened his personal and business relationships on the golf course. Albino with his golf buddies, including High Commissioner and Ambassador to the Philippines Paul V. McNutt (2nd from left).

latter, without any hesitation, told me he would wire the Bank of China in our Amoy office to extend what might be needed by our Amoy office and also to make a public announcement to the effect that the Bank of China was prepared to help China Banking Corporation to the fullest extent and without limit. Dr. KP Chen [on behalf of Shanghai Commercial Bank] sent to Manila $300,000. With the announcement of Dr. Chang, the run against our Bank stopped. We paid back the Shanghai Commercial and Savings Bank in less than three weeks' time."

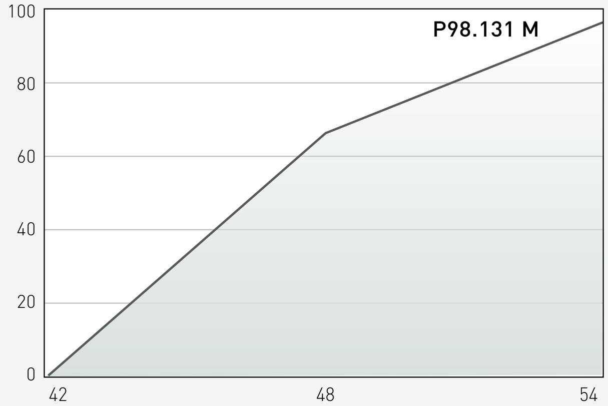
It would be inaccurate to say that China Bank survived the 1931 bank run just because it had good friends and good relationships. It was not just a question of the Bank knowing the right people. The important thing to know is why these people and institutions were so ready to help the Bank "to the fullest extent and without limit." The Bank had these friends and potential lifelines because it too had *xinyong*. Chang Kia Ngau and KP Chen knew that Dee and SyCyip and their bank had a word of honor that was as good as cash. Those who have honor, others will also honor.

China Bank's performance during the Depression burnished its reputation among its clientele. It was clear to the Manila business community that when push came to shove, China Bank would not abandon its clients. It would not prematurely call in its loans. Instead, it would stand by its honest clients and give them every reasonable chance to make good on their obligations.

The Bank keeps that reputation to this day.

The other important point about the Bank during the Great Depression was that it thrived and grew strong, even when some of its founding directors' businesses did not. Many of its founding directors—Go Jocco, Guillermo Cu Unjieng, Carlos Palanca, the Siy Cong Bieng heirs—suffered severe business reverses during the Depression and had to leave the board. (Even earlier, founding director Yu Biao Son Tua had gone bankrupt in 1927.) Go Jocco died in 1932; under his son and heir Go Se Kim, the Go businesses declined and he had to resign from the board in 1934. Siy Cong Bieng died in 1924, and his businesses were carried on by his sons Tomas Siy Chong Fu and Siy Chong Keng. The Siys retained their

CHINA BANK RESOURCES
1942-1954
In Million Pesos



Mr. Hinshaw. You say you represent the China Banking Corp., Mr. Friedman?

Mr. Friedman. That is correct.

Mr. Hinshaw. Was that at the time a corporation organized under the laws of any State of the United States?

Mr. Friedman. The Philippines. It was closed as an enemy bank by the Japanese; the president of it was interned and condemned to be shot, but the Americans arrived in time to liberate him. It is a Philippine corporation.

Mr. Hinshaw. Are they one of those who participated in reimbursing United States citizens for assets which these citizens had had in the bank prior to Japanese occupation?

Mr. Friedman. They did, Mr. Chairman.

Mr. Hinshaw. What amount is the total amount?

Mr. Friedman. Mr. Chairman, their claim is roughly—as I say, I do not know exactly, but it is roughly in the neighborhood of $700,000.

Mr. Hinshaw. That is 1,400,000 pesos?

Mr. Friedman. That is correct.

Incidentally, Mr. McCarthy gave me some figures from his bank, the Philippine National Bank. A total of 3,138,928 pesos. That comes to roughly $1,500,000. Of that, about $1 million represents checking accounts.

I don't have the figures for the other banks, but these are the two banks that paid off.

Mr. Hinshaw. Are these net accounts?

Mr. Friedman. Net accounts, I understand.

Mr. Hinshaw. After any indebtedness and offsets?

Mr. Friedman. That is right.

So far as I know, these are the only two banks that paid off; there may be others. Those are the only two that I am aware of.

Mr. Hinshaw. Why is it they paid off? Were they just magnanimous, bighearted?

Mr. Friedman. It is always hard to look into people's minds, but I happen to know personally the president of the China Bank and he felt it was the decent thing to do. I can honestly say he felt there was no legal obligation, but he happens to be a Christian Chinese—other Chinese are just as moral and ethical—but he has a very strong sense of morals and ethics. I know that personally.

Doing what is right: From the transcripts on the War Claims Act Amendments of 1954 hearings in Washington D.C., presided by Hon. Carl Hinshaw, chairman of the Sub-Committee on War Claims and Trading with the Enemy Acts of the Committee on Interstate and Foreign Commerce. Joseph Friedman of the law office Friedman, Locker & Schlezinger represented China Bank in the hearings. As the dialogue shows, the Bank did not have to pay off all its liabilities, but still decided to do so because it was the right thing to do.

shares in the Bank, but their businesses were no longer as prominent as they once were. The Great Depression also adversely affected the Cu Unjiengs, who ran into serious problems in the 1930s.

As the American political scientist Paul Hutchcroft has pointed out in his seminal work *Booty Capitalism: The Politics of Banking in the Philippines,* many banks in the Philippines were created to serve the larger interests of its founders—to provide the financial muscle to fund the growth of their conglomerates. Thus, the fate of a bank usually marches in lockstep with the fortunes of its controlling interests. When the controlling shareholders' conglomerates suffer serious reverses, their bank usually follows—that is, if it does not in fact precede them in decline.

But the fact that China Bank could prosper between 1920 and 1940, even though some of its founding directors went into eclipse, meant that there was now a genuine separation between the Bank and its founders. It had its own values, its own identity, and its own destiny. The Bank was an independent and solid institution; it had been built to last.

THE PASSING OF DEE C. CHUAN, 1940

In the twenty years since the founding of China Bank, Dee C. Chuan had been a very busy man. Much of the time, he was no longer focused on growing his businesses, neither lumber nor the Bank. He was already rich as he had ever hoped to be when he was growing up in Hong Kong. Now Dee wanted to use his considerable resources and contacts to help mainland China, which was then being torn apart by various warlords, the vicious conflict between the Kuomintang/Guomindang (KMT) or the Chinese Nationalist Party of Chiang Kai-shek and the Chinese Communist Party led by Mao Tse-tung, and by the relentless aggression of the Japanese Imperial Army into Chinese territory.

First, Dee focused on his home village of Shizhen. He donated the Chengmei School For Boys and the Yude School For Girls. He not only put up the buildings but also bought a fishpond whose earnings would pay for school operations. He also built a new bridge and other infrastructure in Shizhen. From 1926 to 1928, when Chiang Kai-shek was building up the KMT Nationalist army to reunite the country, Dee C. Chuan paid out of his own pocket for the steamship tickets for many young Chinese in Manila who wanted to join Chiang and fight. In 1931, he began to contribute heavily to the Chiang government as Japan started to encroach upon its northern territory, including Manchuria. In 1933, Dee accepted an appointment from Chiang as one of the five commissioners governing Fujian province from 1933 to 1934. In Fujian, Dee organized a police force, built the foundation of a badly-needed railroad—the Zhanglong railway, and helped improve the harbor in Xiamen.

When full-scale war between China and Japan broke out in 1937, Dee and his good friends, Albino and Alfonso SyCip and Yu Khe Thai, organized the Philippine Chinese Resist-The-Enemy Foundation. They helped raise P10 million from the local Chinese community and sent it to aid the KMT. These men also led a vigorous effort to boycott Japanese goods in the Philippines. The boycott hurt Japanese interests here substantially. Dee also conceptualized and helped set up the Nanyang General Relief Association, which was a Southeast Asian organization of overseas Chinese bent on combating Japanese aggression. The Japanese have a long memory. When they conquered the Philippines in 1941, the Kempeitai would come looking for the men who organized the boycott.

But Dee C. Chuan would not be around to face their retribution. Some time in the last few years, he had contracted tuberculosis, which was then much harder to cure than it is now. By 1939, his condition worsened. His doctors felt that the best chance for him would be to seek extended treatment at the Monrovia Sanatorium in California—the same one where in 1928 President Manuel Quezon had recovered from the disease.

But Dee had a premonition that he might not return from his treatment in California. He went to visit his boyhood friend Miguel Cuaderno, then president of the newly opened Philippine Bank of Commerce. Dee asked him to take over the management of his businesses. He said to Cuaderno: "Mike, my children are very young and you are like a brother to me. I want you to manage my business interests. I will give you the biggest compensation you can expect." But as much as he wanted to help, Cuaderno was hemmed in by his respect for the Cojuangco family; he felt he could not leave a newly established bank. He had to decline his friend's offer.

Dee C. Chuan with his youngest daughter Julia, left, and his eldest grandson Philip, right.

In May 1939, Dee C. Chuan, suffering from tuberculosis, left Manila, with his sons Robert and Arthur accompanying him for what everyone anticipated would be a long convalescence. At first, he seemed to respond positively to the treatment, but in the following year, 1940, he took a turn for the worse.

On October 27, 1940, Dee C. Chuan died of tuberculosis in Monrovia, California. He was only fifty-two. His second son, Robert Dee Se Wee, was with him. Robert Dee brought the body home. He took the *SS President Cleveland*, which left San Francisco on November 8 and arrived in Manila on November 30. His brothers Dee K. Chiong and Dee Hong Lue flew to Hong Kong to meet the *SS Cleveland* there and escort the body home to Manila. Some 5,000 people were on hand to meet the casket when it arrived at Pier 7 of the Manila North harbor.

Dee C. Chuan with family. Front row, seated (left to right): Edward Dee Se Kiao, Henry Dee Se Gui, Herbert Dee Se Lu. Second row, seated: Gan Tiak (wife of Dee C. Chuan, holding eldest grandson Philip), Dee C. Chuan with youngest daughter Julia. Third row, standing: Arthur Dee Se Chun, Mary SyCip Dee (wife of George), George Dee Se Kiat, Robert Dee Se Wee, Juanita. Photo from Nancy Dee Yang.

Dee C. Chuan died of tuberculosis on October 27, 1940. Thousands of people—Chinese and Filipinos alike—paid their last respects at the funeral of Dee C. Chuan, who was buried on November 31 at the Chinese Cemetery.

The three-storey mausoleum at the North Chinese Cemetery in Manila, the final resting place of Dee C. Chuan and his wife, Gan Tiak.

Chiang Kai-shek, Soong Ching-ling—wife of Sun Yat-sen, the first president and founding father of the Republic of China—and her brother TV Soong, sent their condolences to the Dee family. Alfonso SyCip, who at the time was president of the PCGCC, announced the news to the Filipino newspapers. He issued a statement: "The death of Mr. Dee C. Chuan is a great loss not only to the Chinese community in the Philippines but to the Filipino people. The deceased did much for the progress of this country and through his philanthropic work, he contributed a great deal to the social welfare of Chinese and Filipinos alike. The whole Chinese community mourns his loss."

In their school days, George Dee Se Kiat (right) and Robert Dee Se Wee, were well-known soccer players, both in their Hong Kong school and in La Salle.

Alfonso SyCip and Yu Khe Thai took the lead in helping the family arrange the funeral. The funeral service was held on November 30 at the Central Student Church in Ermita. Dee was buried on November 31 at the Chinese Cemetery. The honorary pallbearers were a lineup of friends and luminaries: Rafael Alunan, Albino SyCip, Jorge B. Vargas, Vicente Madrigal, Samuel Gaches, Ong Chuan Seng, Kwangson Young (the Chinese consul general), and Yu Khe Thai. About 10,000 people rode or walked in the funeral cortege, which included some 600 cars and 45 Meralco buses, which had been rented for the occasion. The Dee family eventually put up for him a three-story mausoleum modeled after the crypt of Sun Yat-sen.

Long after, Albino SyCip wrote: "Dee C. Chuan [was] a man to whom the Chinese community is indebted for the goodwill it enjoys in this country, and the Philippines owes to him a measure of the prosperity which the local Chinese have contributed to the economy of the nation."

Go Puan Seng, editor of the *Fookien Times* which Dee C. Chuan founded, wrote: "Dee C. Chuan's influence will always be felt. He belongs to that rare breed of men whose lives never go out, but go on and on."

With Dee's death, Albino SyCip became the chairman and president of China Bank, and its top man for the next three decades. Albino would now have to carry his friend's creation forward.

One of The Most Honest Men

By: Hon. Miguel Cuaderno Sr.
Former Governor, Central Bank of the Philippines

(Published in the China Banking Corporation Golden Anniversary special issue - The Manila Chronicle Business Report, August 16, 1970)

I was inspired to become a banker by the late Dee C. Chuan. He was, perhaps, one of the most honest men I have ever met.

I had known Dee since the time we were together in school at the St. Joseph's College in Hong Kong, while we were still very young boys.

We developed such a close friendship that we used to spend long hours discussing what we planned to do after we finished our studies.

While we were classmates in Hong Kong, Dee used to lend me money when my allowance did not arrive on time, to keep me going.

It was Dee who interested me in banking. While my aim was to work in a bank, his was to establish a bank, which I thought was too ambitious.

Anyway, while still studying, I was able to work at the Hongkong and Shanghai Banking Corporation. That was why when I returned to the Philippines I already had practical banking experience.

In those days, Dee used to tell me what a bank could do to develop the economy of the country. I do not now remember how and why, but we made a promise to each other that when the time came, each of us would establish a bank.

After I returned to the Philippines, I lost track of Dee. Then, after more than a decade when I assumed the position of Director of the former Bureau of Supply, among the people who came to greet me was Dee C. Chuan. I did not recognize him until he reminded me of our long association in Hong Kong, and the promise we made each other about establishing a bank.

Dee told me he had established the China Banking Corporation. I told him I was a member of the Board of Directors of the Philippine National Bank. He said I did not establish the PNB, so I had yet to do what I agreed with him.

"In those days, Dee used to tell me what a bank could do to develop the economy of the country."

When, in 1938, I organized the Philippine Bank of Commerce, Dee came to see me, and after congratulating me, he offered and did subscribe to a substantial amount of the shares of stock in the Bank of Commerce. He extended valuable help to me in the early life of the bank.

Dee was very sick in 1940 when his family decided to take him to a specialist in California for medical treatment. I had a chance to talk to him then. He wanted me to take charge of all his business affairs. I told him, "No, I can't. I have just organized the Philippine Bank of Commerce. It will not be fair for me to just leave it."

Dee wanted me to consider his offer. He could foresee that he would not be coming back. "Mike, my children are very young and you are like a brother to me. I want you to manage my business interests. I will give you the biggest compensation that you can expect," he appealed. That was how much he trusted me.

I am quite sure it was Dee's inspiration that led me to take such interest in the science of money and banking that I finally succeeded in organizing the biggest bank in the country—the Central Bank, and in being elected in 1956-1957 Chairman of the Board of Governors of the World Bank and of the International Monetary Fund.

Dee C. Chuan was one of the best liked and highly respected financiers and businessmen of this country.

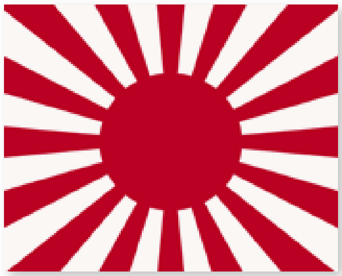
As a monument to his goodness and unquestioned integrity, there is the China Banking Corporation which has stood the test of time, under the very able management of my dear friends Albino SyCip, George Dee Se Kiat and their able associates.

CHAPTER 3

Rising from the Ashes 1940-1960

The Bank is devastated by a world war, but it emerges from the ashes stronger than ever—so that by 1960 it is the biggest private local bank.

Albino SyCip, flanked by George Dee Se Kiat and Dee K. Chiong, would steer the Bank from the devastating effects of World War II to become the leading private bank in the 1960s.



Albino SyCip had been thinking about the danger of the Philippines being at war with Japan for several years before the Imperial Army actually arrived on China Bank's doorstep on January 4, 1942. The SyCips and the Dees had fervently supported China in its war against Japanese aggression; they organized nationwide boycotts of Japanese goods and sent millions in aid to Chiang Kai-shek's government. As the Japanese Army drove across China in 1937-1938, the Nationalist army quickly collapsed and fled far inland. Chiang's government finally found refuge in remote Chungking. Albino's good friends in the Shanghai banks, such as Huang Yizhu, KP Chen, and Tsuyee Pei, now lived under Japanese rule. China Bank's branches in Xiamen and Shanghai had to be shut down, and their staff had to return to Manila, including branch managers TS Wang and Yap Tian Sang.

Japanese aggression was becoming uppermost in Albino's mind, and further events only worsened his apprehensions. By September 1939, Europe was at war. By May 1940, Germany had conquered France, Poland, Norway, the Netherlands, and a host of other countries. By July 1941, the Japanese Imperial Army had taken over Indochina. Chiang warned that the Philippines would be next in line.

Hideki Tojo was the prime minister of Japan during most of World War II, from 1941 to 1944. He assumed the post of Chief of the Japanese Imperial Army General Staff in 1944.

From the colonial era up to the post-World War II years, the financial and trading hub of the Philippines was Binondo. In 1924, China Bank's headquarters moved from Calle Rosario to this landmark neo-classical building at the corner of Juan Luna St. and Dasmariñas St. —the Philippine version of Wall Street in the colonial era. This building still stands proud today and houses the Bank's Binondo Business Center.

On December 8, 1941, ten hours after Japan's attack on Pearl Harbor, the invasion of the Philippines began. Under the pressure of the Imperial Army's superior numbers, the defending Philippine and US troops under Gen. Douglas MacArthur withdrew to the Bataan Peninsula and Corregidor.

Few Filipinos believed him. They had faith in American might and technology, and thought that any coming conflict, if it came, would be a short and painless war. They believed the Japanese had wretched planes and even worse pilots, that their navy was decrepit, and that their industries could not turn out the artillery and munitions that a modern war required. Filipinos told each other: "The poor Japs won't know what hit them." Thus, even as the Filipino people went through the routine of air raid drills and blackouts, they trusted in Gen. Douglas MacArthur's promise that he was going to hurl any Japanese invasion force back into the sea. But Albino SyCip did not believe that defeating the Japanese was going to be that easy. He knew from all the stories of his friends in China that the Japanese military was far more deadly and better-led than commonly believed. So Albino acted on his apprehensions. He began steadily depositing some of the Bank's funds in the United States. By December 1941, P8.58 million, or 29.03% of the Bank's P29.271 million in assets, had been deposited with China Bank's correspondent banks in the United States.

Albino's worst fears were soon realized. On December 7, 1941, a surprise air strike by hundreds of Japanese carrier planes devastated the US base in Pearl Harbor. The air raid sank or badly damaged 18 US ships, destroyed 188 planes, left 2,403 Americans dead, and nearly crippled the US Pacific Fleet. A few hours later, the entire US bomber force in the Philippines was destroyed on the ground by more air raids.

Without the bombers or enough US Navy ships to oppose a Japanese landing, the Philippines was ripe for the picking. On December 22, 43,000 Japanese soldiers waded ashore in La Union. The two Filipino divisions sent to stop them quickly dissolved, unable to resist an assault of trained and battle-hardened troops. The USAFFE (United States Armed Forces in the Far East) divisions were forced steadily back to the south. Then a new threat appeared far to the rear. On December 24, two more Japanese divisions landed in Tayabas and headed for Manila. The capital city was now caught between the jaws of a giant pincer.

MacArthur conceded that defending the capital was a lost cause. He announced that Manila would be abandoned by the USAFFE and declared an "open city" to prevent Japanese atrocities; his troops would withdraw to the mountainous Bataan Peninsula. On December 24, President Manuel Quezon, his family, and other Filipino officials were evacuated to Corregidor Island in Manila Bay.

For the citizens of Manila, it was the gloomiest Christmas that anyone had ever known. Christmas was marked by the sound of explosions: US officers were blowing up oil supplies and war materiel rather than let them fall into enemy hands. More than $18 million worth of petroleum owned by Shell and Standard Oil went up in huge black pillars of smoke, as did government stores of paper money, most of the trains, and Pier Seven at the Manila Port Area.

The US government did not want the gold and cash in Manila's banks to fall in Japanese hands, either. So the Department of the Treasury ordered several Manila banks to turn over as much of their reserves as possible to the US government. On December 27, 1941, China Bank turned over

The China Bank board, headed by Albino SyCip, braced for the devastation of World War II.

to the United States High Commisioner for safekeeping the sum of P5,985,192.20. The China Bank funds, along with the cash and gold reserves of other banks like BPI and First National City Bank, were then spirited out of the country by US Navy submarines. With P14.568 million, or nearly half of its assets now held abroad (either with correspondent banks or the US Treasury) the Bank had a reserve that might make it possible to revive its fortunes after the war—assuming, of course, the US won.

After handing over the funds to the US government, there was nothing more for Albino and his employees to do but wait for the coming of the conqueror.

THE WEATHER

The Tribune

5 Centavos

BATAAN COMPLETELY OCCUPIED BY JAPANESE

Japanese Forces Take Cebu

15 Generals Among War Prisoners

Japanese Flag Planted In Cebu City

Gen. Homma Thanks Officers And Men Under Him for Heroism

Surrender Of Bataan Praised

OCCUPIED

The New Year brought the Japanese to the gates of Manila. On the afternoon of January 2, Major General Koichi Abe's 48th Division entered the city from the north, while Lt. General Susumu Morioka's 16th Division entered from the south. The Japanese expats who had recently been released from internment camps cheered their soldiers loudly. The Filipinos, on the other hand, looked on, silent and sullen. The Japanese commander, Lt. General Masaharu Homma, raised the Japanese flag over MacArthur's old quarters at the Manila Hotel, and then began to draw up the plan to take Bataan and Corregidor.

The Japanese occupation force also mulled various plans for dealing with the Chinese in the Philippines, who they considered more hostile and dangerous than the Filipinos. Some officers suggested putting all the immigrant Chinese in concentration camps, just like the expatriate Americans and British citizens. The Japanese wanted to retaliate for the internment of its citizens. In addition, the Japanese military considered men like the senior Dees and SyCips to be very dangerous for their "anti-Japanese activities" and wanted them punished. They even had some inside information on the SyCip family's activities; it turned out that Alfonso SyCip's Japanese driver was a captain in the Imperial Army who had spied on the Philippines for years.

The Japanese military considered men like the Dees and SyCips to be very dangerous because of their "anti-Japanese activities" and wanted them punished.

But the occupation force lacked the men and resources to run a concentration camp system that large for the Chinese. In addition, interning all the Chinese in the Philippines would probably have paralyzed large sectors of the economy, including much of the retail and milling. The Japanese needed the Philippine economy strong, so that it could make its contribution to the so-called Greater East Asia Co-Prosperity Sphere.

So the Japanese settled for a different, more cost-effective strategy. They arrested and executed many of the top leaders of the Chinese community who were anti-Japanese. They sentenced other top business leaders to long prison terms. (This was in keeping with the old Asian military principle of "kill one to terrorize ten thousand.") In addition, the Chinese-dominated banks, China Bank and Bank of Communications, were to be closed.

On January 4, 1942, the Japanese Imperial Army shut down China Bank. The Bank of Taiwan took charge of the liquidation process. The Japanese government put up the Bank of Taiwan in 1899 as their colony's central bank. As the Japanese empire expanded by conquest in China and Southeast Asia, the Bank of Taiwan grew with it. In the process of liquidating China Bank, the Bank of Taiwan pocketed all the cash and checks it found on the premises, and it collected on the accounts of the Bank. Debts and import bills that should have been paid to China Bank were collected by the Japanese bank instead. Around P13.2 million was taken from the Bank in this fashion, as part of the spoils of war.

China Bank was just one of the victims. The Bank of Taiwan also liquidated the other banks from "enemy nations" in Manila, including First National City Bank, Bank of Communications, Standard Chartered, Nederlands Indische Handelsbank, and HSBC. The only banks in Manila that remained open were four local banks—the PNB, BPI, Philippine Bank of Commerce, and PhilTrust, and the two Japanese banks—Bank of Taiwan and Yokohama Specie Bank. The PNB, BPI, and Philippine Bank of Commerce were allowed to reopen in February 1942. Their reopening resulted in bank runs that forced the Japanese to issue an edict limiting withdrawals to P500 per person per month. Any withdrawal in excess of P500 would require a special permit from the Japanese commander in the Philippines.

With China Bank as an institution neutralized, the Japanese military then went after the men who ran it. On January 8, 1942, the Japanese Army arrested Albino SyCip and George Dee Se Kiat of China Bank, as well as Alfonso SyCip, Yu Khe Thai, Eduardo Co Se Teng, Go Kim Pah, James Limpe, and others from the Binondo business elite. The Kempeitai (Military Police of the Imperial Japanese Army) also arrested two cousins of the late Dee C. Chuan—Dee Hoc Siu and Dee Hoc Khe, lumber magnates who were also active in the anti-Japanese goods boycott. These men were held in the old

(Right) Hideki Tojo visited Manila in May 1943 to discuss Japan's policies on the Philippines.

(Opposite page) Manila was declared an open city to avoid its destruction and was occupied by the Japanese on January 2, 1942.

Bilibid Prison and then in Muntinglupa. The Army shaved their heads and forced them to listen to Japanese military radio broadcasts every morning.

The Japanese soon executed Dee Hoc Siu and Dee Hoc Khe, for "anti-Japanese activities." They also executed the Chinese consul in Manila, Kwangson Young, and eleven members of his staff, as well as the local businessmen Dy Lian Tiao, Yu Yi Tung, Sy Kaw Ki, Go Kiu Lu, Tan Diao Ting, Gan Bun Cho, Uy Lian Ta, and many others.

Albino SyCip was literally next on the list to be executed, but he was spared at the last minute. Albino said later: "I escaped death by just one number. The last prisoner to be taken out and executed was number 74. I was number 75."

In time, Wash SyCip, who was then in New York City studying for a PhD in accounting in Columbia, learned that his father had been imprisoned. An article in *Readers' Digest* even reported that Albino SyCip had been executed. Wash tried to verify the truth of this report, but the author admitted to him that the report of the elder SyCip's death was just hearsay.

Wash felt there was still a glimmer of hope. "I knew he was in prison," he said later, "but as to whether he was alive or not during that time, I didn't know." Wash decided to abandon his PhD studies in order to do his part in the war. He joined the US Army and was assigned to a cryptography unit in India. His oldest brother, David, joined the Nationalist Chinese Air Force and flew in a bomber unit.

Albino's brother Alfonso was also declared guilty by the Japanese and sentenced to death. At his trial, Alfonso gave an impassioned defense, stating that he and his fellow accused had merely helped their fellow Chinese in need, and said that the Japanese themselves would have done the same if the circumstances were reversed.

The two SyCip brothers were spared from execution by a combination of several factors. By 1943, Japan was on the verge of inaugurating a puppet republic in Manila and needed to put on a more conciliatory face on its rule. Having executed scores of prominent Chinese already, the Japanese military didn't need to kill any more to make its point. In addition, some good friends had been lobbying discreetly among the Japanese high command to spare the SyCips and George Dee.

Wash SyCip said: "My father's friend [a certain Mr. Yamamoto] was the head of the Yokohama Specie Bank—which later on became the Bank of Tokyo and part of the Mitsubishi group. He was a very good friend of my father. He helped my father during the time he was imprisoned; it turns out this man was a colonel in the Imperial Army."

In addition, T. Shen Wang, Albino's subordinate in the Bank, helped lobby for his boss's release. Nancy Dee Yang, eldest daughter of George Dee, said: "We had a bank officer who

The Japanese invasion, accompanied by destruction and loss of life and property, crippled the Philippines. Hunger and economic poverty marked the Japanese rule over the years as money turned into waste paper—the invaders enforced the use of the Japanese currency, derisively termed as "Mickey Mouse money."

came from our branch in Shanghai, T.S. Wang, and he had been educated in Japan. So he could speak the language and he was able to converse with the Japanese about the release of my father and the rest."

In April 1943, the lobbying bore fruit. The Japanese premier, Hideki Tojo, was about to visit Manila in May, and the Imperial Army wanted a few symbolic gestures of benevolence to create a positive atmosphere for the visit. Thus on April 29, 1943, Emperor Hirohito's birthday, the Japanese military pardoned Albino and Alfonso SyCip and George Dee, and set them free.

By then, Albino, Alfonso, and George had languished in prison for a year and four months. In Muntinglupa, where the prisoners' diet was meager, Albino persuaded the prison superintendent to allow him and his fellow prisoners to plant *monggo* (mung bean) on the available open space at the prison. Soon the *monggo* plots were feeding not just SyCip's group of prisoners, but also provided a surplus to feed the ill at the clinic. Albino didn't know anything about farming, and was taught how to plant *monggo* by Jovito Salonga, then a young law student being held by the Japanese for his guerrilla activities. Due to the friendship struck in prison, Albino later hired Jovito (who became the 1944 bar topnotcher) as his lawyer, and recommended him to others when Salonga came back from Yale in 1949 with his doctorate in law.

Albino had a fondness for finding silver linings. He said later: "It may sound strange that I should consider my being imprisoned a lucky break. I did not realize this until after the liberation. Because of my imprisonment for refusing to cooperate with the Japanese army of occupation, I was able to save some good people from being blacklisted by the American authorities under suspicion of collaboration."

WAITING FOR LIBERATION

Albino and George were now free, but their bank remained shut and their country remained occupied. During 1943 and 1944, they, like most Filipinos, tried their best to adjust to the new dispensation, while waiting for MacArthur to redeem his promise of returning. Few believed in the Japanese propaganda about Filipino-Japanese friendship or the "Greater East Asia Co-Prosperity Sphere." At first, many hoped that the conquerors' yoke would be light. A puppet republic was inaugurated in October 1943, which gave Filipinos the appearance of self-rule.

Soon various incidents of brutality alienated an already suspicious populace. As a result, while outwardly, Filipinos kept up the appearance of obedience, inwardly, they seethed. A few Japanese commanders knew that Filipino cooperation was, by and large, just a facade. One officer said: "I am afraid that 45% of the people remain pro-American, about 5% are pro-Japanese, and the remaining 50% are comedians."

The Japanese worsened matters by frequently commandeering most of the available food and other supplies for their troops. This resulted in widespread food shortages. The gap became acute after November 1943, when a severe

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TOTAL ASSETS OF CHINA BANK, 1944

typhoon hit Luzon, badly damaging crops. The food crisis soon became permanent. Many areas returned to the barter system. Even the peasant staples of *monggo* and dried fish became luxuries in many areas. By December 1944, with the Japanese Army commandeering all available rice stocks, hundreds of Filipinos were dying of hunger in the streets every day, and a sack of rice cost P12,000, compared to P30 a sack in mid-1943.

Nick Joaquin wrote: "There was no returning to normal. Prices began their panic spiral, money turned into waste paper. Pushcarts replaced buggy and bike as people went far afield looking for food. Hunger became visible as bloated bodies died on sidewalks. The second-hand clothes on sale were rumored to have been despoiled from the newly dead. Hoarders locked themselves in for fear of looters."

The Japanese were not the only danger. In early 1945, China Bank board member and distillery tycoon Dee Chian Hong was killed by guerrillas who suspected him of collaborating with the Japanese. His youngest son, Joaquin Dee, however, says that his father had done nothing more than sell goods to an army that would have seized the merchandise outright if he had refused. In occupation-era Manila, however, that was enough for a death warrant. Dee Chian Hong's seat on the board passed to his oldest son Mariano Mabasa, also known as Dee Hao Kim. Joaquin Dee remains on the China Bank board today.

Even fleeing far from Manila was no guarantee of safety. In the summer of 1944, Alfonso SyCip left Manila with his extended family and moved to tiny Fuga Island, 65 miles off the northern coast of Luzon in the Babuyan Island Group. Alfonso hoped that his family could wait out the war on Fuga in safety. His extended family included his wife; their three sons, James, John, and Paul, and their wives and children; two younger daughters Esperanza and Epifania; Mrs. SyCip's elderly mother; and Alfonso's nieces Jane and Mae Lin.

On October 20, 1944, Gen. MacArthur returned to the Philippines and the greatest naval engagement in history ensued.

Unfortunately, a Japanese force from Taiwan occupied the island on September 21, 1944, and life quickly changed. The Japanese commander confiscated all the cattle and forbade the SyCips from buying food in the local market. Instead, he ordered that they grow their own, and after food became scarce, even their garden was taken over by the Japanese. After a personal appeal by Albino SyCip to Gen. Douglas MacArthur, Alfonso and his family were rescued from Fuga in June 1945 by commandos of the elite US army unit, the Alamo Scouts.

"I escaped death by just one number. The last prisoner, number 74, was taken out and executed. My number was 75." —ALBINO SYCIP

The city that Alfonso had left behind was freed sooner than he was. On October 20, 1944, 200,000 US troops, backed by a 700-ship armada, stormed ashore on Leyte. In the Battle of Leyte Gulf, on October 20-25, Admiral William Halsey's fleet smashed the little that remained of Japanese naval power. From the beaches of Leyte, MacArthur broadcast a message to the people he had left two and a half years before: "People of the Philippines, I have returned."

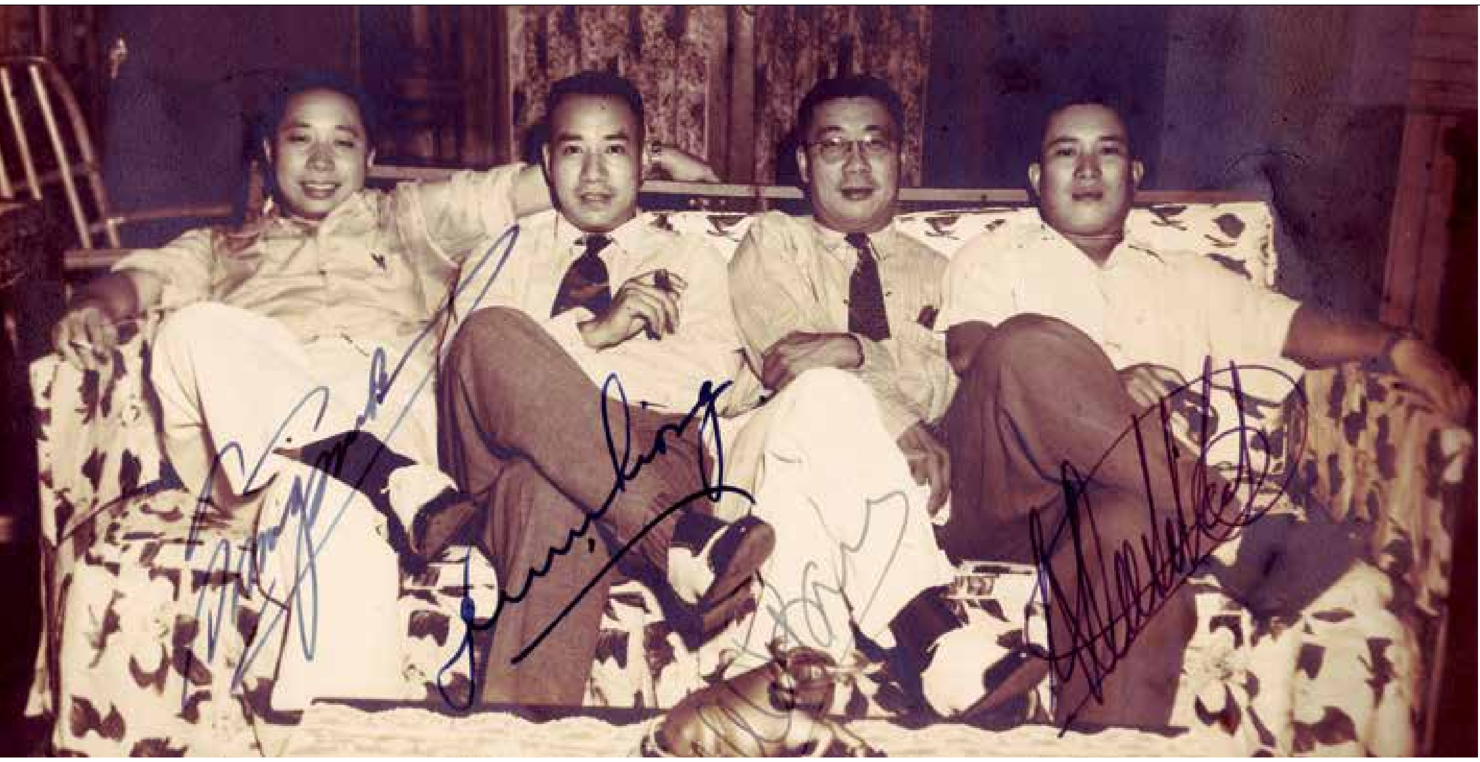
Over the next few weeks, the US forces steadily gained ground in the Philippines. They took control of Leyte by November, and in December, they seized Mindoro. On January 9, 1945, the US Army landed in Lingayen. They reached Manila in February, triggering a fierce house-to-house battle with the Japanese. Taking the city took a month and leveled most of Manila south of the Pasig. The once Noble and Ever Loyal City was reduced to rubble, and more than 100,000 Filipinos died.

In the aftermath of the battle, the citizens of Manila struggled to fulfill their needs such as food, water, shelter, and basic services. There was no electrical power in Manila, since the Japanese had blown up the Blaisdell and Botocan power plants that fed the city. The *tranvías* of Meralco, which were for decades the backbone of the city's transportation system, were gone. There was no water in the taps either. Bridges and roads were damaged all over the city, and garbage collection had stopped. Even three years later, in June 1948, Manila still had not reached its prewar level of power or water service. The national economy was in a shambles, with an estimated $790 million in infrastructure damage. The Philippine peso was worth only a seventh of its prewar level.

Wash SyCip later recalled his homecoming to the SyCip home in Sta. Mesa after the war ended: "My father was very thin. There was no fancy welcome. We hardly had anything. People were living on canned goods from the military."

This was the context that his father, Albino, faced in March 1945, when he resolved to reopen China Bank. All the depositors who had accounts with the Bank before the war would expect to find their accounts whole and all their money intact. Albino SyCip and China Bank were determined to keep faith with them. But the Bank's headquarters had been badly damaged during the fighting for Manila and many of its records had been burned. The Bank had been liquidated and its funds taken. China Bank filed a war damage claim for P13.22 million with the US government. But of this amount, the War Damage Corporation eventually allowed only P462,185 (or about 4% of the claim) to be repaid to the Bank .

Wash SyCip said: "No other country suffered the damage and the losses that the Filipinos suffered. Roosevelt's promise [of restitution to Filipinos] had to be kept. For the war damages, the initial bill that was passed was completely inadequate. If you owned a carabao that was killed, it should be replaced with a carabao—but not with the amount that it was worth before the war. Prices were up by seven times after the war, so you got only 1/7th of the carabao. Later on, additional war damage bills had to be passed because the damage was so much more than they thought would be the case. . . . I remember that for one of



(Left) From left: Jose Tiong, Dee K. Chiong, Guillermo Dy Buncio, and George Dee Se Kiat.

(Below) From left: Siy Ka Bio, LL Pan, YL Yang, Dee K. Chiong, and Tan Kim Liong with the newly-acquired bookkeeping machines.

₱13.219
MILLION WAR DAMAGES SUFFERED BY CHINA BANK

₱462,185
AMOUNT OF WAR DAMAGES ACTUALLY PAID TO CHINA BANK

the additional bills, my father had to write letters to his banking friends abroad to get help."

Because the war damages had been so large and the restitution offered by the American government was so low, even the P14.568 million that had been hidden abroad before January 1942 was not enough to revive the Bank. Unlike his Western competitors like First National City Bank or HSBC, Albino could not rely on millions of dollars in fresh capital from an offshore headquarters. Neither could China Bank count on the Philippine government for help. In January 1946, the Philippine Congress passed a law granting P10 million in rehabilitation assistance to the local banks BPI, PBC, Philtrust, and People's Bank and Trust.

Nonetheless, Albino SyCip and his men were going to rebuild China Bank.

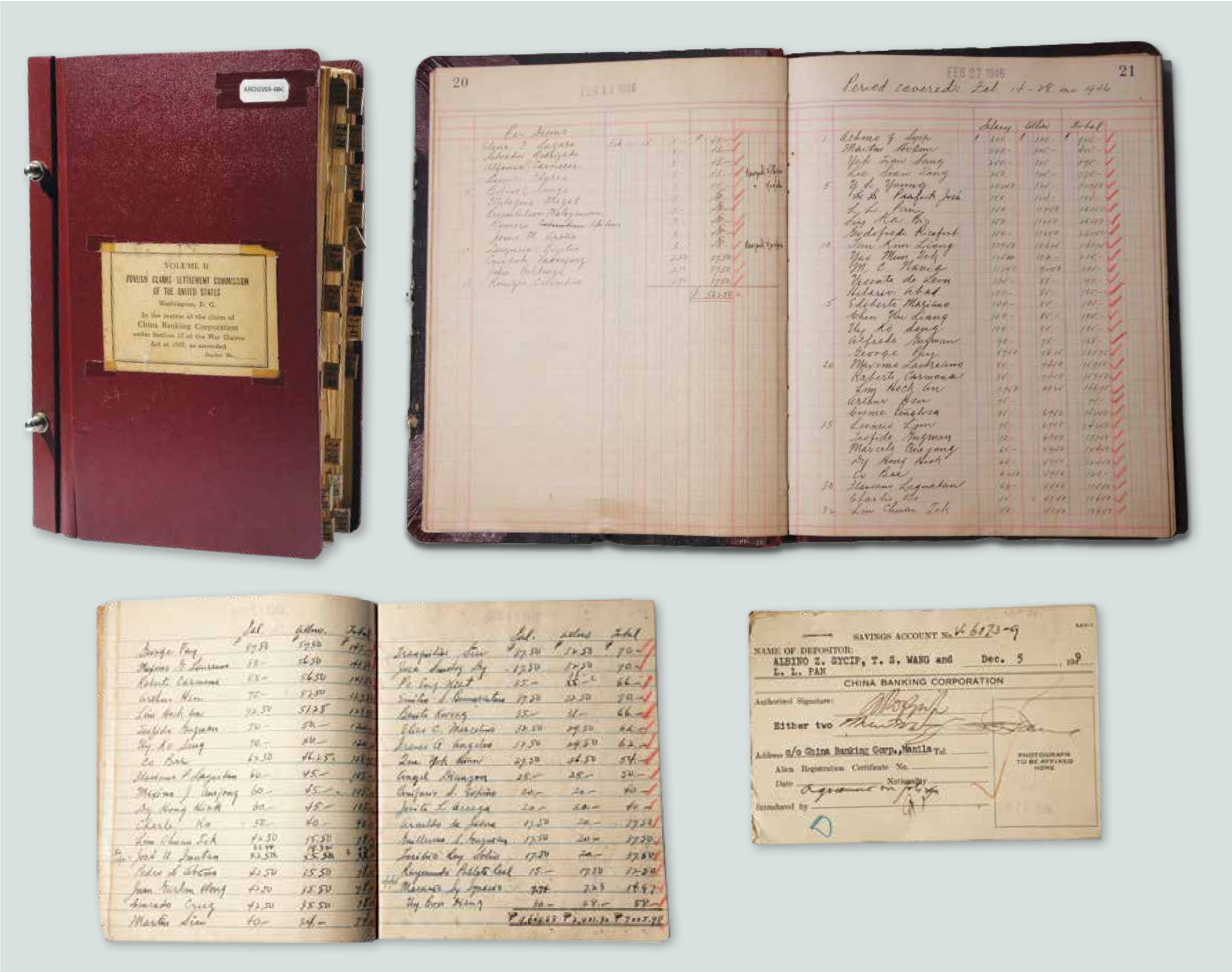
REBORN

By April 1945, Albino SyCip reassembled around forty of his old employees and went back to work. Once again, Albino was president and general manager, George Dee Se Kiat was vice president. The other stalwarts of the prewar bank—such as Martin Hopun, Yap Tian Sang, TS Wang, LL Pan, Tan Kim Liong, and Wilfredo Tecson—were also back on board.

