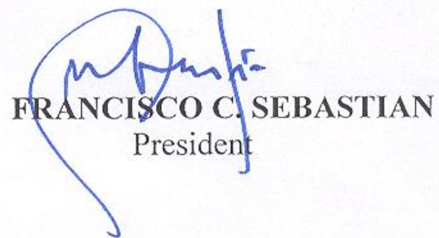
CERTIFICATION

KNOW ALL MEN BY THESE PRESENTS:

I, **FRANCISCO C. SEBASTIAN**, Filipino, of legal age, with office address at 45th Floor, G.T. Tower International, Ayala Avenue corner H.V. dela Costa St., Makati City, being the President of **First Metro Investment Corporation (FMIC)**, a corporation duly organized and existing under the laws of the Philippines, do hereby certify that the hard copy of the **SEC Form 17-Q** and the attached diskette labeled "**SEC Form 17-Q (June 2009), First Metro Investment Corporation**" are one and the same.

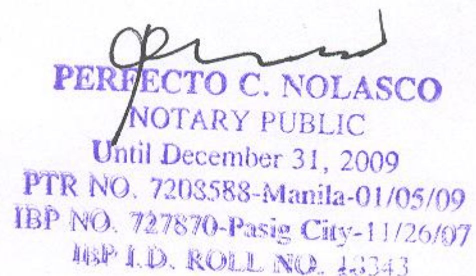
Manila Philippines, 6th of August 2009.



FRANCISCO C. SEBASTIAN
President

SUBSCRIBED AND SWORN to before me this AUG 12 2009 2009, affiant exhibiting to me his Community Tax Certificate No. 19014459 issued on January 7, 2009 in Manila.

Doc. No. 435;
Page No. 87;
Book No. LXXIX;
Series of 2009.



PERFECTO C. NOLASCO
NOTARY PUBLIC
Until December 31, 2009
PTR NO. 7203588-Manila-01/05/09
IBP NO. 727870-Pasig City-11/26/07
IBP I.D. ROLL NO. 18343

COVER SHEET

0 2 3 2 6 9
S.E.C. Registration Number

FIRST METRO INVESTMENT CORPORATION
(Company's Full Name)

45TH FLOOR GT TOWER INTERNATIONAL AYALA AVE. COR. HV DELA COSTA ST. MAKATI CITY
(Business Address: No. Street City / Town Province)

DANILO G. OLONDRIZ
Contact Person

840-5751
Company Telephone Number

Fiscal Year		Form Type	Annual Meeting	
Month	Day		Month	Day
12	**31**	**SEC Form 17-Q**		

Not later than last week of April (Annual Meeting)

IHU - GSED
Secondary License type, if applicable

MRD
Dept. Requiring this Doc.

Amended Articles Number/Section

1,483
Total No. of Stockholders

Total amount of Borrowings

Domestic	Foreign

To be Accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

Remarks = Pls. use black ink for scanning purposes.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2) (b) THEREUNDER

1. For the quarterly period ended: **June 30, 2009**

2. Commission identification number: **023269**   3. BIR Tax Identification No.: **000-500-232**

4. Exact name of issuer as specified in its charter: **FIRST METRO INVESTMENT CORPORATION**

5. Province, country or other jurisdiction of incorporation or organization: **Metro Manila, Philippines**

6. Industry Classification Code: [ ] (SEC Use Only)

45th Floor, G.T. Tower Int'l., Ayala Ave. cor. H.V. dela Costa St., Makati City   **1200**
7. Address of issuer's principal office   Postal Code

8. Issuer's telephone number, including area code: **(632) 840 - 5751**

9. Former name, former address and former fiscal year, if changed since last report: **Not Applicable**

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

    (a) Authorized capital stock: **800,000,000 shares** **₱ 8,000,000,000.00**

    (b) Number of shares outstanding as of June 30, 2009:

Common shares	420,869,240
Less: Treasury shares	43,813,090
	377,056,150

    (c) Amount of debt outstanding (unpaid subscriptions): **None**

11. Are any or all of the securities listed in the Philippine Stock Exchange?

    Yes [/] No [ ]

12. Indicate by check mark whether the registrant:

    (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)
    Yes [/] No [ ]

    (b) has been subject to such filing requirements for the past ninety (90) days.
    Yes [/] No [ ]

PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

FIRST METRO INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF CONDITION

	As of			
	June 30, 2009		December 31, 2008 *(Audited)*	
ASSETS				
Cash and Other Cash Items	**P**	**7,638,621,703**	P	5,309,075,854
Due from Bangko Sentral ng Pilipinas		**1,366,900,000**		1,916,100,000
Loans - net		**13,167,646,522**		15,846,285,745
Held for Trading Securities		**1,478,450,538**		421,728,810
Held-to-Maturity Securities		**3,740,933,716**		3,756,141,902
Available for Sale Securities - at market		**19,912,042,470**		9,473,868,623
GS Purchased Under Reverse Repo w/ BSP		**-**		1,330,000,000
Interbank Loans Receivable		**-**		100,000,000
Equity Investments - net		**8,109,107,503**		6,877,171,577
Investments Properties - net		**803,362,668**		865,671,587
Property and Equipment - net		**76,782,766**		80,348,330
Other Assets - net		**247,334,016**		224,186,122
	P	**56,541,181,902**	P	46,200,578,550
LIABILITIES AND CAPITAL FUNDS				
Liabilities				
Bills Payable	**P**	**47,717,301,755**	P	37,941,147,817
Bonds Payable		**55,200,000**		61,200,000
Accrued Taxes, Interest and Other Expenses		**218,827,612**		269,346,386
Other Liabilities		**602,214,091**		465,972,348
		48,593,543,458		38,737,666,551
Capital Funds				
Common Stock		**4,208,692,400**		4,208,692,400
Capital Paid in Excess of Par Value		**2,065,694,042**		2,065,694,042
Retained Earnings		**4,360,224,666**		3,803,421,275
Treasury Stocks		**(2,256,151,890)**		(2,256,151,891)
Net Unrealized Loss on Available for Sale Securities		**(688,646,550)**		(618,902,351)
Minority Interest		**30,316,001**		32,648,749
Equity in Translation Adjustments		**118,540,518**		118,540,518
Equity in Unrealized Gain on Available-for-Sale Investments of Associates		**77,826,647**		77,826,647
Revaluation Increment		**31,142,610**		31,142,610
		7,947,638,444		7,462,911,999
	P	**56,541,181,902**	P	46,200,578,550

