

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, 2010**
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)
7. Address of issuer's principal office: **45th Floor, G.T. Tower Int'l., Ayala Ave. cor. H.V. dela Costa St., Makati City** **1200**
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, 2010:

Common shares	420,869,240
Less: Treasury shares	43,813,090
	<u>377,056,150</u>

(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, 2010	December 31, 2009 <i>(Audited)</i>
ASSETS		
Cash and Other Cash Items	P 10,021,834,774	P 8,156,812,303
Due from Bangko Sentral ng Pilipinas	1,149,000,000	1,965,000,000
Loans - net	15,604,119,167	12,616,335,623
Held for Trading Securities	707,086,912	1,889,958,997
Held-to-Maturity Securities	9,462,693,235	3,735,821,730
Available for Sale Securities - at market	11,096,254,431	20,842,220,055
GS Purchased Under Reverse Repo w/ BSP	4,241,000,000	-
Equity Investments - net	11,406,762,699	9,233,251,366
Investments Properties - net	803,772,842	806,135,061
Property and Equipment - net	74,213,415	78,901,361
Deferred Tax Assets	8,062,677	8,526,242
Other Assets - net	302,968,355	243,346,322
	P 64,877,768,507	P 59,576,309,060
LIABILITIES AND CAPITAL FUNDS		
<u>Liabilities</u>		
Bills Payable	P 54,254,862,935	P 50,047,335,210
Payable for Securities Purchased	8,120,605	1,784,302
Bonds Payable	55,200,000	55,200,000
Accrued Taxes, Interest and Other Expenses	211,407,591	224,725,805
Other Liabilities	519,343,344	633,340,404
	55,048,934,475	50,962,385,721
<u>Capital Funds</u>		
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	5,714,720,581	4,826,034,194
Treasury Stocks	(2,269,937,591)	(2,256,151,891)
Net Unrealized Loss on Available for Sale Securities	(93,217,607)	(431,605,063)
Minority Interest	33,439,796	31,817,247
Equity in Translation Adjustments	(29,422,895)	(29,422,895)
Equity in Unrealized Gain on Available-for-Sale Investments of Associates	168,916,960	168,916,960
Revaluation Increment	29,948,345	29,948,345
	9,828,834,032	8,613,923,339
	P 64,877,768,507	P 59,576,309,060

FIRST METRO INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	For the Period Ended June 30		Quarter Ended June 30	
	2010	2009	2010	2009
Investment Banking Fee	271,251,692	197,567,979	60,376,065	114,057,411
Income from Investment in Stocks	195,341,417	96,746,117	120,955,860	64,497,135
Treasury Income	1,452,131,913	1,257,475,671	774,374,112	661,957,915
Interest Income	299,172,608	301,627,456	177,133,943	145,312,789
Other Income	125,586,511	126,623,044	76,436,035	89,366,367
Gross Operating Income	2,343,484,142	1,980,040,266	1,209,276,016	1,075,191,617
Less: Interest/Finance Charges	1,003,342,822	1,028,733,308	516,405,912	519,082,843
Gross Operating Income before Operating Expenses	1,340,141,320	951,306,958	692,870,104	556,108,774
Less: Operating Expenses				
Employees' Compensation & Benefits	126,108,274	106,487,015	65,272,934	58,503,601
Management & Other Prof. Fees	12,284,290	8,272,207	8,790,861	4,187,399
Supervision Fees	6,306,764	7,402,266	3,116,710	5,763,751
Rent Expenses	16,658,590	14,208,009	8,787,530	7,325,366
Depreciation/Amortization Expenses	17,766,347	15,078,989	9,754,389	7,782,945
Representation & Travelling Expenses	11,841,238	9,051,115	9,073,965	5,655,853
Other Expenses	65,685,045	46,936,625	34,963,576	27,173,986
Total	256,650,547	207,436,225	139,759,965	116,392,901
Net Income before Taxes & Licenses	1,083,490,773	743,870,733	553,110,140	439,715,874
Taxes & Licenses	174,995,667	178,309,116	79,226,766	88,537,297
Net Income Before Provision for Probable Losses	908,495,106	565,561,618	473,883,373	351,178,576
Provision for/(Recovery from) Probable Losses	(66,082,271)	-	(66,082,271)	-
Net Income Before Provision for Income Tax	974,577,377	565,561,618	539,965,644	351,178,576
Provision for Income Tax	221,429,952	134,801,645	118,430,610	86,204,983
Net Income before Non-Operating Gains	753,147,425	430,759,973	421,535,034	264,973,594
Non-Operating Income	135,538,963	126,043,418	77,311,148	56,012,577
NET INCOME	888,686,387	556,803,391	498,846,181	320,986,171
Earnings Per Share	2.36	1.48	1.32	0.85