Wash SyCip said: "My father was imprisoned during the war and the Bank was liquidated by the Bank of Taiwan. After the war, when he was released from prison, he rebuilt the Bank and made it more prosperous than the Bank of the Philippine Islands [BPI]. It was just hard work. I remember that time, when I came back to Manila, he was working night and day."

Albino also reassembled or got in contact with the other members of the China Bank board: Huang Yizhu (Oei Ik Tjoe), Uy Yetco, Li Seng Giap, Chong Su See, Marcelo Nubla, Guillermo Dy Buncio, Dee K. Chiong, HL Huang, and Tsuyee

Unlike his Western competitors, Albino could not rely on fresh capital from an offshore headquarters. Neither could China Bank count on the Philippine government for help. Nonetheless, Albino SyCip and his men were going to rebuild China Bank.



Pei. Co-founder Huang Yizhu had passed away, so he was replaced by his son. Oei, HL Huang, and Pei represented the mainland Chinese shareholders in China Bank.

There were three key elements in the Bank's resurrection: the hard work of Albino and his staff, assistance from the Bank's friends in China, and the support of its loyal Binondo clientele.

In the first year or two of operations, it was common for the Bank staff to work until 8 p.m. Bank auditor LL Pan painstakingly reconstructed the Bank records, with the aid of the young clerk, Wilfredo "Willy" Tecson. Both had been witnesses when the Bank of Taiwan had liquidated the Bank, and their notes of that process, plus some careful calculations, gave Albino a reasonably good idea of the financial condition of the Bank.

Tecson recalled: "After the liberation of Manila, the banking system of the country was prostrate. Even before the battle smoke had cleared, we worked unceasingly and tirelessly for the reopening of the Bank. . . . It was the simple faith of Don Albino in himself and his colleagues, and the confidence of the public that successfully rehabilitated the Bank within a few short years after reopening. Those [postwar years] were trying years, but under his unselfish leadership, the entire bank staff worked long hours with nary a murmur to put the Bank quickly back on its feet."

Now that Albino had a good idea of his bank's financial condition, he knew how much he needed to recapitalize China Bank. During the 1931 bank run, the Bank of China and Shanghai Commercial Bank had been crucial in shoring up China Bank. After the war, they lent a hand again. Wash said: "When my father wanted to start the Bank again, none of the

Albino SyCip

What the country needs

In the immediate postwar period, a prominent lumber magnate was able to wangle an order for $1.4 million worth of lumber from US buyers. He approached many banks but couldn't get a loan to fund the equipment he needed to fulfill the order. Finally, he approached Albino SyCip and China Bank. Albino looked at the order and said: "When do you want your money?" The lumber magnate said: "But, Dr. SyCip, you have not looked at my collateral!" Albino replied: "This order is collateral enough for me. Do you realize that this country needs this $1.4 M very badly?" Albino would protect the interests of the Bank, but he also would never forget the big picture of national development.

(Right) CBC Board of Directors, circa 1949. Seated from left: George Dee Se Kiat, Uy Chaw Ki, Albino Z. SyCip, Marcelo Nubla, Mariano Mabasa, and Alfonso SyCip. Standing from left: M.C. Navia, Robert Dee Se Wee, Dee K. Chiong, Guillermo Dy Buncio, and Chua Limco.

(Below) Lee Siao Tong, extreme left, head of China Bank's Foreign Department at the time with Albino SyCip, third from left, George Dee Se Kiat, second from right, John SyCip, and foreign guests.

US banks helped out [in recapitalizing the Bank]. He got help from a friend of his from Shanghai, [KP Chen]. The Shanghai Commercial Bank helped him out. At that time, he said: 'They know that the Japanese put me in jail and they know that the Bank of Taiwan liquidated the Bank. How can I be expected to restart the Bank with the same capital requirement?' But he got no answer. Did the US banks help him out? No."

Chen Guang Fu (also known as KP Chen or KF Chen, 1880-1976) was the founder and president of Shanghai Commercial Bank. Chen was born in Jiangsu province in China in 1880, to a poor family with little education, but his talent caught the attention of the *compradores* of a foreign firm who decided to sponsor his education in America. He graduated from the Wharton School at the University of Pennsylvania in 1909 with a BSc degree. He founded Shanghai Commercial Bank in 1915. As a result of Shanghai Commercial Bank's assistance to China Bank during this crucial time, KP Chen and RC Chen were members of the China Bank board between 1946 and 1963.

The Bank also relied on the support of Tsuyee Pei, who was president of the Bank of China from the 1930s to the 1940s. He was a seminal figure in the creation of a modern banking system in China. (He was also the father of the famed architect Ieoh Ming [IM] Pei. In 1979, Dee K. Chiong would ask IM Pei, who drew up the redesigned Louvre and the Bank of China Building in Hong Kong, to design a new China Bank tower for Makati.) Tsuyee Pei would soon give up his board seat to other representatives of the Bank of China (later the International Commercial Bank of China, ICBC). The Taiwanese bank would retain a significant block of China Bank shares for the next thirty years.

On July 23, 1945, China Bank was reopened. On that day, the Bank had P4.225 million in deposits—a far cry from the P18.85 million in deposits it had before the war. Other banks also opened at this time, including BPI and Citibank. But China Bank's old clients flocked back to it nonetheless. By December 31, 1945, China Bank had P49.29 million in resources and P16.127 million in deposits. The Bank even made a remarkable operating profit of P412,355 on a gross income of P857,816.

By December 1946, China Bank had P67.057 million in resources and P31.648 million in deposits. In only eighteen months, its depositors had put in P27 million more in the Bank and made it bigger in resources than it had been after its first twenty years of existence. By 1948, China Bank had P66.79 million in resources and P47.70 million in deposits. The Bank's heady growth in the postwar period, Wash SyCip said, was primarily due to its depositors' strong belief in the strength and honesty of the Bank. The Bank's capital might have been looted, but its reputation—its brand—remained strong. In a good bank's direst moments, reputation weighs more than capital. And its reputation was particularly strong among the wealthy men and women of Binondo.

Juan "Johnny" G. Coreces, who joined the Bank in 1946 as a clerk, and later rose to vice president and chief accountant, said: "We have a loyal set of clients. That is a distinguishing trait of China Bank, compared to other banks. During the war, the Chinese community hid their money, hoarded it. And then when China Bank opened again, they deposited it with us. That's how we were able to recover."

He added: "Our Chinese clients are different. They have so much money, but it's not apparent from the outside. They're discreet, they're simple people. But they are rich. If you go to their offices, sometimes they don't seem impressive. But when you look at their books or their deposits, you'd be surprised to find that there is so much cash. They dressed simply, sometimes they would come to the Bank wearing slippers. But they would ride there in Cadillacs. And they would bring *bayongs* (bags) of money. Literally."

These clients built up strong personal ties with the staffers of the Bank. Cashier Tan Kim Liong, for instance, was so well-liked and trusted by the clients that every Christmas, his desk would be inundated by gifts from customers. Every year, he would receive so many Christmas gifts that eventually he started a regular yearly raffle to give away some of them to his staff.

Many of these clients were very prosperous because during the immediate postwar period, they were bringing in what the country needed. After three years of destruction,

Binondo: a different kind of client

The trust and closeness between the Bank and its customers manifest very clearly in how clients behave in the Binondo branch. Old-time customers visit and act as if the Binondo office was an extension of their homes. Some like to visit every day and chat with the bank staff. Some of the richest will leave large amounts of money in *bayongs* on the teller's counter and just come back for the paperwork. These clients have favorite tellers, and they will not want to transact business with another teller. At Christmas time, each teller's cage becomes inundated with gifts from customers who have developed long-term relationships with the tellers. Cashier Tan Kim Liong was an employee at the Binondo office from 1922 to 1983; he became an institution in himself, trusted and respected by all the Bank's clients. Even after he retired, for several years after, he still reported for work several days a week, because long-time customers would look for him. It helped reassure the customers that the Bank was still the familiar place they had always known.

An Immigrant's Story

The Chinese have been coming to and trading with the Philippines long before the Spanish arrived to colonize the country in 1521. In the 19th century, population explosion, famine, and wars drove Chinese nationals from Fujian, a province only four days away by boat, to migrate *en masse* to the Philippines. Even during the American colonial period when the Chinese Exclusion Act was enforced, the Chinese were able to settle in the Philippines with the help of other Chinese Filipinos, usually through "adopting" relatives from mainland or by assuming entirely new identities with new names. During the Japanese Occupation in the Philippines, thousands of Chinese soldiers and guerrillas fought side by side with the Filipinos. This unity against a common enemy—the Japanese, led to the formation of a Chinese-Filipino identity that regarded the Philippines as their adoptive home. With the establishment of China–Philippines relations in 1975, many more Chinese nationals have migrated to the Philippines.

Majority of the first and second generation Chinese immigrants in the Philippines were very poor and uneducated, but they proved to be resourceful, hard working, and resilient. Some worked as laborers, porters, and artisans, while most of them set up small businesses, becoming traders, wholesalers, retailers, and manufacturers. With the establishment of China Bank in 1920, Chinese immigrants found an ally in achieving their dreams, many of whom started with nothing but the strength of their resolve and character. Only after years of hard work and sacrifice to establish themselves do they invite the rest of their family and extended family to start a new and prosperous life in the Philippines. Siak Long was one of them.

Siak Long (Rosendo Chuakaw) was in his twenties when he traveled to the Philippines in 1949 to escape extreme poverty in Jinjiang, Fujian. He left his young family in their village, hoping that someday he would have the means to bring them all to the Philippines. He did not have a yuan on him when he boarded the boat, but he hoped that his two brothers in Manila would help him find work upon his arrival.

Siak Long or Rosendo Chuakaw was one of many ethnic Chinese who overcame great hardships to build a good life in the Philippines as a naturalized Filipino citizen.

It is a familiar beginning of a Chinese immigrant's life story, one of many, as thousands of men and women continued to leave their country even after political stability had been restored in China.

Siak Long joined the wave of migrants that left China after the takeover of the government by the Chinese communists. Soon after his arrival in Manila, he found a job as a helper in a store-*cum*-coffee shop on Elcano St. in Binondo. His options were limited because he could neither read nor write. But Siak Long had smarts, ambition, and an iron will. He opened an account at China Bank Sto. Cristo Branch and saved as much money as he could.

After some years in his job, Siak Long decided that his two sons should come to the Philippines. By that time, his family had moved to Hong Kong because life was a little better there than in Jinjiang. His sons Rogelio and Ernesto Chuakaw, five and four years old, respectively, traveled to the country with their grandmother, while their mother and sister remained in Hong Kong. "The three of us first lived with my uncle in Manila because my father did not have a place of his own," Ernesto said.

After almost ten years of working as a store helper, Siak Long saved enough money to start a business, with some help from a brother. In 1959, he put up a small trading store on Sto. Cristo St., Binondo to sell glassware. He called it Chuan Hong Glassware.

With a business to his name, Siak Long's life improved. He rented a house for his family, and after a few years, his wife and daughter arrived from Hong Kong. "For the first time, our family was complete, all living under one roof," Ernesto said.

Typical of the Chinese, Siak Long was very industrious and frugal. He worked long and hard, lived simply, and trained his children to do the same. "All of us had to work hard. After school, I had to go to the store to help, every day, from Monday to Sunday. My brother and I did all kinds of manual work, as my father did. I did not have time to play with other kids. I never went out with friends in high school or college. I was always either in school or at the store," said Ernesto.

Siak Long believed that it is in manufacturing that one can build a fortune. After Ernesto completed his engineering degree, he asked him to manage Chuan Hong Glassware and he put up Universal Stainless Ware in 1979 to manufacture pots, pans, and all kinds of kitchenware.

A few years into manufacturing, he asked his eldest son Rogelio to help manage the manufacturing plant, leaving Ernesto fully in charge of Chuan Hong. Under Ernesto, the glassware store grew and became an importer. Ernesto also strengthened the family's banking relationship with China Bank, going beyond deposits to loans and investments. Chuan Hong was the company that provided work for Siak Long's relatives and provincemates from China, whom he encouraged to come to the Philippines.

In his early years as manager of Chuan Hong, Ernesto saw that of all their merchandise, spoons and forks were always the top seller. "Our first order from our Japanese supplier was 10,000 gross or more than a million pieces of spoons and forks. So I proposed to manufacture spoons and forks, but my father would not hear of it because there were existing manufacturers of the products," Ernesto said

"Nevertheless, I asked our Japanese supplier to find me an automated machine for cutlery production. He showed me one that cost P10 million but my father thought I should go for a second-hand machine, which sold for as low as P2.5 million. So, I made a study and showed him that with the new machine, I could realize a good ROI in two years. He signed off on my proposal eventually," said Ernesto. Siak Long, himself, upgraded the machines in his own factory after seeing the efficiency of the new automated machines.

Siak Long with his wife, Siu Keng Sy, and sons, Ernesto (left) and Rogelio (right). Years later, the family welcomed two more members: Vicenta and Alejandro.

Ernesto established Mitsui Industrial Corp. in 1984, and over time, developed 10 lines of spoons and forks, including a high-end line for the German and US markets. Another company, Mitsuboshi Cutlery Corp. was put up for the high-end brand.

Universal Stainless, meanwhile, continued making cookware, and still does, after 41 years. Chuan Hong, the first company that Siak Long put up, has diversified into plasticware, after competition from China-made products forced local porcelain and glassware companies to shutter.

Ernesto is a natural entrepreneur, quick to see a business opportunity and exploit it. In his twenties, while managing the family's glassware business, he ventured into property development with his brother and put up Chuakaw and Sons, a construction company. In 2006, Ernesto put up his own firm and, with the help of China Bank, built a 20-storey building on a 2,000 square-meter lot in Binondo. By that time, his siblings had their own businesses as well.

It has been an extraordinary journey for Siak Long and his family, which began when Siak Long left his impoverished village in Jinjiang to carve out a better life in the Philippines. The years of hardship, sacrifice, scrimping, and punishing work are long gone.

Siak Long had realized his dream. His audacity brought him far. He built a fortune by dint of hard work, tenacity, and business savvy. He made sure to share what he had, not only with his family and relatives, but also with the people of Jinjiang, by generously donating for road-building and other projects to improve his village. Most important of all, he built his dream house in Jinjiang—a representation of what he had achieved, what he had sacrificed and worked hard for, what he left his village for.

deprivation, and scarcity, the Filipino people in 1945-1950 needed to rebuild their homes and lives, and restore Manila to its prewar condition. As a result, imports rose sharply, and GNP rose a startling 38% in 1947, as industries began to feed several years' worth of pent-up demand. Construction materials, food, clothes, soft drinks, shoes—nearly anything that arrived at Manila's piers—would quickly be snapped up by the market.

For instance, the future steel and real estate tycoon Lim Ka Thong was then a twenty-year-old China Bank client. With a small inheritance from his father, who had been engaged in a Binondo retail business and then retired back to Xiamen, Lim went into importing. He said: "If you got a shipment in, you could sell your entire stock very quickly. All you had to do was bring it in. Demand was so big—for food, for lumber, or construction materials. So that was how I started in business. And China Bank was very helpful to me whenever I needed to open LCs. Dr. Albino SyCip, in particular, was very helpful. He trusted me a lot, even though I was still very young then."

He added: "At first the Bank required me to put up a deposit for my LCs, but when they saw that I paid them very regularly and I was a very good customer, they soon waived the deposit requirement for me. And, of course, if you don't have that deposit requirement, then that really helps your business in terms of managing your cash. So that was the kind of support I got from China Bank, and I am very grateful for their help."

As the Bank rebuilt itself after the war, it also helped businessmen get back on their feet.

(above) Albino SyCip, George Dee Se Kiat and Dee K. Chiong, with guests during China Bank's 30th anniversary celebration in 1950.

(left) Central Bank Governor Miguel Cuaderno speaking at the event.

Lim Ka Thong would later be head of the Linton Group, which specializes in steel trading and fabrication, and also Nobleland Ventures, which owns and develops prime properties all over Metro Manila and even in the provinces. He remains thankful to China Bank for its crucial assistance at the start of his business.

A RISING TIDE

In the postwar period, China Bank had the good fortune to catch a rising tide. After the war, its traditional clientele, the Chinese in the Philippines, had begun to move outward from their traditional area of strength in trading and retail and into

more basic and strategic sectors, where the margins were better, and they had more control over their own destinies. The Philippine legislature was on the verge of nationalizing the retail trade, anyway. So the more far-sighted among the Binondo Chinese decided to go into new areas like manufacturing, mining, coconut, and sugar milling.

The Binondo Chinese engaged heavily in what was called import substitution industrialization, and they collectively became a major engine for postwar Philippine growth. Over the next two decades, the Bank focused on financing their ventures into the manufacturing of textiles, food, paint, paper, electrical parts and fixtures, cement, plywood, and steel. In the 1940s and 1950s, several *taipans*, then quite young, laid the foundations for major fortunes with the assistance of China Bank: men like Henry Sy, John Gokongwei, and many more. George SK Ty's parents, Norberto and Victoria Ty, were flour milling tycoons, with Wellington Flour Mills, who relied heavily on China Bank; their success gave George Ty the business base to found Metrobank in 1962. Jose Cojuangco, a Bank client since 1927, would acquire Hacienda Luisita and the Central Azucarera de Tarlac in 1958; his children and grandchildren remain loyal customers of the Bank.

The first batch of lady employees of China Bank.

The Bank's clients from Binondo, who were importers and manufacturers, preferred to rely on China Bank for LCs for three important reasons. First, the Bank's staff in the foreign department were mostly fellow Chinese, which made for a comfortable cultural fit. Certainly it was more comfortable for them than going to an American institution like Citibank or even to BPI, which was then run by Spanish *mestizos* like Alberto Villa-Abrille.

(Left) George Dee Se Kiat, extreme left and Albino SyCip, extreme right, entertaining guests.

(Below) George Dee Se Kiat with President Manuel Roxas.

Second, China Bank's staffers, because of the long-standing relationships of trust that had been built up between the Bank and certain reliable clients, were willing to waive certain documentary requirements, fast-track certain procedures, or otherwise give concessions that made life much easier for an importer. The waiving of the deposit requirement for Mr. Lim Ka Thong, mentioned earlier, was a typical example of this. For such a client, there would be no reason to look for another bank when it came to LCs.

Lawrence See, who joined the Bank's international department in 1953, said: "The foreign banks could be—shall we say—a bit 'bookish' when it came to LC requirements. I'm not saying that they didn't know how to be flexible, or that we just said yes to everything clients asked for when it came to LCs. Of course they would try to accommodate clients, and of course we too had to use our better judgment when it came to deciding whether or not to give a client the accommodation he wanted or not. We banks all follow the same procedures when it came to LCs. But overall, I would have to say that the strong relationships between China Bank and its clients, these relationships of trust, made the LC transactions much easier. Now, I, as a bank officer, would not accept a letter of guarantee from just anybody; if he did not deliver, then I would be in trouble. So I would have to know him and his history with the Bank. That kind of trust is important."

Third, in terms of competence and capacity in foreign exchange transactions, China Bank was, at least, the equal of its foreign competition in Manila. It had strong relationships with various correspondent banks abroad, including the Chase Manhattan Bank, Bank of California, and Irving Trust (later the Bank of New York). By traveling to the US regularly to these banks, Albino SyCip built up good relationships, which made it easy for China Bank to open LCs for its clients.

In the 1950s and 1960s, Albino sent several bright young men abroad to be trained in these correspondent banks in New York and California—among them, Wilfredo Tecson, Lawrence YL See, Catalino Yuengtian, Dominador Bascara, and Antonio Tecson. Albino also built strong ties with the Bank of China, Shanghai Commercial Bank, Bank of East Asia in Hong Kong, the Oversea-Chinese Banking Corporation (OCBC) of Singapore, and other banks in Asia. These banks also helped China Bank by training its young staffers in the intricacies of international banking. Thus, China Bank was very competitive in this aspect of financial services, even compared to Citibank Manila.

Lawrence See said: "In the foreign department, we had, as our co-heads, Mr. Lee Siau Tong and Mr. TS Wang, and both of them were very good in foreign exchange. They had been trained in banking in Shanghai in the 1920s and 1930s, where there were so many currencies being used—the dollar, the


CBC Board of Directors, circa 1952: In this photo are Perfecto Jose (secretary), Marcelo Nubla, Mariano Mabasa, George Dee Se Kiat, Albino SyCip, Chua Limco, Uy Chaw Kui; Dee K. Chiong, Guillermo Dy Buncio, and some directors representing foreign interests.

yen, the yuan, and so on. So they were very sophisticated in these things—particularly relative to Manila, where things like arbitrage were still unknown. But TS Wang had engaged in arbitrage in Shanghai, so he was really ahead of the curve. They were really skilled, and they taught these skills to me and my colleagues. So I can say that our foreign department was equal to even the foreign banks in Manila. I think some of our correspondent arrangements were better than some of theirs. And for many years, the foreign department was the biggest earner of China Bank."

The Bank's foreign operations also benefited from an ethical decision that Albino made after the war. Wilfredo Tecson wrote: "Not only did Don Albino keep faith with his depositors, he also paid the Bank's foreign creditors even on items that he could have legally avoided paying. To Don Albino, it is not enough that one does what is legally right, one must also do what is morally right."

Tecson was referring to this: Shortly before the outbreak of WWII, China Bank received for collection from its correspondent banks and firms in the US several import bills covering shipments of merchandise from the US to the Philippines. When the war broke out, the Bank had not yet received payment of the import bills from the importers. When the Bank was liquidated, the Bank of Taiwan collected the import bills from the Philippine importers and the proceeds were turned over to the Japanese government. This was part of the P13.2 million that had been looted from China Bank. After liberation, many of the American exporters demanded payment of the import bills from China Bank.

Albino said that the Bank was not liable to pay these bills since, through no fault of its own, it had never held the payments in the first place. He told the US exporters to look to their own government for payment. The exporters, however, insisted that China Bank pay the bills and then on its own,

(Left) Members of the 1959 board of directors.

(Below) From left: Mariano Mabasa, Guillermo Dy Buncio, and George Dee Se Kiat.

attempt to recover the funds from the US government. Albino, though he was clearly in the right, nonetheless agreed to pay the bills, amounting to $591,414, or nearly P1.2 million—a significant amount for a bank that had only P16 million in deposits at the end of 1945. The Bank subsequently filed a claim with the US War Damage Commission for payment of these bills, but the WDC refused.

Albino SyCip felt that a great injustice had been done to the Bank. To that end, in 1952, China Bank joined with PhilTrust and BPI (which had been similarly aggrieved) in retaining the services of Joseph Friedman, a prominent Washington lawyer. Friedman was commissioned to seek new legislation to remedy the situation. Since BPI and People's Trust had many American depositors who had been disadvantaged by the WDC's actions, their lobbying had weight in Washington. By 1954, Friedman managed to win passage of a law, PL 744, that corrected the injustice. Dwight Eisenhower signed it into law on August 31, 1954. Following the provisions of PL 744, China Bank filed a claim in 1955 for $591,414 with the Foreign Claims Settlement Commission to recover its losses from the payment of the import bills. Eventually, the US government compensated the Bank for this portion of its war-related losses.

It was actions like these that made Albino's unimpeachable reputation within national and international banking circles. He agreed to pay out a substantial sum to protect the Bank's reputation as a reliable payer of import bills, but then he persevered for years and finally got the initial injustice corrected. In the meantime, the Bank was short of a considerable sum for over a decade, but the trade-off was that its standing among its fellow banks was unrivaled. After all, for a correspondent bank, what could be a safer bet than a banker who paid off an obligation he wasn't legally required to pay? Soon the International Monetary Fund began to consult Albino on policy, and he became personally close to American bankers like David Rockefeller of Chase Manhattan.

Even as the Bank started to grow and make a healthy profit in the postwar period, Albino SyCip believed that it was not enough that the Bank made money. He believed that China Bank had to be a catalyst for growth, not just for itself or its clients, but for the country as a whole. Thus, he set the Bank's lending priorities, which focused on reconstruction, rehabilitation, and long-term development. Other banks did not discriminate between financing a shipment of factory equipment and financing a shipment of luxury items. But China Bank did, because Albino did not want the Bank to support the importation of non-essential items.

"Amor con amor se paga."

In the 1950s, the Bank was a big help not just to traders and entrepreneurs—but to anyone who Albino SyCip found trustworthy. One such man was Jose P. Bengzon, former secretary of justice and associate justice of the Supreme Court. When he was still a junior government lawyer, Bengzon had problems making the big banks accept that a man living on a government salary was bankable. His son Dr. Alfredo R. A. Bengzon, former president and CEO of The Medical City (TMC), said: "My father was looking for a loan to build us a house in San Juan. Big banks like BPI refused to lend him anything. He felt they treated him like he was about to steal their money. My father was very particular about his integrity, and he was offended. Finally he approached China Bank. Albino SyCip gave him a clean loan. My father was very happy. He felt that the bank had treated him with respect, and that to him was the important thing."

Jose P. Bengzon served under Diosdado Macapagal's administration.

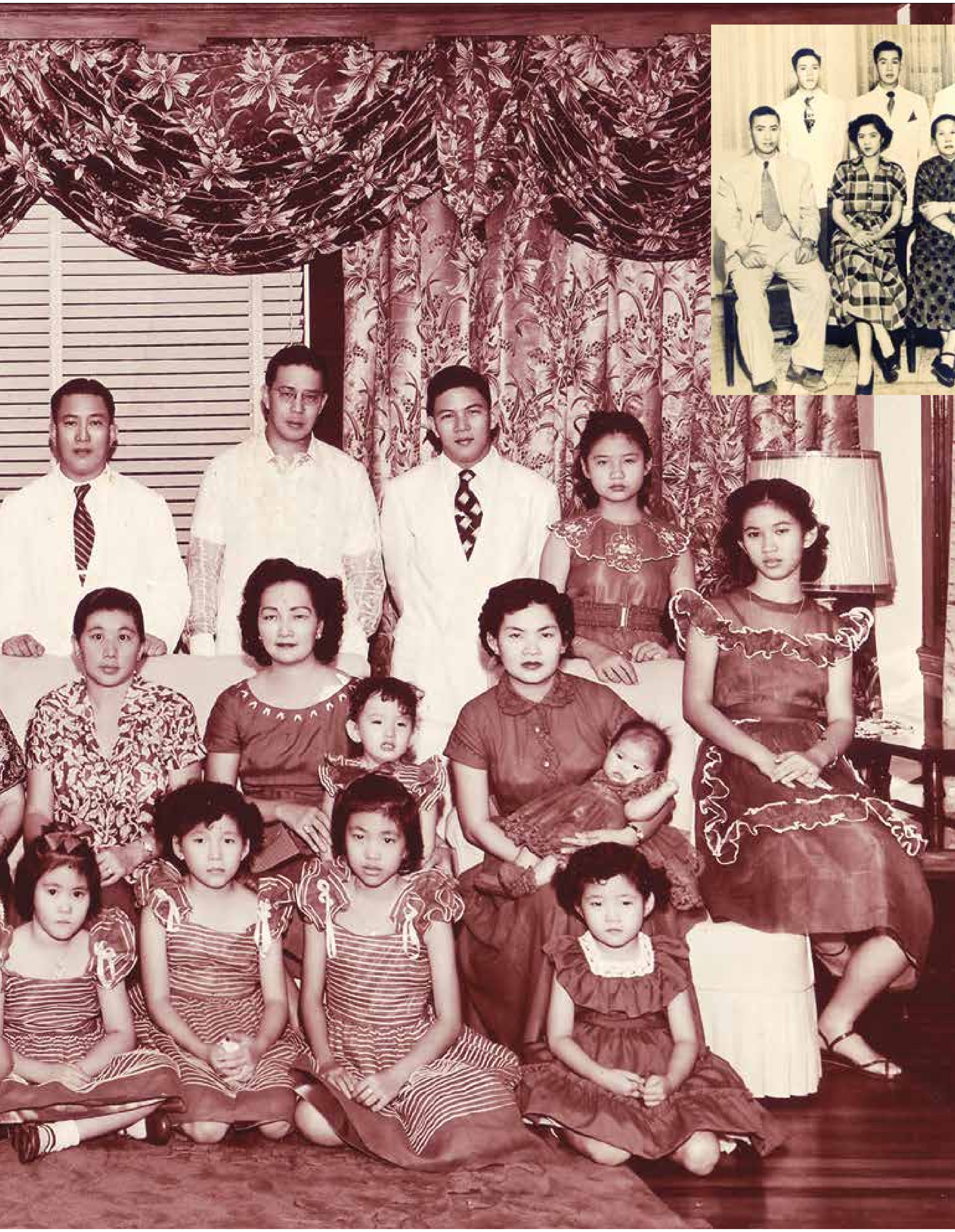
When Justice Bengzon retired from the Supreme Court in 1968, he took his lumpsum funds and put it all in China Bank. When his sons said he could earn better returns in the money market or stocks, he refused. He said: *"Amor con amor se paga."* Or: Love is repaid with love.

"When I came home in 1967 from medical studies abroad, China Bank treated me with the same respect, because of the relationship between my father and the Bank. They lent to me readily," said Dr. Bengzon, noting that The Medical City also found it very easy to deal with China Bank. "We are dealing with people who are levels removed from the SyCips and Dees—but they have the same level of respect for the client. That says a lot about the organization that the same values are still there," he added.

Dr. Bengzon's nephew, TMC Chairman Jose Xavier "Eckie" B. Gonzales, said: "China Bank understands my entrepreneurial saga and journey like no other. With China Bank, I have a relationship anchored on wise financial counsel with accountability, nuanced in the understanding of shared risks and rewards, and blessed with trust and integrity in execution."

Dr. Alfredo Bengzon, former president & CEO of the Medical City, served as health secretary, peace commissioner, and vice chairman of the Philippine Negotiating Panel for the U.S. Military Facilities during the presidency of Corazon C. Aquino.

Eckie B. Gonzalez, chairman of The Medical City and chairman and CEO of PSI Healthcare Development Services, Inc.



The Dee family matriarch, Gan Tiak, center, with her children.

The family of Dee C. Chuan. Included in the photo are Dee C. Chuan's wife, Gan Tiak; their children Herbert, Edward, Robert, George, Arthur, Henry, Julia and Grace, and their grandchildren, including Peter Dee, in front of Gan Tiak, and Nancy Dee Yang, seated extreme right, middle row.

"After the war, my father rebuilt the Bank and made it more prosperous than BPI. It was just hard work. I remember that time, when I came back to Manila, he was working night and day." —WASHINGTON SYCIP

Between 1945 and 1950, China Bank extended P182.84 million worth of credit to various rehabilitation and reconstruction efforts, as well as for new dollar-earning industries. In 1947, the Philippine American Finance Commission reported that many observers believed that the "foreign banks were not using their resources, derived in large part from local deposits, to promote the growth of the national economy." China Bank, though it still had significant foreign ownership, bucked this trend and lent heavily to rebuild and expand the local economy.

In only five years, China Bank had pulled off a stunning comeback. The Bank in 1950 had P85.133 million in resources and P60.434 million in deposits. It earned a profit of P2.3 million on gross income of P4.87 million, and it was once again one of the biggest and most profitable banks in Manila.

But Albino himself was prouder of the fact that the Bank had done so much to help rebuild the country. He was not interested in creating wealth for wealth's sake, but in what China Bank could do for the prosperity of the whole nation. As he once said: "What is good for the whole is good for every part, and what is temporarily good for one at the expense of another will sooner or later operate to destroy the whole."

CHINA BANK ENTERS CEBU

China Bank seemed to live a charmed life, because sometimes even disaster worked in its favor. When the Communists took over China in 1949, its newly reopened branches in Shanghai and Xiamen had to be closed again, this time for good. Its branch staff, including Yap Tian Siang, TS Wang, and Dong Pao "DP" Loh, had to leave for Manila, escaping capture by the People's Liberation Army only by a few weeks.

If these three men had been captured by the PLA, the subsequent history of China Bank would have been very different. TS Wang was the brains behind the Bank's foreign operations, and mentor to future bank leaders like Willy Tecson and Lawrence See. Yap Tian Sang, the son of the textile tycoon Francisco Yaptico, was an experienced loans executive who had an eye for spotting the talented entrepreneurs the Bank wanted to support. He was the man who gave Henry Sy his first big loan back in 1949, when the young shoe retailer had no land

(Leftmost) Dee K. Chiong and Regina Dee welcome Gen. Chiang Kai-shek and his wife, Soong Mei-ling.

(Left) George Dee Se Kiat and Regina Dee.

#1

RANK OF CHINA BANK AMONG
LOCAL PRIVATE COMMERCIAL BANKS
IN TERMS OF ASSETS,1955

From left: Guillermo Dy Buncio, George Dee Se Kiat, Marcelo Nubla, Mariano Mabasa, and Dee K. Chiong.

to offer as collateral, only his talent and energy. But Yap saw something he liked in the dynamic twenty-five year-old, and he gave him a big loan. That loan provided a key boost to Henry Sy's fledgling business, and set off a meteoric rise that came full circle in 2005, when he acquired control of China Bank. Yap was called the "Iron Man" by other China Bankers, because he would never bend on matters of principle.

Of the three top managers who had to flee China for the Philippines, DP Loh may have been the most pivotal for the Bank. DP, as everyone called him, was a Shanghainese banker whose integrity and charm made him the anchor of China Bank's Visayas operations for decades. In 1948, the Bank opened its Cebu branch. In 1955, DP became manager, succeeding Simeon Sy. He stayed in place on top of the China Bank Cebu organization until the mid 1980s; by then he had long since become an institution in Cebu business. During its first thirty years, China Bank in Cebu had nearly all the big accounts and clients because of DP's many good friendships.

DP became a close personal friend to shipping tycoon William Chiongbian and other local magnates. He formed his own golf group with his rich buddies, the Sunrisers Club. They would play together nearly every morning at the Cebu Country Club. The club included Joseph Gotianuy (of the Gotiaco group), Santiago Go (of the hardware firm Cebu Evergreen), Cipriano Lu (of the coconut milling conglomerate Ludo Luym) and Go Ching Hay. Nearly every morning, after golf, Chiongbian, Gotianuy, and Santiago Go would go to DP's office and sit around telling stories. In addition, DP's wife was a close friend of Lily G. Ngochua, the sister of John Gokongwei. So he was very well-connected in Cebu, in a way that his competition could only envy.

Known as "the banker of bankers" of Cebu, DP Loh, center.

It was during the decade of the 1950s and 1960s that Cebu took the title "Queen City of the South" from the erstwhile sugar capital, Iloilo City. Cebu became the center of the national shipping industry, and enterprising Chinese from Cebu, like Chiongbian and John Gokongwei, invested heavily in factories and heavy equipment. Like Singapore, Cebu didn't have much by way of natural resources, but its entrepreneurial class, which was mostly Chinese, more than made up for it with hard work, vision, carefully monitored spending and investment, and resourcefulness. And as Cebu grew, China Bank played a key role by providing the financing

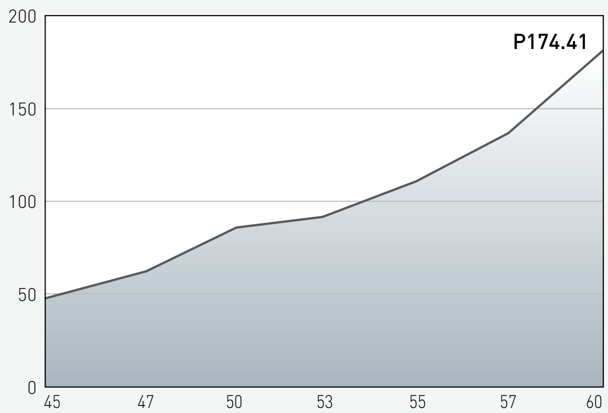
After World War II, China Bank developed a niche in a country that needed rebuilding. It opened its first local branch in Cebu along Magallanes St. in 1948.

for many of these tycoons. Ludo Luym, for instance, expanded their coconut mills, William Chiongbian bought more ships, and China Bank lent them a hand.

As China Bank expanded its branch network in the 1970s and early 1980s, DP became the Bank's area supervisor for Visayas and Mindanao. Even after his retirement, DP was kept on as a consultant and still went to work, because his clients still looked for him. He finally retired due to ill health in the 1990s and passed away in 2000.

Cesar Cinco, owner and head of Central Lumber, a leading Cebu hardware firm, said: "Once I really needed a loan, and it was during the 1980s, during a time of nationwide economic crisis. I went to China Bank. I went to see Mr. DP Loh to apply for the loan. I didn't really know him and my business wasn't that big at the time, so I was surprised that he agreed to loan me the money. It was hard for anyone to get a loan at that time. That loan was a big help to my business. As I was leaving his office, DP said to me: 'I want to tell you why I am giving you this loan. You do not have a lot of collateral, but that is all right. There is this man'—and here he named this rich Cebuano—'who has so much land to offer as collateral, but I will not lend to him. I do not like his character. But I like your character; I think I can trust you. So I am giving you this loan.' So that was the lesson I got from Mr. DP. Banking is not about collateral. It is about trust. It is about character."

CHINA BANK ASSETS
1945-1960
In Million Pesos



DP became a true China Bank institution, as respected as his Manila counterparts like Tan Kim Liong. Samuel "Sammy" Chiong eventually succeeded DP as head of the Bank's Cebu operations. Sammy said: "DP was really a character. You could not question his integrity. You could trust him down to the last centavo; he was very, very ethical. He wouldn't take advantage of anything. If you are looking for something colorful in the life of DP, you won't find it. It's very boring, because he was such a straight guy. If you went with DP to lunch in downtown Cebu, you would go hungry first, because everybody would greet him. And he would stop to chat. DP was in Cebu from 1949 up to the 1990s—so almost fifty years. So in a given family, he would know the grandfather, the father, and the grandchildren—he knew almost everybody there in Cebu."

Nancy Dee Yang said: "DP was the man the Bank relied on to pass its values to the younger employees in Cebu. He set the tone for our staff's ethics. When I went around and talked to our Cebu employees, you could really see that he had a great influence on them. . . . I remember, whenever we would

DP Loh

Jose Liao Osmeña

A feeling of family

DP Loh created a very close-knit feeling at China Bank Cebu, between the Bank and its employees and between the Bank and its clients. His secretary Nanette Jakosalem said: "Mr. Loh really was like a father to us." DP looked out for his people's welfare. He liked to give the employees tips on how to spend their money wisely and how to eat healthily by avoiding too much meat and eating more vegetables and fish. China Bank SVP and Deputy Group for Retail Banking Jose "Pines" Osmeña is himself the son of a China Bank veteran, Jose Liao Osmeña, and he recalled: "My Dad would tell me that every time they got a bonus, Mr. Lo would give them a seminar on how they should save their money. He would give a briefing."

The Bank's clients in Cebu treated DP Loh like family, and their children and grandchildren were raised to do the same. James Go, grandson of DP's good friend Santiago Go, is today an important China Bank client. But in the 1960s, he was a little boy running around the China Bank Cebu office, accompanying his grandfather. James said: "For as long as I remember, ever since I was small, I always called him Lolo DP. I used to visit his office all the time. I remember running around in China Bank on Magallanes St. before with my brothers on the second floor where DP Lo's office was. He always gave me treats. He was like family everytime I went to China Bank. My grandfather and he were best friends. DP was really a very nice man."

“Not only did Don Albino keep faith with his depositors, he also paid the Bank’s foreign creditors even on items that he could have legally avoided paying. To Don Albino, it is not enough that one does what is legally right, one must also do what is morally right.” —WILFREDO TECSON

visit Cebu, he would always meet me driving his little old Volkswagen Beetle. He did not use the Bank’s car or driver although he was entitled to both. He was always frugal with the Bank’s money. He would use one teabag to make tea for three friends, and then he would keep the bag to use the next day. He was that kind of man.”

Ricardo “Ric” R. Chua, who joined the Bank in 1975 and rose to become President and CEO, recalled: “As a young man who had recently joined the Bank, I went to Cebu and met DP Loh. We had dinner and DP was telling me that in China, he once witnessed a time, early in his career, when the government closed all the banks. He said: ‘Ric, it was a terrible experience. Because when they closed the banks, people were out there falling in line, queuing trying to get their money. And we had all these sacks and sacks of money that were worthless.’ So he said ‘When we were asked to come to the Philippines’—meaning he and his group of bank staffers—‘we vowed we would not see this again. We should never allow this to happen.’ So, when I look back on that dinner I had with DP Loh, somehow it captures what China Bank is—very conservative. And that is not borne from a lack of aggressiveness, but borne out of that experience. With these experiences of these guys back in China, they were really resolved they would not fail their customers. DP said: ‘I saw the people crying. It was their lifetime of work, all gone. We should never allow this to happen.’ So I said to myself: ‘This is THE bank to work for.’ I mean, if you are choosing where to put your money—well, these guys who got burned, these guys who went through this experience—they will take care of you. So now I understand where the Bank was coming from. That really had a big effect on my thinking as a young China Banker.”

Sammy said: “You know, when DP retired and I was asked to take his place, he still wanted to work. China Bank was very good to him. He was retired, but the Bank was still paying him a salary. But he felt so uncomfortable receiving the


Albino and Alfonso SyCip

salary from China Bank while doing nothing. And so he had to find something to do. But he could not do what I was doing because the responsibility had already been transferred to me. And *nahihiya naman siguro siya*. What he did was, he went around the branch and looked at who was very busy and he tried to help out. That's DP. He wanted to help the signature verifiers with the checks. But he was over eighty by then and his eyesight wasn't too good. But that's an example to tell you what the guy was like. I mean, he wouldn't want to get something if he felt he didn't deserve it."