FIRST METRO INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

	For the Period Ended June 30		Quarter Ended June 30	
	2009	**2008**	**2009**	**2008**
Investment Banking Fee	197,567,979	106,268,256	114,057,412	30,180,265
Income from Investment in Stocks	96,746,117	(165,428,547)	64,497,135	(57,284,182)
Treasury Income	1,255,130,890	1,041,606,653	661,216,076	346,539,828
Interest Income	301,627,456	304,218,245	145,312,789	153,870,800
Other Income/(Losses)	128,967,824	69,886,169	90,108,204	45,808,164
Gross Operating Income	**1,980,040,266**	**1,356,550,776**	**1,075,191,616**	**519,114,875**
Less: Interest/Finance Charges	1,028,733,308	723,493,534	519,082,843	365,932,211
Gross Operating Income before Operating Expenses	**951,306,958**	**633,057,242**	**556,108,773**	**153,182,664**
Less: Operating Expenses				
Employees' Compensation & Benefits	106,487,015	92,535,093	58,503,601	52,512,002
Management & Other Prof. Fees	8,272,207	7,542,512	4,187,399	4,670,083
Supervision Fees	7,402,266	5,938,752	5,763,751	2,946,748
Rent Expenses	14,208,009	12,944,200	7,325,366	7,345,746
Depreciation/Amortization Expenses	15,078,989	12,688,806	7,782,945	7,295,217
Representation & Travelling Expenses	9,051,115	10,938,348	5,655,853	8,027,981
Other Expenses	46,936,625	82,194,180	27,173,986	33,691,423
Total	207,436,225	224,781,891	116,392,900	116,489,200
Net Income before Taxes & Licenses	**743,870,733**	**408,275,351**	**439,715,873**	**36,693,464**
Taxes & Licenses	178,309,116	154,116,964	88,537,298	60,298,137
Net Income Before Provision for Income Tax	**565,561,618**	**254,158,387**	**351,178,576**	**(23,604,673)**
Provision for Income Tax	134,801,645	128,499,931	86,204,983	33,030,682
Net Income before Non-Operating Gains/(Losses)	**430,759,973**	**125,658,456**	**264,973,593**	**(56,635,355)**
Non-Operating Income/(Losses)	126,043,418	17,805,084	56,012,577	19,869,602
NET INCOME	**556,803,391**	**143,463,540**	**320,986,170**	**(36,765,753)**
Earnings Per Share	1.48	0.38	0.85	(0.10)

FIRST METRO INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL FUNDS

	As of June 30			
		2009		2008
CAPITAL STOCK	**P**	**4,208,692,400**	**P**	4,208,692,400
CAPITAL PAID IN EXCESS OF PAR VALUE		**2,065,694,042**		2,065,694,042
RETAINED EARNINGS				
Balance at beginning of year		**3,803,421,275**		3,403,714,154
Net Income		**556,803,392**		143,463,539
Balance at end of quarter		**4,360,224,667**		3,547,177,693
TREASURY STOCK		**(2,256,151,891)**		(2,256,151,891)
EQUITY IN TRANSLATION ADJUSTMENT		**118,540,518**		58,628,327
EQUITY IN UNREALIZED GAIN/(LOSS) ON AFS INVESTMENTS OF ASSOCIATES		**77,826,647**		224,359,461
REVALUATION INCREMENT		**31,142,610**		31,686,745
NET UNREALIZED LOSS ON SECURITIES				
Balance at beginning of year		**(618,902,351)**		504,538,078
Unrealized gain/(loss) during the quarter		**(69,744,199)**		(1,833,193,677)
Balance at end of quarter		**(688,646,550)**		(1,328,655,599)
		7,917,322,443		6,551,431,178
MINORITY INTEREST		**30,316,001**		33,469,205
	P	**7,947,638,444**	**P**	6,584,900,383

FIRST METRO INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the period ended June 30	
	2009	**2008**
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before Income Tax	₱ **691,605,036**	₱ 271,963,469
Adjustment to reconcile income before tax to net cash generated from (used) in operations:		
Interest Income	**(1,294,183,487)**	(956,202,609)
Interest Expense	**1,028,733,308**	723,493,534
(Profit)/Loss from assets sold	**(10,034,264)**	(26,892,189)
Depreciation and Amortization	**15,078,989**	12,688,806
Changes in operating assets and liabilities:		
Decrease/(Increase) in:		
Held for Trading Securities	**(1,056,721,728)**	146,069,462
Held-to-Maturity Securities	**15,208,186**	13,862,165
Available for Sale Securities	**(10,507,918,046)**	4,944,185,920
Loans	**2,781,772,554**	975,483,392
Other assets	**(23,147,894)**	(217,731,818)
Increase/(Decrease) in:		
Accrued taxes, interest & other exp.	**(10,522,010)**	(142,348,642)
Other liabilities	**133,908,995**	(57,281,371)
Net cash generated from (used in) operations	**(8,236,220,361)**	5,687,290,119
Interest income received	**1,036,207,391**	991,392,741
Interest expense paid	**(1,085,767,853)**	(610,079,169)
Income taxes paid	**(117,763,863)**	(129,067,692)
Net cash provided by (used in) operating activities	**(8,403,544,687)**	5,939,535,999
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Disposals of (addition to) property & equipment	**50,795,494**	(29,794,385)
Dividends received	**154,842,761**	144,557,112
Decrease/(Increase) in:		
Equity investments	**(1,231,935,926)**	(2,674,558,733)
Investment in real estate	**10,034,270**	25,806,304
Net cash provided by (used in) investing activities	**(1,016,263,401)**	(2,533,989,702)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from (settlement of) bills payable	**9,776,153,938**	(1,507,762,814)
Dividends paid	**(6,000,000)**	-
Net cash provided by (used in) financing activities	**9,770,153,938**	(1,507,762,814)
NET INCREASE/(DECREASE) IN CASH & CASH EQUIVALENTS	**350,345,851**	1,897,783,483

FIRST METRO INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the period ended June 30	
	2009	**2008**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		
Cash and other cash items	₱ **5,309,075,854**	₱ 5,841,639,660
Due from Bangko Sentral ng Pilipinas	**1,916,100,000**	1,177,440,000
Interbank Call Loan Receivable	**1,430,000,000**	531,000,000
TOTAL	**8,655,175,854**	7,550,079,660
CASH AND CASH EQUIVALENTS, June 30		
Cash and other cash items	**7,638,621,703**	6,048,809,236
Due from Bangko Sentral ng Pilipinas	**1,366,900,000**	1,732,113,901
GS Purchased Under Reverse Repurchase Agreement w/ BSP	**-**	1,136,000,000
TOTAL	₱ **9,005,521,703**	₱ 8,916,923,137

a. Summary of Significant Accounting Policies

Basis of Financial Statement Preparation

The accompanying financial statements have been prepared under the historical cost basis except for financial assets at fair value through profit or loss (FVPL), available-for-sale (AFS) investments and derivative liabilities that have been measured at fair value. The financial statements are presented in Philippine peso, the functional currency.

Statement of Compliance

The financial statements of the Parent Company and Subsidiaries (the Group) have been prepared in compliance with the Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation

The consolidated financial statements include the accounts of the Parent Company and its wholly owned and majority – owned subsidiaries, as follows:

Subsidiary	Effective Percentage of Ownership
• First Metro Securities Brokerage Corporation	100
• PBC Capital Investment Corporation	100
• SBC Properties, Inc.	100
• Prima Ventures Development Corporation	100
• FMIC Equities, Inc.	100
• First Metro Insurance Brokers Corporation	100
• First Metro Asset Management, Inc.	70

The Parent Company's subsidiaries were all incorporated in the Philippines and with presentation in functional currency of Philippine peso.

The consolidated financial statements are prepared in the same reporting period as the Parent Company, using consistent accounting policies.

All significant inter - group balances, transactions, income and expenses and profits and losses resulting from intra - group transactions have been eliminated in full in the consolidation.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Consolidation of subsidiaries ceases when control is transferred out of the Group.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

Minority Interests

Minority interests represent the portion of profit or loss and the net assets not held by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated statement of condition, separately from the Parent Company's equity. Acquisitions of minority interest are accounted for using the entity concept method, whereby the difference between the consideration and the book value of the share of the net assets acquired is recognized as an equity transaction. Minority interest represents the equity interest in First Metro Asset Management, Inc. (FAMI), a 70% - owned subsidiary and from First Metro Travel, Inc., a 60% - owned subsidiary of Prima Ventures Development Corporation (PVDC).