FIRST METRO INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL FUNDS

	As of June 30	
	2010	2009
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	4,826,034,194	3,803,421,275
Net Income	888,686,387	556,803,392
Balance at end of quarter	5,714,720,581	4,360,224,667
TREASURY STOCK	(2,269,937,591)	(2,256,151,891)
EQUITY IN TRANSLATION ADJUSTMENT	(29,422,895)	118,540,518
EQUITY IN UNREALIZED GAIN		
ON AFS INVESTMENTS OF ASSOCIATES	168,916,960	77,826,647
REVALUATION INCREMENT	29,948,345	31,142,610
NET UNREALIZED LOSS ON SECURITIES		
Balance at beginning of year	(431,605,063)	(618,902,351)
Unrealized gain/(loss) during the quarter	338,387,456	(69,744,199)
Balance at end of quarter	(93,217,607)	(688,646,550)
	9,795,394,235	7,917,322,443
MINORITY INTEREST	33,439,796	30,316,001
	P 9,828,834,031	P 7,947,638,444

FIRST METRO INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Period Ended June 30	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before Income Tax	₱ 1,110,116,339	₱ 691,605,036
Adjustment to reconcile income before tax to net cash generated from (used) in operations:		
Interest Income	(1,548,990,783)	(1,294,183,487)
Interest Expense	1,003,342,822	1,028,733,308
(Profit)/Loss from assets sold	-	(10,034,264)
Depreciation and Amortization	16,122,062	15,078,989
Changes in operating assets and liabilities:		
Decrease/(Increase) in:		
Held for Trading Securities	1,182,872,085	(1,056,721,728)
Held-to-Maturity Securities	(5,726,871,505)	15,208,186
Available for Sale Securities	10,084,353,080	(10,507,918,046)
Loans	(3,220,216,501)	3,795,242,209
Other assets	(59,158,468)	(1,036,617,545)
Increase/(Decrease) in:		
Accrued taxes, interest & other exp.	8,919,014	(10,522,010)
Other liabilities	(106,038,208)	133,908,995
Net cash generated from (used in) operations	2,744,449,937	(8,236,220,358)
Interest income received	1,699,519,711	1,036,207,391
Interest expense paid	(1,023,157,504)	(1,085,767,853)
Income taxes paid	(223,852,499)	(117,763,863)
Net cash provided by (used in) operating activities	3,196,959,644	(8,403,544,683)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Disposals of (addition to) property & equipment	(9,499,397)	(9,132,773)
Dividends received	81,904,031	154,842,761
Decrease/(Increase) in:		
Equity investments	(2,173,511,333)	(1,231,935,926)
Investment in real estate	427,500	69,962,532
Net cash (used in) investing activities	(2,100,679,199)	(1,016,263,406)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease/(Increase) in Treasury Stocks	(13,785,700)	-
Proceeds from (settlement of) bills payable	4,207,527,725	9,776,153,938
Proceeds from (settlement of) bonds payable	-	(6,000,000)
Net cash provided by financing activities	4,193,742,025	9,770,153,938
NET INCREASE IN CASH & CASH EQUIVALENTS	5,290,022,471	350,345,849

FIRST METRO INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the period ended June 30	
	2010	2009
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		
Cash and other cash items	₱ 8,156,812,303	₱ 5,309,075,854
Due from Bangko Sentral ng Pilipinas	1,965,000,000	1,916,100,000
Interbank Call Loan Receivable	-	1,430,000,000
	10,121,812,303	8,655,175,854
CASH AND CASH EQUIVALENTS, June 30		
Cash and other cash items	10,021,834,774	7,638,621,703
Due from Bangko Sentral ng Pilipinas	1,149,000,000	1,366,900,000
GS Purchased Under Reverse Repurchase Agreement w/ BSP	4,241,000,000	-
	₱ 15,411,834,774	₱ 9,005,521,703

FIRST METRO INVESTMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 of the Parent Company and all values are rounded to the nearest peso.

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:

<u>Subsidiary</u>	<u>Effective Percentage of Ownership</u>
Securities Brokerage:	
First Metro Securities Brokerage Corporation (FMSBC) and Subsidiary	100.00
Financial Market:	
PBC Capital Investment Corporation (PBC) and Subsidiary	100.00
Insurance Brokerage:	
First Metro Insurance Brokers Corporation (FMIBC)	100.00
Mutual Funds:	
First Metro Save and Learn – Global Currency Fund (FMSLGCF)	100.00
First Metro Save and Learn – Money Market Fund (FMSLMMF)	74.45
First Metro Save and Learn – Fixed Income Fund (FMSLFIF)	69.61
Others:	
Prima Ventures Development Corporation (PVDC) and Subsidiary	100.00
FMIC Equities, Inc. (FEI)	100.00
SBC Properties, Inc. (SPI)	100.00
Resiliency (SPC), Inc.	100.00
First Metro Asset Management, Inc. (FAMI)	70.00

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

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

All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are 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 year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

The Group has seed capital investments in a number of funds where it is in a position to be able to control those funds. These funds are consolidated but the Group does not own all the net assets of that fund, the interests of minority investors are classified as non-equity minority interests and are stated within other liabilities at the minority's proportion of the fair values of the assets and liabilities recognized.