"THE DEAN OF PHILIPPINE BANKING"

As Albino was putting the Bank back on its feet and bringing it to new heights between 1945 and 1960, he was also leading and molding men. He set a warm yet strict example for a new generation of employees—men like Johnny Coreces, Ricardo Liong, and Lawrence See. All three joined the Bank between 1945 and 1955, and all three rose to leadership positions and careers of solid accomplishment in the Bank. Johnny Coreces topped the 1949 CPA exams, became vice president and chief accountant, and spearheaded the computerization of the Bank in the 1960s. Ricardo Liong became assistant auditor, and in the 1970s, he pushed successfully for the Bank's drive into the then new financial playing field, the money market. See became the Bank's international department head after the retirement of his mentors, Lee Siau Tong and TS Wang. Soon, even the Central Bank liked to consult him on the intricacies of foreign exchange operations. See was the son of the late board member Chong Su See and the grandnephew of China Bank co-founder Benito Siy Cong Bieng, so it can be said that the Bank was in his blood.

All three, like other China Bankers before and after them, found Albino both inspiring and a hard example to live up to.

Johnny Coreces said: "Don Albino was the epitome of honesty, of integrity. Once he asked me to reconcile his check book. So I had to work out the balance, and I found he had a balance of over P1 million. Now, P1 million during those years, the 1950s—that's a big amount. I suggested to him: 'Sir, let me transfer this balance to a savings account so that you will earn interest.' He said: 'No. And let the Bank pay me interest as an expense?' So you could just imagine my reaction. Others would just say: 'So what if it's the Bank's expense? That's my money.' But he didn't want it. I said: 'Sir, you are not taking advantage of the Bank, because this is your money.' But he refused. I ended the conversation there; it was useless to pursue it. That's how principled that old man was."

Johnny added: "The next time, he asked me to do his income tax return. I looked over his expenses, his checkbook and savings account, and said: 'Dr. SyCip, let's deduct these entertainment expenses here because you are entitled to representation.' He said, 'No.' I said: 'I can give them your

(Right) Albino SyCip, Stephen Zuellig, and Lee Siau Tong.

(Below) CBC anniversary at the Western Garden, August 16, 1965. From left: T.S. Wang, Yap Tian Sang, Yao Mun Tek, Tan Kim Liong, M.C. Navia, and Siy Ka Bio.

receipts to show that you were treating clients.' He refused. So his income tax was so big. That really impressed me. He honestly declared his income, to the extent that he actually overdid it. But these were legitimate expenses. I could prove it. I had so many receipts. And he had so many donations to charity, which are also deductible. It got to the point that I felt frustrated: I mean, it's an accountant's job to find ways to reduce his client's taxes and there I was, unable to do so. But of course, I had to follow his instructions."

Johnny told another little story of how low-key his boss was: "When it was time for *merienda*, Don Albino would always ask our messenger to buy him *sarsaparilla*. Which was then I think only 2 centavos a bottle. We young clerks, we would drink Coke. That was more expensive. So whenever he came into our room during *merienda*, we the clerks would hide our Cokes, because we were embarrassed to be drinking them."

Albino set an example in small matters as well as big. Johnny said: "He always came in early, 7 a.m. or so. Now, whoever was there early, he would say, 'Oh, come on. Follow me.' He would go around the Bank, floor by floor. Often, he would bring me. He would check the entire Bank. If he saw a paper clip on the floor, he would say, 'Pick up the clip.' We would walk around and make sure that the Bank was clean and no paper clips were lying on the floor. Now that kind of experience has an effect on you, if you are a young employee who has just joined the Bank, and you are going around the premises with this great man. It teaches you to be careful with the Bank's resources. Even a paper clip is an expense; even a paper clip was important to him."

Ricardo Liong wrote: "I first met Don Albino in his mid-sixties in 1953 when, fresh from high school, I joined China

President Ramon F. Magsaysay

SONG OF THE WELL

Water is the prime element of the physical universe in the production and maintenance of life.

Spring up, O Liberty well,
In all our villages;
Till every barrio in need,
Has an artesian well.

Spring up, O Liberty well,
With water clean and pure;
For health and strength and vigor,
Of our dear Philippines.

The lyric of the SONG OF THE WELL was written by Cornelio M. Ferrer, rural sociologist, on July 20, 1955 in connection with the completion of the installation of some 1,907 artesian wells during the past sixteen-month administration of President Ramon Magsaysay for whom the song was dedicated.

(Continued on page [illegible])

80%

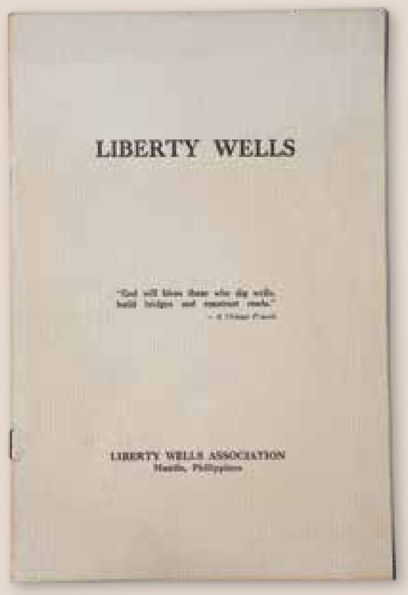
PERCENTAGE
OF FILIPINOS WITHOUT
POTABLE WATER,
1953

Liberty Wells

The Liberty Wells came about because one morning at breakfast in late 1953, Albino SyCip learned about a US government plan to put up a replica of the Statue of Liberty at Corregidor to commemorate the "fight for liberty" during WWII. He believed that such an expensive project that only a few tourists would see was wrong for a country where basic needs like potable water were still unmet for 80% of the people. In a country of 21 million, 17 million did not have access to potable water. Some 67,000 wells had to be built.

Albino later wrote: "In addition to symbolic appeals or sentiments, there must be palpable evidence that democracy is really a government for, of, and by ALL the people, so that our less privileged countrymen in remote rural areas, who constitute a large proportion of our population, may never lose their belief in democracy for want of the benefits it is supposed to offer to all citizens irrespective of class or station."

Albino thought: "Instead of a Statue of Liberty, why not Liberty Wells?" So he started a movement to build artesian wells for rural villages without potable water. In January 1954, Albino convinced President Magsaysay to back him; he also got private sector backing, both locally and abroad. US Ambassador to Manila Raymond Spruance and Harry Brenn of ICA (now USAID) agreed to back his project as well. Over the next thirteen years, the Liberty Wells Foundation built 20,000 wells and developed 2,061 springs. It became one of Albino's greatest achievements. The statue meant for Corregidor was never put up.



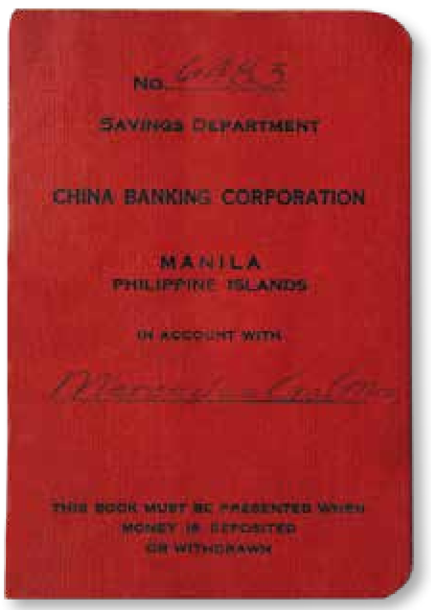
LIBERTY WELLS

LIBERTY WELLS ASSOCIATION
Manila, Philippines

Between 1940 and 1960, a new generation of China Bankers was steeped in Albino SyCip's values. Those values—kindness, professionalism, integrity, and concern for the progress of the nation as a whole—remain part of the DNA of China Bank.

Banking Corporation as an apprentice. He personally met all the new staff and interviewed other higher-ranking recruits. . . . After four years and a commendation from my immediate superior L.L. Pan, Don Albino finally remembered me by my family name. Once, he congratulated me for an outstanding task and I replied that I was only doing my duty. 'I know, Liong,' he said, 'but not everyone is doing his duty.'"

Ricardo added: "[Whenever it was near] election time, Don Albino would usually visit correspondent banks abroad. Publicly, he did not take sides on political issues but fulfilled his civic duties diligently. At all times, he upheld the fiduciary nature of his profession and protected the institution from scandals while maintaining his clients' trust. In his twilight years, he was promoting the Golden Rule: 'Do not do to others what you would not like done to yourself.' He distributed wooden rulers printed with the Golden Rule and its equivalent teachings from the Koran, Confucius' Analects, and other philosophers. As a man who followed his own teachings, Dr. Albino Zarate SyCip had truly lived up to the Golden Rule."



He added a humorous highlight: "At a Chinese wedding dinner, the host made my wife and I sit next to Dr. SyCip, and I learned another lesson. Carefully selecting his food in tiny portions, he explained, 'Eat less so that you can eat more.' By being careful with our diet, we can live longer and therefore can 'eat more.' In deference to his advice, that was the only full-course Chinese dinner that had left me starving."

Ricardo was struck by his boss's integrity: "'I have never borrowed a single centavo from my own bank,' he proudly said to me after reviewing some past due loans. Besides being in the board of a few prestigious companies like Lepanto Mining, Don Albino dedicated his career solely to the Bank. His other involvements included serving the Liberty Wells, a private foundation that provided safe drinking water for the poor, and other non-political institutions for the uplift of the masses."

For his part, Lawrence See remembered another instance of Albino setting a higher standard of behavior for bankers and businessmen. In the 1950s, during a time of strict forex controls, Albino SyCip needed to visit China Bank's correspondent banks in the US such as Chase Manhattan and Irving Trust. He was also requested to meet with the International Monetary Fund in Washington as a consultant on the Philippine economy.

Lawrence said: "So Don Albino was allotted a certain amount of dollars for his trip by the Central Bank. He returned to Manila after several weeks, and to the shock of Central Bank officials, he returned several hundred dollars to them."

This had never happened before: the Central Bank never asked people who got dollars for travel to liquidate their

It was LL Pan, the Bank's auditor, who painstakingly reconstructed the Bank's records after the war. He was aided by a young clerk then, Wilfredo Tecson.

expenses or return any savings. But Albino SyCip had used the money he was allotted very frugally, by staying in cheaper hotel rooms and buying very inexpensive gifts for his family and friends. He bought nothing for himself. Albino did not want to spend the money unnecessarily, since dollars then were strictly rationed by the government, and a dollar he spent on his trip would be, potentially, a dollar less for a productive enterprise that would help the Philippines.

Lawrence added: "The Central Bank would never ask this money back from you. People then would either spend it or keep it in a dollar account. But he surrendered it, which shows you the kind of man he was."

Lawrence added a more personal reminiscence: "I never saw him blow his top or get angry. When something went wrong, or something could not be done according to his wishes, he would show his displeasure, but it was always very controlled. He was really a kind man. Don Albino was a caring person. When you met each other outside of working hours, he would make an effort to get to know you and find out how you were. He would say: 'Are you taking care of yourself?' He was a stickler for eating well and eating the right food. He would always say: 'Health is wealth.' For the GM of the Bank to ask about you, and here you are, this young employee—that makes an impression on you."

Between 1940 and 1960, a new generation of China Bankers was raised according to Albino SyCip's values. This new generation stayed on in the Bank for decades—Lawrence See, for instance, retired in 1997—and to their subordinates, they passed on stories of the Old Man, and how much he had affected them and their values. Thus, even new generations of China Bankers who never met Don Albino were still steeped in his example. So Albino's values—his kindness, professionalism, integrity, and concern for the progress of the nation as a whole—remain part of the DNA of China Bank.

A NEW ERA

By 1955, China Bank had completed a remarkable comeback. It had P109.597 million in resources and P70.292 million in deposits—an astonishing performance for a bank that had been liquidated thirteen years earlier. In 1955, China Bank earned a profit of P2.76 million on gross income of P7.474 million.

More important, China Bank was, by then, the biggest local private commercial bank. It had 7.8% of all the assets in the commercial banking system. Its key competitors were BPI (ranked second, with 5.2% of the assets), the Philippine Bank of Communications (ranked third), and Equitable Bank (ranked fourth). BPI had received government assistance for its rehabilitation and China Bank hadn't, but the Bank was nonetheless bigger.

By then, George Dee Se Kiat and Dee K. Chiong were now in their early forties. They were ready to assume more responsibility. By 1960, Albino would step back from bank operations to focus on the big picture, and give his two young colleagues their chance to lead. A new era was about to begin, and the next generation was going to have to deal with a strange and challenging new world.


CHINABANK
TELLERCARD
ALCOM
CHINABANK
PESO

PART 2

CHALLENGE AND RESPONSE

1960-2010

CHAPTER 4

Brave New World 1960-1980

Under new leaders, the Bank strives to adapt to a new and very different environment—to become more dynamic, progressive, and competitive.

In the 1960s and 1970s, dozens of concrete, glass, and steel edifices rose on Paseo de Roxas, including the China Bank Building, built in 1969. Architect Antonio Sindiong designed the 15-storey building, which eventually became China Bank's headquarters in 1990.

George Dee Se Kiat and Dee K. Chiong, the next generation of China Bank leadership, had to deal with a very different world than their predecessors, Dee C. Chuan and Albino SyCip, did. By the early 1960s, there was aggressive new competition—banks that were going after the same markets and opening many more branches. Yet China Bank could not compete with them in terms of branch expansion. It was limited by regulations in its number of branches to four, because a significant block of its ownership was still foreign.

Also, by 1966, Manila had a newly created money market, trading new financial instruments like the treasury bill and creating new investment possibilities. Soon the money market offerings of the Bank's competitors had drawn in a good deal of the investible capital of its traditional clients who were looking for a better rate of return. The money market was an area where China Bank arrived late; it began dealing in T-bills in a small way in 1972 and had a full-fledged treasury department only in 1975.

Moreover, by 1975, China Bank was no longer the biggest private commercial bank. By 1960-1980, it was tenth among the local private commercial banks in terms of assets—a precipitous fall in only ten years. On top of all the above, the Bank also had to deal with new technology like the mainframe computer, severe economic shocks, stricter government regulation, much higher capital requirements, and the imposition of martial law. The period of 1960-1980 was

The top three honchos of China Bank in the 1960s and 1970s. From left: Dee K. Chiong, Albino SyCip, and George Dee Se Kiat.

not as dramatic as the previous twenty years, which had included a world war, among other things. But in its own way, it was just as challenging for the Bank.

Over its first fifty years, the Bank had developed a corps of senior managers, a distinct culture, and operating practices that had excelled in an older playing field. But all of these things also created in the Bank an institutional inertia to keep things just as they had always been. Yet George Dee and Dee K. Chiong knew that the Bank had to change; it was not well-adapted to this new world. China Bank was going to have to reinvent itself to compete. George Dee and Dee K. Chiong would spend the next two decades working on this task.

GEORGE AND DK

In 1952, Albino SyCip, who was now sixty-four, gave up the China Bank presidency to George Dee Se Kiat. Dee K. "DK" Chiong became the senior vice president and later executive vice president. George and DK, then both in their early forties, became much more active and exercised more authority at the Bank. By the early 1960s, they were in charge of most Bank business. From then on, Albino was content to be chairman and serve as a guiding spirit and mentor to the younger generation of leaders.

Since DK was Dee C. Chuan's younger brother, George was actually his nephew. But George was regarded by DK and all the other Dees as the senior leader of the Dee family following the death of Dee C. Chuan. George's daughter Nancy Dee Yang believed his having to take over the helm at a young age, because of Dee C. Chuan's untimely death in 1940, made George very serious about his work.

She said: "My father was quite young to have to take over when he did. But as a dutiful and responsible son, he took care of his brothers and sisters and became the *padre de familia*. It was a very heavy responsibility for him with so many siblings. And then there was the Bank for him to run and the lumber business. But he took these responsibilities very seriously and unconditionally."

George tasked his younger brothers Robert, Arthur, Edward, Henry, and Herbert to run the other family businesses such as lumber, real estate, paint, and aluminum.

#1

RANK OF CHINA BANK AMONG
LOCAL PRIVATE COMMERCIAL BANKS
IN TERMS OF ASSETS,1970

But he took on China Bank as his primary business responsibility.

George and DK formed a stable, productive, and complementary duo—equipped with different skills, personalities, and responsibilities. George tended to Bank operations. DK was the gregarious, outgoing type who liked handling clients and outside relationships. The division of responsibilities was perfectly suited to the personalities of both men; and because it was so natural, the Bank prospered.

When it came to Bank business, George was very meticulous and demanding—albeit in a soft-spoken way. Bank executive Honorio "Nory" Reyes-Lao said: "Mr. George Dee tended to be very personal in taking a look at the specific transactions and specific behavior of his employees. I remember several times he would ask people to be more prompt in reporting to the office. And when he came to the office, he would move around to see if these officers were at their desks. Now if that officer was not there yet, George Dee would just sit at his table, call up his secretary to bring his work to him, and he would work on the table of the officer who was late. So when that poor officer would come in, he would see the president seated at his table. 'Good morning, sir.' 'Yah, good morning.' Then he gets up: 'I'll ask my secretary to get all my files here later.' He would not say any other word. No more words needed to be said. So if you were that officer—my God, you would want to go home and commit *hara-kiri*. That was how George Dee was."

Albino Z. SyCip
with friends.

Employees like George's secretary, Lydia Yu, say that he was a fatherly man who was quiet, good-natured, and very kind to employees. George didn't like to raise his voice or draw attention to himself. But he had his principles and he made them clear to every employee.

George's cousin and subordinate Gilbert Dee (who later became chairman) said: "I remember that George Dee—if you fooled around even with the petty cash for a measly few pesos, he would fire you. We were that strict. Here, you don't fool around. Even for petty cash—for P100, P200—George Dee would fire you. It's not the amount of money that matters. It is the character. It's the principle. It's honesty and integrity. Skills can be taught. Honesty, you can't. Don Albino SyCip always said to me: 'You know, in China Bank, honesty and integrity are not negotiable. That's number one in China Bank.' You don't fool around with your reputation. Once you do that, even with a small infraction, that will be the end."

Nancy Dee Yang said: "My father inculcated in all of us [China Bankers] that we had to take very seriously our responsibility to be the caretaker of our clients' funds. So we had to really understand how to make and take on calculated risk."

Nory Reyes-Lao also recalled: "George Dee was strict about expenses. So all expenses of the Bank were centralized through him—he would check on all of them. And it also

Seated from left: Dee K. Chiong, Marcelo Nubla, Albino Z. SyCip, George Dee Se Kiat, Alfonso SyCip with other directors and associates.

became a habit that was carried over to his son, Mr. Peter Dee—he did that too."

Nory added: "Mr. George Dee was very paternalistic, very soft-hearted—although he was very strict as far as compliance with rules and regulations. But if you went and talked with him, if you tried to beg for his mercy, he would sometimes give in. And I can relate to you a very vivid example, where one of our employees was discovered to have committed a violation concerning moral turpitude. He had two wives. Anyway, we found out because he applied for a loan so that his wife could go abroad. Then later on he applied for another loan because, he said, his wife was going for maternity leave. So we started asking questions and found out. So under the rules of the Bank you would be out; there is a clause. So this gentleman brought his wife—the pregnant one—to talk to George Dee, to beg him for another chance. Eventually, George Dee said: 'But you must be punished. So you will be demoted.' The guy accepted the demotion and the guy worked with us until he retired."

The one limitation to George's business career was the fact that he suffered from diabetes, which grew more severe as he got older. When he was a young executive, George used to be active in community affairs. He was a leader in the Chinese Chamber of Commerce, the Chinese General Hospital, and some social groups; he also liked to go to various other socials and Bank activities with clients and government officials. As his illness grew more serious, however, George could no longer circulate in social circles as much as he would have liked. So he preferred to eat his meals at home, where his wife, Mary SyCip Dee, could monitor his food intake.

As George Dee Se Kiat began to circulate less and less in business and social gatherings, Dee K. Chiong took over these responsibilities on his behalf. DK was tall and gregarious, with a big voice and an outsize presence that his employees called "magnetic." He liked good cigars and good food and circulating in Binondo society. His son Gilbert said: "My father had a very strong personality. In any gathering he stepped in, you would feel his presence. He was the life of the party. He had a very

By moving quickly and sympathetically to meet clients' needs, George and DK made their clients feel that China Bank was not just a bank, it was also a friend.

strong character. Even if he was not talking, people could feel his presence there."

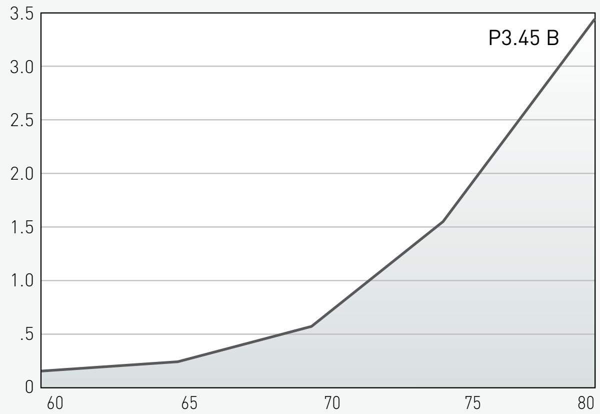
Whereas George was methodical, DK was very intuitive as a banker. He made decisions about loans and about people quickly. He also carefully cultivated many sources of information and knew who in the business community to consult about a particular applicant's trustworthiness. Employees said DK knew how to calculate risk well and he had big ambitions for the Bank. Whereas George preferred to minimize risk, DK wanted to grow the Bank in a big way. DK would eventually plan to build a new 32-story tower for China Bank in Makati that would have been the tallest building in the country for its time.

Also, DK would eventually lead the Bank to go overseas again, to Hong Kong and New York, in a bid to repeat the earlier successes of the Bank, in Xiamen and Shanghai, during the 1930s. DK had gone to St. John's University in Shanghai during his college years, during a time when China Bank still had branches on the mainland, and it was natural for him to want to bring those days back again.

George and DK preserved the traditional China Bank belief that accessing a loan was more a matter of trustworthiness and *xinyong* instead of balance sheets. Customers could and did walk up to DK in the corridors of China Bank and ask him for a loan. The Bank also had a loans department, composed of Albino SyCip, George Dee Se Kiat, Dee K. Chiong, and Yao Mun Tek, head of the Loans Department. But the Bank's board gave a lot of trust to the ruling troika of Albino SyCip, George Dee, and DK, and their loan recommendations were almost always approved. For their part, the top three men understood very clearly up to what amounts they were authorized to grant, and they were quick to bring in their board colleagues on loan applications that were beyond those limits. In this manner, by relying on great trust and mutual respect within the Bank, the Bank could act very quickly on loan applications. By moving quickly and sympathetically to meet clients' needs, George and DK made their reliable clients feel that China Bank was not just a bank, it was also a friend.

Gilbert added: "My father believed in *xinyong. Xinyong* is all about trust. The older generation—when deals were made, it was just a handshake, a purely verbal agreement. That was enough. No need for a receipt, no more documents—just your word. Your word is your honor. Of course, after so many generations, things are not the same any more. But during my father's time, that was normal. That's how things were done before, when it came to getting credit. What mattered [to my father] was if you were trustworthy or not. He wanted to know people well, to know if they had a good family background."

CHINA BANK ASSETS
1960-1980
In Billion Pesos



Albino SyCip, Wilfredo Tecson, George Dee Se Kiat.

Dee K. Chiong, second from left, and Regina Dee, extreme right, welcome guests at a social gathering.

Gilbert went on: "I remember people would just go directly to my father and ask him for loans. No more processing. At that time there was no account management group that was processing loan applications. If my father trusted them, he would approve and then call up the loans department: 'You give this guy P100,000.' Just like that. That's how it was. . . No applications, no nothing. That's how things were done."

Atty. Omar Vigilia, who served the bank for thirty-five years, and was the former head of China Bank's legal division, recalled: "When somebody came to DK asking for a loan—and I saw this—Dee K. Chiong would only ask three questions: 'How much do you need?' 'When can you pay?' 'Who do you know in the Bank who can vouch for you?' If the person answered satisfactorily and DK had a good feeling about the person's character, he would have the loans department release the money to him. And then when the person had the funds and was about to leave his office, DK would ask: 'Do you have collateral?' If the person did, DK would take the deed to the property. Would he put a mortgage on it? No. He would just put it in his desk drawer and forget about it. That was DK. That was how he was as a banker."

Like George, DK believed that the Bank had to make a good profit, but it also had to keep faith with its clients and with traditional Binondo values. Retired China Bank senior executive Rene Lao said: "I remember one incident with Mr. DK. Once, there was a foreclosed asset that China Bank had. There was a potential buyer who quoted a higher price for that foreclosed asset. But then the original owner also offered to buy it, but for a lower price. The difference between the two prices was not small. But Mr. DK said: 'No, Rene. We will sell it to the original owner. Because that is the proper thing to do.' I never forgot that."

Unlike George, who focused largely on the Bank, DK had many other business involvements, such as Philex Mining, founded in 1955. He was also part of the investor group led by his friend Ralph Nubla that in 1974 took over Philippine Bank of Communications. DK also had overseas business ties. After the death of his first wife Rosa Uy Dee in the early 1950s, he married Regina Yui, the daughter of Yu Hung-chun, (俞鴻鈞; 1897-1960) who, for several years, was the premier of the Nationalist government of Taiwan. His marriage to Regina made DK even better connected with the Taiwanese government—on top, of course, of the Dee family's already long history of backing the KMT and DK's own friendships with a large number of Taiwanese influentials. In the 1970s, he began to spend a lot of time in Taipei, serving as chairman of a big Taiwanese financial services company. His ties with Taiwan would prove to be very helpful to China Bank at a crucial point in its history.

The Bank's computerization project was so successful that it became a model for other banks in the nation and the region. The Bank had become a trendsetter.

Dee K. Chiong

1970: STILL TOP OF THE HEAP

Under the leadership of Dee K. Chiong and George Dee, China Bank remained a leader in the industry. The ten years between 1960 and 1970 were a prosperous time. In 1970, it was still the biggest private commercial bank in the Philippines. It had P566 million in resources (an 11% growth over 1969) and P353 million in deposits, and it made a profit of P14.38 million on gross income of P57.45 million, for a return on equity of 16.86%.

China Bank had 4.1% of the assets in the commercial banking system. In comparison, a rival bank which was much older had, in 1970, total resources of P511 million.

The Bank's superiority was not only financial but also technical. In 1966, the Bank's leadership agreed to invest heavily in computer technology and in a computer center—the first of its kind among Philippine banks. Initially, the computer was to be used to speed up back office operations, to help the Bank update its accounts and close its books much faster than any manual process. But eventually, chief accountant (and the computerization project manager) Johnny Coreces became fascinated with the possibility of doing even more—with using China Bank to help customers process their accounts online. This would lead to the first online banking operations in the country.

Johnny Coreces recalled: "Our computerization project was done because, first, that was the trend internationally—to computerize. We were accumulating so many transactions per day, and if it's all manual, that delays the entire process. Whereas, with automation, by the following day, you would already know the complete financial status of the Bank. So we embarked on this project. And we embarked on on-line transactions—meaning if you had an account with Binondo, and you were in the Sto. Cristo branch, you could transact from there, through the wires. That was doing banking 'on-line'. Now it is normal, but we were the first bank to do that in the Philippines—and the first in Southeast Asia."

Johnny added: "IBM was trying to introduce the computerized banking system to the banks in this country. They wanted to sell us their equipment—at first they were showing us the Model 1440 computer. So they sent their experts here to convince us. I remember they sent a man named Hughes. And we liked his presentation, so finally we were convinced that we should go into automation."

Johnny's chief lieutenants in the electronic data processing (EDP) project were Rufino Tolentino and Henry Yeh. The young Henry became the Bank's ace programmer; before an IBM-administered test had revealed his extraordinary aptitude for computers, Henry was quietly clipping articles in the Chinese-language newspapers for the Bank.

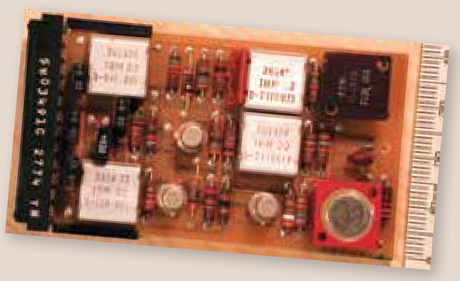
The Bank had full online operations in place by 1969. Its computerization project was so successful that it became a model for other banks in the nation and the region. The Bank's

The huge IBM System/360 could have a storage of 1024 kb, much less than what one finds in a thumb drive (left), which can have as much as 8 gigabytes.

Taking Filipino banking to the next level

At first, China Bank wasn't thinking of using the top-of-the-line IBM System 360. It was going to use a less capable System 1440. But project head Johnny Coreces had doubts. The 1440 could handle the existing 15,000 accounts of China Bank, plus several thousand more. But Johnny believed that the Bank's needs would begin to grow much faster, beyond the capabilities of the 1440. Since a mainframe was expensive, China Bank had to make the investment count. Coreces decided to recommend the more advanced, capable and upgradeable System 360 instead. The S/360 was at the time a new mainframe family that IBM began selling in 1964. It was the first family of computers designed to work across the complete range of applications, and to work well at various scales, from small to large. The S/360 became one of the most influential computers in history and it created IBM's long-held dominance in mainframe computing, partly because it allowed customers to purchase a small system with the ability to migrate upward as their needs grew. That capability was precisely what China Bank needed. Johnny noted: "We were the very first bank to upgrade without ever taking delivery of the first model."

IBM



With Johnny Coreces' foresight, China Bank opted for the IBM System/360 Model 30 which was then the top-of-the-line. The Bank was the first bank in Southeast Asia to use multi-programming online banking with the IBM 360 to process both savings and current accounts by 1969.

(Left) Jovito Salonga, seated, third from right, joins his Japanese prison camp comrades, who include Albino Sycip, seated, second from right, and his brother Alfonso, seated, third from left, and George Dee Se Kiat, standing, right most, for this 1960s reunion photo.

(Bottom) Dee K. Chiong's office in Binondo. It also served as the office of Gilbert U. Dee as Chairman until the executive offices were transferred to the new head office in Makati City.

EDP center drew interested visitors from banks in Thailand, Singapore, Malaysia and Taiwan, who wanted to study the system. Bangkok Bank installed its own IBM/360 after learning of China Bank's successful use of the system. Others soon followed. The Bank had become a trendsetter.

The Bank's new IBM S/360 was a robust system that served as the Bank's mainframe for the next twenty-two years. In the mid-1970s, China Bank upgraded to the next level, the IBM S/370, which was backward compatible with the S/360. China Bank stayed with this IBM configuration until 1988, when a new generation of computer capabilities prompted an upgrade.

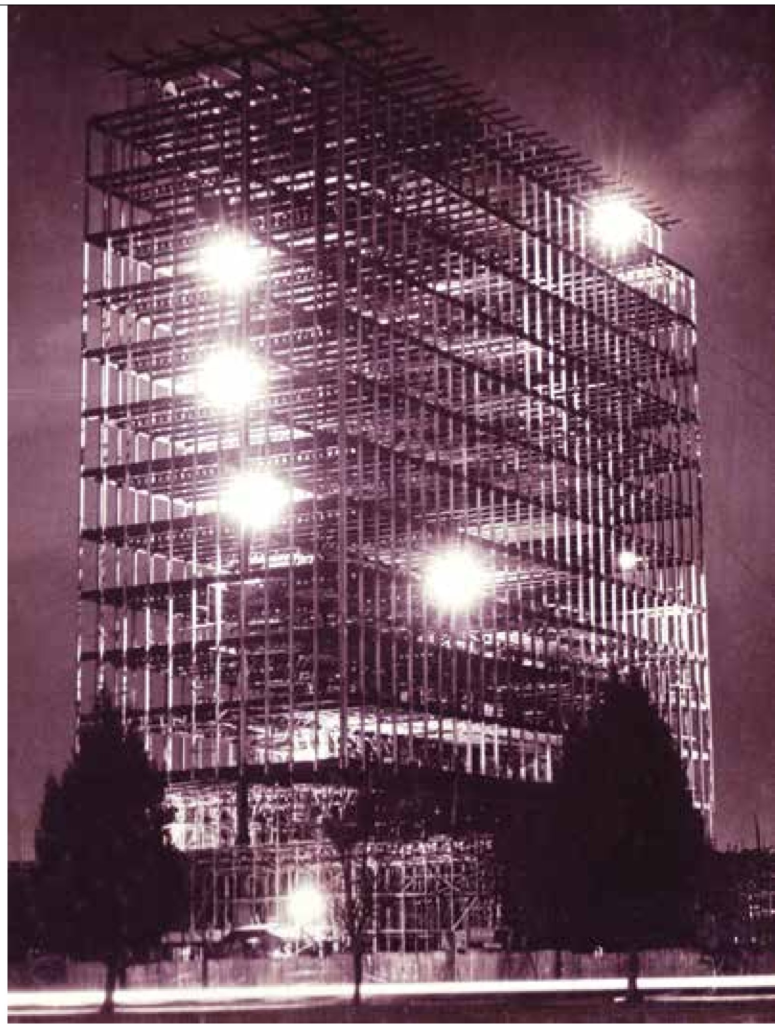
The Bank was also keeping pace with larger national trends. Over time, the center of gravity in Philippine business was shifting to Makati. In the 1960s, most of the big banks and corporations had begun transferring to Makati. China Bank was not about to leave its Binondo base, but in 1966 it began planning for a new Makati building that would in time serve as its new headquarters.

For the time being, the big new building would serve as its Makati branch. In July 1970, the Bank opened the branch under Antonio P. Tecson, the younger brother of one-time bank VP Wilfredo Tecson. China Bank now had three branches, plus the head office in Binondo.

The new 15-story building in Makati was designed by architect Antonio Sindiong, with a look inspired from the famous Lever House in New York City. Lever House is the quintessential "glass box" International Style skyscraper, following the principles propagated by famed architect Mies van der Rohe. The Lever House building at 390 Park Avenue became an architectural landmark, featuring a glimmering 24-story blue-green glass and stainless steel curtain wall.

The China Bank Bldg. differs from Lever House in that it is nine stories smaller and it has the Bank branch on the ground floor, instead of the open courtyard of Lever House (which makes the building appear to "float.") But much of the look and feel of Lever House is preserved. The Makati branch design was another concrete sign that the Bank was ready to keep up with the times. Board member Edward Dee Se Kiao, George Dee Se Kiat's brother, was an architect by training, and had some influence on the Bank's deciding on such a modernist approach. China Bank's curtain wall tower design was later adopted by many of its neighbors on Paseo de Roxas, such as Citibank, Equitable, and Philamlife. But as with computerization and online banking, China Bank had been there first.

As the center of gravity of Philippine business shifted to Makati, China Bank decided to build a branch in the new financial district in the late 1960s.



NEW CHALLENGES AND PRESSURES

Even as the Bank did its best to keep up with the pace of change, the ground was moving underneath its feet. In 1960-1980, China Bank faced more intense competition, armed with more advanced management techniques; it faced new financial products and deposit substitutes such as the T-Bill; and it had to meet higher capital requirements from the Central Bank, which in turn led to a wave of acquisitions and thus meteoric growth by its biggest competitors.

As the economy expanded in the 1950s and 1960s, many more big family-owned conglomerates entered the banking industry. Once, during the tenure of CB governor Miguel Cuaderno (1949-1960), new bank licenses were granted only rarely and under very stringent terms. But his successor Andres Castillo (1960-1967) chose to loosen the once-tight reins on the granting of new bank licenses. Between 1960 and 1965, the number of private commercial banks grew from only 13 to 33.

The reasons for this so-called "bank rush" were many. The top family-owned conglomerates needed much more financing in the credit crunch that ensued after the progressive devaluation of the peso between 1960 and 1962. At the time, there were fewer barriers to entry, since capital requirements were low and bank regulation was then lax. And most of all, the business community had learned one thing from the success of older banks like China Bank: banking was very profitable for those who knew how to run a bank.

Eddie Go, China Bank chairman and CEO from 1985 to 1989, who entered the banking industry in 1962, recalled: "In those days, if you were a bank, you were guaranteed to make profits. There was an interest rate ceiling on deposits, there was a ceiling on loans. But the margin then was big. You would have to be very foolish not to make money. And even foreign exchange profits then were at one per cent spread, one and a half per cent spread. Now, interest rates are very low."

Many of the new banks that were created during this era were weak, badly run and undercapitalized, and were eventually acquired by other banks. But a few of these banks would be much more successful. These would soon be some of the biggest banks in the country. Far East Bank and Trust was founded in 1958, Philippine Commercial and International Bank (PCIBank) and Rizal Commercial Banking Corporation (RCBC) in 1960, Metropolitan Bank and Trust (Metrobank) in 1962, Consolidated Banking (Solidbank) in 1963. (Equitable Bank was a little older, having been founded in 1950.) These banks were all well-led, well-capitalized, and very aggressive. They began putting up the big branch network that China Bank was restricted from building.

Equitable, RCBC, and Metrobank were all Chinese-owned banks, and they followed China Bank's strategies. RCBC, for instance, was run by Albino SyCip's son-in-law Alfonso Yuchengco. Equitable Bank founder Go Kim Pah

With its small staff, few branches, and insistence on close face-to-face interaction with bank clients, the Bank was hard-pressed to compete in an environment where the biggest banks had dozens of branches and over a thousand employees.

openly admitted that China Bank was his inspiration. The Ty family of Metrobank had been long-time China Bank clients. They all targeted the same markets as the Bank.

On the other hand, PCIBank was not a Chinese-Filipino bank, but it was the bank of Eugenio Lopez, Sr. and his powerful Meralco conglomerate. It, too, was very aggressive, well-led, and well-funded. In addition, the once stodgy and conservative BPI was revitalized by its takeover by the Ayalas in 1979 and the leadership of Enrique Zobel and Alberto Villa-Abrille. It, too, began building a bigger branch network and acquiring smaller banks. By the late 1960s, these rival banks had branch networks much bigger than China Bank's.

Solidbank, on the other hand, was put up by a good friend and golf buddy of Albino, Vicente Madrigal; in the process, China Bank lost one of its best men. Madrigal offered the GM and EVP positions in the new bank to China Bank's VP Willy Tecson. Wilfredo was the fourth man in the Bank hierarchy and was known as one of the best bankers in Manila. Tecson took the offer with the blessings of Albino SyCip, who acknowledged that his protégé Tecson, whom he once wanted to succeed him as president, could rise no higher because he was not a member of the key shareholders' families. It helped Albino to know that his friend Madrigal would take good care of Tecson.

Willy Tecson said in 1967: "Five years ago, when I was offered the general managership of the Consolidated Bank and Trust, I was faced with a most difficult decision. I had practically grown up in China Banking Corporation and I had regarded Don Albino more like a father who had guided my career up until then. The opportunity to build a new bank from inception, however, was too much of a challenge to ignore or let pass. After several nights of soul-searching, I finally decided to tell Don Albino. At first, he asked me to reconsider and assured me that a bright future still lay ahead of me in the China Bank. But two days later, he reopened the subject and said that he would not want to stand in the way of my progress and development. He said he knew that I had several offers from other banks in the past, although I had not told him about them. He presumed, therefore, that this time, when I decided to inform him about the Consolidated Bank offer, I must have already considered it thoroughly. He then said I could resign from China Bank with his blessings. His is a big heart—for Don Albino knew that he could have kept me in China Bank and all he needed to do was to tell me that he wanted me to stay. Yet, he chose to let me have my chance to be on my own. How can I ever forget such a man!"

Tecson would soon be promoted from EVP to president of Solidbank, and he would remain in charge until he retired in 1992 at the age of seventy. The bank prospered under his leadership. When he retired, the bank had P20 billion in total resources, after starting in 1963 with P8 million in capital.

These rival banks had a much steeper growth curve, and despite China Bank's long-established lead in assets and deposits, it was only a matter of time before they caught up. In 1972, China Bank opened its fourth branch in Caloocan (in addition to Santo Cristo, Cebu, Makati, and the head office in

(Opposite page) Dee K. Chiong greets sugar magnate and banker Antonio Roxas-Chua.

(Right) With its curtain glass tower design inspired by the Lever House in New York, the China Bank Building built in 1969, is among the first modern buildings along Paseo de Roxas, together with the Doña Narcisa building (behind) and the Insular Life Building.

Binondo). At this point, one of its biggest competitors, which was only twelve years old, had thirty-eight branches. By the early 1970s, China Bank's main competitors now had dozens of branches each. With their big branch networks, they now had better access to low-cost funds (in the form of deposits) with which to grow even further.

In addition to sheer size, these banks were also beginning to use more sophisticated management tools which had not been widely available to Manila's banks during the 1940s and 1950s. These included detailed operations manuals, budgeting procedures, performance targeting, performance ratings for every employee, profit-sharing based on performance, and so on. The most competitive banks had well-tested methods for calculating important items such as the profitability of each branch, the appropriate amount of cash in vault per branch, and so on. They also had manuals for control systems to prevent fraud or abuse, and detailed procedures for more advanced financial products like treasury bills. These banks, in addition, had departments that China Bank didn't, such as treasury, corporate planning, branches administration, and account management.

On the other hand, China Bank didn't have detailed operational manuals, budgeting procedures, or the modern quantitative management methods being introduced by its competitors. With its small staff, few branches, and insistence on close face-to-face interaction among bank staff and with bank clients, the Bank relied on more personalistic, intuitive, and subjective management methods. In a world where the best banks had many branches and thousands of employees, these old arrangements could no longer hold.

A major factor in their competitors' catching up was the rise of the local money market in the 1960s. For the layman: the money market is a component of the financial markets which deals with short-term borrowing and lending. Trading in the money markets involves treasury bills, commercial paper, bankers' acceptances, certificates of deposit, and short-lived mortgage- and asset-backed securities. The money market didn't exist in this country until it was brought into existence by the introduction of the treasury bill by Bancom.

In 1965, Bancom Development Corporation was created as a joint venture between Bankers Trust of New York and

China Bank Officers' Party, 1970. (Seated from left): Enrique Dy Buncio, Robert Dee Se Wee, Marcelo Nubla, Dee K. Chiong, Albino Z. SyCip, George Dee Se Kiat, Vicente Uy Chaco, Yu Fu Shen, Joaquin Dee, Gilbert U. Dee. (Second row, from left) Eduardo Dy Buncio, Florentino del Rosario, Rufino Tolentino, Nancy Dee Yang, Epifanio de Mesa, Juan Coreces, Arthur Hsu, Gonzalo Rialp, Tan Kim Liong, Juan Wong, Florentino Andrada, Lawrence Y.L. See, Eduardo Jose, Jose Ting, Leoncio Lim.