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the following applicable PFRS and Philippine Interpretation which became effective beginning January 1, 2008:

Amendments to Philippine Accounting Standards (PAS) 39, *Financial Instruments: Recognition and Measurement* and PFRS 7, *Financial Instruments: Disclosures*

The Group adopted the Amendments to PAS 39 and PFRS 7, which allow reclassifications of certain financial instruments held-for-trading to either held-to-maturity, loans and receivables or available-for-sale categories, as well as certain instruments from AFS investments to loans and receivables. The effective date of the amendments is July 1, 2008. However, as of December 31, 2008, there was no reclassification to HTM or loans and receivables and therefore, the adoption of the amendments in the Standards have no impact on the financial statements.

Philippine Interpretation IFRIC 14, *PAS 19, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after January 1, 2008)*

This Interpretation provides guidance on how to assess the limit in PAS 19, *Employee Benefits*, on the amount of the surplus that can be recognized as an asset, and how the pension assets or liability may be affected when there is a statutory or contractual minimum funding requirement. As of December 31, 2008, the Group's defined benefit schemes are in deficit, as such, this Interpretation had no impact on its financial statements.

Foreign Currency Translation

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency-denominated monetary assets and liabilities are translated in Philippine peso based on the Philippine Dealing system (PDS) closing rate prevailing at end of year and foreign currency-denominated income and expenses, at PDS weighted average rate (PDSWAR) for the year. Foreign exchange differences arising from restatements of foreign currency-denominated assets and liabilities are credited to or charged against operations in the year in which the rates change.

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

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Deposits, amounts due to banks and customers and loans are recognized when cash is received by the Group or advanced to the borrowers.

Initial recognition of financial instruments

All financial assets, including trading and investment securities and loans and receivables, are initially recognized at fair value. Except for financial assets at FVPL, the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS investments, and loans and receivables. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Determination of fair value

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

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

'Day 1' difference

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

Derivatives recorded at FVPL

The Group assesses whether embedded derivatives are required to be separated from the host contract. Reassessment only occurs if there is a term in the contract that significantly modifies the cash flows that would otherwise be required.

The Parent Company has certain derivatives that are embedded in the debt financial instruments classified as loans and receivables. Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as accounting hedges) are taken directly to the statement of income and are included in

‘Trading and securities gain’. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Embedded derivatives are bifurcated from their host contracts and carried at fair value with fair value changes being reported through profit or loss, when the entire hybrid contracts (composed of both the host contract and the embedded derivative) are not accounted for as financial assets at FVPL, when their economic risks and characteristics are not closely related to those of their respective host contracts, and when a corporate instrument with the same terms as the embedded derivatives required to be separated from the host contracts when the Group first becomes a party to the contract.

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

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

Financial assets and financial liabilities at FVPL are recorded in the statement of condition at fair value. Financial assets at FVPL include securities which are held for trading. Interest earned or incurred is recorded in ‘Interest income or expense’, respectively, while dividend income is recorded in ‘Dividends’ according to the terms of the contract, or when the right to receive payment has been established.

HTM investments
HTM investments are quoted, non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group’s management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments.

After initial measurement, these investments are subsequently measured at amortized cost using the effective interest rate method (EIR), less allowance for impairment losses, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in ‘Interest income’ in the statement of income. Gains and losses are recognized in the statement of income when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statement of income under ‘Provision for impairment and credit losses’.

Loans and receivables, amounts due from Bangko Sentral ng Pilipinas and other banks, interbank loans receivable and securities purchased under agreement to resell
This accounting policy relates to the statement of condition captions ‘Due from Bangko Sentral ng Pilipinas’ (BSP), ‘Due from other banks’, Interbank loans receivable (IBLR) and securities purchased under agreement to resell, and ‘Loans and receivables’. These are non-derivative financial assets

with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'Other financial assets held for trading', designated as 'AFS investments' or 'Financial assets designated at FVPL'.

After initial measurement, Loans and receivables, Due from BSP, Due from other banks, Interbank loans receivable and securities purchased under agreement to resell are subsequently measured at amortized cost using the EIR method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in the 'Interest income' in the statement of income. The losses arising from impairment are recognized in 'Provision for impairment and credit losses' in the statement of income.

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

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the statement of income. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from the reported earnings and are reported as 'Net unrealized gain on AFS investments' in the equity section of the statement of condition.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized as 'Trading and securities gain' in the statement of income. Where the Group holds more than one investment in the same security, these are deemed to be disposed of on a first-in first-out basis. Interest earned on holding AFS debt investments are reported as 'Interest income' using the EIR. Dividends earned on holding AFS equity investments are recognized in the statement of income as 'Dividends' when the right to receive payment has been established. The losses arising from impairment of such investments are recognized as 'Provision for impairment and credit losses' in the statement of income.

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

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

Treasury bonds
Issued bonds payable which are reacquired but not yet retired/extinguished are deducted from the carrying value of the bond and accounted for at weighted average cost. Treasury bonds are recorded at face value and any related unamortized premium, discount and issue costs are cancelled. Also, any related accrued interest paid is charged to interest expense and the difference between the acquisition cost and the book value of the treasury bonds is treated as gain or loss in the statement of income.

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

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

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

Repurchase and reverse repurchase agreements
Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the statement of condition. The corresponding cash received, including accrued interest, is recognized in the statement of condition as a loan to the Group, reflecting the economic substance of such transaction. The difference between the purchase price and resale price is treated as 'Interest income' and is accrued over the life of the agreement using the EIR method.

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized on the statement of condition. The corresponding cash paid, including accrued interest, is recognized in the statement of condition as 'Securities purchased under resale agreements' (SPURA), and is considered a loan to the counterparty.

Offsetting financial instruments
Financial assets and financial liabilities are offset and the net amount is reported in the statement of condition if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability

simultaneously. This is not generally the case with master netting agreements where the related assets and liabilities are presented gross in the statement of condition.

Impairment of Financial Assets

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

Impairment of Financial Assets Carried at Amortized Cost

Loans and receivables and interbank loans receivables and securities purchased under agreement to resell.

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged against the statement of income. Interest income continues to be recognized thereafter based on the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss. Loans, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to the 'Provision for impairment and credit losses'.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

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

HTM investments

For HTM investments, the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred using the original EIR of the investment, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged against the statement of income. Interest income continues to be recognized based on the original EIR of the asset.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment loss was recognized, any amounts formerly charged are credited to 'Provision for impairment and credit losses' in the statement of income and the allowance account reduced. The HTM investments, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized.

AFS investments

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

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

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

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

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

Investments in subsidiaries, associates and joint ventures
Investment in subsidiaries
Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Investment in associates
Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. In the consolidated financial statements, investments in associates are accounted for under the equity method of accounting.

Under the equity method, an investment in an associate is carried in the statement of condition at cost plus post-acquisition changes in the Group's share of the net assets of the associate. Goodwill relating to an associate is included in the carrying value of the investment and is not amortized. The Group's share in an associate's post-acquisition profits or losses is recognized in the consolidated statement of income, and its share of post-acquisition movements in the associate's equity reserves is recognized directly in equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investments. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. Profits and losses resulting from transactions between the Group and an associate are eliminated to the extent of the interest in the associate.