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, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, 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.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended PFRS and Philippine Interpretation which were adopted as of January 1, 2009:

New Standards and Interpretations

Philippine Accounting Standards (PAS) 1, Presentation of Financial Statements

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in one single statement, or in two linked statements. The Group has elected to present two linked statements.

PFRS 7 Amendments - Improving Disclosures about Financial Instruments

The amendments to PFRS 7, *Financial Instruments: Disclosures*, require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant

transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and financial assets used for liquidity management. The liquidity risk disclosures and fair value measurement disclosures are presented in Notes 4 and 5, respectively.

PFRS 8, Operating Segments

PFRS 8 replaced PAS 14, *Segment Reporting*. The Group concluded that the operating segments determined in accordance with PFRS 8 are the same as the business segments previously identified under PAS 14.

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

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

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 instruments 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. Financial liabilities are classified as either financial liabilities at FVPL or financial liabilities carried at cost. 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 financial position date is based on their quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction 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 that include the use of mathematical models. 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. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates.

'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' difference amount.

Derivatives recorded at FVPL

The Group assesses whether embedded derivatives are required to be separated from the host contract. Embedded derivatives are separated from their host contracts and carried at fair value 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. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows.

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 re-measured at fair value. Any gains or losses arising from changes in fair values of derivatives 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.

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, determined on an instrument by instrument basis:

- 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 financial position at fair value. Financial assets at FVPL include securities which are held for trading. Interest earned or incurred is recorded in 'Interest income' or 'Interest expense' in the statement of income, respectively, while dividend income is recorded in 'Dividends' in the statement of income 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 before maturity, 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

This accounting policy relates to the statement of financial position captions 'Due from Bangko Sentral ng Pilipinas (BSP)', 'Due from other banks', 'Interbank loans receivable (IBLR) and securities purchased under resale agreements (SPURA)', 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' or designated as 'AFS investments' or 'Financial assets designated at FVPL'.

After initial measurement, Loans and receivables, Due from BSP, Due from other banks, IBLR and SPURA are subsequently measured at amortized cost using the EIR method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest

income' in the statement of income. The losses arising from impairment 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 included in the statement of comprehensive income as 'Net unrealized loss on AFS investments'.

When the security is disposed of, the cumulative gain or loss previously recognized in statement of comprehensive income 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 in the statement of income 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 Group 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 retired or extinguished and those that are being held by a subsidiary 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 financial position. The corresponding cash received, including accrued interest, is recognized in the statement of financial position as a loan to the Group, reflecting the economic substance of such transaction.

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

Offsetting financial instruments

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

Impairment of Financial Assets

The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred ‘loss

event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Impairment of financial assets carried at amortized cost

For financial assets carried at amortized cost, which includes loans and receivables, due from banks, IBLR, SPURA and HTM investments, 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. For individually assessed financial assets, 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 present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Financial assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment. The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be recognized based on the original EIR of the asset. 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' in the statement of income.

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.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such 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 property prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The

methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

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 subjected 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.

AFS investments

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

In case of equity investments classified as AFS investments, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income - is removed from statement of comprehensive income 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 statement of comprehensive income.

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.

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 IBLR 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 entities, which the Group has the power to govern the financial and operating policies and 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 entities 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, investment in associates is accounted for under the equity method of accounting.

Under the equity method, an investment in an associate is carried in the statement of financial position 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 statement of comprehensive income. 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 financial position at cost plus post-acquisition changes in the share of net assets of the joint venture, less any allowance for impairment losses.

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

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 to statement of comprehensive income.

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, whereas, non-depreciable investment properties are carried at cost.

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 on 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 or completion of construction or development. Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner occupation or commencement of development with a view to sale.

Impairment of Non-financial Assets

Property and equipment, investment properties and investment in subsidiaries, associates and joint venture

At each reporting date, the Group assesses whether there is any indication that its non-financial 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 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 exceeds its recoverable amount, the asset 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.

An impairment loss is charged against operations in the year in which it arises.

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. 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.

Revenue recognition

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

Income results from trading activities and all gains and losses from changes in fair value of financial assets and financial liabilities held for trading and gains and losses from disposal of financial assets held for trading and AFS investments.

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'.

Leases

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

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

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

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 as '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 financial position 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 is included in 'Interest income' in the statement of income.

Leases where the Group does not transfer substantially all the risks 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.

Retirement benefits

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 financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the statement of financial position 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 probable.