(Third row, from left) Henry Yeh, Ceferino Beltran, Jose Dy, Go Se Kieng, Antonio Dayrit, Antonio Tecson, Jose Ngkaion, Ricardo Liong, George Pay.
(Top row, from left) Leonardo Tancuan Jr., Arsenio Sy Santos, Jesus Pelea, Ramon Dee, Lin Yu, Goo Tat Chiong, Yao Mun Tek, Jose Dujunco, Alex Lim, Buenaventura Ngkaion, James Ngkaion.

Gilbert Dee and DP Loh.

34%

ANNUAL GROWTH OF THE LOCAL MONEY MARKET BETWEEN 1966 AND 1973

Comtrust Bank in Manila. It was headed by the young financial wizard Sixto K. Roxas. With Bancom, Sixto, his brother Andy Roxas, Augusto Barcelon, and a few other young financial experts (Luis Villafuerte, Rolando Gapud, Ramon R. del Rosario, Jr., among others) brought new financing techniques to the Philippines. To the once-limited horizons of Philippine finance, Bancom made pioneering contributions in the areas of money market operations, equity underwriting, accessing foreign credit, and project finance.

With the young investment houses getting a large slice of big investors' money that used to go to commercial banks, the big banks themselves rushed in to take a share of the profits by putting up big money market/treasury units of their own. The money market grew 34% a year between 1966 and 1973. It provided the first serious competition to the deposit-taking capacity of the commercial banks. By 1974, the total amount invested in these "deposit substitutes" amounted to 80% of the total of savings and time deposits. China Bank arrived at this new market relatively late, so the growth of the Bank's assets and deposits slowed down in the late 1960s and early 1970s, as big depositors looked elsewhere for better returns for their money.

The 1960-1966 "bank rush" also provoked another major change in the banking landscape. Several of the new banks either failed outright because of mismanagement and outright fraud; others limped along, going from crisis to crisis. Eventually, the Central Bank, the IMF, and the Bankers Association of the Philippines came to a policy consensus that the local banking industry was too fragmented and small-scale. It couldn't provide financing in the scale that local industry needed, and its persistent weaknesses left the nation far too vulnerable to bank runs and bank failures. The Central Bank decided that commercial banks had to be better capitalized; in the absence of more capital, the smaller banks would have to be forced to merge or sell out to the bigger players. In late 1972, President Ferdinand Marcos issued a new order requiring commercial banks to have no less than P100 million in capital by September 1975.

In 1975, China Bank made it to the P100 million capitalization threshold with little trouble. It raised an additional P62 million in four years from retained earnings alone, without having to bring in any new capital from its shareholders—a sign of its inherently conservative policies and financial strength.

But not every bank was this solid. Many banks went under or sold out because of this new requirement. The biggest and most liquid banks started acquiring the smaller ones. This, in turn, allowed them to grow at an unprecedented pace. By signing a sale agreement, these banks could add dozens of branches in one fell swoop. The rich, so to speak, got richer. This process of large-scale bank consolidation meant that China Bank had an even steeper climb to catch up with these competitors.

NEW BLOOD: GILBERT AND PETER DEE

To cope with these new challenges, the Bank needed younger leadership at several levels. Both Dee K. Chiong and George Dee had been born before World War I, and as they themselves conceded, the new environment called for new blood, fresh ideas, and energy. In 1968, the Bank's senior managers were all in their fifties at least; men like TS Wang, DP Loh, Yao Mun Tek, George Pay, Buenaventura NgKaion, Arsenio Sy Santos, and Tan Kim Liong were in their sixties.

Dee K. Chiong and Peter Dee.

Yet the big innovations in Philippine banking then were being put in place by men like Sixto K. Roxas and Jose "Jobo" Fernandez, who in 1968 were then only in their forties—and their own key assistants like Luis Villafuerte and Roly Gapud were younger still. By the 1970s, Bancom had among its executives fast-rising young men like Manny Pangilinan, Ramon del Rosario, Jr., Gabby Lopez, and Alran Bengzon. Citibank, for its part, was giving major responsibilities to the graduates of its own training program—young men like Rafael Buenaventura, Eddie Regala, Sonny Vistan, and many others. Citibank's so-called "University of Banking" also trained other young men who quickly rose to top positions in other major banks, such as Tony Ozaeta, Placido Mapa, Jr., Xavier Loinaz, Ray Orosa, and Eddie Go (who became chairman and CEO of China Bank in 1985). Thus, the once staid and predictable world of banking—which in the 1950s was dominated by cautious, conservative men in their sixties—had, in the go-go years of the early 1970s, become a young man's game.

In addition, by the early 1970s, the Bank's triumvirate at the top was no longer as active or hands-on as they used to be. By then, Albino SyCip was fading from the picture, due to his advancing years and occasional bouts of ill health.

Sixto K. Roxas

Financial innovation

Bancom provided the Filipino market with new ideas and new instruments such as treasury bills and commercial paper. Since Bancom did not have the burden of a large staff or hard assets, its operating costs were low. Thus, it was able to offer better rates for investors' money than commercial banks. Bancom started operations in 1965 with resources of P7 million. By 1973, it had increased these to P700 million, with a money market volume of P16 billion annually. After Bancom created the money market in the country, many new investment houses were created to compete with it. Peter Dee would later say that he learned a lot about banking innovation from working with Bancom, during the years he was with RCBC.

China Bank officers, led by Dee K. Chiong, seated, center, during the Bank's anniversary party. Encircled are Peter Dee and Gilbert Dee.

Dee K. Chiong was becoming more involved with Taiwanese businesses, so he spent less time on China Bank matters. In the early 1970s, George Dee lost first one leg and then another to diabetes. He had to cut back on his work load.

Bank executive Rene Lao recalled: "When I first entered the Bank [in 1973], George Dee already had one leg amputated. Once I was seated next to him, he was moving his leg, and said: 'There's something not good.' I said, 'Sir, are you all right?' He said: 'This leg of mine. . . .' That was the time that an infection started in the other leg. And before I knew it, it had to be amputated also. I felt so sorry for him. He went to work in a wheelchair."

So the Bank's first task was to bring in new leadership, both from the Dee family and from the ranks of the Bank's professional managers. Between 1969 and 1972, George and Dee K. Chiong brought in their sons, Peter and Gilbert, then only in their early thirties. The two younger Dees, in turn, would bring in many young managers, and together, they would transform the Bank.

DK's son Gilbert joined the Bank first. But his entering China Bank was far from a sure thing. As Gilbert said: "A career in banking was really my intention, so I got an MBA in finance from the University of Southern California. But my father told me that I had to work outside China Bank first and to prove myself, before they could consider me joining the Bank. So I joined Philippine Bank of Commerce; I started from the ranks. I was hoping that someday, I would join China Bank. But I was happy with the Bank of Commerce. After nine years, I was head of the Credit Department."

In 1969, Albino SyCip conceded that Gilbert, then thirty-three, was qualified, and he personally extended the invitation to Gilbert to join the Bank. Gilbert became a vice president and a board member, but his initial duties were humbler than these titles implied.

Gilbert was, at first, made his father's executive assistant and given a desk inside his father's office. Gilbert said: "My father was very strict with me. When I first joined the Bank, my table was inside his room, so he could watch me. My table was there in the corner." But as DK became more confident in his son's skills and also more involved with his Taiwan businesses, he gave Gilbert more authority to decide on pending matters in his absence. Gilbert, for his part, did not shy away from making these decisions.

Gilbert said: "Every time an important client went to his office, he would introduce him to me. And then after a few years, when he started mellowing also, he would spend half of the year in the Bank, half of the year in Taipei. At that time, there were only seven financing companies in Taipei; my father headed one of them as chairman. When he started spending more time in Taipei, he would tell our clients: 'If you want to see me, you see Gilbert; he will take care of you.' When he was out of the country, his clients would come to me and I would act on it right away. Not every decision I made was right. But he was not there, so I had to decide. People have to be trained to make decisions. You do not shy away from that."

Gilbert added: "We had very big long-standing accounts like those of the Chiongbians and the Tagles. And these family's patriarchs, when they were about to retire, they would

bring their sons to the Binondo office and they would tell my father: 'I am retiring already and my son will be taking over.' My father would say: 'If you need anything, you see Gilbert.' So the relationship between the Bank and its long-time clients was passed down to the next generation."

Like Gilbert, Peter Dee, who is six years younger, did not start his banking career at China Bank. He too began elsewhere—at RCBC. In 1964, he was invited to join this young bank by his father-in-law, Alfonso Yuchengco, who was then just one of several investors in RCBC—not yet its chairman and major shareholder.

Peter said: "My father-in-law said to me: 'Do you want to join?' So I said, 'Okay.' I was taken aback. He was the one who got me into banking because I had no idea then of going into banking. I was still studying in college at the time. I was young, I did not know what to do—whether to be a businessman or what. So that's how I joined a bank."

In 1964, Peter Dee joined RCBC as a credit investigator, working at the minimum wage of P4 a day. He hadn't even graduated from UE yet; his BS Commerce came in 1965. Peter said: "I worked at RCBC for eight years. It was good for me. Everything was new. The people were also new. In a new commercial bank, there is more of a chance to learn. If you're small, you have to do a lot of things yourself. So I learned a lot. I enjoyed working with them. I learned how to play the game. After a while, my father-in-law became more serious

Dee K. Chiong congratulating Peter Dee at the Service Awards in 1982.

about having more shares in the bank, and he got control and became chairman."

At RCBC, Peter Dee underwent training at the American Institute of Banking and Irving Trust in New York. He also trained in Geneva for several months in 1971, getting more exposure to international banking.

Another major step in Peter Dee's banking education came in 1969, when RCBC created a functional merger with Bancom. Through this merger, Bancom combined its investment banking capabilities with those of a commercial bank, offering a broad spectrum of financial services. The power of this combination can be seen in just a few telling numbers: In 1969, RCBC had total resources of P145 million. By 1970, it had grown to P232 million, and by 1971, to P536 million. In the space of two years, RCBC was catapulted from 15th among 33 commercial banks to the top five. Peter Dee, then with RCBC as an AVP with the Rosario branch, was inspired by the example of Bancom and its modern financial methods.

Peter said: "I learned a lot from them, from the Bancom people—from Sixto Roxas and Augusto Barcelon. All their people were good, all tops in their field. There were many changes for us in RCBC. So that's how you grow, meeting different people, learning different ideas. That's how I learned a lot more about banking." Peter Dee would later bring much of what he learned by observing Bancom into a comprehensive long-term effort to bring new ideas and competitiveness into China Bank.

But the partnership between Bancom and RCBC wasn't destined to last. As Ambassador Alfonso T. Yuchengco narrated in his biography, *To Leave a Good Name*, by 1971, he and Sixto Roxas were in an all-out struggle to control RCBC. Roxas teamed up with Far East Bank in an attempt to buy out Yuchengco. It was a hard-fought battle, with some major shareholders at first sitting on the fence, and it was unclear how the fight would turn out.

Peter Dee said: "At that time, Bancom and RCBC were quarreling. Andy Roxas, the brother of Sixto, had died in a plane crash. After that, things became really bad. There were too many strong personalities. All of a sudden, my father, in December 1971, asked me: 'Do you want to join China Bank?' It turned out that my father-in-law was worried about me and thought it was safer if I transferred. I didn't want to leave. But since my dad asked, I said: 'Okay.' Things happened very fast, my God! By January 1972, the first day, I was working at China Bank in Binondo."

As it turned out, by early 1973, Yuchengco had defeated Roxas, backed up by a timely infusion of $7 million in new capital from two foreign banks, Continental Illinois National Bank and Trust Co. of Chicago and the United Financial of Japan. He did not lose control of RCBC; it was the Bancom group who had to move out. But by the time the issue was settled, Peter, then thirty years old, was happily ensconced in China Bank as VP in charge of planning and operations. It probably was his destiny, in any event, to wind up in the Bank; after all, Peter was the grandson of Dee C. Chuan, the grandnephew of Albino Sycip, and the husband of his granddaughter, Helen S. Yuchengco.

Gilbert U. Dee: A drive for change

Like his father Dee K. Chiong, Gilbert believed that a banker had to have good intuition. He said: "I learned that deciding on credit applications was more of gut feel. There are times when, from the very start, even if everything on paper looked okay, I would turn the application down because I just had a feeling it would not do well. And it would turn sour. It's just gut feel. I was constantly exposed to clients and their loan applications. You develop that sixth sense of whether a man can be trusted." But Gilbert also wanted to improve on the banking model that he learned from his father. He felt the Bank had to change. He said: "At the time, China Bank had only a few branches, and all the decisions were centered on three people: Albino Sycip, George Dee, and my father. With a small bank, that's okay. But as the Bank grows, you have to delegate. Not everything can be centered on these three people. Before, every small thing had to be handled by one person—people came for his signature. But when the Bank grows, you have to decentralize and delegate powers and professionalize the Bank."

"Our old and new employees were good. It was just a matter of how to drive them and blend them. We had to blend them together to get the best out of everyone." —PETER DEE

To help him run the small planning and operations department, he brought in Gilbert Dee's brother-in-law William Go, a young MBA graduate from the University of Missouri who was also a product of the Citibank management training program. William would later become CEO of Philippine Bank of Communications and then CEO of Chinatrust. Peter also helped several talented employees to attend the Asian Institute of Management (AIM) for their MBAs, well aware that the Bank badly needed more sophisticated management methods.

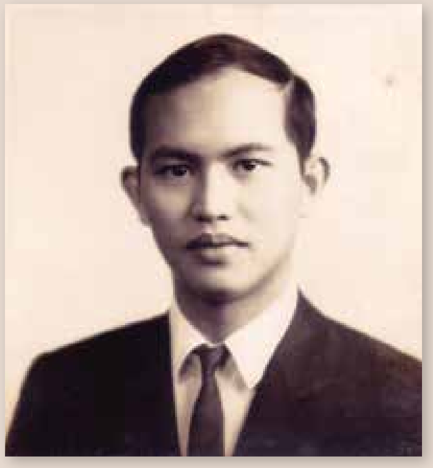
Peter picked out several bright young men with MBA training—in particular Honorio "Nory" Reyes-Lao, Reynaldo "Rene" Lao, and Ricardo "Ric" Chua. For Gilbert and Peter, these three would become their three key young deputies in the remaking of the Bank. Nory Reyes-Lao, born in 1944, joined the Bank as a clerk in 1970, with a BS in commerce from the De La Salle University. He later got an MBA from the AIM. Rene Lao, who was not related to Nory, was born in 1943, and then joined the Bank in 1973 with a BS in management from the University of the East. By then, Rene had completed his Master in Business Administration course work from the Ateneo de Manila University, attended the Management Development Program at the AIM in 1972, and had been trained in the new financial techniques at Comtrust. Ric Chua, born in 1951, joined the Bank in 1975 with a degree in accounting from the University of the East and an MBA from AIM.

Among the three of them, Ric, Rene, and Nory would run many of the key departments in the Bank over the next thirty years—building them from the ground up in several instances, such as treasury, account management, branches administration, and corporate planning. Over time, they and their staffs became the vehicles by which new ideas and practices eventually took hold in China Bank. Ric Chua, the youngest, eventually became senior executive vice president and chief operating officer, president and CEO, and finally, advisor to the board of China Bank.

Nory Reyes-Lao, Ric Chua, Katherine Tancuan, Jun Tancuan, Gonzalo Rialp, and Peter Dee.

Peter's and Gilbert's greatest asset in their efforts to make the Bank more competitive was that their fathers, George Dee and DK,

Peter SyCip Dee: Looking for new ideas



George Dee Se Kiat, mindful of his son Peter's experiences in new financial ideas and practices at RCBC, tasked him to find ways to improve the Bank. Peter said: "China Bank was big and well-established. RCBC was young, so it was very flexible and dynamic. So again, I learned a lot of things at China Bank. It was a different atmosphere, because the bosses were all older people, the older generation. The average age of the executives was about 50. China Bank was not ready to compete because it did banking in the old style—the old, very Chinese way. The entire organization was like that. So I had a big problem. You cannot throw your weight around. These were all seasoned, very good people, very respectable. Their system was good. But their systems were for the old days, and those days were gone. Both the new and the older employees had to learn the new ways of doing things." Over the next fifteen years, Peter carried out his father's instructions by bringing in talented young managers and backing their innovative ideas to help make China Bank more modern and competitive.

"When you're only a few branches, then everything can be centered in the Head Office. But once you start expanding, there's no way you can handle it. It's too big. Not everything can be referred to you." —GILBERT DEE

backed them up. They, in turn, supported the innovations brought in by their bright young men. Peter said: "The older generation of the Bank—they knew that they needed the younger ones, like me and Gilbert, to make changes. I think [my father and DK] let me 'play' a little, experiment, try new things. Although I was hands-on, making decisions, they were observing me, 'guarding' me. But they gave us both a free hand to face the issues. We [Gilbert and I] knew also that we needed the new people, the younger managers [like Ric Chua]. We didn't want to meddle. You have to give them a free hand to make changes."

The support of the elders was crucial, because the two younger Dees and their bright young aides had their work cut out for them. To catch up, the Bank needed to do several things. First, it had to change its ownership structure so that it would be at least 70% Filipino-owned. Only then could it build a bigger branch network. Once it achieved this, its challenges were only beginning. It needed better management systems and practices, a much larger and better-trained manpower complement, more branches, and more resources to fund expansion.

LEARNING TO COMPETE

By 1975, China Bank's deposit base had been growing on a trajectory that was very nearly flat for five years. This was at a time when other banks had been registering strong deposit growth, derived from their ambitious branch expansion campaigns and money market operations. So George and DK decided that they needed to start building many more branches. But first they had to address the fact that the Bank was not at least 70%-owned by Filipinos, as required by the Central Bank, in order to be allowed a larger network. In

1975, the largest block of foreign-held shares (which used to be owned by the Bank of China) were now held by the International Commercial Bank of China (ICBC), which was based in Taiwan.

In late 1975, Dee K. Chiong traveled to Taiwan with Gilbert and convinced the ICBC to give up enough of its China Bank shares in order to bring the Bank's Filipino ownership up to the 70% minimum required by Central Bank regulations.

Gilbert recalled: "I was the one who accompanied my father when we went to Taipei to convince International Commercial Bank of China to give up part of their holdings. The ICBC held one board seat. We went to see the governor

Standing from left: Anthony Dee K. Chiong, Jr. William Go (husband of Barbara), Ruby Dee Cheng, Barbara Dee Go, Regina Z. Dee (wife of Anthony), Alice T. Dee (wife of Gilbert), and Gilbert U. Dee. Seated from left: Regina Y. Dee and Dee K. Chiong.

(Opposite page) In most businesses, leadership is passed on to the next generation. Bank of Commerce-trained Gilbert U. Dee was brought in to China Bank by his father DK in 1969, and he too, upheld the Bank's tradition of *xinyong* but infused new banking concepts to keep up with the rapidly changing times.

of the Central Bank there [Yu Guo-hua] and we were able to convince him. We told them we had to have a certain percentage of the Bank Filipino-owned before we could start expanding. They understood that. And my father was very close to the Taiwanese government. So we were able to do it. In one sitting, the agreement was done."

This agreement with ICBC allowed China Bank to become a Filipino-owned bank following the new Central Bank guidelines and paved the way for a major branch expansion. In 1976 alone, the Bank put up four new branches: Davao (under Manny Orduna), Cubao (under Nory Reyes-Lao), Greenhills (under Jaime Sulit), and Legaspi Village (under Alex Lim)—as many branches as it had built in the previous fifty-five years. By 1977, the Bank had 15 branches. By 1980, it had 24, by 1983, 28—a huge leap compared to only four in 1975. A bank that had only 200+ employees for many years would have well over a thousand by the end of the 1980s.

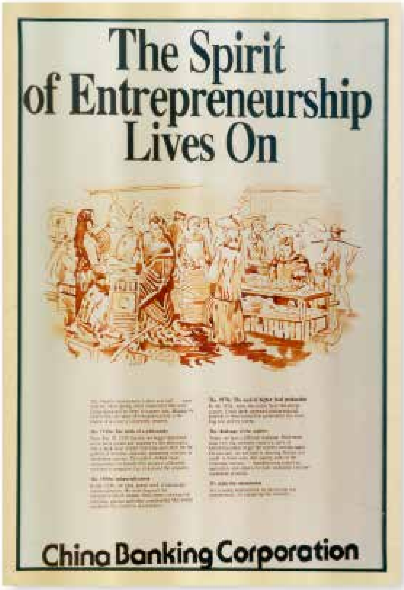
But of course, the delay in expanding did mean the Bank was well behind its biggest competitors—some of whom had over a hundred branches by the early 1980s. China Bank had made progress, but it still had a lot of catching up to do.

In the meantime, the Bank had to create four new departments that didn't exist before— treasury, account management, branches administration, and corporate planning.

The very first of the new groups in the Bank was Treasury. In a small form, it started in 1972 as what is known in the hi-tech industry as a "skunkworks project"—that is, one run by a few people who develop a radical innovation. A "skunkworks project" operates with a high degree of autonomy, unhampered by bureaucracy, so that it can work freely on advanced projects. Such a project has to be run this way, because the institutional resistance and bureaucratic inertia of a large organization can stifle its success.

In the case of the Bank's treasury department, it was chief accountant Johnny Coreces and Ricardo Liong, assistant auditor, who drove the organizing of the new unit. They knew that the Bank had to get into the money market fast, despite the institutional inertia against it. The new unit would at first be headed in name by Coreces and Liong. But in practice, the two men accepted that the money market was a bewildering new world and it would be easier for young staffers to adapt to it.

Nory Reyes-Lao said: "At that time, I was just a senior clerk. Dick Liong called me: 'Nory, why don't you help Mr. Coreces in the interbank lending?' When I was there, Mr. Coreces told me: 'Nory, why don't we also go for bidding of Treasury bills?'



I started learning the intricacies of treasury bills. We started working together so closely that we thought of forming a whole organization to do it, because it became so extensive. Dick Liong was also pushing for the setting up of money market operations."

Liong, who found Nory bright and energetic, took him out of his regular clerking duties and gave him carte blanche to set up and run the new unit. Over the next year, Nory Reyes-Lao designed the procedures and manned the operations, along with a few others like Felizardo Laureano, Tony Ong, and "Banong" Figueroa. Nory called it the Research and Investment Management Department (RIMD). For his part, Liong ran interference for Nory, by putting the weight of his authority behind the startup work and defending the young clerk from the complaints of conservative old-timers, who saw Nory as a young upstart.

Because Nory was given a big assignment with very little resources with which to do it, he had to find ways to learn about the intricacies of the money market without having to go abroad to learn—which was what the big Filipino banks were doing with their financial whiz kids. Nory Reyes-Lao recalled: "These big banks sent people to London to learn about the

Epimaco "Doy" Borromeo, Roger Roman, William Uy, Nory Reyes-Lao, Rodolfo Maquiran, Inocencio Cruz, Atty. Dean Telan, Medardo Felipe, and Benjamin Diaz.

money market. Me, a clerk from China Bank—I just interviewed these guys who went to London. I told Mr. Liong: 'China Bank has set up their money market operations in the cheapest way ever.' Whatever I got from them, I incorporated and tailor-fit it to the systems of the Bank." He added: "Eventually, marketing-wise, the new group became a tool for us to compete, as far as sourcing and retention of clients is concerned. Because now we could give them a better rate of return, and clients who became more conscious about how much they could earn would come to us because now they could buy T-bills."

By the end of 1973, RIMD was handling around P17 million in money market placements—a small figure by the norms of the day, but still a respectable figure for such a new and tiny unit. It was not yet a "real" treasury unit; it combined treasury work with economic forecasting and research. It was done this way because at the time, the Bank needed all of these functions carried out, but Nory didn't have the resources or management approval to build separate units for them. He made do with what he had.

When Nory Reyes-Lao took a leave from China Bank from 1973-1975 to study for his MBA in AIM, the unit was turned over to Rene Lao, who came over from the planning and operations group. In 1975, Rene split RIMD into two units, Treasury and Corporate Planning. By then, there was a consensus among top management that the two functions were sufficiently important and complex that they deserved more resources, more people, and separate structures. The new setup was consistent with the way corplan and treasury were handled at international banks.

While at Treasury, Rene Lao helped the Bank learn to manage its cash much more efficiently. For instance, China Bank then didn't have a methodology for determining if a

Ricardo Chua

Street-smart

Former Bank President and CEO Ric Chua recalled: "My father advised me to work for China Bank. He said that if I wanted to learn about how business really works, I would learn it from the Bank's Chinese customers. And he was right. Once when I was a trainee in the Binondo cash department, this man came wanting to encash a check for P300,000. The teller said, "Sorry, there's not enough money in that account." Someone was trying to back out on paying him. The customer found out that the account was about P30,000 short. So the guy left, he went to the other wing of the head office and deposited P30,000 in that same account. Then he came back and encashed the check. So he got P270,000, net. What a lesson for me. The Bank's customers are so street-smart. You can't learn that at AIM. No school will teach you this."

"The older generation of the Bank— they knew that they needed the younger ones, like me and Gilbert, to make changes. [My father and DK].... gave us a free hand to face the issues." —PETER DEE

particular branch had too much cash in its vault. Rene said: "Before, people would just say: 'Well, this is my branch and this is my cash in vault.' But for purposes of macro fund management, cash in vault represented a very liquid but not an earning asset. So as the treasury staff then, we would have to monitor the cash and say: 'Do you have too much cash in vault?' Aside from the physical risks, the Bank isn't earning from that money. *Tulog yong pera."*

As treasurer, Rene found new efficiencies and brought in new methods that weaned the Bank away from relying on the old intuitive rules of thumb for judging financial soundness. As treasurer, Rene did very well and was promoted rapidly, first to VP and then in 1980 to first vice president.

While at Treasury, Rene also was pulled in by Gilbert for a concurrent assignment—the new Account Management Department. Gilbert said: "One of my first recommendations was to form the Account Management Department. My father

Guided by the wisdom of the old generation and driven by the energy of the new generation, China Bank pushed forward, changing with the times while preserving its customer-centric culture.

Dee K. Chiong

George Dee Se Kiat

thought that I was trying to take powers away from him. I said: 'No. You are still on top. The final approval is yours as far as loans are concerned. But you have to delegate and decentralize it. Everything can't be centered on you.' I think, sooner or later, there's no choice but to delegate. In the beginning, yes, when you're only a few branches, then everything can be centered in the head office. When we had around one or two branches, you can do that. But once you start expanding, there's no way you can handle it. It's too big. Not everything can be referred to you."

Rene said: "We felt that we had to set up a corporate marketing arm, which is account management. There was none then. Everything was handled in the old style, the Chinese style—very personal, face to face. It served its purpose at that time. But if we wanted to expand, then we needed a corporate banking unit or an account management unit. So I helped set that up." Rene hired, among other people, Margarita (Margie) L. San Juan., who succeeded Nory Reyes-Lao as account management group head.

While Rene was dealing with account management, Nory (after a three-year stint setting up the Cubao branch) was setting up Branches Administration (later Branch Banking Group). The new unit was needed to cope with the command-and-control implications of the Bank's ongoing branch expansion. Nory and his staff created standardized

70%

PERCENTAGE OF FILIPINO OWNERSHIP OF CHINA BANK IN 1975, FINALLY ALLOWING IT TO BEGIN A BRANCH EXPANSION

procedures and manuals for every eventuality, so that the Bank's operations and lending would depend much less on purely personalistic norms and face-to-face relationships.

Nory said: "When I set up Branches Administration, I set up three major operating units. One is the expansion department, because we had so few branches. And the second is branches control, which is basically credit screening. The last is for the proper administration and operations of the branches. We had to make sure that our officers are properly trained. And to monitor the proper deployment of officers—you've got to balance them out. Some people are good at marketing, some people are good at making sure that all controls are being followed. If the branch is all about control, then the branch is dead. If it's too much into marketing, then the branch is also in trouble. So you have to balance all of these out. There were so many issues."

The new structures and procedures eliminated a lot of guesswork, created a common pool of information and indicators, and standardized procedures and criteria. With these in hand, the Bank could make decisions more quickly and more accurately and then implement them more efficiently. At Branches Administration, for instance, Nory put up a credit monitoring system for doing cross-checks among the branches so that unscrupulous individuals or companies could not circumvent their credit limits by getting loans from different branches.

While Nory was setting up branches administration, and Rene was engaged with treasury and account management, Ric Chua was having his own journey through the Bank. He was the youngest of the three, with no banking experience, so he needed training. There was no manual for training, so Ric designed his own program. He started at the bottom, rotating

Florentino del Rosario and Rene Lao.

The need for specialization

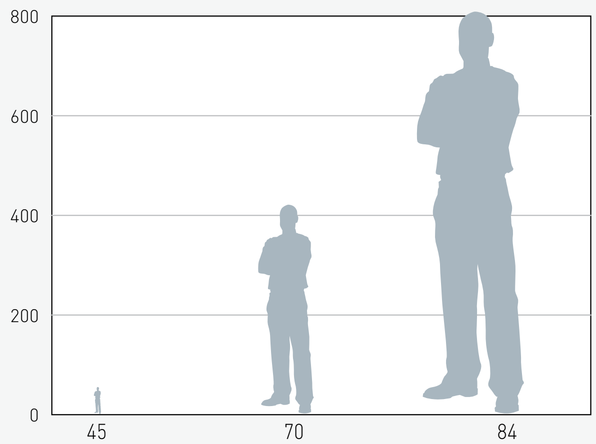
Rene Lao said: "The Bank had these habits which had made it grow, and made it very attractive to clients and entrepreneurs. But as time went on, there had to be changes. You can no longer have different senior guys giving different instructions on certain corporate accounts. There had to be specialization and focus. So that's why we set up Treasury, Account Management, and Corporate Planning. You needed different units to focus on different tasks, because the volumes of business had grown. It's not going to be efficient any more. During the old days, it was all right, because the volumes were not that large. During the old days you knew your clients really well. Now your knowledge of the clients is not as thorough as it used to be. With decentralization, our reaction time became quicker."

through stints at all kinds of tasks, including tellering and clerical work. Then he worked at the branches, first Cubao, then Greenhills, then Quezon Avenue—to give him a ground-level appreciation for the operations, culture, and challenges of the Bank.

During his training at the branches, Ric realized that the Bank didn't know if particular branches were profitable or not; it knew its overall profitability, of course, but it didn't have a diagnostic tool to judge the performance of individual branches. Ric said: "So I did my own study. Because in business school, they teach you about the transfer pool rate. So I said, maybe I can devise a transfer pool rate between the fund providers and the fund users. Because the branch was getting the money, yet it's not able to lend out all the money. So, in effect, it gives the money to the head office. But how should they be credited for whatever earnings they are entitled to? There was no such report. So I did the first transfer pool rate of the Bank, which was not sophisticated. But it is practically the same methodology that we still have today. Whatever deposit [you as a branch] have, we deduct the reserve, because the reserve is something that you need to carry on with your business. Whatever is your net-out, we deduct whatever you use in your own loans; whatever is the excess, you gave to the head office; they should provide you with an income equivalent. So the branches have their own books. It's shadow accounting to show you that this is what you are entitled to."

In 1978, Ric Chua, then only twenty-seven, became head of Corporate Planning. He recalled: "Peter Dee wanted me to go through the experience at the ground level, at the branch area. And then he was the one who brought me back to head CorPlan. We started talking about how do we grow the Bank. We had to see how we had to position ourselves versus competition, how to compete, how to make this bank grow. I was there at CorPlan for a while. I started recruiting people for CorPlan. That's one of the things that I cherished—being a mentor to some people that I had chosen. At that time I had several very good staff."

CHINA BANK HEADCOUNT
1945-1984



(Opposite page) The officers and staff of Treasury Department in the late 1970s.

(Right) Fermin "Barry" Barrozo, Nory Reyes-Lao, Antonio Tecson, Alex Lim, Rodolfo Maquiran, and Florentino Andrada on the 4th floor canopy where the Executive Office was put up.

For CorPlan, Ric built a small team of talented young women in their twenties, such as Rosemarie Gan, Lilibeth Cariño, Rose Drilon, Gia Patag, Victoria Tong, and Jocelyn Caparas. Ric said: "We worked hard—just to show you how much we enjoyed the work, my staff and myself, we were in the Bank every Saturday, year after year. There was so much information that we had to digest. And we had to look for information. We were building the information too, the database. It was very good training for me and for my team—a small group. We were both building the information and the team, and how we would proceed with that. So we started talking about how we should do branching; how do we put together our budgets and our plans."

Together, this group introduced the idea of budget-setting and performance targeting for the branches. Rosemarie "Rose" C. Gan, who became head of Binondo Business Center and eventually EVP and segment head of Retail Banking Business, said: "At CorPlan, we were doing budgets and financial research. When we were introducing the concept of budgeting; there was so much resistance from the branch managers, especially the old ones. The idea of budgets and targets—it was a big change. They just resisted it. Eventually, because of our persistence and the support of management, it was implemented and they just had to follow. Those were the times."

ACCEPTING CHANGE, MAINTAINING THE CULTURE

The Bank had to cope with an intense internal resistance to change. Companies intent on changing the culture often stumble on people's powerful attachment to old ways. But as business guru Jim Collins wrote in his book *How the Mighty Fall*: "When institutions fail to distinguish between current practices and the enduring principles of their success, and mistakenly fossilize around their practices, they've set themselves up for decline."

Just as Ric and CorPlan encountered some resistance, Nory found some internal resistance to his work at Branches Administration. He said: "In the past, the branch managers used to go directly to Peter Dee and Gilbert Dee. They had a hard time accepting the fact that now they had to go through someone else, who was not a Dee and who was much younger than them. I understood them; they had been around so long and they had been dealing directly with generations of Dees." Nory was thirty years or more younger than some of the senior branch managers. But eventually, they came around to the idea.

Marge San Juan, Rene Lao, Gilbert Dee, Regina Dee.

(Right) Dee K. Chiong hard at work.

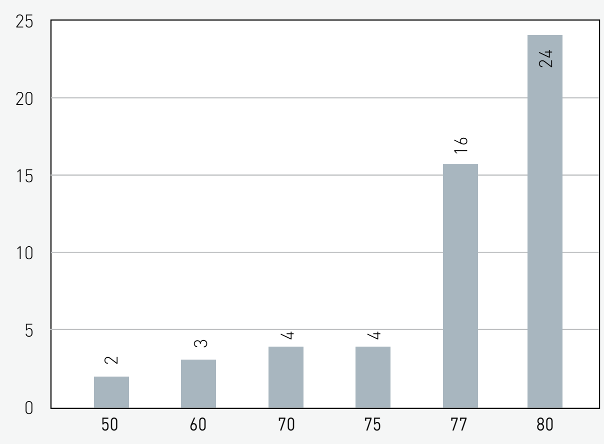
Rene Lao also found similar resistance on the account management side. Branch managers and senior executives were unhappy about having to defer decisions about big accounts to a new unit led by so young a manager. Rene said: "I don't think it's that easy, especially for older institutions . . . .Here you are talking about the older generation who had long relationships [with the clients and the top bosses]. So here come guys like Nory, or me—upstarts with long hair. And they'd say: 'What are these young guys who have been in the Bank just a few years talking about?' People would say: 'No, I used to approve this and this. How come it's no longer with me?' Change is never that easy."

Rene added: "There had to be some getting used to the changes. But let me just emphasize—the changes were not that abrupt. The changes were introduced gradually. Primarily because the Bank itself was sensitive to implementing those changes. And we are seeing it in some other institutions when they change very rapidly. Your clients get nervous, plus there is the internal resistance as well. You just have to work on it slowly. And the reality was our top management was also very open to change. I think that was really the best part. Top management knew that changes had to come."

Yet Gilbert and Peter did not want to rush the change process and lose what made the Bank special: its values, its tightly-knit work force, its closeness to its clients. After fifty-five years, the Bank had a special character that had to be preserved. Gilbert and Peter still respected the experience and wisdom of the older generation; they went for gradual change that would make the Bank more competitive without harming the fabric of the Bank.

Peter said: "We had to go branching and we had to develop the manpower. We started getting new people, some of them MBAs. It was not easy, because the Bank officers were all from an older generation, and the new ones would not blend easily with the older people. We had to create a new atmosphere. The older ones had their own peculiarities. The younger ones were go-go. Both our old and new employees were good. It was just a matter of how to drive them and blend them. We had to blend them together to get the best out of everyone. We were all different characters. Nobody is perfect. So you had to look at the good points of a certain person and you just make the best out of it. What's nice is when you know how to blend the very smart guys with the rest."

CHINA BANK BRANCHES
1950-1980



China Bank tellers in 1979.

Ric Chua said: "We have to build a strong organizational team. And in doing that, you don't try to hire only the best and the brightest. These guys should really be grounded also. The MBA graduates are not the only guys that you need. . . . I keep on saying: 'I wish the management team will be a good blend of being book-smart and street-smart.'"

Even today, Ric says, China Bank strives to maintain a balance between the energy of the young and the wisdom of the older staff. He said: "I have to give it to the board. They said: 'There's nothing wrong bringing in young people full of energy. But don't make the mistake of losing the very guys who have the seasoning, because banking is about understanding customers. It takes years and years of experience to get that understanding.' Because some were saying, we should let people go at 60. The board said: 'We should be more flexible. Let's not lose the experience that they have gained. What a waste.' So I think we will see a good combination of these two. We will keep some of the best of the older generation to preserve those experiences. And hopefully we could hand them down to the guys who are coming in. I have always believed that a China Bank manager doesn't have to be the most brilliant or be an MBA graduate. The key is to find the guys who have the passion [for banking]. How do you convert that passion into actuality?"

The Bank's staff have fun inside one of the many vaults purchased for the branch network expansion.

Expanding the branch network

Nory saw branching as a great opportunity for the Bank's people. He said: "For many years, we had very few ranks and branches, so many good people were not able to move up for 20 years. So when I set up new branches and started to recruit people, I said that this would be a chance for us to give something better to our people. So everything else being equal, a China Banker would have the edge [in becoming an officer in a new branch]. We had many who had very good academic attainment, say from U.P., with high grades. For the last 10-15 years, they were doing clerical work—what a waste of ability. So branching was a chance for us to give these people their due."

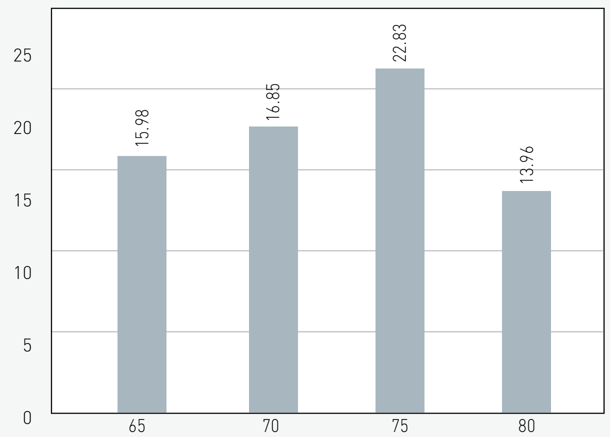
Groundbreaking ceremony for the planned CBC Tower at the corner of Buendia and Ayala Avenue.

BIG PLANS

By 1978, China Bank was back on a strong growth path; a lot of positive change was well under way after only three years of work. In 1978, China Bank had P2.81 billion in resources (an increase of 24.57% over 1977) and P1.32 billion in deposits (an increase of 17.8%). It earned P53.87 million on gross income of P308.74 million. These numbers are much larger than the 1975 figures of P1.56 billion in resources, P518.9 million in deposits, earnings of P37.02 million, and gross earnings of 195.83 million. The Bank's capital stock was P172 million in 1978, compared to 1975's P100 million in capital. All the indicators were looking very good.

So Dee K. Chiong was feeling confident and expansive. He started to make ambitious plans for the Bank to make a mark in New York, Hong Kong, and Manila. In 1978, the Bank entered into a consortium with several other banks to create the Asian International Bank, a Filipino bank based in New York. The partners were Pacific Bank, BPI, Far East Bank, Solidbank, Equitable Bank, and Ayala Corp. The six banks each had 15%, and Ayala Corp owned the remaining 10%.

CHINA BANK RETURN ON EQUITY (%)
1965-1980



Gilbert said: "So the six banks thought of forming a bank in New York. BPI came in; at that time it was headed by Villa-Abrille, and then later it was Loinaz. Then Solid Bank, with Tecson. Equitable Bank was Peter Go Pai-lian, Far East Bank was Jobo, and Pacific Bank was there. When this new bank was formed, my father was a director. After two years of that, my father said: 'Gilbert, I think you should get to know these people. I am resigning as a member of the board; you take my place.' So I was the one traveling with them to New York."

By then, China Bank had gone abroad once more, this time to Hong Kong. On November 14, 1980, China Bank inaugurated its Hong Kong deposit-taking subsidiary, CBC Finance Ltd. This was led by Dy Tiong, who eventually became a China Bank director and a good friend of Dee K. Chiong. It was 40%-owned by the Bank. The rest of the shares were owned by various businessmen who were friends of DK. China Bank was looking to expand internationally through Asia and eventually to Los Angeles and Francisco. This move, DK felt, was a return to the international presence the Bank used to have in China before the communist takeover.

At around this time, the Central Bank was introducing the idea of the expanded commercial bank or universal bank—a bank that combines commercial banking with merchant banking activities like underwriting, loan syndication, money market activities, and so on. By the early 1980s, the Central

Bank was going to issue unibanking licenses to the soundest and strongest local banks, paving the way for them to achieve a quantum leap in both scale and capabilities. China Bank had every expectation that it would qualify with the very first batch of unibanks, and it made preparations for expanding its range of operations, including starting its own venture capital firm.

DK also wanted a much larger, more tangible sign of China Bank's success than a unibanking license. So on November 15, 1979, he bought from Ayala Corp. an 11,000-sqm lot at the corner of Ayala and Buendia Avenue. Henry Sy, the retail tycoon, was the agent for Ayala who convinced him to buy the land. The lot was so large and so strategically located that it made an ideal place for China Bank to make a statement.

On this huge lot, DK wanted to build a 32-story tower for China Bank, to be designed by world-famous architect IM Pei. Ieoh Ming Pei was the son of former China Bank board member and Bank of China president Tsuyee Pei. IM Pei had recently finished the 60-story John Hancock Bank building in Boston (1976) and the 52-story OCBC building in Singapore (1976). He would later design the new 72-story Bank of China tower in Hong Kong (1982). In terms of modern bank design, only Sir Norman Foster (of HSBC Bldg. fame) is his equal. Board member Edward Dee, George's brother, was an architect by training and was quite familiar with Pei's reputation. OCBC was the correspondent of China Bank in Singapore and it was very pleased with its Pei-designed building. All of these made Pei the inevitable choice for a China Bank tower design.