Investment in joint venture
Investment in joint venture is accounted for under the equity method of accounting. The investment in joint venture is carried in the statement of condition at cost plus post-acquisition changes in the share of net assets of the joint venture, less any allowance for impairment.

Investments in subsidiaries, associates and joint ventures in the Parent Company financial statements are carried at cost less any allowance for impairment.

Equity in translation adjustment

Accounts of First Metro International Investment Corporation Ltd. - Hongkong (FMIIC) are maintained in the currency of the country in which it operates. Adjustments resulting from the translation of foreign currency financial statements into Philippine pesos are shown as a separate component of equity in the consolidated financial statements.

Property and equipment

Depreciable properties including building improvements and furniture, fixture and equipment are stated at cost less accumulated depreciation and amortization, and any allowance for impairment losses. Such cost includes the cost of replacing part of the property and equipment when that cost is incurred, if the recognition criteria are met but excludes repairs and maintenance costs.

Depreciation is calculated on the straight-line method over the estimated useful life of the depreciable assets. The estimated useful lives of the depreciable assets are as follows:

Furniture, fixtures and equipment	1-5 years
Building improvements	1-5 years or the terms of the related leases, whichever is shorter

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

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

Investment properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such asset cannot be measured, in which case, the investment property acquired is measured at the carrying amount of asset given up. Foreclosed properties are classified under investment properties from foreclosure date.

Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and allowance for impairment losses.

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

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

Depreciation is calculated on a straight-line basis using the remaining useful life of 34 years from the time of acquisition of the investment properties (specifically the condominium units).

Transfers are made to investment properties when, and only when, there is a change in use evidenced by ending of owner occupation, commencement of an operating lease to another party, completion of

construction or development and by commencement of owner occupation or commencement of development with a view to sale.

Intangible assets

Intangible assets include exchange trading right, computer software, and goodwill.

Exchange trading right

The exchange trading right was acquired, together with PSE shares, in exchange for the exchange membership seat under the conversion program of the PSE. The exchange trading right is carried at the amount allocated from the original cost of the exchange membership seat (after a corresponding allocation for the value of the PSE shares) less any allowance for impairment losses. The Group does not intend to sell the exchange trading right in the near future.

The exchange trading right is deemed to have an indefinite useful life as there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group (see accounting policy on Impairment of Nonfinancial Assets).

Computer software costs

Computer software costs are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over 3 years on a straight line basis.

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

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. With respect to investment in associates, goodwill is included in the carrying amounts of the investments. Following initial recognition, goodwill is measured at cost less any allowance for impairment losses.

Impairment of Nonfinancial Assets

Property and equipment and investment properties

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

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

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

The following criteria are also applied in assessing impairment of specific intangible assets:

Goodwill
Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash generating unit (or group of cash generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit (or group of cash generating units) is less than the carrying amount of the cash generating unit (or group of cash generating units) to which goodwill has been allocated, an impairment loss is recognized immediately in the statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Group performs its annual impairment test of goodwill at year end.

Intangible assets
Intangible assets with indefinite useful lives are tested for impairment annually at year end either individually or at the cash-generating unit level, as appropriate.

Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

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

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

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR used to discount the future recoverable cash flows.

Fee and commission income
The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

(a) Fee income earned from services that are provided over a certain period of time.
Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income, portfolio and other management fees, and advisory fees. However, loan commitment fees for loans that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the EIR on the loan.

(b) Fee income from providing transaction services
Fees arising from negotiating or participating in the negotiation of a transaction for a third party - such as underwriting fees, corporate finance fees, and brokerage fees for the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria. Loan syndication fees are recognized in the statement of income when the syndication has been completed and the Group retains no part of the loans for itself or retains part at the same EIR as for the other participants.

Dividend income
Dividend income is recognized when the Group's right to receive payment is established.

Trading and securities gain
Results arising from trading activities include all gains and losses from changes in fair value of the financial assets and financial liabilities held for trading which is recorded under other liabilities.

Rental income
Rental income arising from leased properties is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the statement of income under 'Miscellaneous income'.

<u>Leases</u>
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:
(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
(c) There is a change in the determination of whether fulfillment is dependent on a specified asset; or
(d) There is a substantial change to the asset.

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

Group as lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in 'Property and equipment' with the corresponding liability to the lessor included in 'Other liabilities'. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to 'Interest expense.'

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

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

Group as lessor
Finance leases, where the Group transfers substantially all the risks and benefits incidental to ownership of the leased item to the lessee, are included in the statement of condition under 'Loans and receivables'. A lease receivable is recognized at an amount equivalent to the net investment (asset cost) in the lease. All income resulting from the receivable in included in 'Interest income' in the statement of income.

Leases where the Group does not transfer substantially all the risk and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

<u>Retirement benefits</u>
The Group has a noncontributory defined benefit retirement plan. The retirement cost of the Parent Company and FMSBC is determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current year.

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

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

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

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs not yet recognized and less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service cost not yet recognized and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement.

Contingent liabilities and contingent assets

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

Income taxes

Current taxes

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

Deferred taxes

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

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

Deferred tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries and associates. With respect to investments in foreign associates, deferred tax liabilities are recognized except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

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

Treasury shares and contracts on own shares

Own equity instruments which are acquired (treasury shares) are deducted from equity and accounted for at weighted average cost. No gain or loss is recognized in the statements of income on the purchase, sale, issue or cancellation of the Parent Company's own equity instruments.

Earnings per share

Basic earnings per share (EPS) is computed by dividing net income for the year by the weighted average number of common shares outstanding during the year after giving retroactive effect to stock dividends declared and stock rights exercised during the year, if any. The Group does not have dilutive potential common shares.

Dividends on common shares

Dividends on common shares are recognized as a liability and deducted from equity when approved by the respective shareholders of the Parent Company and its subsidiaries and BSP. Dividends for the year that are approved after the statement of condition date are dealt with as an event after the statement of condition date.

Debt issue costs

Issuance, underwriting and other related expenses incurred in connection with the issuance of debt instruments are deferred and amortized over the terms of the instruments using the effective interest rate method. Unamortized debt issuance costs are netted against the related carrying value of the debt instrument in the statement of condition.

Borrowing costs

Borrowing costs are recognized as expenses in the year in which these costs are incurred.

Subsequent events

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

Segment reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 6. The Group's assets producing revenues are located in the Philippines (i.e., one geographical location). Therefore, geographical segment information is no longer presented.

b. Significant Accounting Judgments and Estimates

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

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The following are the critical judgments and key assumptions that have a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Judgments

➢ *Operating leases*
The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases. In determining whether or not there is indication of operating lease treatment, the Group considers retention of ownership title to the leased property, period of lease contract relative to the estimated useful economic life of the leased property, bearer of executory costs, and among others.

➢ *Fair value of financial instruments*
Where the fair values of financial assets and financial liabilities recorded in the statement of condition cannot be derived from active markets, these are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated financial instruments.

➢ *HTM investments*
The classification to HTM investment requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. Ability to hold the debt securities to maturity is demonstrated by the availability of financial resources to continue to finance the investment until maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire portfolio as AFS investments. The investments would therefore be measured at fair value and not at amortized cost.

➢ *Financial assets not quoted in an active market*

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

- *Embedded derivatives*
  Where a hybrid instrument is not classified as financial assets at FVPL, the Group evaluates whether the embedded derivative should be bifurcated and accounted for separately. This includes assessing whether the embedded derivative has a close economic relationship to the host contract.