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 financial position date.

Deferred taxes

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

Deferred tax liabilities are recognized for all taxable temporary differences, 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 carry forward 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 financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset 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 attributable to equity holders of the Parent Company 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 financial position date are dealt with as an event after the statement of financial position date.

Subsequent events

Post-year-end event that provides additional information about the Group's position at the statement of financial position 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 D. The Group's assets producing revenues are located in the Philippines (i.e., one geographical location). Therefore, geographical segment information is no longer presented.

New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2009

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

New Standards and Interpretations

PFRS 3, *Business Combinations* (Revised) and PAS 27, *Consolidated and Separate Financial Statements* (Amended)

The revised standards are effective for annual periods beginning on or after July 1, 2009. PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of minority interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. PAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by PFRS 3 (Revised) and PAS 27 (Amended) will

affect future acquisitions or loss of control of subsidiaries and transactions with minority interests. PFRS 3 (Revised) will be applied prospectively while PAS 27 (Amended) will be applied retrospectively with few exceptions.

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

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

Philippine Interpretation IFRIC - 17, Distributions of Non-Cash Assets to Owners

This Interpretation is effective for annual periods beginning on or after July 1, 2009 with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The Interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability.

Amendments to Standards

PAS 39 Amendment - Eligible Hedged Items

The amendment to PAS 39, *Financial Instruments: Recognition and Measurement*, effective for annual periods beginning on or after July 1, 2009, clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations.

PFRS 2 Amendments - Group Cash-settled Share-based Payment Transactions

The amendments to PFRS 2, *Share-based Payments*, effective for annual periods beginning on or after January 1, 2010, clarify the scope and the accounting for group cash-settled share-based payment transactions.

Improvements to PFRS in 2009

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

- PFRS 2, *Share-based Payment*, clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3, *Business Combinations* (Revised). The amendment is effective for financial years on or after July 1, 2009.
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRSs only apply if specifically required for such non-current assets or discontinued operations.

- PFRS 8, *Operating Segment Information*, clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- PAS 1, *Presentation of Financial Statements*, clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.
- PAS 7, *Statement of Cash Flows*, explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.
- PAS 17, *Leases*, removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either ‘finance’ or ‘operating’ in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.
- PAS 36, *Impairment of Assets*, clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.
- PAS 38, *Intangible Assets*, clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. It also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.
- PAS 39, *Financial Instruments Recognition and Measurement*, clarifies the following:
 - that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.
 - that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken.
 - that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss
- Amendment to Philippine Interpretation IFRIC - 9, *Reassessment of Embedded Derivatives*, clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.
- Amendment to Philippine Interpretation IFRIC - 16, *Hedge of a Net Investment in a Foreign Operation*, states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign

operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

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 financial position 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.
- *Contingencies*
The Group, specifically 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 performance.

Estimates

- *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.

As of June 30, 2010 and December 31, 2009, the allowance for credit losses on loans and receivables amounted to ₱178.8 million and ₱379.9 million, respectively, for the Group and ₱178.8 million and ₱363.7 million, respectively, for the Parent Company. Loans and receivables as of June 30, 2010 and December 31, 2009 are carried at ₱15.6 billion and ₱12.6 billion, respectively, for the Group and ₱15.2 billion and ₱12.3 billion, respectively, for the Parent Company.

- *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.

- *Valuation of unquoted equity securities*

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length transactions;
- current fair value of another instrument is substantially the same
- the expected cash flows discounted at current rates applicable for terms with similar terms and risk characteristics; or
- other valuation models.

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. Where observable market data is not available, unquoted equity securities are carried at cost less allowance for impairment losses.

- *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. As of June 30, 2010 and December 31, 2009, allowance for impairment losses on AFS equity securities amounted to ₱371.0 million and ₱285.6 million, respectively, for the Group and ₱200.5 million for both period for the Parent Company. As of June 30, 2010 and December 31, 2009, the carrying value of AFS equity securities (included under AFS investments) amounted to ₱11.1 billion and ₱20.8 billion, respectively, for the Group and ₱10.8 billion and ₱1.5 billion, respectively, for the Parent Company.

- *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.

The Parent Company and certain subsidiaries have been in a tax loss position over the past several years. However, estimates of future taxable income for the subsidiaries indicate that certain temporary differences will be realized in the future. As of June 30, 2010 and December 31, 2009, deferred tax assets recognized amounted to ₱8.1 million and ₱8.5 million, respectively, for the Group and nil for the Parent Company. Also, as of June 30, 2010 and December 31, 2009, the Group and the Parent Company recognized deferred tax liabilities amounting to ₱6.5 million and ₱7.0 million, respectively, for the Group and nil for both periods, for the Parent

Company. In addition, as of June 30, 2010 and December 31, 2009, no deferred tax assets have been set up on NOLCO.