On August 15, 1980, DK held a groundbreaking ceremony at the new lot. He anticipated that the new tower would cost over P300 million in 1980 prices. The China Bank tower, scheduled for completion in 1985, would have been the tallest building in the country. In 1983, Pei would win the Pritzker Prize, the architecture world's equivalent of the Nobel.

But the building he was supposed to design for China Bank never came to be.

Gilbert said: "One morning, I was in my office downtown, and then a phone call came, saying that my father had died . . . .It was a big shock."

THE UNEXPECTED

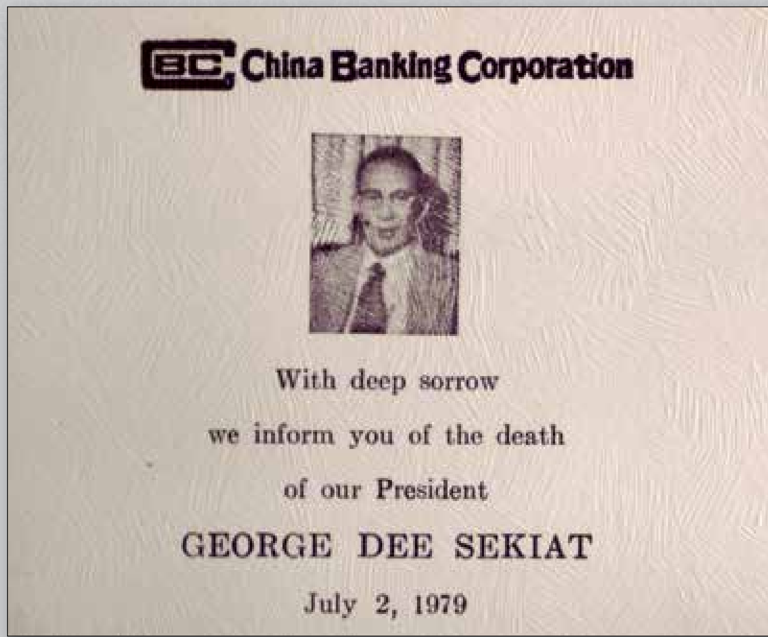
China Bank had big plans for the decade of the 1980s, but it would run into unexpected obstacles. The first among them was the fact that China Bank lost its top three leaders in quick succession, in three consecutive years. On May 2, 1978, Albino SyCip died of pneumonia. He had been retired from the board for a year due to ill health. He was 91 years old and he had been with the Bank for 67 years. Then George Dee Se Kiat died on July 2, 1979, at the age of 68. He had been with the Bank for 39 years.

The Bank was somewhat prepared for the passing of George and Albino, because their health had not been good for years. But the next death was not at all anticipated.

On December 24, 1980, Dee K. Chiong died of a sudden heart attack in his Forbes Park home. DK was 68, but everyone thought he would have gone on working for years to come, since he had seemed very vital and fit. He had been at work in Binondo and Taiwan with all his accustomed vigor and typical hectic pace.

Gilbert said: "My father—they considered him 'Superman.' I think he got used to that name. He had no health problems. Then one morning, I was in my office downtown, and then the phone call came, saying that he had died already. He died in his room, playing solitaire. To the Bank, it was a big shock. By 9 a.m., the news had spread around the Bank."

Gilbert added: "I had no warning. But I was talking to my father's doctor, who told me: 'Gilbert, the heart is the strongest organ in a person's body. There is no such thing as a sudden massive heart attack. There were warnings. And your father ignored them.' Then I begin hearing stories that when he was in Taipei, dining with friends, in the middle of dinner, he would stop and would remove his tie. He did not feel well. These were mild strokes; these were warnings already. But after a few minutes he was okay again. He ignored them. He didn't tell us."



George Dee's younger brother, Robert Dee Se Wee, became the Bank's president and chairman of the board. But he considered himself a figurehead, since he was not a professional banker. He had been on the board for many years, but he had spent his entire career on the Dee family's other businesses, such as Hooven Comalco. So Gilbert and Peter Dee, as co-SVPs, now took more responsibility for bank operations, with the able assistance of many top executives.

The Bank was bereft of the triumvirate that had run it for so long, just as it was entering a very turbulent decade. A time of troubles was about to begin.

The passing of China Bank's beloved triumvirate—Albino Z. SyCip in 1978, George Dee Se Kiat in 1979, and Dee K. Chiong in 1980—was a blow to China Bank. The new generation of leaders had big shoes to fill and a long and difficult journey ahead.

CHAPTER 5

A Time of Troubles
1981-1989

The Bank undergoes its most severe test, buffeted both from within and without by stresses and surprises, but it comes out strong and ready to grow again.

By 1980, co-SVPs Peter Dee and Gilbert Dee had to step up and continue their fathers' legacy. Amid the economic crisis that ensued, the duo, backed by their highly capable executives, managed to keep the Bank profitable.

Dee K. Chiong's unexpected death on Christmas Eve 1980 seemed to be a sign that China Bank was in for stormy weather. Sure enough, on that death's heels came a series of serious problems, the likes of which the Bank had not yet seen. Over the next eight years, China Bank, like every major business in the country, would be severely tested.

The time of troubles began only three weeks after Dee K. Chiong died. On January 9, 1981, businessman Dewey Dee fled the country with nearly $85 million in unpaid debts. Dewey Dee was part of a group of four Chinese-Filipino businessmen (known informally as the "Four Horsemen of the Apocalypse") who owned shares in both InterBank (International Corporate Bank) and Security Bank. Dewey's father, Rufino Dee On Hong, had worked briefly at China Bank in the 1950s before leaving to start his own textile conglomerate, built around Redson Textile Manufacturing. By 1980, Dewey and his younger brother, Donald, were running the textile firm.

Unknown to most people, the high-flying textile magnate, on top of his legitimate businesses, was apparently engaged in other, less savory pursuits, including smuggling and black market forex speculation. Some sources said that he had used his strong Central Bank connections to acquire cheap credit from the government through rediscounts, foreign loans, and foreign exchange swaps. (Dewey Dee used to boast that he could walk into the Central Bank

governor's office without an appointment.) Like other textile manufacturers, Dewey Dee had been hit hard by the economic downturn of 1979-1980, cheaper imports, and smuggling. In an attempt to recover, Dewey Dee made a series of big bets trading in sugar and gold, but instead of getting out of the hole, he lost even more heavily. With his debts coming due soon, Dee was in desperate financial trouble. To him, flight was his only choice.

Dee left behind debts to 16 banks, 12 investment houses, and 17 other financial institutions—as well as $4 million in postdated checks floating around in the informal financial markets of Binondo. Much of his debt consisted of unsecured loans from banks, borrowings from the money market, and loans from foreign banks with Central Bank approval. Dee's own banks, InterBank and Security Bank, naturally turned out to be among his biggest creditors, but the contagion quickly spread all throughout the financial markets.

The flight of Dewey Dee exposed the structural weaknesses in the local banking industry and a general panic began. Banks refused to roll over short-term debt and began calling in loans. The domino effect traveled through the entire economy. As Milton Friedman wrote in *Capitalism and Freedom*, when a bank is faced with demands from its depositors and creditors, it "will put pressure on other banks by calling loans or selling investments or withdrawing its deposits, and these other banks will in turn put pressure on others. The vicious cycle, if allowed to proceed, grows on itself as the attempt of banks to get cash forces down the prices of securities, renders banks insolvent that would otherwise have been entirely sound, shakes the confidence of depositors, and starts the cycle all over again."

As always with financial panics, just when people and businesses need liquidity the most, there is almost none to be found.

The *Far Eastern Economic Review* reported: "For a time, the air was so thick with speculative talk. . . .One payroll day, some construction workers queued before the tellers' window at a Chinese-Filipino bank, word went around that there was a run." Banks like Solidbank and Pacific Bank were hit by runs. The country's two biggest investment houses, Bancom and Atrium Capital, were forced to shut down, along with several others. The feedback loop created by the financial panic made predictions of bank runs a self-fulfilling prophecy—unless the government could step in to restore confidence.

Lawrence See

Nory Reyes-Lao

But at first, the Marcos government refused to acknowledge the scale of the problem. The newly installed Central Bank governor, Jaime Laya, dismissed the gravity of the crisis: "Some banks get held up. Some banks get flooded. These things happen." President Marcos insisted that the banking system remained sound. Eventually, though, Laya was forced to mount a huge rescue effort and concede that the banking system had "fundamental weaknesses" that "were easy to disregard, to conceal, and to overlook, in times of easy credit, high growth, and rapid inflation." The government had to take over five weak banks: InterBank, ComBank, Union Bank, Associated Bank, and Pilipinas Bank.

During these years, the Philippine economy was still reeling from the Second Oil Shock. As a result of the fall of the Shah of Iran and the outbreak of the Iran-Iraq war, crude oil soared from $12.70 a barrel in December 1978 to $34 a barrel in November 1981. In response, the world economy slowed, and the Philippines was not spared. GNP growth dropped to 4.62% (compared to 6.39% in 1979) and inflation went up to 17.6%. The country also suffered from plunging prices for its major exports—coconut oil, copper concentrate, sugar, and lumber. Meanwhile, the country's external debt had reached $14 billion, and was increasing by $300 million a month. The exchange rate deteriorated to $1:P8.2, compared to $1:P7 only a few years earlier.

It was in this environment that the third generation of China Bank leadership, Gilbert and Peter Dee, was going to have to steer the Bank.

COPING WITH CRISIS 1981-1982

The Dewey Dee crisis had revealed that the economy had been ill for years, but the government had been able to mask the symptoms. During the 1970s, Philippine development had been facilitated by extensive borrowing in international capital markets. Between 1973 and 1982, the country's debt increased by an average of 27% a year. Although the Philippines did get government-to-government loans and loans from multilateral institutions such as the World Bank and Asian Development Bank at lower-than-market rates of interest, the debt-service charges on those and on commercial loans continued to pile up. With the global economy going deep into recession, masking the country's problems was no longer possible. In such an environment, with both capital and trust so scarce, even an honestly-run business suffers as a result. Just as a rising tide lifts all boats, a receding one can just as quickly leave them all aground.

In the early 1980s, as the country's economic woes worsen, the Bank's executives and employees band together to overcome one crisis after another.

The biggest banks had the resources to cut their loan portfolios, pare down operating costs, reduce risks, and hunker down to outlast the storm. Some of them even had the spare cash to acquire smaller banks like Comtrust and Family Savings Bank during this period. Moreover, big depositors fled the money market and the smaller banks and took refuge in the perceived safer haven of the largest six or seven private banks—making the rich banks even richer. The biggest banks grew tremendously during this period; for instance, both Far East Bank and PCIBank tripled their assets between 1980 and 1985. The exclusivity at the top tier of banks was further underlined when the Central Bank started issuing unibanking licenses in 1982 to the most capable banks: the P500 million capital requirement was a formidable barrier to entry to this small "club."

The commercial banks in the second tier, on the other hand, didn't have an extra cushion of cash during these difficult times, unlike those in the first tier. Initially, China Bank benefited from the flight from the money market, getting over P900 million more in deposits in 1982 than in 1981, for a total of P2.63 billion. By 1984, it had P3.5 billion in deposits. But then its deposit growth stalled and even retreated slightly in 1985. As the political and economic situation grew ever more uncertain, depositors' money was fleeing even higher up the hierarchy.

Since China Bank could not, for legal reasons, start its branch expansion until several years after its peers, it was no longer among the biggest players by the early 1980s. By 1980, the two biggest private banks each had double China Bank's assets; by 1985, China Bank's assets were about a fourth of

DBP's head office in Buendia.

Bailouts and behest loans

Among the hardest hit by Dewey Dee's flight and the financial crisis in the aftermath of the Ninoy Aquino Assassination were the cronies of the dictator, including Herminio Disini, Ricardo Silverio, and Rudy Cuenca. To prevent their impending bankruptcy, Marcos ordered five government corporations—including the Development Bank of the Philippines and the Philippine National Bank—to bail out the beleaguered crony corporations. The bailout of Cuenca's Construction and Development Corporation of the Philippines (CDCP) alone cost P6.2 billion—or 2% of GNP and 30% of the country's tax collection in 1983. By 1986, the PNB and the DBP had given out behest loans amounting to P119 billion. When the banks were rehabilitated in 1986, DBP assets had been reduced by 86% and PNB assets by 67%. Many leading businessmen felt that the government was throwing away public money to prop up the president's cronies—at a time when sounder, more productive firms badly needed and better deserved the capital. The Philippine banking industry, already undergoing many challenges, was weakened even further.

“There are ups and downs in business. But if we feel this client is from a good family, they have good values, [we believe] they will recover, then China Bank will help them.” —GILBERT DEE

the biggest players. It did not have (and neither did it want) access to the billions in cheap credit that the Central Bank provided to the few banks that were particularly close to the regime.

The Bank's profits took a hit during these years. In the 1960s, China Bank's average return on equity was over 25%. In 1966, the Bank made a return on equity of 27.69%. On the other hand, in 1981, China Bank earned a return on equity of 12.13% and in 1982, 11.18%.

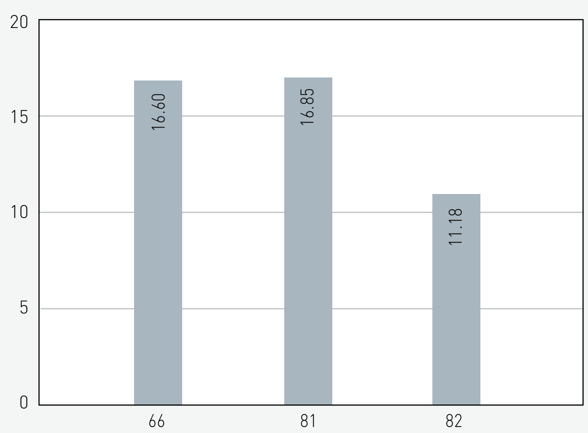
Moreover, China Bank, like many others, became vulnerable to rumors and runs. Many Chinese-Filipino banks, even those not associated with Dewey Dee's misdeeds, saw their reputations diminish undeservedly. The Bank's stock began a steady decline. In 1981, China Bank stock was trading at P170 per share, compared to P225 in 1979. By 1982, it was trading at P120 per share. By 1983, the stock was down to P115—only fifteen pesos above par value. The market, simply put, had lost confidence. (But a particularly savvy investor and member of the board, Henry Sy Sr., was quite happy to snap up many thousands of China Bank shares at these greatly reduced prices during the 1980s; in due course, his faith in the inherent value of the Bank would be confirmed and rewarded.)

China Bank managed its situation as best it could. It slowed down lending, watched its operating expenses closely, and cut back on capital expenditure. The biggest item on the early 1980's capital expenditure (capex) budget was the construction of the new 32-story China Bank tower on Ayala Avenue—which meant an estimated P300 million in 1980 prices. Given inflation and devaluation, it would have cost more than double that by the planned 1985 completion. Yet some executives felt that the Bank ought to continue with building it, partly out of respect for DK's dream.

But Bank auditor George Pay opposed the plan vehemently. He said that the new tower would be a white elephant for the Bank, and eventually he won the argument. The basic problem was that for the Bank to use the 11,000-sqm lot efficiently, it would have to fill it up and build a tower dozens of stories high, with hundreds of thousands of square meters of space. It simply didn't have the capital for such a building. In 1981, China Bank postponed the tower construction, and in the mid-1980s, abandoned it altogether.

But China Bank remained profitable and prudent during these years, and it continued to command respect in financial circles. It did its best to keep on lending to reliable clients. In 1982, its loan portfolio remained only slightly larger at P2.5 billion, compared to P2.1 billion in 1981—the result of more cautious lending. Moreover, with the slowdown in the economy, its traditional clientele of manufacturers and

CHINA BANK RETURN ON EQUITY (%)
1966-1982



After a 3-year exile in the United States, Benigno Aquino, Jr., returned to the Philippines on August 21, 1983. Shortly after setting foot at the tarmac of the Manila International Airport, he was shot dead.

traders had less reason to take out new loans.

In keeping with its customary practice, China Bank did its best not to cut credit lines to temporarily distressed companies and clients in whom it had faith. Many clients were vulnerable in 1981 and 1982. Their sales and earnings projections were off, and thus, their ability to repay debt. But China Bank—true to its history of, as Dee C. Chuan put it, "ministering understandingly to credit needs"—tried not to push them to the brink by calling in loans.

Gilbert Dee said: "That's our policy. When a company falls, we don't automatically cut the credit line. Cutting [the line] is not our policy. All businesses have good times and bad times. If they are not doing well, you don't [automatically] cut the credit line. Life is not always smooth. There are ups and downs in business. But if we feel this client is from a good family, they have good values, [we believe] they will recover, then China Bank will help them."

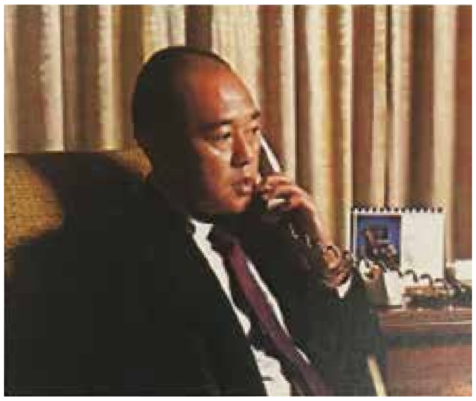
Nory Reyes-Lao described how the Bank determined which of its troubled clients it would continue to support: "First, we analyze the account to determine why it was having difficulty. We do a lot of informal credit checking through our networks. We take a look at the enterprise risk—financials and profitability, its competition. Is this business really worth reviving? If everything is okay, then we look at the management. Is there something wrong? Did this guy all of a sudden start playing hooky? Did somebody steal his money? Did the relatives fight, did the spouses fight? You have to find out what really went wrong. We had a case where a man entrusted his money to a son-in-law to buy foreign exchange; the son-in-law just took it and ran away. Issues do arise. The world is not so insulated that we cannot find out. There is a Chinese saying: 'No matter how tight the egg is, liquid still evaporates through the shell.' So we find out what is the real score."

Nory added: "Now if the enterprise risk is properly handled and good management is still intact, then we try to support this client during hard times. But we also must cover our risks. And as we were trying to carry him through, we ask for additional collaterals. We try to repackage our exposure as something that will be self-liquidating, so we can protect ourselves. We can't just help and help; we would just leave ourselves open for more problems. I used to tell clients: 'Other banks in good weather, they lend you their umbrella. In bad weather, they take it back. China Bank is different. In good weather, we will lend you our umbrella. In bad weather, we ask you to reinforce that umbrella and we will still lend it to you—but it must be reinforced.'"

THE CRISIS INTENSIFIES 1982–1983

Despite the Bank's best efforts, it continued to be buffeted by macroeconomic and sociopolitical forces. In 1982, the economy continued to slide. GNP growth dropped further, to 2.84%. The government tightened its belt, but the budget deficit continued to balloon, to P14.4 billion. The country's foreign debt—which had gone from \$2.3 billion in 1970 to \$24.4 billion by 1983—had become a ticking time bomb. As part

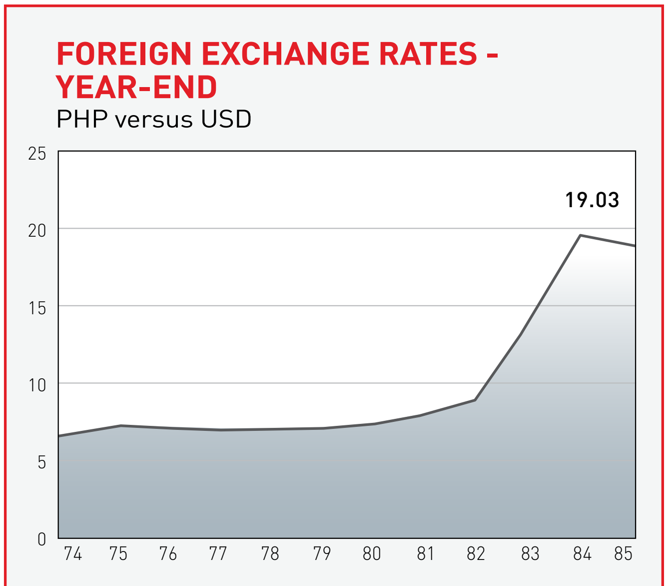
Central Bank Governor Jose "Jobo" Fernandez



Gilbert Dee

of the US Federal Reserve's effort to curb inflation between 1979 and 1982, US interest rates climbed, and the interest on Philippine commercial debt skyrocketed as a result.

In the early 1980s, the debt bomb had gone off in several Latin American countries. In August 1982, Mexican finance minister Jesus Silva Herzog declared that Mexico would no longer be able to service its debt. Mexico and Argentina declared moratoria on their debt payments and underwent economic meltdowns. The next ten years would be known as *"La Decada Perdida"*—the "Lost Decade" of Latin America. The debt crisis cut incomes, sent unemployment skyrocketing, and prevented any real per capita growth until the early 1990s. In the wake of Mexico's default, most commercial banks reduced significantly or halted new lending to the Third World. Many analysts believed that the Philippines would be next, since billions in the nation's short-term debt were coming due in 1983.



Throughout the first half of 1983, the pressure on the Philippines continued to build, despite a fresh $300 million loan acquired by the Central Bank. In 1983, interest payments exceeded the net inflow of capital by about $1.85 billion. In July 1983, the government was forced to devalue the peso from $1:P8.54 to $1:P11.11.

On August 21, 1983, with the murder of opposition leader Benigno Aquino, Jr. at the Manila International Airport, the political and economic situation exploded. Military investigators blamed the killing on the communist New People's Army (NPA). No one believed them. The murder triggered a tremendous wave of anti-government protests and loud calls for Marcos' resignation. The loss of investor confidence resulted in massive capital flight, at the rate of US$12 million a day. As the weeks passed and billions left the country, the country no longer had the forex reserves to service its huge foreign debt.

On October 14, 1983, the Philippine government declared a debt moratorium. A Philippine negotiating team flew to New York City in late 1983 to discuss a rescue package. Cesar Buenaventura, then CEO of Pilipinas Shell, was part of the team. He recalled: "The country declared the moratorium in October 1983. Then we went to New York. . . to negotiate with the group of banks—[Prime Minister] Cesar Virata, myself, (Central Bank Governor Jaime) Laya, and I don't remember if [DBP CEO Placido] 'Cidito' Mapa was there too. We sat down to meet and we were looking at numbers. They said to us: 'Gentlemen, do you know that we cannot find $600 million in your books?' Virata and I looked at each other and there was an embarrassed silence. So we went back to look at the numbers. That's when we found out that the Central Bank overstated our reserves by $600 million. . . .By that time, the credibility of the Philippine government was next to nothing. We could have completely collapsed—the whole Philippine economy. We really didn't have any dollars."

The IMF discovered that the Central Bank had been lending and reborrowing existing reserves throughout most of 1983; by use of this subterfuge, it was counting the funds twice in its reserve statistics. The country lost the confidence of international lenders and it was unable to access any new dollar loans for over a year. Marcos was forced to transfer Jaime Laya to the education department and find a new Central Bank head. At this point, the country had only enough foreign exchange to pay for less than a month's worth of imports; its net reserves stood at -$1.8 billion. The debt crisis stopped the flow of trade credit, causing a huge drop in production and consumer goods imports.

Desperate times require desperate measures: on November 4, 1983, the Central Bank suspended the operations of the foreign exchange market, pegged the exchange rate at P14.002:$1, and required licenses for foreign exchange payments. All local commercial banks were required to surrender all dollar proceeds from their export remittances and inward transfers. The Central Bank pooled available dollars, and of this central forex pool, it would allocate exchange for imports and payment of various foreign services. The Central Bank alone would decide who would get dollar allocations and in what amounts.

To plug the outflow of dollars via the black market, Trade Minister Roberto Ongpin centralized forex transactions with an ad hoc currency exchange unit, created by EO 934, and

Albino SyCip with his sons, Alex, David, and Wash.

Jobo and the SyCips

The new governor did have ties to the SyCips, both father and son. Jose "Jobo" Fernandez was a very good friend of Washington SyCip, who, in 1958, had convinced him to set up his own bank. Jobo was personally indebted to Wash's father as well. Jobo had approached Don Albino for a loan to finance the organization of the new bank, Far East Bank & Trust Co. Jobo, while very successful as a banker, wasn't as liquid as the other initial investors in Far East Bank: men like Aurelio Montinola Sr., Senen Gabaldon, Ramon del Rosario Sr., and Carlos Palanca Jr., among others. Jobo needed to borrow money to pay for the one-eleventh of Far East Bank shares that would entitle him to a board seat. Albino granted Jobo the clean loan that he had requested, and Jobo would always be grateful for the "Dean of Philippine Banking"'s faith in him. Wash said of this loan: "My father had the authority to make certain [clean] loans to people, and he did extend those loans to those he thought had drive and ambition and had confidence in the country."

"One customer said to me: 'If there is any bank at this stage of the game that I will trust, it will be you guys.'"

—RIC CHUA

Marcelo Nubla and Anthony D. K. Chiong, son of Dee K. Chiong.

formally titled the "Presidential Anti-Dollar Salting Task Force." Cesar Buenaventura said: "That's when Bobby Ongpin created the Binondo Central Bank. He gathered together the five top black marketers and he said: 'You guys will just make ten centavos on all the dollars that you are going to collect. You give all of it to me and we'll fly this haul to Hong Kong.' That was the source of the money that we had to use for our needs."

This Binondo-based network of moneychangers and currency traders continued their operations and made some profits, but they had to cooperate with the government by buying and selling at government-dictated rates.

This draconian dollar regime was stricter than anything the country had ever seen—even compared to the already tight forex controls of 1949-1962. China Bank was particularly affected, because its traditional core constituency was made up of Chinese-Filipino traders, retailers, and manufacturers who were especially dependent on the free inflow of dollars. They needed them to import finished goods for retail and wholesale, get raw materials for assembly into finished goods, and buy equipment for manufacturing. The Bank didn't have recourse to the large consumer banking base that other banks had built; for the past sixty-three years, China Bank had been very closely tied to the flow of international trade.

Marcos' next task was to replace Laya with someone who could command respect internationally, find a way to tackle the balance of payments crisis, and keep the financial system from meltdown. He turned to Far East Bank president Jose B. "Jobo" Fernandez. Jobo, a 1949 graduate of Harvard Business School, was probably the preeminent figure among his generation of bankers. He was not Marcos' first choice; the dictator would have preferred one of his long-time finance technocrats to the post. But he couldn't, precisely because the regime's top finance experts, having been in charge, were already considered abroad to be tainted by the recent troubles. Only a man like Jobo, with his combination of banking skills, sterling reputation, and known independence from the regime, would have been internationally acceptable.

At first, Jobo tried to demur from taking Marcos' offer, saying he had enough problems protecting Far East Bank. Marcos replied: "Your bank will collapse anyway if our [external] debt problem is not solved and the entire [financial] system goes down." Once the problem was stated that way, Jobo had no choice but to accept.

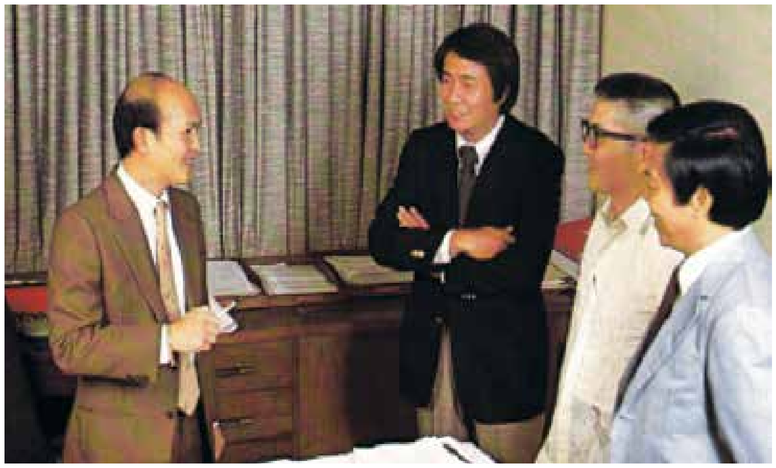
At the new governor's first briefing with Cabinet ministers in January 1984, Jobo sardonically said: "Gentlemen, I feel that all of us are just shuffling the deck chairs on the *Titanic*." At another moment, he would quip that he had accepted the

50.3%

PH INFLATION RATE, 1984

-8.83%

PH GDP CONTRACTION, 1984



Peter Dee briefs the Bank's young executives.

Central Bank job "in a moment of insanity." This line was very much in character—Jobo would need his sense of humor in the years to come. When he won the Management Man of the Year Award in 1990, Jobo said that he did not understand what the award was for: he quipped that all he seemed to have produced were protracted lawsuits from the banks he had shut down.

To head off the threat of hyperinflation, Jobo Fernandez clamped down on excess liquidity by raising the reserve requirement for banks. He extended billions in emergency assistance to ailing banks and helped to arrange for acquisitions of weak banks. His key move, however, was offering a new kind of Treasury Bill with extraordinary rates of interest, ranging from 36% to 42%. The net effect of these so-called "Jobo Bills" was to increase bank lending rates to astronomical levels, well over 40%. (In contrast, the US Federal Reserve during its 1979-1982 efforts to fight inflation under Paul Volcker raised the prime lending rate to "only" 20%.) As money in circulation dried up, the Philippine economy slowed to a crawl. The Jobo Bills achieved several important objectives: they mopped up excess liquidity in the system, stabilized the currency, curbed capital flight, and provided the banking sector and other large asset-holders with high-yield, low-risk investments.

Cesar Buenaventura said: "The rates went up to 40%. But that was an effort to cut off speculation. Of course, Jobo was maligned for that. I think that was part of the 'medicine' you just had to take to stabilize the economy. Otherwise, the peso would have gone to $1:P50 or $1:P60, or who knows. It really was in real trouble. Everything went against us."

Jobo's shock treatment came with large economic and social costs. Many small and medium enterprises had to stop operations because of the high cost of money. More than 400,000 workers were laid off in 1984. Exports and imports slowed, and for the first time since World War II, GNP actually contracted by 8.83%. Inflation soared to 50.3%. In June 1984, the government announced another devaluation; the peso was worth $1: P16.69 —a 50% drop. For all of 1984, the government had barely enough foreign exchange to import oil and food. For instance, it did not have enough to pay for airline tickets; Northwest and other airlines were threatening to pull out of the Philippines. The Central Bank managed to placate the airlines with a sizeable IOU, with a large premium.

CHINA BANK AMIDST THE CRISIS, 1984

Given all of these macroeconomic problems, nearly every bank outside of the circle of the big unibanks was in trouble in 1984. Few people were willing to apply for new loans, given the ruinous rates; the banks, on the other hand, were reluctant to lend. But even existing loans posed their own problems, since many borrowers could not pay off their loans; if pressed by the banks for repayment, they went out of business. The industry-wide past-due ratio rose from 11.5% in 1980 to 19.3% in 1986.

Yet, foreclosing the mortgages and getting the collateral often did not help the banks much either; they were stuck with shares or assets that they could not sell at a fair price, given the down market. These banks were faced with an unpalatable choice between accepting a loss to generate liquidity or holding on to the undervalued asset in hopes of realizing its true value once the crisis was over. Either choice carried its own risks.

By early 1984, many banks were limping. Even the big unibank Allied Bank asked for and received P3 billion in emergency Central Bank assistance. To prevent small banks from toppling over and creating a domino effect, Jobo Fernandez encouraged the bigger banks to acquire them. PCIBank acquired the Insular Bank of Asia and America (IBAA). BPI acquired Family Bank from the Gotianuns. Jobo tried to arrange for the sale of Pacific Bank to the Bank of Hawaii or Solidbank.

Over at China Bank, the signs were troubling. In 1984, the Bank sharply reduced its loan portfolio by over P757.7 million to P2.63 billion (down from P3.39 billion in 1983), and increased its reserves. Despite this, its profits were dropping sharply; it earned P41 million on gross income of P810.82 million, for a return on equity of 8.37%. Worse, the company's interest income of P554.26 million was actually less than its interest expense of P569.49 million. Since interest income was the lifeblood of the Bank, the situation was untenable.

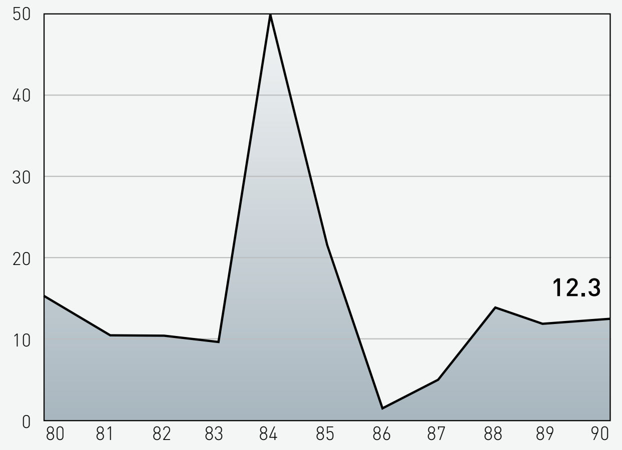
Ric Chua said: "Those years were difficult. The country did not have enough dollars. Our customers could not open LCs. Many banks were being closed, others were in trouble. The interest rate was 48%. How can you survive? Those were very difficult times for us. Our net income dropped significantly. We were only a little above breaking even."

The Bank was forced to suspend dividend payments in 1984, 1985, and 1986. In 1984, China Bank stock was trading at P70 per share, compared to P225 in 1979; by 1985, it would be trading as low as P55 a share at some points.

The Bank still had large, valuable assets, such as the 11,000-sqm lot on Ayala corner Buendia, plus big foreclosed properties such as the 13-story Sarmiento Building (now the SSS Building) on Ayala Avenue corner V.A. Rufino. It owned many more prime properties on main streets in Baguio, Cebu, and other cities. These properties were cumulatively worth tens of millions. But the market prices on the assets had fallen so much that Bank leaders hesitated to accept that big a loss. Selling would "lock in" that loss. These prime properties were so strategically placed that they were guaranteed to appreciate hugely in value once the crisis was past. But of course, as in all gambles of this nature, the trick for the Bank was staying solvent long enough to realize that value.

With so many commercial banks tottering, runs and rumors of runs were rife in 1984. In July that year, there were reports of anonymous leaflets being circulated urging people to withdraw their money from banks or else face dire consequences. The big savings bank, Banco Filipino, owned by

INFLATION RATE (%)
1980-1990



The anti-government protests and calls for Marcos' resignation after the murder of Ninoy Aquino in August 1983 resulted in the loss of investor confidence in the country and massive capital flight.

the Aguirre family, was struck by a run and was forced to close on July 23. It was allowed to reopen on August 1, 1984, with an additional P3 billion in emergency loans by the Central Bank. The Aguirres insisted that they had a right to "unlimited and unrestricted financial support" from the Central Bank. But eventually, Jobo Fernandez concluded that the bank was too far gone; in March 1985, Banco Filipino was shut down by the Monetary Board.

With Banco Filipino tottering, rumors spread that other banks would soon follow. One key thing to remember about Banco Filipino is that, although it was a savings bank and therefore technically a step below a commercial bank, in terms of assets it was bigger than two-thirds of the commercial banks in the country. Ordinary folk would understandably think that if Banco Filipino, with P4 billion in assets and three million depositors, could go under, then almost everyone was vulnerable.

In August 1984, China Bank was struck by a run that caused P700 million in deposits to be withdrawn in only three days. Rumors on the street said that it was about to follow Banco Filipino. Rene Lao, as head of Treasury, and Ric Chua, as auditor (who succeeded George Pay) were tasked to monitor the situation.

Ric Chua said: "That run was caused by a lot of rumors. The Chinese market is cash-rich, but they are also prone to rumors. Things travel so quickly among them. You have to remember: in front of us [at the Binondo head office] was Banco Filipino, going through all those problems. Those days were very scary moments. Day by day, I was with Rene Lao and we were watching how the market was behaving.

"I think we are known as the Bank with a heart. I hope, in the future, it will always be like that. Sometimes, you help people in their hour of need; when they recover, they will always be grateful." —NANCY DEE YANG

We were saying: 'What are the steps we have to take if things get worse?' A bank cannot withstand a run that lasts longer than two weeks. Even just four days is worrisome enough. The run started on a Monday. By Thursday, fortunately, everything had quieted down already."

Rene Lao said: "When you are inside a bank during a run—you're stressed out, you don't sleep. You watch the financials, you take a look at liquid assets. Then you take a look at what can be done. That was a lot of stress over three days. That was why we have that mechanism from the Central Bank where you can get emergency loans. We didn't need to get the loans, in the end. But of course, we were getting ready. We already communicated with the Central Bank; we were prepared. Fortunately—primarily because of our clients' loyalty to the Bank—it did not deteriorate to that kind of situation."

Nancy Yang recalled: "We displayed stacks and stacks of cash at all the tellers' cages, and somehow that helped calm the clients."

The run petered out by the fourth day, as loyal clients went to the Binondo head office and made a show of support. Rene said: "This is where China Bank is different. Our old clients went to the Bank carrying money and saying: 'I am depositing.' They put in big amounts, in time deposits. There really is a special relationship between the Bank and its clients."

Long-time clients such as businessmen Luis Uy and Shao Tick Chong put in considerable sums back in the Bank. Luis Uy said: "The Bank was very helpful to us in the past. So we wanted to help it now. We were very confident that the Bank was still strong. We said: This problem is just temporary." As some of the Bank's oldest customers took this highly visible action, they helped calm their fellow depositors' fears.

Ric Chua said: "That incident showed that the brand of the Bank was very strong. That was the best test [of our brand]. Some customers went to the Bank and said: 'I am not afraid about your Bank. What has changed for me to get worried?' One customer said to me: 'If there is any bank at this stage of the game that I will trust, it will be you guys. I am not taking my money out.'"

Ric added: "Part of what helped us [in addition to the clients depositing more money] was we were ready with the cash. No one was to be turned away. If we had slowed down the withdrawal process or seemed hesitant, then we would be in trouble. I saw that happen later with other banks. We said: 'Let people withdraw. Go ahead.' When people hear about it, they would think: 'Oh, the situation there is not so bad.'"

In the spectrum of the bank rescues that the Central Bank carried out during the crisis years, even the never-executed P700 million request that China Bank was contemplating

(Opposite page)
China Bank weathered the 1980s crisis, driven by the optimism and hard work of its people, including vice presidents Nancy Dee Yang and Ricardo Chua who at the time were the head of Branches Administration Department and the auditor, respectively, and the support of its clients.

(Right) Peter S. Dee, second from right, became China Bank's president in 1985 at the age of 43.

was still a small amount—compared to the billions in funds disbursed by the Central Bank to other banks between 1983 and 1985: Banco Filipino (P3 billion), Pacific Bank (P2 billion), Manila Bank (P3 billion), Allied Bank (P3 billion), Producers Bank (P2 billion).

Fortunately, the Bank did not need the assistance. Instead, it had received an unexpected confirmation of just how strong its ties with its clients were. If its financial capital was not as substantial as other banks, its "social capital"—the trust it had earned over the decades within the business community—was as strong as ever. In a moment when the institutions of government were weak and in doubt, the clients' long memories of the Bank's past support were enough to make it pull through.

Albino SyCip would have said: China Bank was simply reaping what it sowed.

HELPING CLIENTS WEATHER THE STORM: 1984-1986

Even with all its problems, the Bank still strove to serve and be worthy of its clients' trust. Nory Reyes-Lao recalled a particularly telling instance of this trust: "During crisis periods, some of our clients trust the Bank so much that they will go to us, withdraw their money and tell us: 'Please issue me a manager's check.' And they will bring the manager's check and lock it up in their China Bank safety deposit box. Money in the millions. Of course, we were happy that they got our manager's check; our interest expense stops."

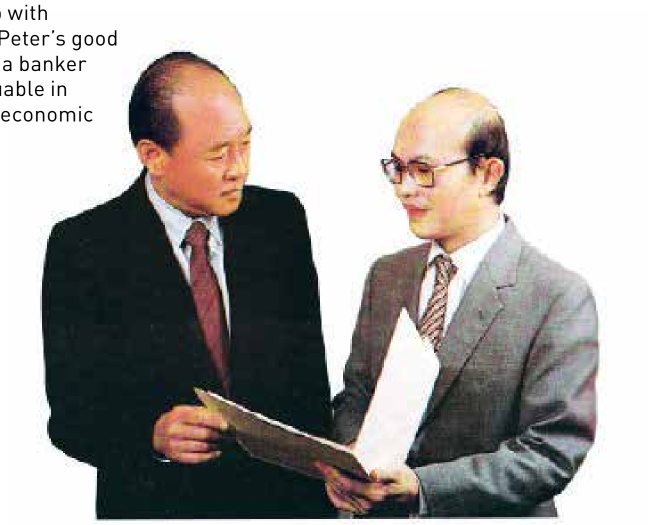
Nory added: "They trust the Bank—to them, whether the money is there as a deposit or in a check in a safety deposit box, it doesn't matter. They feel safe, comfortable; they have peace of mind—as long as it's with China Bank."

With the government looking increasingly weak and the NPA insurgency gaining momentum, some clients feared a communist takeover might be imminent. They looked to the Bank for help.

Ric Chua recalled: "People were worried about the situation and thought they might have to leave the country via the [southern] back door. They might have to take a boat, a small plane or whatever. They would become refugees. It was that bad. For that eventuality, one client of mine kept some of his cash inside a safety deposit box in China Bank. He said to me: *'Pakiusap ko lang: Pag may problema, pakibukas ang safety deposit box ko.'* That was the kind of trust he had in us."

With the crisis, China Bank had a problem dividing its very limited forex allocation among many clients. International department head Lawrence YL See said: "There was such a scarce supply of foreign exchange allocations per bank. You [as China Bank] became the allocator. So you had to go through your list of regular import clients and use their [historical] needs as the basis for a formula on how to divide the pie proportionately. There was never enough for everyone. Everybody had to accept a cut. You had to be fair; you couldn't serve one client and let the others go down the drain. On the other hand, you had to consider also that certain clients could not survive, especially in manufacturing, if they didn't have sufficient raw materials. We couldn't make everybody happy. So I—together with some officers—divided the pie. Then the clients would accumulate dollars. We would give a certain

Gilbert's good relationship with clients and Peter's good instincts as a banker prove invaluable in weathering economic storms.



allocation for them. Maybe next month, we could give them a little bit more. They could put the two together, and maybe it would be enough for one shipment."

Even without the regular stream of dollars it was accustomed to, the Bank found creative ways to help its reliable clients during the crisis period. Nory Lao explained one method they used to help: "These companies during the crisis period, where there was no foreign exchange, they needed to open LCs. So what we did was we allowed the LCs to be opened—provided two things. If they had cash, they gave us the cash—even just 20% or 30%. And when the goods arrived in the Philippines, normally you would get a trust receipt. That was where we got the additional protection, by saying: 'When the goods arrive, and you want to sell it to that guy, can you also ask that guy to assign the proceeds to us?' It was an extra effort. Legally, it was a little bit more intricate. But that meant we were going out of our way to support this company. So as he imported raw materials for his products, we, as the Bank, got the additional credit safety. Along the way, as he was able to complete his transaction, he made some profit on it, so hopefully he would be able to continue his business. We were willing to go and take that extra mile."