Estimates

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

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

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

   The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. The Group calibrates the valuation techniques periodically and tests them for validity using either prices from observable current market transactions in the same instrument or from other available observable market data. Refer to Note 8 for the information on the carrying amounts of these investments.

c. *Impairment of AFS equity investments*
   The Group determines that AFS equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. The Group treats 'significant' generally as decrease by more than 20% of the original cost of investment, and 'prolonged' as greater than 12 months.

In making this judgment, the Group evaluates among other factors, the normal volatility in share price.

In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

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

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

The expected rates of return on plan assets were based on the average historical premium of the fund assets. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of statement of condition dates.

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

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

The Group recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the value in use approach. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

b. Financial Risk Management

The Group has exposures to the following risks from the use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

Risk Management Framework

The Parent Company's implementation of the risk management process involves a top-down approach that starts with the Board of Directors (BOD). The Company's BOD, through the board-level Risk Management Committee (RMC), is actively involved in planning, approving, reviewing, and assessing all risks involved within the Company.

The RMC's functions are supported by the Executive Committee ((EXCOM), which provides essential inputs and advice, particularly on credit and investment policy matters. The EXCOM is provided the necessary assistance by the following management working committees, namely: the Senior Management Committee (SMC), the Credit Committee (Crecom), the Investment Committee (Incom) and the Deal Committee (Dealcom).

The SMC is responsible for identifying, synchronizing and addressing various operational problems and concerns of the Parent Company and certain subsidiaries. The SMC is also tasked with providing the RMC with general guidelines and advice pertaining to operations risks. SMC's other functions is similar to that of the Asset Liability Committee (ALCO) of most banks; has membership of the most senior officers of the Parent Company which has significant risk responsibilities over the Asset and Liability Management.

The Crecom, another senior management committee, is tasked with the review of all credit proposals and approval of loan applications and credit facilities up to set limits/criteria: when exceeded decision are elevated to EXCOM.

The Incom is tasked with the review of all investment proposals and approval of investment outlets.

The Dealcom is tasked with the review/screening of new deal proposals preparatory to sending mandate letter; clear the business units' new deals subject to the final approval of credit authority; and monitor all deals in process of the business units.

Two other departments also collaborate with the RMC: the Internal Audit Division (IAD) and the Compliance Division (CD). The former is tasked with monitoring the Company's internal management control processes and providing an independent assessment of the Parent Company's systems to ensure that integrity is maintained, while the latter is tasked with monitoring and assessing compliance with Parent Company's various units with the Parent's rules and regulations. The CD is also tasked with the proper dissemination of these rules and regulations within the Parent Company, likewise, for compliance with external rules and regulations as prescribed by government regulatory bodies.

The Chief Risk Officer (CRO) manages and oversees the day-to-day activities of the Risk Management Department (RMD). The CRO likewise evaluates all risk policy proposals and reports to be presented to the RMC. The CRO, through the RMD, also coordinates with the Risk Taking Units (RTUs) and the Risk Control and Compliance Units (RCCUs) of the Parent Company with regards to the submission of requisite reports on their risk compliance and control activities.

RMD is tasked with identifying, analyzing, measuring, controlling and evaluating risk exposures arising from fluctuations in the prices or market values of instruments, products and transactions of the Parent Company and certain subsidiaries. It is responsible for recommending trading risk and liquidity management policies, setting uniform standards of risk assessment and measurement, providing senior management with periodic evaluation and simulation and analyzing limit compliance exceptions.

The Parent Company requires either internal or external legal opinions to ensure that all documentations related to transactions entered into by the Parent Company are enforceable. Specific, internal legal functions/responsibilities including coordination with external counsel groups are handled by the Legal Department.

The identified market/interest rate and liquidity, as well as credit and operations risks are consequently measured and then controlled by a system of limits. The RMD will define and present for approval to the RMC and BOD the various risk management measures to be used in quantifying those risks.

The following summarizes the tools used by the Parent Company to effectively manage market risk:

Tool	Purpose
Mark-to-Market	Profit and Loss for Risk-Taking Activities
*VaR Limit / EaR Limit**	Management tolerance for potential loss (VaR/EaR) in a given period
Stop Loss Limit	Management tolerance for realized and unrealized losses in a given period
Loss Alert	Early warning for potentially large losses
Nominal Position Limit	Management approved total position size
Factor Sensitivity Limit	Management tolerance for amount of Exposure of portfolio to each identified market risk factor
Stress Test	Impact of extreme market movement on the Company's earnings

*The VaR methodology is being used on a limited basis. It will be enhanced in 2009 when the Company will adopt a new treasury system that includes VaR methodology.

For liquidity, the Parent Company uses the Maximum Cumulative Outflow (Liquidity Gap) analysis in analyzing its funding requirements. The assumptions employed in the preparation of this report are approved by the BOD. In addition, the Parent Company develops a Liquidity and Contingency funding plan to serve as reference in case of an occurrence of an event.

The management of credit risk is outlined in Credit Policy Manual where credit authority and approval bodies are formalized within the institution. The Parent Company operates under sound, well-defined credit-granting criteria which include a thorough understanding of the borrower or counterparty, as well as the purpose and structure of the credit, and its source of repayment. The Parent Company gathers sufficient information to enable a comprehensive assessment of the true risk profile of the borrower or counterparty through independent credit ratings provider and its internal credit risk rating system.

The development of policies and procedures manual on almost all major operating units of the Parent Company are the main operations risk management measures in place. Also, the IAD conducts regular examination of the operations of the Parent Company and certain subsidiaries to ensure adherence to policies and procedures.

Moving forward, the Parent Company is working towards an enterprise-wide operations risk management using the reference materials and assistance of the Parent Company's risk management group.

Credit Risk and Concentration

Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to meet its contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties, and by monitoring exposures in relation to such limits. Counterparty credit lines are established by the Parent Company annually to guide the Parent Company's transactions. Business transactions are restricted to this accredited counterparties, any violations are reported to the designated control units.

The Parent Company's Risk Management Manual will serve as the framework for its subsidiaries in developing their own Risk Management Manual. The Parent Company has already developed one for the FMSBC.

Concentration to counterparty arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations will indicate relative sensitivity of the Parent Company's performance to developments affecting a particular industry or geographic location. The Parent Company's acceptable level of concentration is set at not more than 30% of the unimpaired capital.

Monitoring reports are done daily and monthly and subsequently elevated to the RMC on a monthly basis. Credit risk emanating from treasury activities are managed independently, but reported as a component of market risk exposure.

Each business unit is responsible for the performance and quality of its credit portfolio and for monitoring and controlling all credit risks in its portfolio. IAD undertakes the periodic review of business units and credit processes.