- *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 financial position dates.

- *Impairment of property and equipment, investment properties and investments in subsidiaries, associates and joint venture*

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.

C. 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 Parent 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 Parent 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 are similar to that of Asset and Liability Committee (ALCO) of most banks; its members comprise 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 reviewing all credit proposals and approving loan applications and credit facilities up to set limits/criteria; when exceeded, the decision is elevated to the EXCOM.

The Incom is tasked with reviewing all investment proposals and approving investment outlets.

The Dealcom is tasked with reviewing/screening new deal proposals preparatory to sending mandate letter; clearing the business units' new deals subject to the final approval of credit authority; and monitoring 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 Parent 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 of the Parent Company's various units to the Parent Company's rules and regulations as well as the rules and regulations prescribed by the government regulatory bodies. The CD is also tasked with the proper dissemination of these rules and regulations within the Parent Company.

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 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 defines and presents for approval of 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
<i>Mark-to-Market</i>	Profit and Loss for Risk-Taking Activities
<i>VaR Limit / EaR Limit*</i>	Management tolerance for potential loss (VaR/EaR) in a given period
<i>Stop Loss Limit</i>	Management tolerance for realized and unrealized losses in a given period
<i>Loss Alert</i>	Early warning for potentially large losses
<i>Nominal Position Limit</i>	Management approved total position size
<i>Stress Test</i>	Impact of extreme market movement on the Parent Company's earnings

*The VaR methodology is manual (excel-based) and will be enhanced once the Credence Treasury System, which includes VaR methodology, is accepted/adopted.

For liquidity risk, 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 the 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 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 serves as the framework for its subsidiaries in developing their own Risk Management Manual. The Parent Company has already developed one for 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 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.
- Providing seminars or programs that enhances risk awareness among its personnel.
- Establishing authorization limits for the approval and renewal of credit facilities.
- Independent review by Credit Risk Management prior to 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.

D. Segment Information

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

- *Corporate Lending* - principally handling loans and other credit facilities for individual, corporate and institutional customers;
- *Investment Advisory* - providing access to fixed income, equity and dollar investments, as well as research and trading capabilities;
- *Investment Banking* - principally providing comprehensive financial advisory and capital raising services to corporations and the government, both local and national;

- *Treasury* - principally providing money market, trading and treasury services, as well as the management of the Group's funding operations by use of government securities and placements and acceptances with banks; and
- *Others* - principally consisting 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 bases on which the Group reports its primary segment information.

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

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

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

Interest is charged/credited to business segments based on a pool rate which approximates the cost of funds. The following table presents revenue and income information of operating segments presented in accordance with PFRS as of and for the period ended June 30, 2010:

	Investment Banking	Investment Advisory	Treasury	Loans & Credit	Others	Total
Results of Operations						
Net interest income/(expense)						
Non-interest income	₱ – 245,051,657	₱ (7,080,892) 159,549,411	₱ 533,557,417 215,239,428	₱64,531,768 233,334	₱ (45,360,331) 173,426,408	₱545,647,962 793,500,038
Income/ net of interest expense	245,051,657	152,468,519	748,796,845	64,765,102	128,065,877	1,339,148,000
Non-interest expense	26,375,894	17,113,477	143,887,367	14,091,487	164,095,718	365,563,943
Income/(Loss) before share in net income of investees	218,675,763	135,355,042	604,909,478	50,673,615	(36,029,841)	973,584,057
Share in net income of investees	–	–	–	–	143,229,427	143,229,427
Income tax provision	–	6,072,387	192,762,754	3,779,674	18,815,138	221,429,953
Net income/(loss) before MI	218,675,763	129,282,655	412,146,724	46,893,941	88,384,449	895,383,531
Minority interest in net (loss) of Subsidiaries	–	–	–	–	(6,697,144)	(6,697,144)
Net income/(loss) after MI	218,675,763	129,282,655	412,146,724	46,893,941	81,687,304	888,686,387
Statement of Condition						
Total assets	–	1,551,401,380	40,389,411,914	6,292,878,247	16,644,076,967	64,877,768,508
Total liabilities	–	668,869,063	40,288,031,617	6,185,571,500	7,939,902,092	55,082,374,272

- **Seasonality or Cyclicity 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.

- **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.

- **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 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.

- **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.

- **Dividends**

FMIC has declared cash dividend to its stockholders amounting to ₱999.2 million or ₱2.65 per share for the 377,056,150 outstanding common shares subject to the pending approval of the Banko Sentral ng Pilipinas (BSP).

- **Material Events**

There were no material events that took place during the first six months of 2010.

- **Contingent Accounts**

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.