Nory added: "This was a lot of added work. But then, think of it this way: How much time and money and effort must you exert to get a [new] client? Once you get that client, you are not even sure how he will perform, and what his credit risk is. But if you already have experience with some clients, you already know them. And that additional effort you exert for [a trusted client], you can equate that to the effort of trying to get a new client. So you might as well help him."

One good example of a business that relied on China Bank during these difficult times was Pacific Paints, founded by Vicente Ong Sue in February 1953. Ong was a long-time client and friend of Dee K. Chiong; he started his business with a loan from China Bank. In 1964, Ong secured from the top US paint firm Boysen the license to manufacture its premium paint products. Pacific became the Philippine market leader in paint. But as the Ongs discovered in 1983-1986, even market leadership is not enough when you have no foreign exchange to pay for raw materials. By 1984, the Pacific Paints plant was running at 50% capacity or less; sometimes the production line had to be shut down for lack of materials.

Willy Ong, now Pacific's CEO, was then a young manager working for his father, Vicente. He recalled: "My job then was to buy dollars. I would go around—Ermita, Binondo, even Clark Air Base. I would also go to the Binondo Central Bank to get some allocation as well. Some banks could not give you all that you needed—but they gave you something, so you really appreciate that effort. We got a regular LC allocation of dollars from China Bank, even during the crisis. Of course, it was not as much as before. But at that time, if you were given $10,000 or $20,000, that was already good enough for us. China Bank did not let us down."

Willy said: "The one thing we learned is, if a bank is a part of a conglomerate that is heavily involved in manufacturing, the dollars would be allocated to them. It goes to their own factories or their system only. We learned from that. That's why after the crisis, we don't do a lot of business with a bank that has behind them a conglomerate or manufacturing. With China Bank, yes—we still do business with China Bank."

China Bank also helped the Ongs of Pacific bring in their raw materials in a pay-before-delivery importing arrangement, devoid of the usual LCs. Willy said: "The foreign suppliers at that time, with any shipment to the Philippines would want it to be confirmed once, twice, three times before they finally would ship out to you. I would place the money with China Bank, China Bank would remit the money to the correspondent bank, and then the correspondent bank would tell the supplier: 'I have the money. Ship it.' Nobody was advancing money for anyone. It was cash basis."

Pacific Paints remained the market leader with over 90% of the high-end paint market. Willy Ong remains grateful to the Bank. He said: "I remember the banks that supported us during the crisis. Banks really had difficulty getting hard

Keeping one's word

(*Palabra de honor*)

In the 1980s, China Bank had to sell some properties to generate new capital. Its biggest and most attractive assets were in the country's central business district, specifically on Ayala Avenue.

One of these was the Sarmiento Building which the Bank decided to sell to the SSS. But the process dragged on because of government red tape. Ric Chua recalled: "Peter Dee committed to Joey Cuisia of SSS to sell the Sarmiento Building. Originally, the agreement was [a sale in] 90 days. But SSS went beyond 90 days—maybe 180 days already—and we could have called off the deal. The market price went up, almost double. But Peter said: 'No, Ric. We gave our word.' We left a lot of money on the table—I won't be surprised if it was P60 to P100 million."

Dee C. Chuan and Albino SyCip had been gone from the Bank for many years, but their values, such as the importance of keeping one's word, still drove the institution.

"The task of achieving profitability does not belong just to the very top. It's everybody's concern, and everybody's participation." —EDDIE GO

currency. But those banks who still allocated dollars for you on a monthly basis—that meant a lot. We dropped a few banks after that and continued doing business with the banks who were supportive. You won't know who your friends are until you get into a bad situation. With China Bank—we are taken care of."

Nancy Dee Yang, granddaughter of Dee C. Chuan and daughter of George Dee Se Kiat, who headed the Bank's Branch Banking Group for many years, said: "I think we are known as the Bank with a heart. I hope, in the future, it will always be like that. Sometimes, you help people in their hour of need; when they recover, they will always be grateful. You'll forever win their loyalty." She added: "Our current motto 'Your success is our business' really shows our concern for our clients' well-being; it aptly describes China Bank."

REVERSING THE DECLINE 1985-1987

Like the rest of the country, after four years of crisis, the Bank was in precarious shape by 1985. Its assets had gone down to P4.371 billion (from the 1984 level of P4.847 billion) and its deposits to P3.235 billion (from the 1984 level of P3.504 billion). It earned P11.288 million on gross earnings of P746.09 million, for a return on equity of 2.18%—far below the rate of inflation.

Its problems were not limited to the Philippines: its deposit-taking subsidiary in Hong Kong, First CBC Capital, launched with high expectations in 1980, had been bleeding cash for several years. It was simply too difficult for First CBC to compete there, due to the high cost of manpower and premises, and the small spread available in a market dominated by multinationals and Chinese-owned financial institutions.

The most telling statistic amid a welter of worrisome ones was this: In 1985, China Bank again had a "negative carry"—the Bank's interest expense of P566.27 million was greater than its interest income of P479.4 million, by over P86.86 million. This continued a trend that began in 1984, where interest expense had begun to outrun interest income.

After protracted discussions, the Bank's board concluded that the Bank needed to get top-level management help. A new CEO could help the Bank make the hard decisions it needed to make, and, if the right man was put in place, it would reassure the market that the Bank was on the mend. At

(Opposite page) In 1985, Edward Go stepped in as China Bank chairman and CEO and Peter Dee became president and COO.

(Right) Eddie Go, DP Loh, and Johnny Coreces.

(Far right) The swearing in of Corazon Aquino as the 11th president of the Philippines.

the time, Gilbert Dee was vice chairman and EVP, and Peter Dee was EVP and GM. Together with some directors, they went over the names of several candidates. One name led all the rest: Edward S. Go. "Eddie," then forty-six, was an ideal candidate for the Bank: an accomplished man of Chinese ancestry who fit the Bank culture, but also someone with international banking training, and a track record of turning around troubled banks. He was a 1961 graduate of the Ateneo de Manila (A.B. Natural Science *magna cum laude*) and a 1963 product of the Citibank Manila management training program, which produced many of the local banking industry's top CEOs.

Eddie became known for his skills in fixing troubled banks, initially because of his ten-year stint at the Philippine Bank of Communications (PBCom). In March 1974, at the age of thirty-five, Eddie Go became CEO of PBCom. Soon after assuming the top post, Eddie, with the aid of Wash SyCip and SGV, found out that massive acts of fraud perpetrated by some bank officers had pilfered away P29 million out of the bank's capital of P40 million. Despite this unpromising beginning, Eddie Go managed to turn the bank around. He expanded its branch network, and by 1980, the bank had P2.7 billion in assets. PBCom was once again sound.

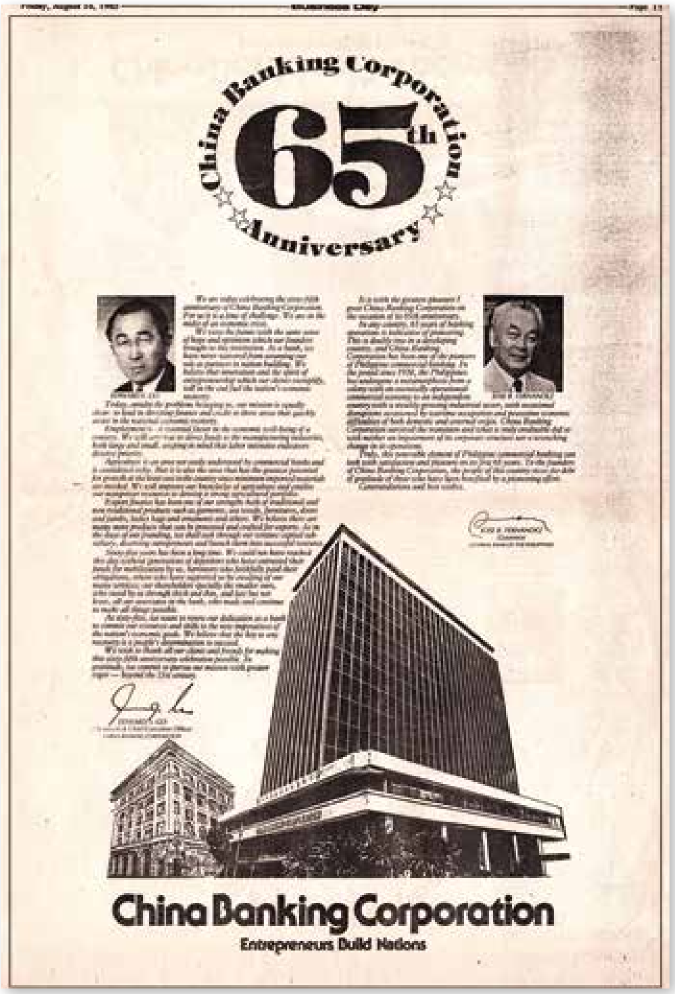
In 1984, Eddie moved on to become CEO of Pacific Bank, a once-strong bank which had been in bad shape since the death of its founder, Antonio Roxas Chua, in 1978 and the resignation of its respected president, Chester Babst, in 1980. Once again, Eddie had a tough job on his hands.

Eddie recalled: "[Then in 1985] overtures to me came from China Bank. Jimmy Dy Buncio was the one who set it up because Jimmy and I were quite familiar with each other. I had a luncheon meeting with Edward Dee Se Kiao [brother of George and Robert Dee] whom I knew very well. We used to play golf together at Wack Wack. I think Henry Sy Sr. was there. I think Peter and Gilbert were there. They told me that they'd like to offer me a job at China Bank. That's how the conversation started."

Eventually, Eddie got some career advice from the Central Bank governor himself: "I kept Jobo apprised of my discussions with China Bank. Finally Jobo said: 'I think you better just give up [Pacific Bank] and move on.' He told the Monetary Board: 'I would rather have one problem to take care of, rather than have another problem [bank].'" (Eventually, in May 1986, Far East Bank bought the branch network of Pacific Bank.)

So in July 1985, Eddie Go became chairman and CEO of China Bank. Peter Dee became president and COO, and Gilbert remained vice chairman and EVP. This new team defined their top priorities for the next year or two: to restore public confidence, bring in more deposits (which in 1984 and 1985 had declined by a total of P265 million), find new capital to reverse the "negative carry," and cut the financial losses posted by the Hong Kong subsidiary, First CBC Capital. Each task in itself was formidable, but the new triumvirate addressed them all methodically.

To help restore public confidence, China Bank decided to take advantage of the Bank's 65th anniversary in August 1985, only weeks away. Eddie Go said: "I engaged the ad firm, Basic FCB, because [top FCB executive] Herminio Ordoñez—Minyong—was my classmate. Between Minyong



and myself, we developed a strategy. We came up with a huge advertisement about China Bank's anniversary, with a letter from Jobo congratulating the Bank on its anniversary. This was in the Filipino newspapers and the Chinese newspapers. We posted this on every entrance to our branches. The message is: Jobo will not congratulate the Bank if it has problems. This strategy was discussed with Jobo. I said to him: 'If you come out and say, China Bank has no problem, all the more, people will say, *'Ay, may problema ang* China Bank.' That's the Filipino reaction."

Eddie also encouraged the Bank branches to resume lending out small amounts. The branches had slowed down lending in 1985. He said: "That was, in a way, systemic. I guess it was happening to different banks because of the crisis. But by making that policy, it exacerbated the problem for the Bank. It made people even more nervous. I officially reversed that, to say: 'We can give loans. We have no problem.' After that, the psychology of the depositors turned around. I mean, we wouldn't give very big loans yet, but the small loans at the branches, we had to give that. That's how we cured the problem. Those two things—the advertisement on our 65th anniversary and the resumption of lending—those two brought in more deposits."

True enough, in 1986, the Bank reversed the two years of hemorrhage in its deposits, adding P32 million. By 1987, the Bank had P3.944 billion in deposits, compared to P3.267 billion in 1986 (20.7% growth). By 1988, it had P4.658 billion in deposits. Of course, the Bank's drive for more deposits and more stability was greatly aided by the fall of Ferdinand Marcos in February 1986. A spirit of optimism lifted the economy—GNP grew by 4.15% in 1986, and domestic production reversed its downward trend. In 1987, GNP growth rose to 4.62%, and then by 7.71% in 1988. That rising tide helped the Bank rise as well.

The next major problem, the "negative carry," was a more difficult problem to address. Eddie said: "The interest income of the Bank was less than its interest expense, because it had a lot of money tied up in properties bought for future branches—as well as foreclosed assets which management was not selling because they wanted to wait for prices to go up. I said to the board: 'We can do one of two things. Either we start selling some real property, or we bring in new equity. If it's new equity, it has no interest expense, it takes care of those non-earning assets. And now we will have a positive carry.'"

But most of the board members (with the major exception of Henry Sy Sr.) were reluctant to invest in Bank shares.

Jaime Dy Buncio, Joaquin Dee, Edward Dee Se Kiao, Eddie Go, and Nancy Dee Yang.

There wasn't much interest then in the Bank issuing new shares to bring in new capital. This reluctance was understandable: the Philippine financial sector had done so badly in the last five years that many big shareholders shied away from doubling down on Bank shares. (As we will see in Chapter 6, Henry Sy Sr. bought up a lot of Bank shares during this period, confident that the shares were heavily undervalued and that their true value would eventually be vindicated. Not for the first or last time, Mr. Sy would prove to have great foresight.)

The Bank had to take the route of selling big assets to generate new capital. The Bank's most attractive real estate assets were located on the best business address in the country, Ayala Avenue. These were the 13-story Sarmiento Building and the Buendia corner lot that was supposed to be the site of a new China Bank headquarters. Both assets drew a lot of interest, since the lots were bound to increase hugely in value once the crisis was over—and which was why China Bank was reluctant to sell, because doing so would mean leaving money on the table. But the Bank had to first staunch the financial bleeding.

The sale of the two big Ayala Avenue assets (as well as a few other prime lots) brought in the new cash necessary to help stabilize the Bank. Eddie Go said: "We had to reverse the negative carry, otherwise we'd just be wiping out our capital. So the sale of land was the cure, as far as the books were concerned." The Bank's interest equation had been corrected. In 1988, the Bank's interest income of P566.819 million far outweighed its interest expense of P300.734 million by P266.084 million—a 40.3% increase over the net interest income in 1987. It has remained healthy ever since.

The final hole that top management had to plug was offshore, in Hong Kong. After going over the books and operations of First CBC Capital, Eddie Go concluded that the business model never made sense. Hong Kong banking was simply too competitive for a Filipino firm to thrive.

He said: "I knew all the Philippine deposit-taking companies in Hong Kong were in trouble. I think [First CBC] was capitalized at HK$10 million. But at that time it was at negative HK$7 million. I said to the board: 'To continue, we need HK$17 million—HK$7 million to wipe out the bad accounts—the negative—and then HK$10 million in new equity. If China Bank today had HK$17 million to spare, I would rather keep it in the Philippines. It would make better returns here. I recommended to the Board that we close it down."

Eddie added: "When I got board approval, I flew to Hong Kong. I spoke with the Bank Commissioner, Mr. Robert Felts. I told him: 'I am going to close our DTC, but before that, I will pay all depositors. I will make sure that all the liabilities are paid out and I will surrender the license. All I ask of you is:

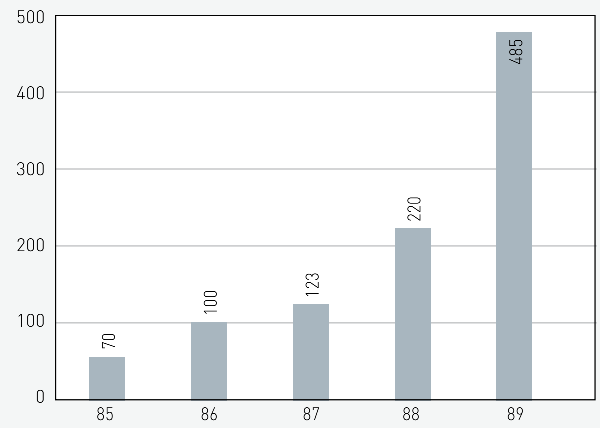
Lawrence See, Jaime Dy Buncio, Eddie Go, Edward Dee, and Rene Lao.

Do not make any announcement that you are going to close us.' Because there were some deposit-taking companies that were closed by their order. Felts said: 'Mr. Go, you are the first one who came to us with a sensible solution.' So he called his deputy and said: 'This is what China Bank will do, and we will support them.' We surrendered the license."

China Bank reduced First CBC Capital's operations to collecting outstanding loans. The company was eventually shut down completely. The Bank set aside P50 million as a provision for probable losses from First CBC. But the important point was that the bleeding had stopped.

After several years of work, the Bank was healthy again. By 1988, China Bank had P5.924 billion in resources, compared to P5.009 billion in 1987, an 18.28% rise, and P4.658 billion in deposits, compared to P3.945 billion in 1987. The loan portfolio grew to P3.588 billion, compared to P2.710 billion in 1987. The Bank earned P146.711 million in net income, out of gross income of P792.031 million, for a return on equity of 22.46%. China Bank was back.

CHINA BANK STOCK PRICE
1985-1989
In Pesos



GROWING THE BANK AGAIN 1987-1989

With its finances back in order, the Bank could shift its attention from the short-term rescue efforts—the "firefighting"—of 1985 and 1986. From 1987 to 1989, it could now begin to think about and act on growth for the long term. For instance, China Bank resumed the branch expansion that was put on hold by the economic crisis. There had been no new branches since 1983. In 1989, China Bank opened two new branches, bringing the total to 30 and it aimed to open 30 more in the next three years.

To make the Bank more competitive over the long term, the management team decided to focus on three strategic areas: first, making Makati the new headquarters of the Bank, with additional office space and more land to match; second, introducing new computerized services and systems like ATMs and telephone banking; and third, bringing in new systems for operations and performance evaluation.

By the 1980s, nearly every major bank had moved its headquarters to Makati—a process that had begun in the 1960s and only accelerated in the 1970s. But China Bank was a late holdout; Binondo had been so central to both its culture and its operations that any changes were difficult to envision. Eddie Go set out to change that. The Binondo building had limited space for adding more manpower. In any event, Eddie felt the growth opportunities were in Makati, both in terms of

In the 1980s, new systems for operations and performance evaluation were brought in for greater competitiveness.

space and new business. Eventually, he convinced the board to move the head offices to Makati. At the Makati building, the Bank constructed more office space as well as new executive offices and a new board room on the fourth floor.

He said: "Moving our headquarters to Makati from Binondo—there was originally resistance to that from the owners because they were so used to Binondo. They said all the business was back there. But I showed them statistics. The deposit base in Makati was much larger than the Binondo area. And the growth was here. So there was empirical evidence."

Eddie convinced the board partly because he made it clear that Binondo would always be important to the Bank: "Some Binondo clients will just come to your office, have coffee, and chat. These are the guys with the money. And you need to maintain that relationship. I said to the board: We are not going to close 'Downtown' [Binondo]. In the beginning, the idea was: we [top executives] would spend a few days of a week there, a few days of the week here [in Makati]. Part of the day there, part here."

To maintain the Bank's capacity to grow at the Makati address, Eddie Go proposed buying more land beside the Bank—some 2,997 sqm which he felt was more within the Bank's means than the 11,000 sqm that it had just sold to RCBC. He said: "I felt we needed to buy the two lots behind the China Bank building. In the discussions, some of the board members said: 'Why do you want to buy lots? Didn't you just tell us to sell these other lots?' I said: 'Yes—but there's a difference. When we were selling land, we were at negative carry and we needed it. But now we are okay and we have to protect our strategic interests. This will be our head office. China Bank is [on Paseo de Roxas,] right where the biggest banks are. We have to protect this address.' Mr. Henry Sy saw the point of that, and he supported the recommendation. So I negotiated with Ayala, and Ayala sold it to us at, I think, P7,500 per square meter. Today, I don't know. The price may be P250,000 to P300,000 per square meter—it was a real bargain."

Eddie Go knew that the Bank had once been the country's pioneer in computerized banking, but by 1988, it had lagged behind some competitors. During the crisis years, it didn't have the funds to invest in things like automated teller machines (ATMs) or the latest mainframes. In 1987, the China Bank IT system was still built around the IBM 360/370 mainframe architecture. This was a 1960s architecture that, twenty years onward, could no longer provide leading-edge services. With the recent improvements in computerized banking, banks abroad now offered 24-hour ATM services, faster electronic fund transfers, and shorter waiting periods for routine inquiries such as passbook updating, statement requests, and checkbook requisitions. Banks abroad were using the new technology to unite the deposit system, international operations, the general ledger, and customer information files into a centralized information system. With this in hand, a bank's officers could make better decisions based on timely access to data. Eddie Go wanted all of these capabilities for China Bank.

“We have the most successful ATMs in the country. We have the most uptime of all the banks’ ATMs.”

—RIC CHUA

To most consumers today, their primary computerized banking service is the ATM. The first ATMs in the country were set up by BPI in 1981. On February 14, 1986, BPI and its subsidiary, BPI Family Savings Bank, founded the country’s first ATM network, Expressnet, when their ATMs were interconnected. Over the years, other banks such as BDO and Landbank would join Expressnet. In response, a group of seven other Philippine banks including China Bank began to explore forming an ATM consortium to compete.

Former chief accountant and VP Johnny Coreces, by then retired but still a consultant to the Bank, recalled: “The idea came from a group of, at first, seven banks: China Bank, RCBC, Security Bank, Metrobank, Citibank, PCIBank, and Allied Bank. We had learned about the ATM products offered abroad and we thought: ‘Why not form a corporation to operate ATMs? Let’s form a task force and visit the places where there are ATM systems.’ So Ric Chua and I were representing China Bank on that task force.”

Ric Chua recalled: “By then, we wanted to run our own ATMs already. Definitely BPI was ahead of us by several years. Management’s concern then was: ‘How do you justify the capex? What is the business model?’ You were just cutting down on the transaction costs, but there’s no real income. So it took us some time to implement an ATM system, and maybe we should regret that we did not move faster.”

China Bank was a founding member of the ATM network BancNet, along with PCIBank, Security Bank, RCBC, Allied Bank, Metrobank, International Corporate Bank (now part of Union Bank), and CityTrust. In 1993, BancNet interconnected with MegaLink ATM network. Then in 2006, the interconnection of the three ATM networks in the country—BancNet, Expressnet, and Megalink—became a reality. As of

2012, BancNet remained the largest Philippine ATM network with 89 members, including two affiliate switch members, and over 5,800 ATMs and 18,000 POS terminals. China Bank’s COO, Ric Chua, concurrently became BancNet chairman.

As a result of the research that Ric Chua had undertaken for BancNet, Eddie Go chose the NCR 9844 as the new backbone of China Bank’s IT system. The new system was fully operational by 1990, replacing the old IBM system. Eddie said: “My strength, while I was being trained in Citibank, had been on the operations side. For a long while, I was one of the few bank CEOs who understood the nitty-gritty of IT. The others

BancNet founding directors 1990. From left: Freddie Villadelgado–Allied Bank, Carlos Pedrosa–Metrobank, Jose F. Santos–RCBC, Elizabeth "Ely" Pasion–Security Bank, Ramon "Jun" C. Arceo–PCI, Juan G. Coreces–China Bank, Victorio Y. Lim–InterBank, Ricardo R. Chua–China Bank.

would be calling in a consultant to recommend what system to use. Me—I like to choose my system. So we got out of the IBM system in 1988 and went to NCR since it had good software."

On July 1, 1990, China Bank inaugurated its ATM card, the TellerCard. The ATM system of an initial ten machines was hooked up to BancNet in October 1990, which then had 200 ATMs. By the end of 2010, the Bank had 374 ATMs and 670,000 cardholders, and its machines had one of the highest reliability ratings in the industry. China Bank ATMs provided a wide range of services, such as balance inquiry, checkbook re-order, statement request, interbank fund transfer, payment of bills, prepaid phone and Internet reloading, payment of purchases by direct debit to account, and remittance of taxes and SSS contribution and loan repayments. The Bank was also the first to offer telephone banking in the Philippines.

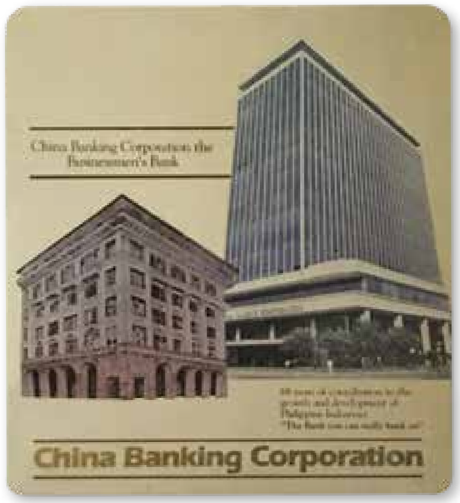
Ric Chua said: "It took us a little bit longer to go to the ATM side. But after that, we are practically on a par with the others. Today, we have the most successful ATMs in the country. We have the most uptime of all the banks' ATMs. We create confidence in people that they can rely on our ATMs—that's what clients tell me. I check with them. They have had some bad experiences with others. In the Bank's IT system, we have a management screen that tells us which ATMs are low on cash, which one is down. The guys who are running our ATMs will notice right away—everybody is on their toes. It's good for the customer. In that area, we are ahead."

Ric Chua also became a key aide to Eddie Go in his third big initiative, the introduction of new operations and performance evaluation systems. Ric had been the Bank's auditor when Eddie came in, but the new CEO soon decided Ric's talents were badly needed elsewhere. Ric narrated: "When Eddie

Alex Escucha (then with InterBank), China Bank's Ricardo Chua, and Security Bank's Oscar Cajipe, with BancNet's Juan Coreces, Founding President Ramon Arceo, Jr., Founding Chairman Jose Santos, and Aristeo Zafra.

The birth of BancNet

The Philippine banks sent their ATM study task force to Asian banks to study various ATM setups and decide on the proper structure and technology for a Philippine setting. But eventually, the group of banks had a falling-out over the proper management structure and the appropriate technology. One group wanted to have the various bank CEOs form the new corporation's board. Some objected, saying that from experience, they knew that the CEOs would be so busy with regular bank business that they would not be able to attend to the ATM company's concerns in a timely manner. The other key disagreement was over the IT system to be used: some banks favored IBM mainframes; others, the Jetco system running on NCR hardware. China Bank became convinced that the NCR 9800 system was the superior solution. (In 1986, NCR introduced the NCR 9800 series, a new generation of computers based on incremental architecture and NCR's 32-bit microprocessor chip.) But other banks insisted on the IBM solution. Eventually the disagreements could not be resolved, and the group split into two ATM networks—MegaLink, which opened in March 1990, and BancNet, which was launched in July 1990.



came in, he said, 'Ric, I want you to run the operational side of the Bank. Let's streamline operations.' So that's how I got into operations. Those were exciting times, working with Eddie. I learned also from him. Eddie is a straight shooter. When you talk about governance issues, operations, Eddie knew a lot."

One of their key joint projects was the Bank's first personnel evaluation system. Eddie said: "When we started doing profit sharing again, when the Bank became profitable again, we had to have a real performance evaluation system. Peter said: 'During my father's time, he just decided on all of these things.' I said: 'Peter, when the Bank was much smaller, he could do that because he knew everybody. But we are a growing bank and we are growing bigger. How can we have just the very top decide how much people should get?' You don't want to make it all equal shares. You have to provide incentives. So we instituted a performance evaluation system based on the branches' performance, and the bonuses were released based on the evaluation."

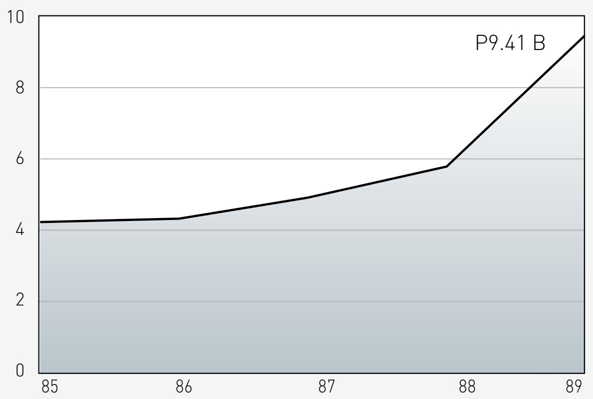
Ric explained: "We used to have profit sharing in China Bank already, from way back. We already had budget setting before Eddie came; we had accountabilities. But the measurement of performance wasn't that clear. How do you measure performance? With Eddie's entry, we were able to galvanize that. [Our HR consultant] Maria Goolsby was very instrumental. We put that system together and we had our first real performance ratings."

Ric added: "Some people were not happy because they'd never been rated that way. So some left—just a few. But we thought it was a good exercise because people knew they had to do better the following year. Before, expectations weren't clear. You should have a clear understanding of what is expected of you. Did you deliver? Did you over-deliver? Did you under-deliver? During the time of Eddie, we worked on that. It was not perfect. We had some rough edges that we had to clean up. But it evolves, it gets better and better."

Eddie Go concluded that the performance evaluation process was a valuable step for the Bank: "I think we put a start to achieving more openness in management. That was about recognizing people for what they contribute—and recognizing that the task of achieving profitability does not belong just to the very top. It's everybody's concern, and everybody's participation."

Eddie Go's years at China Bank included several other initiatives, on top of these three major ones. He said: "I instituted the quarterly branch managers' meeting in Manila. I'd bring all the branch managers from Metro Manila as

CHINA BANK ASSETS
1985-1989
In Billion Pesos



Johnny Coreces and Peter Dee on the former's retirement in 1988.

(Below) Joaquin Dee and Gilbert Dee.

well as the provinces. At random, I would ask three branch heads to present their performance—without their knowing beforehand which ones would be asked. So everybody had to be ready. Each branch would compete to do better than the other branches. They were happy to be called upon."

Eddie also put up the specialized lending and home financing group for China Bank, which tapped Official Development Assistance (ODA) loan windows for agricultural and agro-industrial development projects in the countryside. Rene Lao left Treasury to head the new unit; Danilo Alcoseba was brought in by Eddie Go to run Treasury.

Eddie said: "I told Rene: 'I will give you this new special lending unit which we will launch using funds from the outside'—DBP funding windows, and other [ODA] funding windows. So he, in effect, became a profit center. Rene was happy with that, because now he had a loan portfolio to his name."

Agro-industrial lending and home financing were a far cry from China Bank's traditional clientele of traders and manufacturers. But even here, the Bank reaped many successes. Rene Lao said: "I really enjoyed that, because no two accounts were the same. It taught me a lot about different kinds of business. One day you would go to a cooking oil mill, then fishponds, then livestock growing. I had these young guys working with me. We even had folding beds in my room. We could come back late and we end up sleeping in the office because it was too late to go home. That was the unit assignment that I enjoyed most of all."

Eddie Go only stayed three and a half years with China Bank—from July 1985 to early 1989. The initial offer that China Bank made to him in 1985, he recalled, was for a three-year contract—an indication, Eddie believes, that he was being brought in with a short-term mandate to fix the Bank's problems. But long-term Bank leadership was meant to remain with the Dee family. As a professional, Eddie understood that, and he had no problems with it. He told the board in 1985: "I don't need a contract. If at any time you are not satisfied with my performance, you just tell me, I will go."

In 1989, Eddie Go resigned from China Bank and moved on. Gilbert Dee then became the Bank's new chairman, and Peter Dee, president and CEO. They became the same kind of complementary duo that their fathers DK and George Dee had formed: Gilbert became (like DK) the one who tended to clients and maintained relationships, Peter became (like George) the one who stayed close to home and focused on operations.

China Bank employees on strike.

In 1989, China Bank had P9.41 billion in resources (more than double its 1985 figure) and P6.268 billion in deposits. The net loan portfolio went to P4.34 billion, up 20.89% from P3.59 billion in 1988. China Bank earned P261.976 million on gross income of P1.229 billion, a return on equity of 31.05%—a profit performance reminiscent of the best years of Albino SyCip. The Bank's shares were trading at P485 per share, compared to P220 in 1988 and around P55 in 1985.

THE STRIKE IN OCTOBER 1989

Yet, with all the good news of 1988 and 1989, the decade of the 1980s had one last surprise to pull on China Bank. The surprise came from a most unexpected direction. China Bank had had excellent labor relations throughout its entire history. The Bank's pay and benefits packages were consistently among the best in the industry. Albino SyCip had instituted a corporate culture that was very paternalistic, with a close-knit work force, and warm relationships between management and the rank and file. Wilfredo Tecson recalled that it was the kind of bank where the president himself would readily visit a sick messenger in the hospital. Albino had built the Bank into a family, and his successors like Gilbert and Peter Dee continued to manage it in the same way. But once again, external forces would affect the Bank.

Nationwide, labor activism was on the rise in the late 1980s and early 1990s; strident left-leaning labor organizations were starting to affect big corporations with no previous history of labor troubles. SM was hit by a big strike in 1990 and Meralco was beginning to feel the effects of labor agitation. By the late 1980s, the militant labor organization, the Kilusang Mayo Uno (KMU), managed to exert strong influence on the China Bank union. In the 1989 collective bargaining agreement (CBA) negotiations, the union made many demands that new chairman Gilbert Dee found unreasonable and even hostile. It soon became clear to him that the talks were on the verge of breaking down, despite the fact that the Bank was willing to give employees a pay increase well in excess of 30%.

The labor unrest came as a big surprise to Gilbert not just professionally but also personally. His officers say that there was probably no bank chairman in the Philippines who was closer to his people—both to managers and the rank and file. He made a point of eating in the canteen with ordinary employees, and spending a lot of leisure time with them outside of work hours. His office door was always open to an employee in financial difficulties. Several China Bank managers said that when they had a sick spouse in the hospital, they were surprised by a visit from the chairman himself. Gilbert said: "I like being with my employees. It's my nature."

Nory Reyes-Lao once said: "Our chairman, Gilbert Dee, likes to play basketball together with our staff and officers; he joins our chess or tennis tournaments. He is part of us. And he is very accommodating. He will go out of his way to help: 'Nory, I heard that this guy has this problem. Is there any way I can help?' I eventually found out that when some of our employees needed money and they had reached the limit of borrowing from the Bank, Boss Gilbert would lend them his personal money. These recipients included several union officers who we later had problems with."

Rene Lao said: "Gilbert Dee is very nice to all his employees—very generous, very helpful. When we had this problem with the union, these people whom he had helped did not want to communicate with him. I know he tried to call a few guys in the union who he knew very well. They refused to even talk to him. That was sad. I could see how hurt he was."

Gilbert Dee said: "I think the worst crisis in all my years at China Bank was the strike. I remember very clearly; that was the year I took over as chairman of China Bank, 1989. We were infiltrated by the KMU. They tested me: they threatened a strike. I told the board: 'We are very liquid. Let us fight them now. Because if you do not fight them today, a few years from now, you will be facing the same problem. Let's fight them now.' I did not give in."

Pitching in until late at night: Ric Chua and his EDP guys during the strike.

Camaraderie

Despite all the physical demands, the Bank remained true to its special character, even with this latest crisis. Rene Lao said: "The strike wasn't tense, because there was a lot of camaraderie in the Bank—even between the guys outside, on the picket line, and the officers inside. A lot of these guys picketing had been to my house. We drank together—these were rank and file guys who I played basketball with. So when I came to work, the picketers would say: 'Hi, sir.' Very friendly. I told them: 'Hey, guys, just take it easy. Let's just keep within the law, so there are no problems.' So the picket was very civil. Once my car conked out, the battery died or something; it was the picket guys who pushed it for me. The picket wasn't stressful. It was just the additional work that was hard for us."

Gilbert added his own personal touch. At night, the employees inside the Binondo offices would have their own get-together, in keeping with the "*sa hirap at ginhawa*" spirit that Gilbert wanted. He said: "I ordered two cases of brandy. So in the evening, we all had fun. We were drinking, playing *mahjong*, playing cards. It was like a big party. And even the employees outside who were striking, I would go out and give them bottles of brandy: 'You drink also.' That's how I wanted it: one big family—even those employees on strike outside."

"I think the worst crisis in all my years at China Bank was the strike." —GILBERT DEE

The strike began on October 16, 1989, and lasted three weeks, until the first week of November. The strike was not legal or even planned. It was a spur-of-the-moment decision made by some of the more hard-line members of the union: they walked off the job at lunchtime and did not come back. They managed to get the support of around 70% of the employees. Bank operations were on the verge of being paralyzed. It quickly became an "all hands on deck" situation; the managers pitched in to do the work of the rank and file.

Rose Gan recalled: "It happened at lunchtime; the union people just got their things and walked out. But business had to go on. It was good that I had some experience as a teller before. We were able to process the transactions. Some employees did not go home, we stayed. I would sleep at the CorPlan office, on a desk. We took our showers at the bathrooms in the executive offices. We lacked sleep, we were tired, but we made it. I remember Gilbert Dee was there with us, showing his support. All of the officers helped out."

The major challenge was getting all regular business done with the reduced manpower complement. Given the manpower gap, each man or woman had to do the work of three. So the Bank staff focused on the most essential, time-sensitive functions during regular office hours and then did the updating of records and other back office work at night.

One advantage of the Bank was that it could draw on managers to do all the basic jobs. Lawrence See said: "The good thing is that China Bank officers, myself included, rose from the ranks. We started at the clerical level. We know the debits and credits, how to book an entry, all these details. So we could do the work because we had that background. But of course, it was still very, very taxing, very challenging. But we managed it."

Nancy Yang recalled: "Since we all rose from the ranks, we were familiar with all the tasks required of us—although some of us might have been a bit rusty at first. I did some tellering work during the strike. Also we, the senior managers, had to be around to meet clients, and attend to their needs; our presence assured them all was well. Senior management had to be visible, we had to go around and boost morale and confidence, and calm their fears, if any. We were prepared to sleep over at the Bank."

To boost its manpower, China Bank called on scores of its retirees to man basic functions such as tellering and logging transactions. Gilbert recalled: "The retired employees are very loyal to China Bank. They came in and helped out with the operations. We survived."

Hans Sy said: "I was here during the strike. I saw that one of the biggest assets of China Bank was its employees—even if there was a strike. I was surprised to see one of the oldest employees we had, Tan Kim Liong, coming back to help. He was in his eighties then, but he came to help. That's where I saw the big asset of China Bank—its people. I said to Mr. Tan:

(Right) Many of the Bank's employees, including some who had retired, stood by the Bank during the strike and managed to keep their spirits up.

(Opposite page) Working long hours because of the strike, some personnel resorted to sleeping on the office floor.

'Thank you.' He said: 'Even though I am now retired, my heart is still with China Bank. So if my services are needed, you can expect me to be here.'"

After three weeks, the strike petered out, as the employees manning pickets came back to work. Rose Gan recalled: "The strike lasted a few weeks. Every one of us was really tired. The picketing employees, one by one, they started to come back in—until what was left outside was just a few people picketing."

Rose added: "But even at that time, I said: 'This Bank is really blessed.' The clients kept coming to us. Normally, if a client sees his bank on strike, he will get nervous. But no; they supported us. They continued to deposit, they opened LCs. It was all business as usual—even if, I suppose, there must have been some delays in the processing. These are the clients who are really loyal. I said to myself: 'They are our biggest asset.' We have this solid base of loyal accounts who are there with us, in good and bad times. They started their business with us as their banker, and we grew together with them—so until today we stay together. This Bank is so blessed. There's something in here that I cannot explain."

Afterward, the Department of Labor ruled that the strike had been illegal, since no notice of strike had been filed, and that China Bank had the right to dismiss the organizers. The Bank fired forty-nine union officers for leading the strike. They were given separation pay and all the benefits due them. The firing was a hard decision for management, because of the relationships involved. Gilbert Dee said: "Some people [who were fired] came to me and said they wanted to come back to the Bank. I said I couldn't do it. If I let one of them back in, how about the rest? I couldn't do anything about it any more."

Rene Lao said: "The sad part was when we saw the people that we had to terminate. We had to terminate guys who were our friends. We had spent time with them. Unfortunately, the strike was declared illegal. So we had the right to terminate people. Of course, we did not terminate a whole lot. It was more about sending the message: 'Hey, guys, don't do this again.' But that was the sad part."

In December 1989, the Bank signed a new CBA, providing for a 37.5% salary increase across the board. Rene said: "After the strike, we [as an organization] moved on. It was over, no hard feelings. I think the Bank has this different quality. There was no vindictiveness. We had this bad experience: there was a strike. Then after that, life goes on. Basically after that, we all felt: 'It's over. Let's go back to normal.'"

Nancy Yang said: "That one and only strike in the Bank's history had its pleasant moments as well as its heartaches. The pleasant part was that it brought all of us who stayed much closer together; we have stories to tell. The disappointment was because we felt let down by some of those we thought we could rely on; we thought we had a good relationship and we treated them like family. We were the top-paying local bank, and our fringe benefits were also very good compared to other banks. So after the strike, we had to deal with them strictly."

Since the strike, the Bank has never had another incident of labor unrest. China Bank's pay and benefits package continues to be one of the best in the industry. And—as if to make up for all the problems it faced during the "time of troubles," from 1981 to 1989—for each one of the next years, China Bank would be one of the country's best performing banks.

CHAPTER 6

THE FUNDAMENTAL THINGS APPLY 1990-2010

The Bank becomes one of the country's best performing banks for twenty straight years, beginning in 1990, but through it all, its values and character remain the same.

The new triumvirate: Gilbert Dee, Hans Sy, and Peter Dee, steeped in the legacy of their fathers, and molded by their Western education, continue the work of building and nurturing strong client relationships, of growing the Bank, of taking it to the next level.

China Bank emerged from its decade of troubles primed to grow. And grow it did. By 1996, ten years after the EDSA revolution, China Bank had P46.404 billion in resources (up ten times from its level in 1985), P32.118 billion in deposits, and P29.249 billion in loans. The Bank earned a net income P921.919 million on gross revenues of P5.449 billion. The return on equity was 16.12%. It had 106 branches, 109 ATMs, and 2,266 employees. China Bank's shares were trading at P1,080—a far cry from the P55 of 1985.

By 2009, on the eve of China Bank's 90th anniversary, it was still on the same growth trajectory; it had P234 billion in assets, P193 billion in deposits, net income of P4.1 billion, 247 branches, and 380 ATMs. China Bank was the ninth largest bank in the country, with a profitability and a market capitalization that rivaled the biggest players; its return on equity (ROE) was 14.62% and return on assets (ROA), 1.85%.