Management of Credit Risk
The Parent Company faces potential credit risks every time it extends funds to borrowers, commits funds to counterparties, guarantees the paying performance of its clients, invests funds to issuers (e.g., investment securities issued by either sovereign or corporate entities) or enters into market-traded securities either through implied or actual contractual agreements (i.e., on- or off-balance sheet exposures). The Parent Company manages its credit risk at various levels (i.e., strategic level, portfolio level down to individual credit or transaction) by adopting a credit risk management environment that has the following components:

- Formulating credit policies in consultation with business units, covering the structuring product documentations/collateral requirements, credit assessments, process including the risk grading, monitoring and reporting. The guidelines provided by the regulatory are also incorporated to internal policies to ensure adherence to regulatory requirements.
- The management provides seminar or programs that enhances risk awareness among its personnel.
- Establishment of authorization limits for the approval and renewal of credit facilities.
- Independent review by Credit Risk Management prior to the loan approval.
- Limiting concentrations of exposure to counterparties and industries (for loans), and by issuer (for investment securities).
- Maintaining Internal Credit Risk Rating System (ICRRS), approved by the BOD, in order to categorize exposures according to the risk profile. The risk grading system is used for determining impairment provisions against specific credit exposures. The current risk

grading framework consists of ten grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation.

c. Segment Information

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that serves different markets. The Group's business segments are as follows:

- *Investment Banking* – principally providing comprehensive financial advisory, underwriting, loan syndication and other capital raising services to private corporations and government, both local and national;
- *Investment Advisory* – responsible for proprietary equity portfolio management and provides research and advisory services relative to fixed income, equity and dollar investments;
- *Treasury* – chiefly providing money market placements or the trading, distribution or sale of financial instruments such as government securities, corporate notes/bonds, promissory notes and supranational issues;
- *Corporate Lending* - primarily handling short- and long- term loan packages and other credit facilities; and
- *Others* – consist of institutions with significant presence in each of its respective markets which include stock brokerage, foreign exchange, life and non-life insurance, auto sales and real estate.

These segments are the basis in which the Group reports its primary segment information.

Segment information for the period ended June 30, 2009 of the Group follows:

	Investment Banking	Investment Advisory	Treasury	Loans & Credit	Others	Total
Results of Operations						
Net interest income/(expense)	₱ –	₱(13,054,995)	₱ 284,259,900	₱ 66,033,580	₱ (71,788,306)	₱ 265,450,179
Non-interest income/(loss)	168,277,074	86,545,737	312,848,697	–	122,456,722	690,128,230
Income– net of interest expense	168,277,074	73,490,742	597,108,597	66,033,580	50,668,416	955,578,409
Non-interest expense	11,120,025	9,765,036	146,217,174	20,016,028	198,627,077	385,745,340
Income before share in net income of investees	157,157,049	63,725,706	450,891,423	46,017,552	(147,958,661)	569,833,069
Share in net income of investees	–				122,214,950	122,214,950
Income tax provision		2,541,103	118,554,057	2,310,553	11,395,931	134,801,644
Net income/(loss) before MI	157,157,049	61,184,603	332,337,366	43,706,999	(37,139,642)	557,246,375
Minority interest in net inc./ (loss) of Subsidiaries	–	–	–	–	(442,984)	(442,984)
Net income/(loss) after MI	157,157,049	61,184,603	332,337,366	43,706,999	(37,582,626)	**556,803,391**
Statement of Condition						
Total assets	–	729,374,451	40,749,093,992	2,101,279,911	12,961,433,547	56,541,181,901
Total liabilities	–	589,105,281	40,582,613,373	2,146,088,695	5,274,736,109	48,593,543,548

d. Seasonality or Cyclicality of Interim Operations

FMIC's operations is driven mainly by prevailing market and economic conditions, as well as, by the demands and/or needs of the investors and borrowers and is not influenced by seasonal or cyclical pulls.

e. No Unusual Items

There are no items affecting assets, liabilities, equity, net income or cash flows, which may be considered unusual by virtue of their nature, size or incidence.

f. Use of Estimates in the Preparation of Financial Statements

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

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

g. Issuances, Repurchases and Repayments of Securities

There were no additional issuances of the company's own debt and equity securities for the period. Neither were there any repurchases nor repayments of said securities.

h. Dividends

There was no dividend declaration made during the first six months of 2009.

i. Material Events

There were no material events that took place during the first six months of 2009.

j. Contingent Accounts

The Parent Company and certain subsidiaries and associates are defendants in legal actions arising from normal business activities. Management believes that the ultimate liability, if any, resulting from these cases will not materially affect the Group's financial position and results of operations.

In the normal course of the company's operations, there are various contingent accounts held under custodianship such as loan collateral and other certificates which are not reflected in the accompanying consolidated financial statements. No material losses are anticipated as a result of these transactions.

k. Earnings Per Share

Per amended Articles of Incorporation ratified on June 22, 2005, the par value of the Corporation's shares of stock was reduced to ₱10 per share from ₱100 per share. Consequently, common shares outstanding increased from 37,705,615 to 377,056,150.

Earnings per share is determined by dividing the net income for the period by the weighted average number of common shares issued and outstanding during the period, computed as follows:

	January to June	
	2009	**2008**
a. Net Income	₱ 556,803,391	₱ 143,463,540
b. Weighted average number of common shares	377,056,150	377,056,150
c. Earnings per share	₱ 1.48	₱ 0.38

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION (*June 30, 2009 vs. December 31, 2008*) AND RESULTS OF OPERATIONS *(January – June 2009 vs. January – June 2008).*

ECONOMIC AND FINANCIAL MARKET ENVIRONMENT

In the first quarter of the year, while the economy slowed to a 0.4% GDP growth, the financial markets were racing forward in a strong rally that lasted until early June. Stocks were brought back to earth due to the weak economic fundamentals abroad. On the other hand, the fixed income market was beaten down by budget deficit fears.

In the second quarter, the economy's weakness became apparent by the negative growth of 1.4% in Meralco electricity sales, the proxy for economic activity. This was compounded by the slide in exports by 35.2% year on year in April. This can be attributed to the weak demand for electronics. Other non – electronic manufacturers were likewise adversely affected by the crisis; garments, processed food and machinery and transport continued its dismal performances.

The local equities market was driven mostly by domestic demand for the year and, despite the better attractiveness of other markets, foreign investors started to increase their exposure in Philippine shares. Nonetheless, the strong rally made most local shares very expensive with valuations closely approaching their potential.

For the fixed income securities, the release of Peso 31.9 billion worth of corporate bonds, that offered significantly higher yields than the secondary market, pushed the rates upward. The private sector crowded – out the auction efforts of the Bureau of Treasury.

FINANCIAL CONDITION

Total consolidated resources at the end of June 2009 increased by ₱10.3 billion from last year-end's balance of ₱46.2 billion to ₱56.5 billion despite the daunting business environment faced by the country during the period.

The change in total resources was primarily on account of the substantial movements in the following balance sheet accounts:

1. ***Cash and Other Cash Items*** *in*creased by 44% versus year-end's ₱5.3 billion primarily due to the increase in our deposit substitute borrowings for the six – month period;

2. ***Due from Bangko Sentral ng Pilipinas*** represents the balance of the deposit accounts maintained with the Bangko Sentral ng Pilipinas to meet both the statutory and liquidity reserve requirements on deposit substitute liabilities and serve as clearing account for inter-bank transactions. The decrease of 29% or ₱549.2 million was primarily due to matured Reserve Deposit Account (RDA);

3. ***Held for Trading Securities*** increased by 251% from ₱421.7 million at year-end to ₱ 1,478.5 million due to the purchase of additional government securities (FXTNs, RTBs and TBills);

4. ***Available for Sale Securities*** also increased by ₱10.4 billion from ₱9.5 billion at year-end to ₱19.9 billion and was caused mainly by the net effect of the ₱25.1 billion (par value) purchases and ₱14.5 billion (par value) sale of Fixed Rate Treasury Notes for the first half of 2009.