- **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

	<u>2010</u>	<u>2009</u>
a. Net Income	₱ 888,686,387	₱ 556,803,391
b. Weighted average number of common shares	377,056,150	377,056,150
c. Earnings per share	₱ 2.36	₱ 1.48

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION (June 30, 2010 vs. December 31, 2009) AND RESULTS OF OPERATIONS (January –June 2010 vs. January –June 2009).

ECONOMIC AND FINANCIAL MARKET ENVIRONMENT

The world seems to be recovering from the global recession for the last two years and the said recovery is apparently made more manifest in the emerging markets to which the Philippines belong. The country is increasing its trade and investment relations with China, India and Indonesia, which are experiencing V-shaped recoveries, meaning that their Gross Domestic Product (GDP) rates are close to or higher even than the pre-crisis levels. The Economic Intelligence reported that China's economy expanded by 12% year on year in the 1st quarter of 2010, which is no wonder that Philippine exports likewise stretched out to 43% also in the same period of this year.

The flies in the ointment continue to be unchanged; a) a threatening budget deficit that may go well beyond the full – year target, and b) a strong peso that reduces the purchasing power of OFWs and exporters, also dampening domestic manufacturing and employment and drives down tax collections.

The 2nd quarter of this year steered in a favorable mood for both the National Government and investors. The maiden issuance of Multi – Currency Retail Bonds (MCTRBs) last April was a sounding success that the National Government hinted it will issue another tranche of the same bonds in the 2nd half of 2010.

Corporate issuances were also upbeat in the first half of the year. As early as start of the quarter, PSALM floated ₱30 billion bonds due 2015 and 2017, having a coupon rate of 6.88% and 7.75%, respectively. Likewise, Rizal Commercial Banking Corporation (RCBC) raised ₱5 billion Long Term Negotiated Certificate of Deposits (LTNCDs) that were either coupon bearing or zero – coupon series

The Philippine equities market continued to be sturdy despite negative developments in most global asset classes and was one of the better prospects due to the following: 1) robust corporate profits – strong first quarter earnings where the Philippine Stock Exchange reported that the combined profits of listed companies grew by more than $\frac{3}{4}$ to ₱357.8 billion year-on-year, and 2) strong macroeconomic fundamentals – a 7.3% GDP increment in the first quarter of 2010 arising from robust exports recovery and heavy election spending. For the first half of 2010, foreign investors were the net buyers in the local equities market and this may continue well over to the second half.

FINANCIAL CONDITION

Total consolidated resources as of June 2010 stood at ₱64.88 billion, 8.9% or ₱5.30 billion increase from ₱59.58 billion as of year-end 2009.

The changes in total resources were primarily on account of the movements in the following balance sheet accounts:

1. **Cash and Other Cash Items** rose by 22.9% or ₱1.9 billion higher than the year-end balance of ₱8.2 billion mainly for the purpose of maintaining very high liquidity, both for statutory and legal reserves as well as for market opportunities;

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 a clearing account for interbank transactions. The decrease of 41.5% or ₱816.0 million was primarily due to the maturity of placements in the Reserve Deposit Account (RDA);
3. ***Held for Trading Securities*** has substantially dropped by 62.6% or ₱1.2 billion from ₱1.9 billion to ₱707.1 million, mainly due to the net effect of ₱80.4 billion acquisition and ₱81.8 billion sale of government securities (mostly FXTNs and RTBs);
4. ***Available for Sale Securities*** also went down by ₱9.7 billion or 46.8%, from ₱20.8 billion to ₱11.1 billion. This was chiefly due to the net effect of ₱12.3 billion purchase and ₱23.4 billion sale of Fixed Rate Treasury Notes during the first two quarters of 2010.

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

- ***Loans and Receivables*** rose by 23.7% or ₱3.0 billion; Time Loans and Bills Discounted increased by ₱3.49 billion due to newly-granted loans as of this period namely Toyota Financial Services, Inc., Beacon Electric Asset Holdings and Panay Energy Development Corporation. On the other hand, Unquoted Debt Securities Classified as Loans slightly slid down by 2.8% or ₱276.8 million principally due to the net effect of ₱860.0 million purchase and the ₱1.1 billion early redemption and sale of various securities. Accrued interest receivables also decreased by ₱150.5 million from its ₱785.1 million, year-end balance due to the afore-stated redemptions;
- ***Equity Investments*** accounts for the costs of investments in shares of stocks in allied/non-allied undertakings. The 23.5% increment was due to additional investments in power generating projects;
- ***Property and Equipment*** pertains to the buildings and/or improvements, furniture and equipment owned by the Company. The decline of ₱4.7 million or 5.9% was mainly on account of the accumulated depreciation for the six – month period amounting to ₱14.2 million and several purchases of various office equipment and transportation equipment aggregating to ₱8.6 million;
- ***Other Assets*** includes amounts due from customers and other parties, advances to affiliates/officers/employees, uncollected interests, prepayments, deferred charges and dividends. The 23.5% or ₱59.2 million increase is attributed to the increase in input taxes of vatable Subsidiaries, intangible assets (software licenses) and creditable withholding taxes;
- ***Bills Payable*** comprises of deposit substitutes and other borrowings obtained from local banks, private firms and individuals. This account went up by ₱4.2 billion or 8.4% due to the effect of the movements in our Treasury and Loan portfolio. For the first semester of the year, total purchases on government securities (e.i., HFT, HTM and AFS) amounted to ₱101.0 billion while total portfolio sold was at ₱105.2 billion. Additionally, the ₱16.0 billion Repurchase Agreement contributed mainly to the increment in this account;
- ***Bonds Payable*** of ₱55.2 million refers to the Company's outstanding issuance of 4-year Floating Rate Bonds;
- ***Payables for Securities Purchased*** pertains to the ₱8.1 million liabilities to the different stock