The Bank's consistently good performance from 1990 to 2010 was a dramatic yet welcome change from all the turbulence of the 1980s. Its excellent results every year made for predictable—almost boring—reading for a historian or business analyst. But in the world of finance, this brand of "boring" is a virtue. Even severe national downturns in 1997-1998 and 2001 did not faze China Bank—it came through fine, and much less affected than its peers. A huge treasury bill scam in 1994 and the world economic crisis in 2008 didn't make a dent either.

Central Bank Governor Gabriel Singson, Gilbert Dee, and Peter Dee toast to China Bank's future at the Bank's 75th anniversary party.

The reasons for the Bank's success in the last twenty years are manifold. But they all come down to the same formula that Dee C. Chuan and Albino SyCip established—uncompromising ethical standards, unparalleled closeness to the customers, and a tightly-knit, dedicated work force. Some things have changed a great deal over the Bank's first ninety years, but some things—the most important ones—have remained the same.

NEW LEADERSHIP, NEW DIRECTIONS

From the very beginning, the Dee family owned a relatively small stake in China Bank. In 1935, at the height of his career, Dee C. Chuan himself owned only about 6% of the shares. (Most of the Dee family's capital was deployed in other businesses, such as sawmills, lumber distribution, aluminum, and automobile dealerships.) The Dees always liked to look at the Bank as a continuing cooperative venture among several major business families—never a Dee possession. Throughout the decades, the Dee family's leadership of the Bank depended on the shareholders' respect for their management skills and consistently good results, instead of sheer ownership of stock. But by the 1980s, when the third generation of Dees was in charge, many of the other founders' families were moving on and selling their stake in what was then an ailing stock. It was also at this time that a determined, well-funded strategic investor had an opening to make his move.

Thus, just before the 1990s began, the Bank underwent an important change. Retail and shopping mall king Henry Sy who had joined the board in 1979, had been steadily accumulating China Bank shares for over a decade. By 1989, he held the largest single block. He didn't have an absolute majority yet, but he became more and more influential over bank decisions. The clearest sign of this was in 1989, when Henry's second son, Hans, became vice-chairman and chair of the newly formed executive committee of the board.

Henry Sy had gotten his first bank loan from China Bank—back in 1949, when he was only twenty-five and just starting out in the shoe retail business. That clean loan was a crucial step in the building of the Sy business empire. On top of badly-needed capital to expand, the loan gave him tremendous credibility within the Binondo business community. Henry had arrived in the country in 1936 as a twelve-year-old boy, with literally no money in his pocket. But a twenty-five year-old who could access an unsecured loan from the likes of Albino SyCip and Dee K. Chiong was someone that the rest of Binondo had to take seriously.

So Henry Sy would have a soft spot for China Bank ever after. When the Uychaco family, who were the heirs of China Bank founding director Uy Yetco, decided to sell their shares

"My father's relationship with China Bank was an old one, and it was really special to him." —HANS SY

Henry Sy Sr.

in 1979, Henry bought their 5% share of the Bank without a second thought.

Henry's son Hans said: "My father's relationship with China Bank was an old one, and it was really special to him. [In 1979] he was offered 200,000 shares by a broker, and he decided to buy them. Then he was invited to join the board. During that time, 200,000 shares was substantial."

Upon entering the board, Henry met up with a familiar face—his old friend, Joaquin Dee. Joaquin was the youngest son of distillery magnate Dee Chian Hong, who was on the Bank's board from 1936 to 1945. Since 1945, seven of his sons—Dee Hao Kim (also known as Mariano Mabasa), Silvino Mabasa, Tomas Dee, Paulino Dee, Laureano Dee, Domingo Dee, and Joaquin—took turns representing their family on the Bank board.

Joaquin recalled: "Henry and I were friends even as kids, as young men. I know him from way back. Henry was very close to my brother Mariano. He was close to us [Dee siblings] also; we used to go bowling with him. We would go to Baguio together during summer. He is a 'koboy.' He is very nice to get along with. Before, his business was small. Nobody knew Henry Sy before. Nobody would believe [how he has been so successful]. Look at him now!"

HENRY SY BUYS CHINA BANK SHARES

Joaquin recalled: "[In 1979] a big block of China Bank shares that belonged to [Vicente] Uychaco—he was one of the directors for so many years—went up for sale. He offered his shares to everybody on the board, which all of us rejected. We did not buy the shares, because then China Bank was getting overtaken by other banks. No. 1, 2, No. 3. And by that time, we were down below No. 10—maybe No. 13 or 14. So the image of China Bank was not so good then. Henry Sy got in at that point."

Joaquin added: "At first, Henry was not lucky. He bought the shares of the Uychacos at around P210. Then the price sank over the next few years, until it reached P60. Just imagine that. But Henry's a fighter; he never gave up. That's why he is where he is now."

As Joaquin Dee pointed out, when the economic crisis hit from 1981 to 1986, the shares went into a tailspin. By 1985, the share price was a fourth of the value when Henry Sy bought in. So Henry was looking at a substantial loss, at least on paper. Another businessman would have said that it was time to get out of China Bank—or at the very least, stop accumulating shares to cut the risk. And indeed many long-time shareholders were selling their China Bank stock at the time.

But what others saw as a problem, Henry saw as a strategic opportunity. If the Bank was actually seriously undervalued (and not, as some felt, on its way to failure and insignificance), then a significant ownership stake in it could be bought for relatively little money. Henry didn't believe the conventional wisdom about the Bank's future. He was convinced that China Bank would rebound.

Hans Sy said: "When my father was offered his first shares of China Bank, he felt it was a good investment. It

China Bank Anniversary print ad

started really as a business opportunity—one of many that he had—but then when he saw its potential, he decided to go into it seriously. He wanted to get control. He persevered for over twenty years to acquire control—even though he owned another bank [BDO]. He saw the future of China Bank."

As Hans acknowledged, at the time his father bought his first China Bank shares, Henry Sy already owned another bank, Banco de Oro (BDO). BDO was then much smaller than it is today. In November 1976, Henry Sy acquired for P5 million the then Acme Savings Bank, a thrift bank with two branches which was founded in January 1968. In August 1977, Acme Savings was renamed Banco de Oro Savings and Mortgage Bank. BDO became a commercial bank in December 1984, and then in September 1996, it upgraded to a universal bank. BDO grew tremendously between 1995 and 2010, by relying on a combination of hyper-aggressive branch expansion, the acquisition of several big and small rivals, and the deep pockets of the powerful SM conglomerate. By 2008, under the leadership of Henry's daughter Tessie Sy-Coson, chairman, and president Nestor Tan, BDO had become the biggest bank in the Philippines in terms of assets, loans, and deposits. It hit the trillion-peso mark in assets by 4th quarter of 2010.


Joaquin Dee

And yet, despite Henry's ownership of BDO (as well as a significant stake in the now-sold Far East Bank), China Bank remained special to him. He would demonstrate his belief in the Bank in a very explicit way. During the crisis of the 1980s, Henry doubled down on


SM City North Edsa, circa 1985.

Henry Sy's vision

Henry Sy Sr.'s two-decade drive to become the biggest stockholder of China Bank highlighted his ability to see the underlying value of an asset when no else can. Henry bought the 17-hectare lot for SM North EDSA from GSIS in 1977. It went for just P230 per sqm. In addition, in 1996, he bought the land on which the Mall of Asia stands, when every other big player in real estate focused on bidding for Fort Bonifacio. Some observers predicted that SM North EDSA and the Mall of Asia would fail; they were too isolated, too big, they said, and no one would come. He was content to work quietly and let his creations vindicate him. Hans said: "My father really has vision. He just knows: 'This is the right place.' With SM North EDSA, he saw its potential and he bought it. Even on the day before we opened SM North EDSA, I said to myself: 'I wonder where the customers will be coming from?' But from the first day we opened, it was a success." The same ability to see underlying value pushed Henry Sr. to acquire control of China Bank.

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CHINA BANK LOSSES FROM BANCAP T-BILL SCAM, 1994

In 1991, China Bank Arranque Branch opened with Rosemarie Gan, right, as branch manager. Branch Banking Division Head Nancy Yang, left, attended the inauguration.

Bank shares, spending millions to buy them whenever they came on the market. He did this at a time when he had several big projects going at the same time—all of them making large demands on his cash reserves. SM North EDSA alone, which he built between 1983 and 1986, cost P187 million to construct. The country was neck deep in an economic and political crisis during these years. But these facts did not deter Henry Sy.

Hans said: "My father decided to invest even more in China Bank. To my father, it was cheap. He was willing to spend. If the Bank stock was at P55, it was very cheap. When people looked at it and said: 'Oh, the Bank is lost, *wala na*,' my father woud say: 'No. It's cheap because the assets are still very much intact. It's just that people don't see the value of the assets.' He saw the value of the Bank clearly—the way he does with real estate. That's why my father invested a lot in real estate. The shopping mall business is about real estate. When he sets his mind on investing in something, nothing will stop him, because he sees the end result. My father is never a short-term player. He never flips an asset."

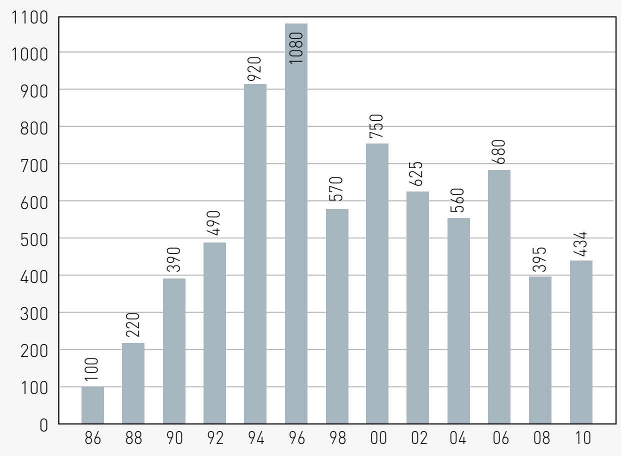
It was easy enough for Henry Sy to acquire Bank shares at the nadir of the stock in 1984 and 1985. In the depths of the crisis, many shareholders were only too glad to find a buyer. Even after the Bank started to climb back after mid 1985, with the entry of new CEO Eddie Go, it wasn't until 1988 that the Bank was able to pay dividends. So there was still an incentive for owners to sell. By 1988, when the stock price had gone back to the pre-crisis level of P220, Henry already owned the biggest single block of shares.

With his significant ownership stake, Henry Sy was able to exert a lot of influence on key Bank decisions. For instance, he backed Eddie Go's recommendation to shut down CBC Finance in Hong Kong, when others on the board were afraid that a closure might spark a run in Manila. And in 1988, Henry was instrumental in the Bank's turning down an offer from the French Banque Indosuez to buy into China Bank.

But owning the biggest single block of shares was not enough for Henry Sy. If China Bank was so great an asset, then he wanted nothing less than an absolute majority of the shares. From that point in the late 1980s, he left a standing order with his brokers to buy all China Bank shares on the market, even at a premium over market price. It was a slow painstaking process that took him the next fifteen years, but the man was nothing if not patient.

As Henry Sy began to buy shares heavily, his good friend Joaquin Dee also followed his advice that the stock was undervalued. He didn't buy shares at the same scale, but with the stock priced so low, he stood to make a huge gain

CHINA BANK STOCK PRICE
1986-2010



Dy Tiong, Henry Sy, and Bert Uy

too. A share that cost P55 in 1985 would rise to P920 by 1994 and P1,080 in 1996. Joaquin Dee accumulated enough shares during this key phase that in time he became, of all the Dees, the one with the largest block of shares.

Joaquin Dee said: "We in the Bank were not making much profit then. So the other owners started selling and selling. They didn't buy. It's good that I bought and bought, so at least I'm still on the board. Henry was the biggest buyer. He was using two or three brokers to buy shares. Sometimes he was paying a premium over whatever the market price was at the time. Normally, you don't do that. Why should you pay more than the market price? But he wanted control. He wanted the Bank. Then after a few years, China Bank went 'boom.' The shares went up by so much. People were surprised then that I owned that many shares in China Bank. Because I kept quiet about buying. Nobody wanted to buy shares back then. It was only me and Henry."

Hans explained the premium-over-market buying strategy: "My father was saying: 'Look at the big picture. I bought so many shares at P55. If you average it out, I'm still below the market price.' He looks at everything at long-term. And he tries to do things in a way so people will not curse him afterward. If he buys the shares too cheap and the price suddenly goes up, people will feel bad. My father would always say: 'It's always good that when you make money, other people are also happy.' He does not take advantage of others. Especially when he knows the real value of the asset being sold."

Hans added: "Sometimes during this period, some Bank shareholders would go to my dad, and they wanted to sell their shares—people who are his friends. He would explain to them:

Recovering from Pinatubo

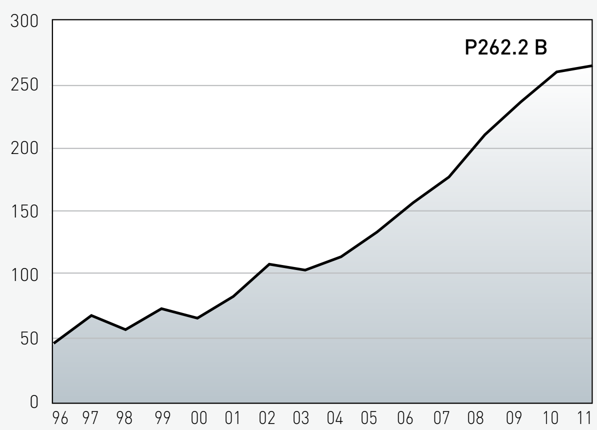
Even clients who have been struck by acts of God have been given a break by China Bank—as long as the Bank still believes in the client. Retired SVP Rene Lao, who once ran the specialized lending program for agro-industrial projects, saw this in July 1991, when Mt. Pinatubo erupted and lahar flows devastated much of Central Luzon. The Bank had lent considerable sums to poultry contract growers in the area. Their poultry projects were inundated in volcanic ash. Rene Lao recalled: "After the lahar stopped, these clients came to us and requested a restructuring—not a write-off. They just requested some time to get back on their feet. And those clients did not default. We had zero default." Rene appreciated the willingness of the Bank to grant his clients the grace period and restructuring they needed: "I think this [patience and willingness to support clients] is part of the legacy of the Bank. Because this Bank was started by businessmen—not just by pure financiers. The founders were businessmen who knew the ups and downs of business."

In 1989, Hans Sy became vice-chairman of China Bank. Gilbert Dee was the chairman, and Peter Dee, president and CEO.

'Just keep the shares. This stock is going to go up.' If the other guy still insists on selling, then that's not an issue any more. But at least he tried to discourage these people who were his friends from selling the Bank shares. Some people who took his advice and didn't sell would be grateful to him later, when the price went up. It would be simpler if my father just bought their shares outright, without trying to discourage them. But he did not do it that way. Well, by doing it another way, he was able to get the loyalty of that person too. So everybody came out ahead."

Like Albino SyCip before him, Henry saw business as a matter of maintaining and promoting good relationships, not just the single-minded accumulation of profit. Henry Sy believed what his Binondo forebearers did: that a man's reputation and sense of honor were primary building blocks for his success.

CHINA BANK ASSETS
1996-2011
In Billion Pesos



Hans said: "That's how my father does his business. You can see it in his track record—in how he became very, very successful with retail. He pays his suppliers on time. Because in the old days, other businessmen would delay payment to suppliers by 30 days, by 60 days. Suppose the cost of money is 5%. The businessman gets all the money, and makes money on it first, before he starts paying suppliers. But my father said: 'That's really not a good long-term business policy.' He pays his suppliers on time. And because of that, he always gets preference from suppliers. He gets a very, very good price from them. He has always been very fair with all his dealings."

Hans added: "That is how we want to do business. We are very tough. We really work hard to get what we have—but we make sure everybody else gets a fair deal too. Of course, we will not allow people to take advantage of us. But if we feel that our choice to buy the asset is justified—then, even if the other person feels they have taken advantage of us, then that's okay—because at the end of the day, we're ahead."

HANS SY JOINS THE BANK

The Sys were very new to banking when they bought BDO in 1976. Hans, who was only twenty-one and still in college then, didn't expect to be running any bank. His formal training was in mechanical engineering at La Salle. His older brother Henry Jr. (known as "Big Boy") was placed on the Bank board first, from 1982 to 1985. On the other hand, Hans' youngest brother, Harley, was the Sy with the most formal training in finance. But because of an unexpected turn of events, it would be Hans

Hans Sy with China Bank officers at the inauguration of the San Fernando Branch in 1993.

who was on China Bank's board when his father decided to go into it in a big way. Hans explained: "My brother [Henry Jr.] was the first representative of the family in the Bank. But even then, his focus and interest was real estate development. That's why he headed SM Development Corporation. In the 1980s, he had a real estate venture in Hong Kong. That's why he had to leave the board."

When Hans Sy joined China Bank, he was only thirty-one and he had a lot of catching up to do. He knew about building big malls and running them well—but not finance. He said: "When I was assigned to China Bank, I had no knowledge about banking. I'm an engineer. But I learned. The basics of business are very simple after all. You will be able to analyze it—especially the credit discussions, the credit facilities, the background of the people applying for loans." Hans added: "Of course, I also had the best business adviser—my father. I'd write things down and ask him. He knew quite a lot about many people and their businesses. He liked to go around and meet people. He knew who in the Chinese business community was a gambler, or who was trustworthy. In the end, after asking my friends who work in banks, and discussing things with my Dad, more or less I got the hang of banking."

After three years as a board member, in 1989, the chance came for Hans to become vice chairman, and to head the executive committee (ExCom), then a newly created body. As the pace of Philippine business speeded up, the board's old structure could no longer make decisions at the tempo and volume the Bank needed. In 1989, the Bank created new committees—operations (later the management committee or

Hans Sy

Hans Sy as a banker

While he is not a banker by training, Hans has a couple of advantages not found in the usual bank executive. First, he has the benefit of forty years of close-in training with one of the canniest businessmen in the country, his father. Second, his years of running the SM malls taught him that a successful mall is the result of a million and one decisions by the mall management aimed at only one thing—giving the consumer the best possible experience. So even in the Bank, Hans, almost as a reflex, insists on the same things he asks from his SM mall staff: meticulous attention to detail, a passion for execution and continuous improvement, and a fervor for understanding and responding to the consumer. He uses his mall and consumer experience to help make Bank decisions—ranging from the proper performance expectations for its ATMs to something as micro as the optimal design of parking space in a branch. With the biggest banks, even if the service is not perfect, the consumer is forced to adjust to the bank. Hans wants China Bank to continue to be the Bank that adjusts to the consumer.

“That is how we want to do business. We are very tough. We really work hard to get what we have—but we make sure everybody else gets a fair deal too.” —HANS SY

ManCom) and the executive committee (ExCom)—to divide the work load and speed up the decision flow. Out of respect for the large Sy stake in the Bank, the board decided to offer the vice- chairmanship and the leadership of the ExCom to Hans.

Hans recalled: “When the opportunity of being vice-chairman came, I was a bit hesitant at first, because I was still young, in my thirties. That was very young—especially during the 1980s when most of the board members were in their sixties. But because of the training my father had been sharing with me, I had the confidence to take it on. Also, my father had gained a lot of respect from the other board members. When I said something to the board, they knew it wasn’t just me speaking. I was an extension of my father.”

Hans had been on the board nearly twenty years when the process of the Sy family buying up China Bank shares culminated in 2004, with the SM Group’s acquisition of the combined 18.4% stake of the Yuchengco family and the International Commercial Bank of China (ICBC) Taiwan, which had one board seat each. Again, the Sys bought these shares at a significant premium over market. At this point, Henry Sy had 11.701 million common shares, or roughly 32% of the Bank’s total shares. Other segments of the Sy business empire also owned significant blocks of China Bank shares.

But despite his very large ownership stake in the Bank, Henry insisted that Gilbert and Peter Dee remain in place, on top of the organization. He said: “The Dee family of the original founder had managed the institution so professionally and profitably that we never attempted to change the incumbent chairman, Gilbert Dee or president, Peter Dee.... Even those executives who had been with China Bank for many years, they were still there. If a venerable institution like China Bank was doing so well, why make changes?”

Hans Sy with Sy Chi Shiong.

The Bank’s new owner was acting in keeping with something Don Albino always said: that people and relationships are more important than assets.

Then SM Investments vice-chair and former Central Bank Governor Jose Cuisia, a longtime friend and adviser of Henry Sy, said then: “I salute Mr. Sy’s patience. He was accumulating shares over a twenty-year period, he accumulated so many, and eventually he became the largest shareholder. He was not in a hurry or in a rush to become the majority shareholder. I guess he didn’t want to upset the Dee family and the other families there. He was accumulating very cautiously. Mr. Sy always has that sensitivity. Gilbert is the chairman, Peter is the president, despite the fact that they are not the majority owners. Mr. Sy respects them. Mr. Sy has this sensitivity to the relationship between these families—he wants to maintain that relationship. You really have to give him credit for that.”


Henry Sy with Nancy Yang and branch personnel during a visit at Baguio Branch in 1997.

All four of Henry's sons—Henry Jr., Hans, Herbert, and Harley—would take seats on the board. But it was Hans who took the lead in the Bank on behalf of the family. And his working relationship with Peter and Gilbert Dee remained warm, respectful, and very smooth. Hans tried to make sure that the board's decision-making process ran in a very collegial and consensus-building style. And he was always mindful of the greater banking experience of Gilbert and Peter Dee.

Joaquin Dee said: "[There was] this new combination of attitudes and leadership—with Gilbert and Peter being conservative, and Hans being aggressive. This was a good combination. Hans never insisted on doing something that the rest of the board was against. He would bring a proposal out in the open, but if he couldn't convince us, he'd say: 'We'll just take it up next time.' Later he would take it up again. So we would discuss it and he would defend it. He never said: 'I want things to be this way.' He would never do that. But of course, if he wanted to, he could.... But he would never do that. He would try to convince the board."

As chair of the ExCom, Hans sought to instill a more aggressive mentality in the Bank. He said then: "What future do I see for China Bank? China Bank in the 1960s was THE bank. So now I am really trying to see how I can make it bigger. Although I know that my sister [Tessie Sy-Coson]—who had the same training as I did—is now running BDO. But my goal is for China Bank to be Number 1 in the second tier of banks—the ones below the top three. The opportunity over there is really very, very big. We're barely scratching the surface. We are reviewing again all our current clients and trying to offer them more. So that's the direction I'm really pushing now—still conservative but very strong. I see China Bank growing at a much, much faster pace, but still standing on a very, very solid base."

After the stockholders meeting in May 2011, Hans became chairman of China Bank.

STEADY HANDS AT THE HELM: GILBERT AND PETER DEE

For all his skills and his keen interest in China Bank, Hans could not be present at the Bank all the time. He still headed the shopping mall operations and the engineering


Peter Dee, Gilbert Dee, former Central Bank Governor Jose Cuisia, Henry Sy, and Central Bank Governor Gabriel Singson at the Bank's 75th anniversary.

China Bank's officers at the Bank's 75th anniversary party.

and construction divisions of the SM Group. He ran SM Prime as its president, and SM Investments as EVP. Thus, the China Bank leadership arrived at a logical and viable division of labor. Hans helped set the broad strategic directions, demanded particular results, and monitored performance. But he left the day-to-day matters to the operating team, particularly to Gilbert Dee, Peter Dee, and then COO Ric Chua.

With the decades of shared history among these four men, that combination made for an effective and comfortable mix. The mix worked because the Bank's founding family and the new majority owners believed in the same values—*xinyong* or word of honor, smooth personal relationships, serving the customer, conservative planning, and always striving to be fair.

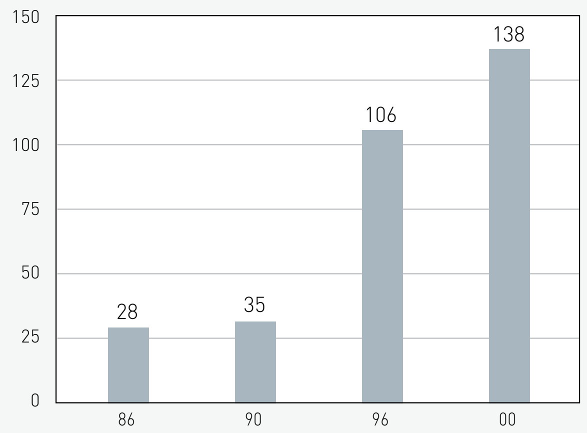
Ric was the consummate operations man—the one who "made the trains run on time" for China Bank. He answered on a day-to-day basis to Gilbert and Peter Dee, who, like Albino SyCip, George Dee, and Dee K. Chiong before them, were the keepers of the Bank's values. On top of their regular formal duties of interacting with clients, approving policies, and gauging performance, Gilbert and Peter had the informal yet crucial task of maintaining the culture of the Bank. They espoused and embodied the same traditional business values their fathers Dee K. Chiong and George Dee did. The warmth and genuineness of their personal contact with their people at every level helped inspire their people to adhere to the same values and to perform.

Retired SVP Nory Reyes-Lao had a favorite saying: "The nice thing about China Bank is you're a member of the family. The bosses treat you like family."

Just ask then-COO Ric Chua, who joined the Bank in 1975 after finishing his MBA at AIM. He planned to stay in place only three years and then he would leave to start his own business. Ric wound up staying in the Bank for his entire career. He stayed partly because he was drawn in by the sheer intellectual challenge of remaking a once stodgy institution into one that would be more competitive and responsive. But the draw for him was also partly emotional—the loyalty he felt for his bosses.

Ric said: "One of the major reasons I stayed here was the kind of bosses we had—Boss Peter and Boss Gilbert. I couldn't find more kind-hearted people than these two. You wouldn't have had the heart to leave them."

CHINA BANK BRANCHES
1986-2000



He added: "Boss Gilbert did so many kind things without people knowing about it. He was that kind of guy. I saw him do this in so many instances. He once called me: 'Hey, I understand we have this lady employee who's very sick. She's in the hospital. What kind of benefits is she entitled to from the Bank?" I enumerated the benefits. He said: 'Ric, that won't help her. Because I understand the bill is already so much.' And then before I knew it, he went to pay the bill with his own money. That was the kind of chairman we had. That kind of thing happened not once, but many times."

Nory Reyes-Lao, who helped recruit his AIM classmate Ric for the Bank, said: Sometimes, Gilbert preferred to go out with his bank staff than to some function of the big *taipans*. Once we employees were just eating in this little restaurant in Mandaluyong, and he preferred to be with his people instead of going to a party of a *taipan*. It had a big effect on us employees that the boss was part of us, was one of us. So, the culture of the Bank was quite personal and warm."

Nory added: "During Christmas, Gilbert Dee would get a lot of gifts. He'd call us into his office, those who were close to him, who reported to him. He'd say: 'Open that drawer. You guys choose whatever gift you want. I have so many. You take one, anything. You choose." We'd say: 'No more, sir. We also have our own gifts.' 'No, you pick.' He would insist. I mean, these were small matters, but it meant something precious to us. Then he would come to the canteen and eat with us. And not only would he eat with us, he would call the waiter: 'All the bills here are mine.' We wanted to say 'No,' but Boss Gilbert would insist."

China Bank's then head of Corporate Planning and Investor Relations, Alexander "Alex" C. Escucha, who joined the Bank

"We are dealing with the public's money. . . .
This sense of public trust is very strong with us." —PETER DEE

in 1994, said: "Boss Gilbert would call: 'Good morning. Are you free? Can I see you for a few minutes?' He even sounded apologetic. These bosses were different. In the early years of BancNet, there was a Christmas party where a buffet dinner was served. Boss Gilbert was the first to line up—and he started giving all of us our plates. The other bankers were shocked. One banker said to me: 'We can't imagine our own chairman doing that.' When I got sick in 2002, he visited me in the hospital, and then afterwards he would call me from time to time at home: 'How are you, my friend?' Those were the qualities that were really endearing. Even a simple phone call like that—you don't forget those things."

Gilbert inspired great loyalty among his people. He also provided them with an object lesson in how to win similar loyalty from the Bank's clients. After fifty years, he was still the quintessential "relationship banker." He remained very concerned about the Bank responding more quickly and comprehensively to clients' needs. Then VP Patrick Go of China Bank Cebu and region head for Visayas/Mindanao recounted that Gilbert would call him directly to expedite the Cebu branches' responses to one big client or another. Clients like the Chiongbians of Cebu and the Pos of Century Tuna swore by their relationship with Gilbert and through him, the Bank.

Joaquin Dee said: "We in the Bank take good care of our clients. Of all the Dees, the one who inherited this trait of Dee K. Chiong is Gilbert. Gilbert has these skills and all these good relationships with clients."

To complement a "Mr. Outside" like Gilbert, the Bank had its "Mr. Inside" in its president, Peter Dee. Joaquin Dee said: "Peter was the opposite of Gilbert. He was quiet, not outgoing. Peter was very diligent in his work. He was very honest, very


Peter Dee, Gilbert Dee, and Hans Sy.

strict about potential conflicts of interest. Whenever the board discussed something that involved a relative of his, he would step out: '*Bahala kayo diyan.* I don't want to be involved.' We had to decide before he came back inside again."

Peter was very humble, but his instincts as a banker were consistently true. Alex Escucha said: "Boss Peter kept saying: 'Me, I'm simple-minded *lang*.' But over time I learned that when his gut instinct told him something, he was never wrong. His investment in Russian bonds in the late 1990s, when nobody was paying attention to it, was proof of this. It turned out to be a very good investment decision. From then on, every time I heard his instinctive reaction, I learned not to go against it, because usually he was correct. It came from his decades and decades of experience. And I learned to respect that."

Samuel "Sammy" Chiong, then SVP and deputy head for branch banking, said: "Unlike other companies where, if you wanted to see the president, you had to make an appointment, here at China Bank, the president, Peter Dee,

Mr. Nakaya (second from left) and Mr. Nishida (fourth from left) join Peter Dee and Gilbert Dee in the signing ceremony. Mr. Nishida was the president of LTCB Asia. Mr. Nakaya was the general manager of the Asian Division of the LTCB head office.

FIRST FORAY INTO THE INTERNATIONAL CAPITAL MARKET

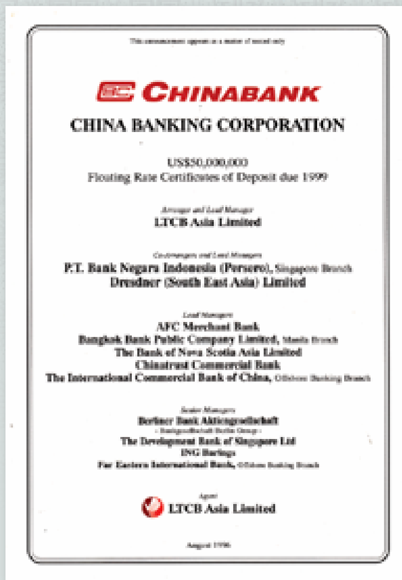
On August 16, 1996, China Banking Corporation signed a Deposit Agreement for their maiden issuance of a US$50 M floating rate certificates of deposit (FRCD) in Hong Kong.

The 1996 issue was arranged by Long Term Credit Bank of Japan (LTCB) Asia Limited and was joined by a total of 11 financial institutions from Canada, Germany, Indonesia, Japan, Netherlands, Singapore, Taiwan, and Thailand.

This was followed by another $75 million FRCD issue in March 1997 – with LTCB Asia Limited and Standard Chartered Bank as lead arrangers—with participation from 22 financial institutions.

Gaining access to the international capital market demanded a much higher level of transparency and disclosure. China Bank had to prepare a prospectus that contained a prodigious amount of information—something it had never done before, and which proved useful later. With all this information in order, it became easier every time the Bank had to undergo data review by credit rating agencies, foreign institutional investors and counterparties.

The offer was made shortly before the Asian financial crisis struck but among all the domestic banks that issued similar FRCDs, China Bank was the least affected. "The market value of our certificates did not drop as much as those of other banks, which means that our investors had greater confidence in our bank's ability to withstand the stresses of a crisis," said Alexander Escucha, then head of corporate planning, who assisted then SVP and Treasury Head Danilo Alcoseba in coordinating the FRCD issue. "Prior to the crisis, we had a stock rights issue and that placed China Bank in an unusually strong capital position," he added.


CHINABANK
CHINA BANKING CORPORATION
US$50,000,000
Floating Rate Certificates of Deposit due 1999
LTCB Asia Limited
P.T. Bank Negara Indonesia (Persero), Singapore Branch
Dresdner (South East Asia) Limited
AFC Merchant Bank
Bangkok Bank Public Company Limited, Manila Branch
The Bank of Nova Scotia Asia Limited
Chinatrust Commercial Bank
The International Commercial Bank of China, Offshore Banking Branch
Berliner Bank Aktiengesellschaft
The Development Bank of Singapore Ltd
ING Barings
Far Eastern International Bank, Offshore Banking Branch
LTCB Asia Limited
August 1996


CHINABANK
CHINA BANKING CORPORATION
US$75,000,000
Floating Rate Certificates of Deposit due 2000
The Development Bank of Singapore Ltd
LTCB Asia Limited
Standard Chartered Bank
AFC Merchant Bank
Dresdner (South East Asia) Limited
Sakura Finance Asia Limited
Bank of Taiwan, Singapore Branch
Hua Nan Commercial Bank, Ltd., Singapore Branch
The International Commercial Bank of China, Offshore Banking Branch
Oversea-Chinese Banking Corporation Limited
Baden-Württembergische Bank AG
Bank Austria Aktiengesellschaft, Singapore Branch
Bank SinoPac
Berliner Bank Aktiengesellschaft
Comerica Bank
First Commercial Bank, Singapore Branch
Tat Lee Bank Limited
Bankers Trust Company, Hong Kong Branch
Far Eastern International Bank, Offshore Banking Branch
ING Barings
Taiwan Cooperative Bank, Offshore Banking Branch
The Thai Farmers Bank Public Company Limited, Singapore Branch
LTCB Asia Limited
March 1997

Signing of a loan agreement to finance Aboitiz Group, Inc.'s ship acquisition, with China Bank officers Patrick Go, Samuel Chiong, Nancy Yang, and Peter Dee on July 20, 1996.

Opposite page, lower right) Estefania Santos, Caezar Evangelista, Nancy Yang, Patrick Go, Samuel Chiong, Alexander Escucha, and Elizabeth Say at the inauguration of Tacloban Branch in 1996.

was very accessible. You could just drop by his office. The communication lines were very good. This was the only bank where instead of you going to see the president, the president came to you. When Peter Dee wanted to talk to you, he didn't call you to go to his office. He came to you and talked to you. So it was a very down-to-earth operation. People were very close." Peter had a habit of going around the bank with reminder notes in his shirt pocket to chat with bank officers, akin to what was then called "management by wandering around" or MBWA.

Like his father before him, Peter Dee was strict about cost discipline, and it rubbed off on his people and on the Bank as a whole. Year after year, the annual reports showed that the Bank managed to keep a tight lid on costs even as it expanded its branch network. Years of expansion and hefty profits usually induced the typical bank to relax its vigilance and loosen the purse strings. But Peter Dee remained frugal in both good times and bad. He did this because he felt very keenly the responsibility of holding other people's money.

Alex Escucha said then: "The best part of working here in the Bank is the culture. Over here, there is no 'keeping up with the Joneses.' Boss Peter himself buys second-hand cars, setting the example for us. If he doesn't buy expensive cars, then the rest of us can't either. *Eh kung siya ganyan lang, eh kami pa?* The mentality of the Chinese is that they will show others only a small portion of their wealth. Many Filipinos like to show off. But here in the Bank, the culture is different."

Ric Chua echoed that: "Boss Peter was really frugal, and he set a very good example for us. So that cascaded down to all of us. And sometimes, some people misread his being frugal. We once met with a common friend of ours. This guy is talking about a project for changing lives, for teaching poor people to do welding jobs, and other kinds of training—for people who did not have enough education. Boss Peter told him: 'Can I contribute P1 million?' I said: 'You don't have to do that.' He said: 'I want to do something that is meaningful.' So, who's frugal? Who's *matipid?* When it comes to good deeds, these things come from the heart. That's the kind of leaders we have. He gave P1 million. I said to him: 'You don't have to make it that much.' He said, 'No, no, no. This is good. This is going to change peoples' lives.' So I salute them. These guys' hearts are really big. *Ibang klase.* It's how they [Peter and Gilbert] were brought up."

Peter and Gilbert's strict banking ethics and conservative outlook mirrored Albino SyCip's. Peter Dee said: "We are dealing with the public's money. A banker can't run a bank like it's his personal possession. That's the danger. This sense of public trust is very strong with us. I can lose my money, but the public's money? My goodness! We'd better be careful. We don't fool around. I can fool around with my own money. But not in the Bank."

For instance, in May 1994, the Philippine banking industry was struck by the sudden exposure of the Bancap scam. Bancapital Development Corporation had become the country's largest secondary dealer in T-bills—despite not actually being authorized to sell these bills. Its success relied on the adroit use of promises of higher returns, kickbacks, and kiting operations. Bancap suddenly closed shop in 1994 without delivering at least P1 billion in T-bills already paid for. Many big banks took a severe hit and had to ask for emergency assistance from the Central Bank. To this day, the total amount

Seated: Gilbert U. Dee, Peter S. Dee, Hans T. Sy, Regina Y. Dee, Benjamin D. Ynson, Pilar Nubla Liao. Standing: Herbert T. Sy, Henry Dee Se Gui, Dy Tiong, Robert Y. Dee Jr., Joaquin Dee.

of damage that Bancap wrought remains highly confidential. No one was prosecuted; the scandal helped force the reform of the government's treasury bill operations, to their current electronic, "scripless" form.

But China Bank was untouched by Bancap, since the Bank's securities traders, particularly Norberto "Bert" Uy who headed the trading desk in Binondo, always refused to have anything to do with the rogue outfit. China Bank didn't compromise on ethics, said Atty. Omar Vigilia, then head of the legal department: "Over here, the operations are very straight, very proper. The management here is always straightforward."

Atty. Vigilia said: "Ever since I joined the Bank in 1975, I've seen that it is always aboveboard. It follows whatever is in the law, is in the CBA, or is in its contracts. That's what I appreciate about the management of this bank. Even when, in a lawsuit, the other side is already hitting us below the belt, China Bank is different: 'Let's do this in a fair manner.' The Dees are God-fearing people. That is what I like about China Bank."

Atty. Vigilia added: "The Bank makes its decisions based on the merits; it doesn't matter if someone has influential friends, powerful friends. We do our job—even if you're a governor, a congressman. We do what is right. If you don't pay, we foreclose. We will file a case if necessary. We don't care who you are. We just do our job. It helps us that management is very supportive. They say: 'Go ahead. Do your job.' Fixers do not approach us and offer to help us with our cases before certain courts. They know that with the culture here, we don't do that. They know it would be a waste of time. They know our reputation."

But China Bank could be even more stringent than the law required. Sometimes, China Bank turned down a profitable business proposition that was perfectly legal but which Peter and Gilbert Dee felt was too good to be true or ethical. They never invested, for example, in CDOs (collateralized debt

"We are not fair-weather friends. . . .We've withstood wars. We've withstood calamities. And we will be a reliable partner in good and bad times because that is part of the China Bank DNA." —ALEX ESCUCHA

obligation) which became very popular in the mid-2000s as vehicles for refinancing mortgage-backed securities. As everyone now knows, CDOs were one of the "weapons of financial mass destruction" (along with the CDS, the credit default swap) that was at the core of the collapse of big investment banks Bear Stearns and Lehman Brothers, the near-collapse of insurance giant AIG, and the world financial crisis of 2008-2009.

As the 2008 crisis showed, once banks became addicted to passing off their default risks to others, they would no longer bother to do the most elementary credit investigation. Their incentive to protect against the risk of default was gone. The whole banking system became a ticking time bomb. But the financial incentive for the banks to sign on was so huge that even the biggest banks jumped on the subprime bandwagon, closed their eyes, and hoped for the best.

In 2008, some big Philippine banks took serious hits from investing in Lehman's CDOs. Only the banks that insisted on keeping their eyes open, the way China Bank did back in 1998, and again in the days leading to the Global financial crisis triggered by the Lehman Brothers collapse in 2008, came out whole.

China Bank, at one point, invested in $20 M worth of derivatives just before 2008 but they eventually sold the product when they could not figure out how it was being priced. As one officer said, it is not their wont to get into something they do not completely understand or invest in what some call 'exotic financial instruments'. "The best thing for us is always to go back to the basics of banking," said Peter Dee.

The real character of the Bank hadn't really changed much in ninety years, even with the advent of the Internet Age. Another of its oldest and most remarkable values had been standing by its good clients when they were in need. It was something that Albino SyCip believed in and practiced during the Great Depression, and the Bank still practices this today. The Bank sees itself not as a supplier of capital, just out to make the best possible return, but as a partner and ally and friend to businessmen—just as Dee C. Chuan and Albino SyCip wanted it to be.

During the Great Depression, as well as in the subsequent crises, the Bank's message to distressed clients was consistent: If you are honest, hardworking, and you know your business, we will go the extra mile for you during hard times.

The Bank held to this principle during the Asian crisis of 1997-1998, which hit borrowers with a triple whammy of peso devaluation, steep rise in interest rates and sharp drop in property and collateral values. In July, just after the turnover of Hong Kong from the British to China, the Asian economic crisis began with a wave of devaluations across Asia. By January 1998, the peso lost 50% of its value compared to July 1997—it was now worth P42:$1, compared to P28:$1

Seated from left: Alex Escucha, Gilbert Dee, Rene Lao, and Lawrence See.
Standing from left: Danilo Alcoseba and Johnny Coreces.

Seated from left: Ric Chua, Nory Reyes-Lao, Rene Lao, and Masahiro Katsuno, China Bank Japan desk officer from Long-Term Credit Bank of Japan.

before the crisis struck. The devaluation hurt importers and manufacturers badly, especially those with no foreign exchange inflows. As they struggled to adjust, China Bank found ways to help its clients.

China Bank had the strongest balance sheet in the country at the onset of the Asian crisis, having raised P1.34 billion in additional capital via a two for every three shares stock offering that started in August 1997 and completed in November 1998. In addition, the Bank's conservative lending approach saw its loan portfolio supported by a very high 70% collateral ratio. Alex Escucha recalled, "Even the non-performing part of the loan portfolio was 70% collateralized."

Five years after the start of the Asian crisis, R.A. 9182, which created the SPVs, was enacted in 2002, and was designed to help banks unload their nonperforming assets after the industry NPL ratio hit a peak of 18%. Then SVP Rene Lao, who oversaw acquired assets, recalled, "We had meetings with several SPVs (special purpose vehicles). But after seeing our loan portfolio and capital position, they all said, 'Oh, you don't need us after all.' China Bank was the only major bank that did not have to sell their nonperforming assets to SPVs. As a measure of the tremendous impact of the Asian crisis on the banking industry, net bank loans (gross loans minus reserves for loan losses) showed an increase only by 2007, or ten years after the start of the crisis.