Variances in the following balance sheet accounts explain further the Company's business strategies for the period ended:

- ***Loans and Receivables*** declined to ₱13.2 billion from ₱15.8 billion at year-end mainly due to the full settlement of the outstanding loans to Petron Corporation, Topsphere Realty, Holcim Philippines and Solid Share Holdings, Inc., among others;

- ***Equity Investments*** accounts for the costs of investments in shares of stocks in allied/non-allied undertakings. The growth of 18% was due solely to the additional investments in Global Business Power Corporation;

- ***Property and Equipment*** pertains to the acquisition costs of land, buildings and/or improvements, furniture and equipment owned by the Company. The decline of ₱3.6 million or 4% was caused chiefly by the accumulated depreciation for the six – month period;

- ***Other Assets*** includes amounts due from customers and other parties, advances to affiliates/officers/employees, uncollected interests, prepayments, deferred charges and dividends. The 16% or ₱25.7 million increase is attributed to the rise in both prepaid

creditable withholding taxes and receivables from customers of our securities brokerage subsidiary;

- ***Bills Payable*** comprises of deposit substitutes and other borrowings obtained from local banks, private firms and individuals. The ₱9.8 billion or 26% increase from year-end balance is due to the funding required for the additional position on fixed rate treasury notes by our Treasury group;

- ***Bonds Payable*** of ₱55.2 million refers to the Company's outstanding issuance of 4-year Floating Rate Bonds.

- ***Accrued Taxes, Interest and Other Expenses*** consists of expenses incurred on taxes, borrowings, licenses and other expenses of the Company, which have remained unpaid as of the period ended June 30, 2009. The ₱50.5 million decline in this account represents settlement of outstanding liabilities with our suppliers/clients and interests on various securities;

- ***Other Liabilities*** includes obligations of the Company for various expenses in connection with indebtedness to suppliers, advances from stockholders and other miscellaneous liabilities. The increase of 29% or ₱136.2 million in this account from ₱465.9 million to ₱ 602.2 million pertains essentially to the ₱131.3 million payables to customers by our subsidiaries.

- ***Minority Interest*** is that part of the net results of operations and net assets of one of FMIC's subsidiaries, which is attributable to shares not directly owned by FMIC.

- ***Retained Earnings*** corresponds to the unappropriated portion of the accumulated profits earned or realized by the Company that are reserved to strengthen its capital structure. The 15% or ₱556.8 million growth is ascribed to the net income for the first half of 2009;

- ***Equity in Translation Adjustment*** pertains to foreign currency adjustment with regard to the Company's foreign currency denominated equity investments with First Metro International Investment Corp. (FMIIC);

- The ₱240.1 million marking to market losses of Available for Sale – Government Securities caused the ₱69.7 million increment in ***Net Unrealized Losses on Securities***. The said losses were reduced by the marking to market gains on our equity securities.

- ***Capital Funds*** reached ₱7.9 billion as of June 30, 2009, which translates to a 21.82% capital adequacy ratio (CAR). This is far beyond the 10% CAR required by BSP on non-bank financial intermediaries with quasi banking function such as FMIC.

RESULTS OF OPERATIONS

For the first half of the year, First Metro Investment Corporation realized a net income of ₱556.8 million or 288% higher than the ₱143.5 billion posted during the same period last year.

Detailed discussions on the changes in Income Statement accounts are as follows:

- ***Investment Banking Fees*** for the first six months of 2009 contributed ₱197.6 million to the total revenue generated. This record-high income is 86% higher than the ₱ 106.3 million fees earned in the same period last year. The Company continued to be an active force in the capital market formation as it closed significant deals for the first semester of the year. These deals, among others, include the following:
    a) San Miguel Brewery's Peso 38.8 billion Fixed Rate Bonds as Joint Lead Underwriter;
    b) MERALCO's Peso 5.0 billion Fixed and Floating Rate Notes, as Lead Arranger;
    c) PLDT's Peso 5.0 billion Fixed Rate Notes, as Lead Arranger;
    d) Metrobancard's Peso 3.0 billion Fixed Rate Notes, as Issue Manager;
    e) GLOBE's Peso 5.0 billion Fixed Rate Bonds as Joint Lead Underwriter and Peso 5.0 billion Corporate Notes as Sole Arranger;
    f) Aboitiz Power Corporation's Peso 3.0 billion Fixed Rate Bonds as Joint Lead Underwriter, and
    g) Cebu Energy Development Corporation's Peso 16 billion Limited Recourse Facility as Arranger.

- ***Income from Investment in Stocks*** for the first half of 2009 moved to positive territory by ₱ 262.1 million from the ₱165.4 million losses last year to ₱96.7 million income for the same period this year. This was mainly due to the improved market value of our stocks portfolio. Also, ₱15.0 million in dividend income was recognized from our investment in Stradcom International.

- ***Treasury Income*** has consistently contributed substantial streams of revenue, at ₱1,255.1 million. Trading gains from the sale of government securities reached ₱285.1 million. On the other hand, the effect of the higher average volume of securities portfolio handled in the first half of the year, ₱27.2 billion as against the same period last year of ₱17.7 billion, was the key factor in the 32% increase in Treasury's interest income.
- ***Interest Income*** also includes interest earned and/or actually collected from loans and bank deposits. The minimal 1% decrease is chiefly due to the slump in interest income derived from loans from ₱304.2 million to ₱301.6 million as a result of the drop in the average portfolio by ₱ 2.4 billion for the six-month period of this year.

- ***Other Income/Losses*** represents income earned and/or actually collected on sale of assets, income from consolidated subsidiaries, lease of real property & equipment and other fees & commission earned. The considerable increase is attributed to the favorable trading position taken by PBC Capital Investment Corporation relative to its shares of stocks portfolio.

- ***Interest/Finance Charges*** refers to payments and/or monthly accruals for interest on outstanding bills payable to banks, individuals and private firms. Interest and finance charges went up by 42%, from ₱723.5 million to ₱1,028.7 million for the first half, year-on-year. The increase is essentially attributed to the twin factors of the 6% rise in interest costs on our deposit substitute borrowings; from an average interest rate of 6.07% to 6.45% and the higher average volume of our borrowings portfolio, at ₱32.6 billion as against ₱22.1 billion last year.

- ***Compensation and Fringe Benefits*** consist of the gross remuneration (including per diems and fees granted to directors and committee members) and other benefits granted to officers and employees for regular and overtime services rendered. The merit, structural and promotional increases given to the employees, coupled with the hiring/regularization of new employees caused the 15% increment in this account.

- ***Management and Other Professional Fees*** comprise of expenses for services rendered by individuals/firms on retainer/contractual basis. The absorption fees for newly-hired Officers this quarter coupled with the adjustment in audit fees of our external auditors brought about mainly the increase in our Management and Other Professional Fees account.

- ***Supervision and Examination Fees*** represents the Company's share in the cost of maintaining the appropriate supervising and examining department in BSP.

- ***Rent Expenses*** pertains to expenses incurred for office spaces and/or equipment leased by the Company and its subsidiaries. The adjustments in contract rates caused the ₱1.3 million increment in this expense account.

- ***Depreciation and Amortization*** – This represents the monthly/periodic depreciation of the company's buildings, furniture, fixtures and equipment, as well as, the monthly amortization of deferred charges, leasehold rights and improvements. The 19% incline is the consequence of the additional acquisitions of furniture and equipment in our new office in Makati and the procurement of new service cars.