brokers for the shares bought by the company. The increase by ₱6.3 million was due to the heavy trading done in the first quarter because of a very favorable equities market;

- **Accrued Taxes, Interest and Other Expenses** consists of expenses incurred on taxes, licenses, interests on borrowings, and other expenses of the Company, which have remained unpaid as of the period ended June 30, 2010. The ₱13.3 million or 5.9% drop represents settlement of outstanding liabilities with our suppliers/clients and interest payments on various investors;
- **Other Liabilities** includes obligations of the Company for various expenses in connection with indebtedness to suppliers and other miscellaneous liabilities. The decline of 18.0% or ₱114.0 million in this account, from ₱633.3 million to ₱519.3 million, pertains essentially to the increase in unearned discount, decrease in derivative liability and settlement of various liabilities;
- **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** represent the unappropriated portion of the accumulated profits earned or realized by the Company that are reserved to strengthen its capital structure. The 18.4% or ₱ 888.7 million growth is attributed to the net income for the for the first half of 2010;
- **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);
- **Net Unrealized Loss on Securities** went down 78.4% or ₱338.4 million, from ₱431.6 million to ₱93.2 million, as of the first semester of this year, due to the favorable market valuations of our investments in government securities under AFS and our equity securities investments in mutual funds;
- **Capital Funds** reached ₱9.8 billion as of June 30, 2010, which translates to 19.83% 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 ₱888.7 million or 59.6% higher than the ₱556.8 million posted during the same period last year.

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

- **Investment Banking Fees** for the two quarters of 2010 contributed ₱271.3 million of the total revenue generated. This historically high income is 37.3% higher than the ₱197.6 million fees earned in the same period last year. The Company managed to secure lead roles in most of the major corporate debt transactions. These notable deals, among others, included the following:
 - a) Petron Corp.'s ₱5.0 billion Perpetual Preferred shares as Lead Underwriter/Arranger;
 - b) Home Development Mutual Fund's ₱12.0 billion Bond Issue both as Joint Lead Arranger/Sole Underwriter;
 - c) Tanduay Distiller's ₱5.0 billion Retail Bonds as Joint Lead Manager;

- d) MERALCO's ₱5.0 billion Fixed and Floating Rate Notes as Lead Arranger;
 - e) Beacon Electric Assets Holdings Inc.'s ₱18.0 billion Corporate Notes as Joint Lead Arranger and Bookrunner;
 - f) Panay Energy Development Corp.'s ₱14.0 billion Loan Facility as Lead Arranger;
 - g) Metrobank Card Corporation's ₱2.0 billion Fixed Rate Corporate Notes as Arranger;
 - h) Bureau of Treasury's \$25.5 million Retail Treasury Bond for OFW's as Issue Manager and Selling Agent;
 - i) Aboitiz Equity Ventures's ₱2.5 billion Corporate Notes as Issue manager and;
 - j) Power Sector Assets and Liabilities Management Corporation's ₱30.0 billion Retail Treasury Bond as Joint Issue Manager;
- ***Income from Investment in Stocks*** for the two quarters of 2010 have substantially increased by 101.9% from ₱96.7 million to ₱195.3 million for the same period this year. This was principally driven by the continuous improvement in the market value of our stocks portfolio. The ₱68.0 million increase in dividend income recognized from our investments likewise contributed to the said improvement;
 - ***Treasury Income*** has been consistent in contributing considerable amount of revenue at ₱1.5 billion or that is 15.5% higher from same period last year of ₱1.3 million. Trading gains from the sale of government securities gave ₱46.4 million while ₱33.6 million was earned from the sale of Unquoted Debt Securities. The effect of the higher average volume of securities portfolio handled in the first semester of the year, ₱34.8 billion as against ₱27.2 billion, as well as the ₱43.9 million increase on fees earned from underwriting deals were the key factors in the ₱194.7 million rise in Treasury's net income;
 - ***Interest Income*** includes interest earned and/or actually collected from loans and bank deposits. The very minimal 0.8% decline is attributed to the net effect of the 16.2% increase in the interest income on our bank accounts as an offshoot of the higher volume of reserves maintained in 2010, and the 21.7% decrease in the interest income on loans arising from a drop in the average loan portfolio (excluding Unquoted Debt Securities Classified as Loans) from ₱3.0 billion to ₱2.7 billion;
 - ***Other Income*** represents income earned and/or actually collected on sale of assets, revenue from consolidated subsidiaries, lease of real property and equipment and other fees and commissions earned;
 - ***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 declined by 2.5% from ₱1,028.7 million to ₱1,003.3 million for the first six months, year-on-year. This minimal decline was due to the decreasing trend in average interest rate of our borrowing portfolio that slid down from 6.4% as against to 5.0%, and this primarily influenced the said cut in interest expenses;
 - ***Compensation and Fringe Benefits*** consists 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 contributed to the 18.4% increase in this account;