Nory Reyes-Lao said: "In 1997-1998, we were having a crisis all over the country. These clients had to pay their amortization, and the rules of the Central Bank were very clear. Whatever you pay, we apply to the interest first, then whatever penalties, additional interest, and then principal. But we find that if you cannot make it, then we are willing to take whatever you pay, apply it first to principal, and let the interest

Not "fair weather" friends

In the aftermath of the 1997 Asian financial crisis, many borrowers were unable to pay their loans resulting in higher past due ratios for banks.

Alex Escucha recalled: "Gavin Gunning, associate director for financial institutions of Standard & Poor's based in Melbourne, Australia told me there was a recommendation to downgrade the credit rating of China Bank because our past due ratio was higher than those of the other banks. I conveyed the position of the ManCom that we could go ahead and collect unilaterally from the clients who are in trouble, just like what the other banks were doing at the time. But that would mean cutting off the cash flow he needs to pay his suppliers or pay his employees—effectively putting him out of business. Of course, for the hopeless cases, you have no choice. But if we see that a client has a good chance of riding out the crisis and he could get back on his feet if we just give him a little leeway, then we are prepared to take a higher past due ratio in the meantime. Gavin Gunning said: 'I'll bring your arguments all the way to the New York rating committee.' S&P retained our credit rating. China Bank's founders had the same supportive stance in the 1930s for clients who fell on hard times as a result of the Great Depression, despite pressure from officials of the Bureau of Banking (see pages 65, 66). Being a partner during tough times has been a China Bank tradition since its first decade of existence."

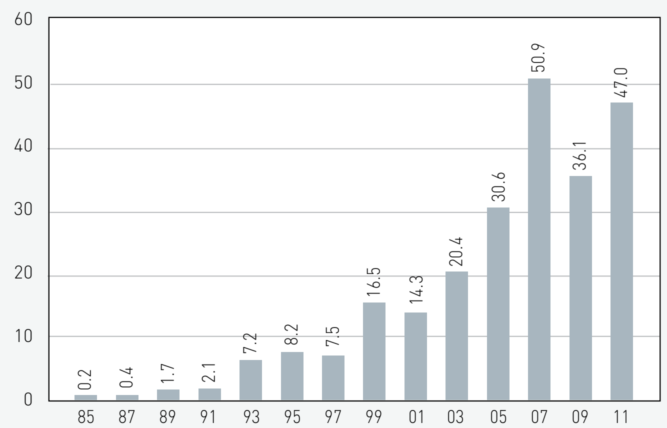
In 1996 in Hong Kong, China Bank Management Committee had its first ManCom planning outside the country.

stand for the time being—just so you can reduce the accruing amount. But your interest—we still expect you to pay us, when you are in a better position to pay."

Nory added: "So we don't make as much on these loans as we might like, but we are supporting our client. When these problems come up, Peter Dee would tell us: 'Let's support them. It's better that they survive and continue with us, rather than we make it so difficult for them to continue.'"

Alex Escucha said: "We are not fair-weather friends. The foreign banks will always cut off their lines the moment some bad news comes. And then they try to come back to the client during the good times again. But China Bank is not like that. We've withstood wars. We've withstood calamities. We are partners for the long term."

CHINA BANK MARKET CAPITALIZATION
1985-2011
In Billion Pesos



VALUES DRIVE GROWTH

There are at least two remarkable things about China Bank's values. The first is that its talk of values isn't the obligatory boilerplate that many banks trot out just for annual reports and press releases. The Bank really believes them, and we know this because it sticks to them even when an ethically correct decision costs it real money.

The second remarkable thing is that its strict values, known probity, and conservative thinking aren't a drag on the bottom line. On the contrary, for China Bank, its being good and conservative is good for business. By giving up a few basis points in interest from a distressed client or swearing off a questionable asset banked security like a CDO, the Bank leaves some money on the table. But its reputation as a solid, careful bank is a more valuable asset than a few basis points. Giving up on some additional profits in the short term is fine with a Hans Sy or a Peter Dee; in the long run, China Bank comes out ahead. As Henry Sy would say, winning a client or a supplier's trust is the most important thing.

And when the Bank looks at prospective clients, it looks for those who share these same values—the quiet, steady, methodical workers, not the high-flyers and big spenders, who tell a good story and cut a flashy figure, but who, in the Bank's long experience, are more likely to crash and burn.

Hans Sy said: "We have this very traditional way of looking at people and their credit. We really look into the business sense of the person. We look for people who are very conscious with their money—all the more we should do business with them. We look for a person with good values, a good family background. A lot of the longtime clients of China

(Right) ManCom Planning, Shanghai 2002.

(Below) ManCom planning in Seoul, 2006

Bank are now handing down their businesses to the second or third generation. We are very conscious of that, and if this kid who is next in line is really very responsible, then we tend to lend even more. I, too, am from that second generation, so I know what it's like. If we see that the next generation is complacent, we are a bit slow to lend. But if we see that this second-generation leader is somebody with potential—and also if the word of mouth that we receive says that this is a good kid—we will double our lending to him."

Hans added: "It works both ways. If you do that for him, he will feel very confident, and if he likes the way you treat him, you will get his banking business.... We're always on the lookout for our existing clients to see how we can double up their relationship with us. For those clients with good track records, when you double it up, you enhance the relationship and you have less risk."

Because it was so sensitive to risk, the Bank managed to achieve a good return even in bad times. Hans Sy liked to mention the Asian crisis as a case in point: "I've seen how China Bank grows with a very conservative position. Since we're not leveraged, we are not pressured to do risky things. The 1990s crisis wasn't really a big problem. We had so much cash, but we didn't want to give out loans to just anyone. So what we did was, we went on buying treasury bills and government securities. That really brought us a lot of revenue."

In 1997, the Bank, based on an instruction from Peter Dee, decided to invest heavily in government securities as a safe haven from the Asian financial turmoil. Alex Escucha recalled: "Boss Peter said to us, 'You should buy securities when, as they say, there's blood on the streets. You lend at 9%, borrow at 5% and have a good interest spread of 4% without having to worry about getting paid because you are lending to the government.' Our management team and

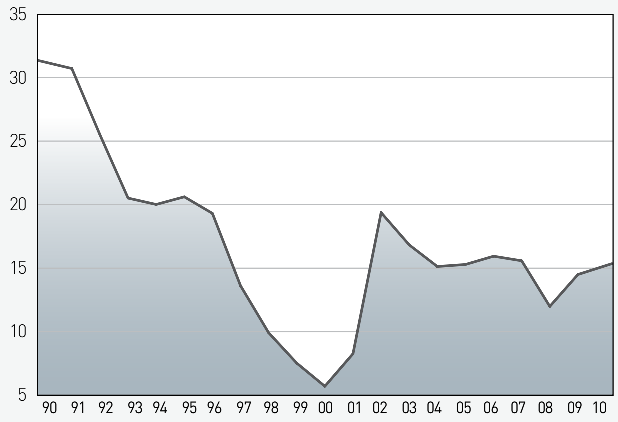
"If you ask me at any time how I feel China Bank has been doing, on a scale from zero to ten, I always say: 8.5. We still want to do better. . . . We do not want to be complacent." —HANS SY

treasurer then resisted that idea. Boss Peter said, *'Ako ang bahala.'* So we took a big position. That made China Bank very profitable for many years."

Hans said: "That's how we are. We are not pressured to do something more than what is safe. I think our experience in the 1980s helped us develop that attitude. So our position is, it's not all about just lending out. If you don't know very well these people you're lending to, at the end of the day, it will go against you."

Sammy Chiong said: "China Bank isn't as aggressive as other banks, but at the end of the day, we still got to where we wanted to go. Sometimes it is not good to run very fast. The guy who walks may reach his destination first, compared to the guy who runs fast. Because along the way, the guy who runs very fast can stumble. And since you are just walking, the chances of you falling are less. So you can overtake a guy who fell along the way—because you are consistent and steady in what you do. That is China Bank. We moved slow but sure, very steady. In the 1980s, we had a lot of problems. But we must have done a pretty good job as an institution—because from where it was in the 1980s, it is one of the best capitalized banks today. Sometimes it's good to walk slowly."

CHINA BANK ROE
1990-2010
(In %)



The character of the Bank could also be seen in indicators both big and small. Take its consistent cost discipline, even as it grew its branch network from 2006 to 2010. Its cost-to- income ratio was one of the best in the industry. At a time when its bigger competitors would regularly score in the 60%-70% range, China Bank kept its ratio far below—at 57.14% in 2006 and 57.25% in 2010. It was consistently one of the best capitalized banks in the country, well in compliance with the international Basel II standards.

China Bank's entrepreneurial mindset of cost efficiency was noticed by discerning investors. Alex Escucha said: "Once, a couple of boutique fund management firms visited China Bank and I briefed them. When they visited our offices—they, apparently, had just come from another big Philippine bank—they said, 'We like your head office. It is not too lavish. We know you are not wasting shareholders' money.'"

Moreover, China Bank has been distinguished as one of the best governed publicly listed companies in the country. The Bank has been a consistent top-scorer in the Institute of Corporate Directors' (ICD) Corporate Governance Scorecard, earning a silver award in 2010. ICD first recognized the Bank's adherence to the best practices in corporate governance in 2006. China Bank was named as one of the top 100 ASEAN companies in the Stern Stewart Relative Wealth Index which outperformed their peers of publicly-listed companies in creating wealth for shareholders for the period 2002-2008.

0

TOTAL LOSSES OF CHINA BANK FROM CDO'S 2008-2009 GLOBAL FINANCIAL CRISIS

Hans Sy and Nancy Dee Yang receiving the Gold Award in Corporate Governance from the Institute of Corporate Directors in 2011.

Its international reputation could also be seen in the fact that its foreign ownership reached over 24%, which means it more than met international standards for transparency, governance, and creating shareholder value.

This discipline and insistence on creating value for shareholders has direct benefit not just to the current bottom line, but to the long-term value of the brand. Since its discipline and conservatism are well known, when the going gets tough, investors and clients stick with the Bank.

In 2008, when the global financial crisis struck and investors were fleeing the financial industry in droves worldwide, all the publicly traded Philippine commercial banks suffered a hit in their market cap. But only two Philippine banks did not see their market price go below their book value—China Bank and BPI. It is in tough times like these when the value of the brand really emerges.

In the years since, China Bank's market cap has recovered. By 2010, China Bank was No. 6 in terms of market capitalization, even though it was only No. 8 in terms of assets. The only banks ahead of it in market cap were competitors many times its size in assets. The Bank was, as they say in boxing, punching well above its weight.

Sammy Chiong said: "Pound-for-pound, we should be efficient, we should be profitable. And so we looked at the average cost per employee and the average profitability per employee. We were conscious of that. For a bank of our size, our income compared favorably to other banks several times our size."

NEVER RESTING ON LAURELS

But in keeping with Henry Sy's relentless character, the great results of China Bank for those past two decades—as stellar as they had been—were not enough.

In 2010, Hans Sy said: "If you ask me at any time how I feel China Bank has been doing, on a scale from zero to ten, I always say: 8.5. We still want to do better. We want a big expansion. That's the attitude we have developed in our family. We do not sit on our laurels; we do not gloat about success. Because we learned from my father—and we've seen how some old rich families go down because the second or third generation or even the founder gloats about their success; they rest on their laurels. We do not want to be complacent—even if we are where we are. We always find room for improvement."

As in every Henry Sy enterprise, the goal posts were always moving. Sammy Chiong recalled: "Once, it was really

Peter Dee, Pilar Nubla Liao (daughter of former chairman Marcelo Nubla) Herbert Sy, and Henry Sy, Jr. during a board meeting.

“The nice thing about China Bank is you’re a member of the family. The bosses treat you like family.” —NORY REYES-LAO

hard for us to see a one billion-peso growth in CASA (checking accounts and savings accounts). Before, we would elicit a lot of applause from the board if we hit the one billion growth mark. Later, if we got just P6 billion in CASA growth, they would just frown: ‘Not enough.’ Once, with a net income of P800 million, the stockholders were happy. After some time, if we made P5 billion net, they weren’t that happy. They wanted more the next year.”

Alex Escucha recalled: “Our ROE had been registering at around 15% for several years. But then, sometime in 2005, in a board meeting, Big Boy [Henry Sy Jr.] challenged us: ‘Is that growth sustainable? What is the next level of growth that you can target?’ That really sparked a major discussion in the board and sent us all back to the drawing board. It’s not enough to be making good returns. To sustain it, you have to grow your base also. You cannot forever be a small niche bank and still generate superior returns over the long run. That was when we decided to go into branch expansion and into these new growth initiatives. We want to be a major player, not a niche player. That prodding from Big Boy was the trigger.”

By pushing hard for expansion, China Bank was also being mindful of its own history. Once the biggest private commercial bank in the country, it elected to play it safe in the 1960s and early 1970s—just as newer, much more aggressive rivals were launching their own bids for dominance. By 1975, it had been eclipsed, and by 1985, it was in serious trouble. Hans Sy joined the board in 1986. He became determined to avert any repeat of “the time of troubles” by stamping out any complacency in the present and future. As conservative as Hans liked to be, he also knew that there was such a thing as being too careful.

In keeping with this new direction, under the Sy family, the Bank began to break its old rules. In 1979, when Henry Sy first joined the board, China Bank had very few branches, wouldn’t acquire other banks, didn’t hire any senior managers from outside, and promoted solely from within. In the first decade of the 2000s, the Bank broke all these precedents. As of 2010, it had 269 branches, including those of China Bank Savings. China Bank went into the most rapid expansion in its history, with the branch network targeted to grow to 400 branches by 2014. In 2007, it acquired Manila Bank, and it hired some of its most senior vice presidents from rivals like Citibank.

It all went back to that quote from business guru Jim Collins’ *How the Mighty Fall* that we alluded to in Chapter 4:

269 NUMBER OF CHINA BANK BRANCHES, 2010

#4 CHINA BANK'S RANK IN MARKET CAPITALIZATION PHILIPPINE PRIVATE COMMERCIAL BANKS, 2010

Nancy Yang and her region heads in 1997: Philip Tsai-South Metro Manila/Luzon branches, Samuel Chiong-Visayas/Mindanao branches, and Atty. Robert Uyquiengco-North Metro Manila/Luzon branches.

"When institutions fail to distinguish between current practices and the enduring principles of their success, and mistakenly fossilize around their practices, they've set themselves up for decline." The Bank was now in another era, where old assumptions were being questioned, and new challenges were being thoroughly dissected. The Bank's enduring principles were clear, but its current practices were always being reviewed.

Hans said: "In the board, we talk a lot about transforming the organization, about sustainable growth. How do we sustain growth? Where will we get those revenues? How do we grow the Bank? And to do that, you have to look at your team. What kind of organization is needed to carry out this transformation and this growth? And what kind of people do you use to man this team? All of these transformations and strategies have to be synchronized."

Ric Chua said: "For the longest time, we were so successful with the SME market, with the traditional Binondo Chinese market. I had this one client that started with me with just a small line. In just a few years, his credit line with us was P1.5 billion. We have many success stories like that. So we want to keep that market and grow that. But it's no longer enough for us. The economy has changed. Now the broader consumer market is where we need to go. It's not enough to be a niche player. We have to go to this bigger market. And so we have to focus on the consumer and think hard: How do we capture his needs? How do we make things easier for him?"

The young Ric Chua was brought to the Bank's attention by his AIM classmate Nory Reyes-Lao. Peter Dee hired him in 1975 to help remake the Bank, and until he stepped down as president and CEO in 2017, Ric still got a terrific kick out of that challenge. He loved meeting with clients to deepen his understanding of their needs. He liked to say: "That's the beauty and the excitement of banking."

He added: "I guess I liked that I had been given the freedom by my bosses to test and try new things. And for me, the fun also comes in when I work hard to understand the customer. I learned so much from them."

Even with its traditional Chinese market, the Bank did not assume that it could always maintain a lock on its longtime clients. The Chinese-Filipino family patriarchs and matriarchs were continually passing on their businesses to their heirs, and the Bank knew their children were frequently not as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TELLER 7
TELLER 6
TELLER 5

In 2006, the Bank launched its branch expansion plan. China Bank SM Clark and SM Lipa are the pilot branches for the new branch look designed by renowned interior design and architecture firm SSO & Associates. The modern architecture features ambient lighting, sleek teller's counter, and modern fixtures.

China Bank President and CEO Peter S. Dee, 2nd from right, and Manila Bank Chairman Luis B. Puyat, 2nd from left, are flanked by Manila Bank SVP for Legal David B. Puyat, left most, and China Bank Chairman Hans T. Sy. In second row are Manila Bank's Rene V. Jazmines, EVP for Credit Management; Emilio A. Astom, director; Benjamin J. Yambao, president; and China Bank's Ricardo R. Chua, EVP and COO; Samuel L. Chiong, SVP for Branch Banking Group; and Atty. Omar D. Vigilia. chief legal counsel.

ACQUIRING MANILA BANK

Founded in 1961, Manila Bank was the tenth largest commercial bank by 1980. But it was closed by the Central Bank in May 1987, a casualty of the 1980s financial turmoil. It was revived by the Puyat family as a savings bank in June 1999. By December 2006, its total assets stood at P10.2 billion. More importantly, Manila Bank owned 75 branch licenses, of which 27 were operating branches. Most people were aware only of the 27 operating branches, but not the 75 licenses overall.

Hans Sy, who has developed the same instincts as his father, was quick to spot the unrealized value in this asset. The acquisition, if it happened, would grow the potential branch network by 50% in one jump. Hans said: "When it comes to acquisitions, we look for what potential new business it can bring us—not the cost." The Bank initiated talks with the Puyat family, which went very smoothly. Hans said: "I took a direct hand in the Manila Bank acquisition. I met with the family, the Puyat brothers. One advantage was they are all my age. I'm a second-generation businessman too, so it was easy for me to talk to them."

At the signing ceremony, Manila Bank Chairman Luis Puyat remarked, on behalf of the selling shareholders, "The rapidly changing landscape of the Philippine banking industry has made it tougher for smaller banks to compete. It was a difficult decision for the family to let go a business we have painstakingly built over the years. In looking for a partner, we were attracted by China Bank's industry-best capital strength, financial stability, loyal customers, and sustained profitability. We are gratified that Manila Bank will become a crucial part of China Bank's plans to become a strong major player in the industry."

China Bank and Manulife formalized their bancassurance alliance with the signing of the joint-venture agreement to form Manulife China Bank Life Assurance Corporation. Shaking hands are China Bank President and CEO Peter S. Dee and Manulife SVP for Regional Development-Asia John R. Spence. Looking on are China Bank EVP & COO Ricardo R. Chua, leftmost, and Manulfe President Carl S. Gustini, rightmost.

THE MANULIFE CHINA BANK LIFE ASSURANCE CORPORATION

Manulife China Bank Life Assurance Corporation
a joint venture between Manulife Philippines and China Banking Corporation

In 2007, China Bank entered into a joint venture with Manulife Philippines to set up a bancassurance joint venture company, Manulife China Bank Life Assurance Corporation (MCBL).

Upon approval, Ricardo R. Chua, then senior executive vice president and chief operating officer of China Bank, said, "We are all very excited about this tie-up... Bancassurance would provide a wider range of investment and insurance options for our clients, a new source of income for the Bank, and an expanded market for Manulife."

In its first three years, the Manulife China Bank Life joint venture rapidly grew to become one of the most trusted life insurance companies in the country, breaching the P100 million mark in fee income by 2010. MCBL's insurance force has grown to over 200 financial sales associates, covering almost 300 China Bank branches.

Then president and chief executive officer of Manulife China Bank Life, Robert Wyld, said, "Clearly, our distribution approach is working very well. We will continue to strive to be the most reliable bancassurance business in the Philippines."

The Manufacturers Life Insurance Co. (Phils.), Inc. (Manulife Philippines) is a wholly-owned subsidiary of Canada-based Manulife Financial that is one of the leading life insurance companies in the world. MCBL is now a major business contributor to both China Bank and Manulife. It offers a full range of innovative insurance and financial products for protection, wealth, savings, education and health through China Bank's nationwide branch network.

"The growth and success of our bancassurance unit is indeed a welcome development for us," said then Manulife Philippines president and CEO Indren Naidoo. The share of total Manulife business contributed by MCBL increased from 17% in 2009 to 31% in 2010.

Sandeep Deobhakta
MCBL President and CEO,
2019-present

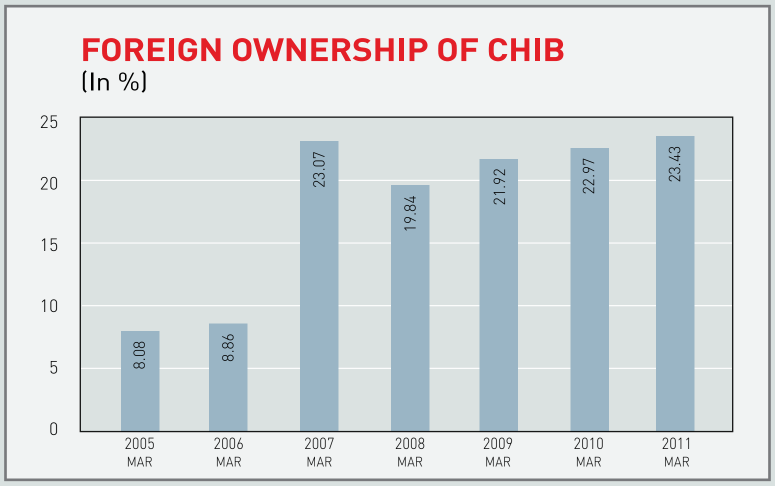
New York leg: China Bank FVP Alexander Escucha, Macquarie Capital Asia Vice Chairman Stephen CuUnjieng, China Bank Vice-Chairman Hans Sy, China Bank EVP & COO Ricardo Chua, Institutional Equities Asia Associate Director Jose Lanuza, and Macquarie Securities Asia SVP Danny Wong at Macquarie Offices in New York.

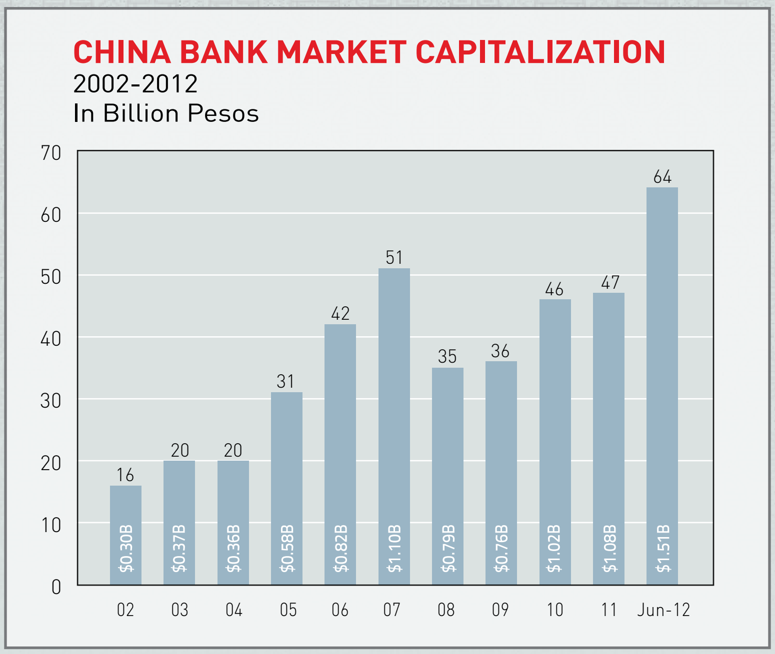
SELLING *CHIB* TO FOREIGN INVESTORS

China Bank, stock symbol CHIB, successfully tapped the international equities market for its secondary placement offering in 2006 to enhance its trading liquidity, increase market float and diversify its shareholder base. The international road show from May 22 to 30, 2006 in Singapore, Hong Kong, London, Washington DC, and New York generated significant interest among large foreign institutional investors that $53.5 million or about P2.8 billion worth of outstanding shares, representing 3.39 million shares or 6.9% of the total shares held by the major shareholders of China Bank, were sold to firms like Cyber Equity Ltd., Strategic Options Ltd., Capital Research Company, and Merrill Lynch Investment Management at P830/share. With the offering, China Bank's foreign ownership tripled from 8.86% in March 2006 to 23.07% in 2007 and maintained it at above the 20% level since then.

Macquarie Securities (Asia) Pte. Ltd. of Australia was the global coordinator, sole lead manager and sole book runner for the offering. Significantly, Stephen CuUnjieng, a great grandson of one of the founders of China Bank, Guillermo Cu Unjieng, played a major role in this secondary offering. The young CuUnjieng was vice chairman of Macquarie Capital Asia at the time (see his "Four Generations of China Bank Memories" on page 314).

London leg: North of South Capital Partner Vikas Nath, Macquarie Associate Director Alicia Weston, and China Bank's Vice Chairman Hans Sy, EVP & COO Ricardo Chua, and FVP Alexander Escucha in London.





CHINA BANK: ONE OF 100 BEST COMPANIES IN SOUTHEAST ASIA IN CREATING WEALTH FOR SHAREHOLDERS

Only one other local bank, Bank of the Philippine Islands, was included in the list. The other local companies were Aboitiz Equity Ventures Inc., Ayala Land Inc., First Metro Investment Corp., International Container Terminal Services Inc., Jollibee Foods Corp., Manila Electric Co., Phil. Long Distance Telephone Co., SM Development Corp. and SM Prime Holdings Inc.

The RWA is a performance metrics developed by Stern Stewart & Co. to measure how a company performed against a peer group by comparing the share price of a company over a chosen period against that of a defined group of peers, taking into account new share issues and levels of financial risk.

"We are really proud to have made it to this list," said then senior executive vice-president & chief operating officer Ricardo R. Chua.

In 2009, China Bank made it to the ASEAN 100 Relative Wealth Added (RWA) index, a list of the 100 best-performing companies in Southeast Asia in terms of creating wealth for shareholders, as determined by Stern Stewart & Co., a leading management consulting firm based in New York.

"It clearly shows that China Bank can be benchmarked against peer companies in the Philippines and even in the whole Southeast Asia and come out one of the best. This affirms our commitment to our shareholders and customers that we will be a catalyst of wealth creation," he added.

China Bank achieved record growths from 2001 to 2007, posting one of the highest return on investment and return on equity during this period. Even when the crisis hit the Philippines in 2008, China Bank's share prices were among the most stable, outperforming the biggest banks in the country. The Bank has consistently paid its shareholders substantial cash and stock dividends regardless of the state of the economy.

"China Bank has always been prudent in managing its resources and operations. It is reassuring that experts and analysts agree that we are on the right track with our efforts to meet clients' expectations, provide efficient solutions to wealth management needs, and deliver shareholder value in these trying times," Ric concluded.

“In some banks, simply getting the latest technology drives the process. But that’s not important. What matters most is: What is the benefit for the customer?” —RIC CHUA

steeped in traditional culture. Many would not look upon China Bank as their primary bank, as their parents did.

Some, of course, did; for instance, James Go, Jr., of the prosperous hardware firm Cebu Evergreen, banked almost entirely with China Bank, following the instructions of his late father James, Sr. Years ago, he said: “Ninety percent of our banking is with China Bank, no matter what... If China Bank had a credit card, I would have no need for any other bank.” [China Bank does, now.]

But other heirs, less focused on relationships and history, had become “rate shoppers” who were willing to move their funds around from bank to bank continually in search of better deals. Thus, for them, the Bank had to be prepared to compete harder for these customers in terms of services and rates. Even if it couldn’t drive its rates quite as hard as a bigger competitor which enjoyed more economies of scale, it had to offer a total package—an overall experience of banking—that was richer, more rewarding and very comfortable. Ric Chua stressed making the relationship with the Bank “sticky”—of making the convenience, ease, and warmth of the China Bank service package so superior that it far outweighed the value of chasing just a few more basis points at another bank.

Rose Gan said: “These Chinese businessmen were our market niche. We had a solid base. They were loyal and so liquid, so our risks were low. But we had to expand our market, otherwise we would not grow. It was no longer a banker’s market—it was a customer’s market. It was important for you to be flexible—especially now that competition had intensified.”

The death of the old banking paradigm—where banks could afford to sit and wait for customers to arrive—meant that now at every Bank branch, acute sales management and creative thinking were the order of the day.

Sammy Chiong said: “We had to develop our managers and our officers to analyze the business area where their branch operated. Let’s first understand the market. Look at the potentials. And how do you succeed in getting a bigger share of that market? How do we sustain the growth? That’s very, very tough. Why should a client go to this door and not the other door? That’s the skill that you as a banker have to develop—to convince them that you can service them better than the other guys. China Bank has a very good brand. So, if our people build on that, it is an advantage. But I tell you, it’s very, very, very competitive.”

And that is just the way the Bank’s leaders like it.

(Below) China Bank believes in providing adequate training for employees, and a robust training program has been in place since the 1970s. The Bank opened the China Bank Academy at the VGP Center in Ayala Avenue in 2010 as part of its continuing efforts to develop talents.

Ric Chua

THE LEADING EDGE

As of 2010, the basics of China Bank's business hadn't changed in the ninety years since Dee C. Chuan founded it. But the forms and services of banking had grown more complex. To compete and get consistently good growth, the Bank ventured into many new products and services such as bancassurance, private banking, cash management, e-banking, insurance, trust banking, and a savings bank. This wide array was a far cry from the situation in 1972, when simply offering T-bills and commercial paper was already considered a big advance for China Bank.

In 2010, two key areas deserved particular attention: the branch expansion program, including the acquisition of a savings bank, and the impending developments in China Bank's IT systems. The first was a new area for a bank that once preferred to grow very slowly and organically. Its

acquisition of Manila Bank in 2007 was a telling indication of how much the Bank had changed its attitudes in recent years. The second, on the other hand, had been a traditional Bank strength since 1969—with Ric Chua now pushing for IT to bring its business processes to a whole other level of service.

As late as 2006, the Bank had only 148 branches—a fraction of its biggest rivals. (Sister bank BDO, for instance, had 685 in 2009 and was looking ahead to a 1,000-branch network in a few years.) But the Bank's leaders, in particular Hans Sy, knew that without a continually growing stream of low-cost funds acquired at scale through a large branch network, the Bank's growth would slow. He pushed the board to aim for a much faster growth rate. To him, a strategic acquisition seemed the quickest way to make a big jump. Of the potential takeover targets on the horizon in 2007, the one that caught his eye was Manila Bank.

On June 21, 2007, China Bank signed an agreement to purchase 87.51% of Manila Bank's shares from the Puyat family for a total of P 1.65 billion. Manila Bank had 75 branch licenses—a fact not known to many in the banking industry —which included 27 operating branches. The Bank retained Manila Bank as a new subsidiary and rebranded it as China Bank Savings to target the more retail market.

The decision to retain the savings bank as a separate entity instead of simply absorbing it into the parent bank network was heavily influenced by the prevailing market research which showed that most people strongly associated China Bank with three market segments: the Chinese, the entrepreneurs or businessmen, and the rich. Majority of the population generally felt that China Bank was not for them and would feel more comfortable with other banks instead.

Another key strategic decision thoroughly discussed at the bank's Management Committee, which also served as the savings bank board of directors, was the business model and branding. The China Bank board of directors approved the recommendation to follow the BPI/Family Savings Bank model, because it leveraged on the very strong brand franchise of China Bank, versus the Metrobank/PSBank model with a completely different brand name for the savings bank subsidiary. The wisdom of this decision was borne out by the sharp increase in the CASA deposits of the former Manila Bank branches in the months following the acquisition.

Ric said then: "This savings bank will go after the market that did not feel that they should bank with us—young people, people who are starting families, people who for one reason or another aren't our traditional customers, people in the past who didn't think they were bankable. Of course, the Bank itself also targets the broader consumer market, not just China Bank Savings. This broader market is where the action is today. And that is where we will be. But China Bank Savings is our opening to target that market."

China Bank Savings would provide its parent with a platform to focus on the consumer market. It would serve as the "laboratory" for new products, services, and marketing approaches for the household, small business, and younger segments. With its lower reserve requirements and slimmer cost structure, it could be nimbler, fresher, and more innovative than the parent in some key areas.

Yet even with its new aggressiveness in branching, China Bank remained careful about costs and profitability, as always. Its branch network still had to be, pound-for-pound, very productive. It would not do for the Bank to simply blanket an area with branches, the way some rivals did. It didn't have unlimited resources, and more important, a "brute force" solution simply wasn't the China Bank way. In that sense, this still was a bank acting in the spirit of Albino SyCip, the founder who didn't allow even paper clips to go to waste.

As Sammy Chiong said: "I think there should be a more deliberate pace, a very strategic way of expanding. You shouldn't just expand right and left and try to run after the numbers. You have to remember: every branch that you open has a carrying cost. And if your branch doesn't make money, it's going to be a drain on your profitability. A lot of banks set up their branches purely as a distribution network. What is

Visionaries: In the late 1960s Johnny Coreces, right, championed China Bank's automation efforts; Ric Chua, left, carried the torch through the 2010s, pushing for the Bank's IT modernization, including the acquisition of a new core banking system.

very particular to China Bank is that it views the branches not only as a distribution network, but also as a stand-alone profit center in itself, with its own profit and loss statement. For the China Bankers, every branch should make money to contribute to the whole."

After its acquisition of Manila Bank in 2007, China Bank looked at other possible acquisitions, like Philam Savings Bank (a subsidiary of AIG eventually sold in 2009) and Premiere Development Bank (acquired by Security Bank). These possibilities didn't pan out for various reasons. But the Bank remained on the lookout for more potential acquisitions and the chance to make another big leap.

The other key frontier for the Bank in the run-up to its 100th year in 2020 was digital. In the past, the Bank used information technology to record, speed up, and connect its business processes. In 2010, it was going a step further; it wanted to rebuild its business processes on robust, well-designed digital foundations, so that the Bank could respond faster, better, and more comprehensively to every customer. Already, the Bank had many effective e-banking channels—ATMs, the TellerPhone, China Bank Online, for both mobile and Internet banking—that were robust, popular, easy-to-use solutions. The Bank's IT department was one of the most respected in the industry. But Ric Chua in particular was looking for more.

He said: "In the past, IT in banking was mostly about bringing down your cost-per-transaction. But we've done that. Now we want more. What kind of technology enabler do we need and what business process do we need to make the

Conservative in credit, maverick in IT

While China Bank has earned a well-deserved reputation for conservative and prudent approach to lending and credit, it has also become known in the banking industry for charting its own path on the technology front, of not following the herd. This was clearly demonstrated in 1969 when it became the first bank in Southeast Asia to process deposits online. In the 1980s, the safe choice among bankers was encapsulated in the saying "No one lost his job recommending IBM." At that time, said Ric Chua, you basically got whatever software was running on the IBM hardware. When the opportunity came to select a core banking system based on software functionalities, China Bank got the TCFS (Total Concept Financial System) software package but it was running on an NCR 9800 mainframe. It was an out-of-the-box thinking, as TCFS was the only core banking system that transformed the ATM card into a customer-centric relationship card, allowing depositors to access multiple accounts. By 1994, the bank again chose to be a pioneer by implementing the Dimension core banking system by Kirchman Corporation of Orlando, Florida despite the fact that no other bank in Asia was using the system. It was the most integrated package at that time, the only core banking system that included an efficient ATM switch. China Bank is also known for being very thorough and objective in its evaluation of technology solutions, and tough but fair in dealings with technology providers. As a result, its IT decisions are closely watched by the industry players.

Aside from the branches, the centerpiece of customers' interaction with China Bank, electronic banking channels such as ATMs (TellerCard), phone banking (Tellerphone), and Internet and mobile banking (China Bank Online), enable the Bank to extend its services to customers 24/7.

banking experience better for our customers? All of these things—technology, business process—are intertwined. But the customers should always be at the center. In some banks, simply getting the latest technology drives the process. But here, we love our customers. Just getting the latest technology—that's not important. What matters most is: What is the benefit for the customer?"

The process of defining the answer to that question was a complex one—and China Bank was willing to take extra pains to make sure it got the answer right. Thus, the replacement of its core banking IT system, last changed in 1998 and planned to be changed in 2010, took a little longer to complete. The Bank tackled the issue with its customary thoroughness—so much so that, in late 2010, it stepped back from making a decision for at least six months.

Ric Chua said: "At the end of the day, we had to be able to answer the question: Is this new system going to make us a better bank? How does it make the banking experience better for the customer? And if that is not clear yet, then it's not a good decision.... A new core banking system would cost us over half a billion pesos. So we wanted to be sure we got it right. And if, in the decision process, we took a little more time there—that's okay, because we would make that time up in the implementation. It would go much faster, because we thought things out already in so much detail."

Ric said: "For IT vendors, the tendency is to offer the banks an IT system that can do what they are doing today—maybe just a little faster. But that's not what we want. We want to do things differently—we want to be better, much much better. If our processes are not the best in the market, maybe we should look at that first, address that, and only then make a core banking decision. So we stepped back from the decision on the new core banking system and, over two months, redefined our business processes—like, say, loan origination. How can it be better? Faster? How can a new IT system help us? If there's a bottleneck in the process, can the IT vendor help us find it? Put a red flag on it? Those are the questions we posed to the vendors."

Ric Chua was very emphatic about how much he expected from the project: "We did not take this process of deciding lightly—not just because of the cost—but because I thought it would become the foundation of how we could change the Bank, of how the customer experienced this Bank."

In this decision—as in many others it took subsequently—the paradoxical nature of the Bank emerged, combining opposites in a way that works—just like in the traditional yin-and-yang symbol of Chinese folklore. China Bank combines East and West, old and new, conservative and progressive, traditional values with cutting-edge technology, a warm, personal touch with a hard-nosed insistence on achieving metrics matching the best in the industry. The contradictions somehow do work in its favor. The melding of seeming contradictions somehow drives China Bank's success.

COMPLETING ITS FIRST CENTURY

As China Bank looked ahead to marking its first century on August 16, 2020, some prospects appeared certain and others challenging. It was safe to expect that it would be much larger than it was in 2010 by every metric—assets, deposits, loans, branches, and so on. But sheer size alone would not be enough. For the bank's leadership, it would be just as important that the Bank maintain its special culture, and the warm, close ties among the Bank's employees and to its customers. For Hans Sy and Gilbert Dee, it is just as important that the closeness to the customer remains and grows ever stronger.

It would also be important that the Bank retain its identity. For quite some time, many writers in the business press had speculated that one day the two Sy-controlled banks, BDO and China Bank, would be merged. There was an economic argument in favor of such a move. The combined assets of the two, based on early 2011 figures, would be near P1.3 trillion—an overwhelming number for the other big players to match, let alone overtake. But Henry Sy did not get to the top by paying attention just to the numbers.

Hans Sy said then, before his father's passing in 2019: "Until today, my father still believes that this Bank is a very, very good investment. So you shouldn't expect him to merge it with BDO. In fact, I asked him: 'What about thinking of merging China Bank and BDO?' He said: 'It's not even in my thoughts.' He looks at both of them, China Bank and BDO, as being really good on their own. He doesn't see any good in joining them—or getting anything better than what each bank is right now, on its own. There wouldn't be any value-added [in a merger]. He feels that China Bank on its own has a lot of value. BDO on its own has a lot of value. So merging the two is not in his thoughts."

China Bank's value lies in its leadership, its commitment to a high standard of professional management, and the strength of its relationship with its clients.

China Bank has always had leaders with a strong sense of honor and concern for its clients and employees—leaders who have the unshakable trust of the Bank's clients and the palpable support, even affection, of its employees. This is evident in the many stories told by the Bank's employees and customers. But if one looks at the long history of the

Peter Dee (3rd from left) receives the first Bell award in 2012 from then SEC chair Teresita Herbosa (4th from left).

China Bank wins Bell Award for Corporate Governance

"We are honored to be among the first recipients of this prestigious corporate governance award. We have always believed that our success stems from our corporate principle of doing what is right and doing right by our main stakeholder groups. This new award is a happy confirmation of China Bank's stern adherence to corporate governance," said then China Bank president & CEO Peter Dee.

The PSE launched the Bell Awards to recognize the best listed firms and trading participants found to have outstanding corporate governance practices.

China Bank joined an elite club in the first 2012 Bell Awards for Corporate Governance by the Philippine Stock Exchange (PSE)—the only bank among the five publicly-listed companies awarded, distinguished from among 255 publicly-listed companies.

China Bank Management Committee, 2011.Seated from left: Gilbert U. Dee, Peter S. Dee, Margarita L. San Juan, and Rhodora Z. Canto. Standing from left: Alberto Emilio V. Ramos, Ricardo R. Chua, Nancy D. Yang, Ramon R. Zamora, Antonio S. Espedido, Jr., Rene J. Sarmiento, William C. Whang, Samuel L. Chiong, Alexander C. Escucha, and Rabboni Francis B. Arjonillo.

Bank, one also sees that very early on, its leaders had a sense of vision. "We were the first bank in Southeast Asia to be automated. That is a testament to our leaders' vision," Ric said. The eventual decision to replace its core banking IT system is consistent with that vision of seeking cutting-edge technology to continually improve operations.

The Bank's strong commitment to a high standard of professional management could be seen even in its early years when management brought in the Shanghai-trained officers such as TS Wang and Lee Siau Tong. They were highly skilled in foreign exchange because Shanghai was a center of trade and finance in the 1920s and 1930s, and because of the said officers, China Bank was way ahead of the curve compared to the other local banks. In the 1950s and 1960s, Albino SyCip also sent a number of the bright men of the Bank to train in correspondent banks in the US such as Chase Manhattan Bank and Bank of California. It was no wonder, then, that China Bank was the top bank in the 1950s until the 1970s.

The Board at work.

Ric Chua said that the Bank continued to hire the best and the brightest and he believed that this continuing commitment to professionalization and excellence had prepared the Bank for a highly competitive banking industry. He saw that the challenge now was to continue to have a strong management team—one that was a blend of book-smart and street-smart people. He emphasized the importance of being grounded. His own

16.69%

CHINA BANK RETURN TO EQUITY, 2010

₱257.4%

CHINA BANK TOTAL ASSETS, 2010

experience as a branch manager during his first years in the Bank had given him valuable lessons in banking. "I love to talk about how to take care of our customers—it's not the textbook approach. We don't want to lose that character of the Bank of understanding the customer," he concluded.

The abiding loyalty of its customers was a result of the Bank's commitment to certain values: honesty, integrity, hard work, fairness, concern for people and the belief that the welfare of the Bank and its clients were one and the same. These were the values that the Bank's leaders, then and now, adhered to and that generations of employees have internalized.

It is common to hear longtime customers say "They never take advantage of their clients" or "They are always fair." Many of them say, "We will never look for another bank because we trust China Bank." Albino SyCip had always believed that staying true to these values was the surest way for the Bank to last.

After 90 years, the China Bank way was still all about the customers and the banker's relationship with them. As Albino SyCip liked to say: "It is better to know people than to know money."