- ***Representation & Traveling Expenses*** refers substantially to the actual expenses incurred for public relations activities, which are directly related to the business development and enhancement of the prestige of the Company.

- ***Other Expenses*** includes expenses incurred on assets acquired, membership fees and dues, advertising and publicity, insurance, fuel and lubricants, repairs and maintenance and other miscellaneous expenses. Other Expenses went down by 43% from ₱82.2 million to ₱46.9 million for the six-month period primarily due to the ₱25 million donation given to the Metrobank Foundation in CY 2008.

- ***Taxes and Licenses*** are those other than income tax, such as gross receipts tax (GRT), documentary stamp taxes (DST), corporate residence tax, motor vehicle registration fees and other taxes.

- ***Provision for Income Tax*** includes corporate income taxes, deferred taxes and taxes on tax-paid investment securities.

DISCUSSION OF KEY PERFORMANCE INDICATORS

In evaluating its performance, the Company regularly analyzes the results of current operations and compares these against budget and results of prior periods. This business review is being discussed monthly in the Senior Management Committee. The review discloses the causes of any deviation and assists the company in controlling costs, evaluating performance and planning future goals.

The company has an adequate and effective budgeting system, forecasting process and management of information systems. A quarterly performance review is being conducted to determine if we are meeting the set targets or goals.

Monthly results of operations and financial condition are also reported regularly to the parent bank, to the Board of Directors and to BSP.

The following basic ratios measure the financial performance of the Company for the period ended June 30, as well as, for the year-end of 2008:

PERFORMANCE INDICATORS	As of June 30, 2009	As of June 30, 2008	As of Dec. 31, 2008 (Audited)
Return on Assets [1/]	**2.19%**	**0.67%**	**0.88%**
Return on Equity [2/]	**14.57%**	**3.89%**	**5.08%**
Cost-to-Income Ratio [3/]	**35.81%**	**58.21%**	**85.53%**
Non-Performing Loans Ratio [4/]	**0.38%**	**0.14%**	**2.80%**
Capital Adequacy Ratio [5/]	**21.82%**	**23.81%**	**16.27%**

[1/] Average assets for period ended June 30 were computed based on the average of the beginning and ending balances, whereby net income was annualized over the six - month period.

[2/] Likewise, average equity for period ended June 30 was computed based on the average of the beginning and ending balances, whereby net income was annualized over the six - month period.

[3/] Operating expenses for the cost-to-income ratios do not include provision for probable losses and provision for income taxes.

[4/] Non-performing loans were gross of valuation reserves, but, are fully covered.

[5/] Risk-based capital adequacy ratio was determined based on BSP Circular No. 538 (Basel II) as amended.

COMMITMENTS, MATERIAL EVENTS AND UNCERTAINTIES

1. To date, the Company has no plans of entering into any material commitments for capital expenditures in the future.
2. To the knowledge and information of the Company, there are no events or uncertainties that will have a material impact on the company's liquidity.
3. There are no known events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.
4. Also, there were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.
5. Likewise, there are no known trends, events or uncertainties that have had or that are reasonably expected to cause a material favorable or unfavorable impact on income from continuing operations.
6. Similarly, there were no significant elements of income or loss that did not arise from the company's continuing operations.
7. Lastly, there were no seasonal aspects that had any material effect on the financial condition or results of operations of the Company.

PART II - OTHER INFORMATION

FORM AND CONTENT OF AGING OF LOANS/RECEIVABLES *(Circular for Broker No. 2164-99)*

1) Aging of Loans/Receivables
As of June 30, 2009

Type of Loans/Receivables	**Total**	1 Month	2 - 3 Mos.	4 - 6 Mos.	7 Mos. to 1 Year	1 - 2 Years	3 - 5 Years	5 Years - above	Past due accounts & Items in Litigation
a) Loans and Discounts									
1) Time Loans	1,842,017,983	94,235,000	50,125,000	235,000,000	2,495,001	314,531,388	496,140,418	649,491,176	-
2) Bills Discounted	24,595,992	2,300,000	-	-	17,832,886	4,113,107	350,000	-	-
3) Fringe Benefit Loans	36,048,999	512,490	2,259,871	3,849,874	4,958,026	11,886,312	12,582,426	-	-
4) Past due Loans	7,163,928	-	-	-	-	-	-	-	7,163,928
Sub-total	1,909,826,902	97,047,490	52,384,871	238,849,874	25,285,913	330,530,807	509,072,844	649,491,176	7,163,928
Less: Allowance for Doubtful Accounts	51,686,686	101,008	13,140	-	-	-	-	49,115,725	2,456,815
Net Loans and Discounts	1,858,140,215	96,946,482	52,371,732	238,849,874	25,285,913	330,530,807	509,072,844	600,375,452	4,707,113
b) Other Receivables									
1) Unquoted Debt Securities Classified as Loans	10,359,094,104	-	320,000,000	800,000,000	1,941,391,317	3,241,247,299	3,600,205,488	-	456,250,000
2) Accounts Receivable	514,354,257	121,976,157	84,895,977	141,522,206	9,828,002	46,851,963	25,758,475	44,058,502	39,462,976
3) Accrued Interest Receivable	744,072,105	35,085,329	146,359,434	489,554,240	500,218	1,604,374	-	38,451,074	32,517,437
4) Dividends Receivable	14,990,759	259,499	14,727,855	-	-	2,467	938	-	-
Sub-total	11,632,511,224	157,320,984	565,983,265	1,431,076,445	1,951,719,536	3,289,706,104	3,625,964,900	82,509,576	528,230,413
Less: Allowance for Doubtful Accounts	323,004,914	-	-	34,898,562	-	-	799,146	47,531,634	239,775,572
Net Other Receivables	11,309,506,311	157,320,984	565,983,265	1,396,177,883	1,951,719,536	3,289,706,105	3,625,165,754	34,977,942	288,454,842
Net Loans/Receivables *(a + b)*	13,167,646,526								

2) Loans/Receivables Description

Type of Loan/Receivable	Nature/Description	Collection Period
1) Time Loans	Loans which are payable on a fixed date or within a specified period of time.	1 to 10 years
2) Bills Discounted	Loans which are payable on a fixed date, the interest of which is collected/deducted in advance.	1 to 5 years
3) Fringe Benefit Loans	Loans granted to officers and employees with maturities of more than 1 year.	2 to 15 years
4) Past due Loans	Represents loans which have remained unpaid upon written demand or at maturity.	5 years
5) Unquoted Debt Securities Classified as Loans	Represents securities other than those for which the holder may not recover substantially all of its initial investment	3 to 5 years
6) Accounts Receivable	Miscellaneous advances to customers, official travel of officers and employees.	1 to 5 years
7) Accrued Interest Receivable	Interest earned but not yet collected/received on loans, investments and deposits.	1mo to 5 years
8) Dividends Receivable	Dividends earned but not yet collected/received on held for tading and other investment securities	1mo to 1 year

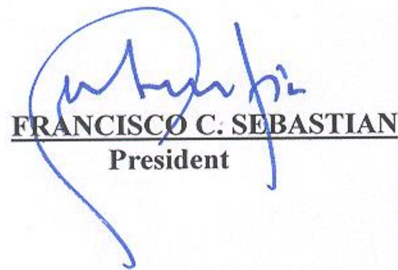
3) Normal Operating Cycle: 1.3 years

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FIRST METRO INVESTMENT CORPORATION
Issuer

By:



FRANCISCO C. SEBASTIAN
President