- **Management and Other Professional Fees** comprises of expenses for services rendered by individuals/firms on retainer or contractual basis. The 48.5% increment of this account was due to the legal fees paid for the recovery of the Past Due accounts of the company;
- **Supervision 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 17.3% increase was attributed primarily to the increase of rental fees concurrent to the renewal of contracts;
- **Depreciation and Amortization** 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 17.8% upsurge is the consequence of the procurement of various office equipment and new service cars for marketing (of products) purposes;
- **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 escalated by 39.9%, from ₱46.9 million to ₱65.7 million. The ₱18.7 million variance was mainly due to the increase in broker's commission, due to higher purchase and sales volume of securities this year; increase in advertising and publicity expense and increase in insurance expense;
- **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. The 1.9% decrease was mainly due to the decline in gross receipts tax paid for the current period;
- **Provision for Income Tax** includes corporate income taxes, deferred taxes and taxes on tax-paid investment securities. The amount for the first six months increased by ₱86.6 million or 64.3% on account of the increase in our tax – paid income as well as the increase in the subsidiaries corporate income tax especially the First Metro Securities Brokers Corporation.

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 comparative financial performance of the Company for the period ended June 30, as well as, for the year-end of 2009:

PERFORMANCE INDICATORS	As of June 30, 2010	As of June 30, 2009	As of Dec. 31, 2009 (Audited)
Return on Assets ^{1/}	2.88%	2.19%	1.93%
Return on Equity ^{2/}	19.50%	14.57%	12.84%
Cost-to-Income Ratio ^{3/}	29.25%	35.81%	34.69%
Non-Performing Loans Ratio ^{4/}	0.00%	38.00%	3.83%
Capital Adequacy Ratio ^{5/}	19.83%	21.82%	24.32%

^{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 three - 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 three – 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, 2010

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	4,737,535,525	157,000,000	1,946,327,517	1,350,000,000	132,208,476	-	285,558,556	866,441,176	-
2) Bills Discounted	503,945,584	472,189,175	1,008,333	23,000,000	5,400,000	-	2,348,076	-	-
3) Fringe Benefit Loans	41,755,425	339,230	284,223	1,487,704	11,766,845	7,338,969	20,538,454	-	-
4) Past due Loans	-	-	-	-	-	-	-	-	-
Sub-total	5,283,236,534	629,528,405	1,947,620,073	1,374,487,704	149,375,321	7,338,969	308,444,886	866,441,176	-
Less: Allowance for Doubtful Accounts	12,426,646	12,426,646	-	-	-	-	-	-	-
Net Loans and Discounts	5,270,809,888	617,101,759	1,947,620,073	1,374,487,704	149,375,321	7,338,969	308,444,886	866,441,176	-
b) Other Receivables									
1) Unquoted Debt Securities Classified as Loans	9,460,539,572	290,000,000	200,005,013	104,000,000	-	3,121,107,811	5,745,426,748	-	-
2) Accounts Receivable	383,114,024	148,395,227	82,280,412	1,276,724	32,377,087	261,413	34,981,228	44,078,957	39,462,976
3) Accrued Interest Receivable	634,582,002	48,182,970	169,468,968	376,874,617	-	-	-	34,898,561	5,156,886
4) Dividends Receivable	33,887,483	31,362,678	2,524,805	-	-	-	-	-	-
Sub-total	10,512,123,081	517,940,875	454,279,197	482,151,341	32,377,087	3,121,369,224	5,780,407,976	78,977,518	44,619,862
Less: Allowance for Doubtful Accounts	178,813,802	-	-	-	-	-	55,272,922	44,022,456	79,518,424
Net Other Receivables	10,333,309,278	517,940,875	454,279,197	482,151,341	32,377,087	3,121,369,224	5,725,135,055	34,955,062	(34,898,562)
Net Loans/Receivables (a + b)	15,604,119,167								

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 trading 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 