

**CERTIFICATION**

KNOW ALL MEN BY THESE PRESENTS:

I, **ROBERTO JUANCHITO T. DISPO**, Filipino, of legal age, with office address at 45th Floor, G.T. Tower International, Ayala Avenue corner H.V. dela Costa St., Makati City, being the President of **First Metro Investment Corporation (FMIC)**, a corporation duly organized and existing under the laws of the Philippines, do hereby certify that the hard copy of the **SEC Form 17-Q** and the attached diskette labeled "**SEC Form 17-Q (June 30, 2011), First Metro Investment Corporation**" are one and the same.


Manila Philippines, <sup>'AUG' 05 2011</sup> of August 2011.

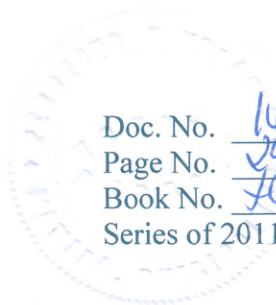


**ROBERTO JUANCHITO T. DISPO**  
President 

SUBSCRIBED AND SWORN to before me this <sup>'AUG' 05 2011</sup> 2011, affiant exhibiting to me his Community Tax Certificate No. 01135185 issued on January 3, 2011 in Makati City.

Doc. No. 141 ;  
Page No. 39 ;  
Book No. 2011 ;  
Series of 2011

  
**PERFECTO C. NOLASCO**  
Notary Public  
Until December 31, 2011  
PTR NO. 9284344 – Manila-01/11/2011  
IEP NO. 839886 – Pasig City-12/14/2010  
IBP ROLL NO. 18343



# COVER SHEET

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S.E.C. Registration Number

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(Company's Full Name)

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A		S	T		M	A	K	A	T	I		C	I	T	Y													

(Business Address: No. Street City / Town Province)

<b>ROBERTO JUANCHITO T. DISPO</b>
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Contact Person

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Company Telephone Number

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Fiscal Year

<b>SEC Form 17-Q</b>
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Form Type

Not later than last week  
of April

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Annual Meeting

<b>IHU - GSED</b>
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Secondary License type, if applicable

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Dept. Requiring this Doc.

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Amended Articles Number/Section

<b>1,477</b>
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Total No. of Stockholders

Total amount of Borrowings

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To be Accomplished by SEC Personnel concerned

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File Number

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**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, 2011**
- 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) 858 - 7900**
- 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, 2011:

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

(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 AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As of	
	June 30, 2011	December 31, 2010
<b>ASSETS</b>		
Cash and Other Cash Items	P12,180,728,703	P9,648,394,094
Due from Bangko Sentral ng Pilipinas	2,511,898,340	880,000,000
Securities Purchased Under Resale Agreements	315,000,000	-
Financial Assets at Fair Value Through Profit or Loss	5,417,550,918	2,540,828,551
Available-for-Sale Investments	5,806,782,090	12,664,495,825
Held-to-Maturity Investments	16,105,955,627	9,443,954,636
Loans and Receivables	16,621,730,088	15,547,416,298
Property and Equipment	83,599,237	74,380,885
Investments in Subsidiaries, Associates and Joint Venture	12,708,166,938	12,147,810,215
Investment Properties	722,349,661	753,075,375
Deferred Tax Assets	879,867	627,814
Other Assets	314,290,798	268,151,804
	<b>P72,788,932,267</b>	<b>P63,969,135,497</b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Bills Payable	P60,430,877,779	P52,833,492,965
Accrued Taxes, Interest and Other Expenses	260,940,440	221,877,378
Accounts Payable	483,695,278	230,322,975
Derivative Liability	110,730,002	123,420,765
Income Taxes Payable	14,078,903	24,658,317
Bonds Payable	55,200,000	55,200,000
Deferred Tax Liability	10,650,604	10,274,257
Other Liabilities	548,161,307	549,322,918
	<b>61,914,334,313</b>	<b>54,048,569,575</b>
<b>EQUITY</b>		
<b>EQUITY ATTRIBUTABLE TO EQUITY</b>		
<b>HOLDERS OF THE PARENT COMPANY</b>		
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	6,637,915,050	5,527,034,737
Treasury Stock	(2,268,825,841)	(2,268,825,841)
Net Unrealized Gain (Loss) on Available-for-Sale Investments	(43,524,069)	115,591,042
Equity in Translation Adjustment	(39,379,598)	(39,379,598)
Equity in Unrealized Gain on Available-for-Sale Investments of Associates	266,419,151	266,419,151
Equity in Revaluation Increment	35,934,252	35,934,252
	<b>10,862,925,387</b>	<b>9,911,160,185</b>
Non-controlling Interest	11,672,567	9,405,737
	<b>10,874,597,954</b>	<b>9,920,565,922</b>
	<b>P72,788,932,267</b>	<b>P63,969,135,497</b>

# FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

	For the Period Ended June 30		For the Quarter Ended June 30	
	2011	2010	2011	2010
<b>OPERATING INCOME</b>				
Treasury Income	P1,473,181,684	P1,452,131,913	P843,299,558	P774,374,112
Investment Banking Fee	319,282,177	271,251,692	152,438,980	60,376,065
Interest Income	312,878,524	299,172,608	108,556,250	177,133,943
Income from Investment in Stocks	89,436,944	195,341,417	92,684,975	120,955,860
Other Income	611,931,993	125,586,512	454,293,355	76,436,036
<b>GROSS OPERATING INCOME</b>	<b>2,806,711,322</b>	<b>2,343,484,142</b>	<b>1,651,273,118</b>	<b>1,209,276,016</b>
Interest Expense	1,057,200,043	1,003,342,822	600,248,938	516,405,912
<b>OPERATING INCOME BEFORE OPERATING EXPENSES</b>	<b>1,749,511,279</b>	<b>1,340,141,320</b>	<b>1,051,024,180</b>	<b>692,870,104</b>
<b>OPERATING EXPENSES</b>				
Employees' Compensation and Benefits	149,349,348	126,108,274	64,992,901	65,272,934
Depreciation and Amortization	20,249,061	17,766,347	11,396,347	9,754,389
Rent Expense	18,281,253	16,658,590	9,769,888	8,787,530
Management and other Professional Fees	12,263,901	12,284,290	6,794,505	8,790,861
Representation and Traveling Expenses	14,748,911	11,841,238	8,230,886	9,073,965
Supervision Fees	8,393,324	6,306,764	4,404,425	3,116,710
Other Expenses	86,315,024	65,685,044	51,060,669	34,963,576
	<b>309,600,822</b>	<b>256,650,547</b>	<b>156,649,621</b>	<b>139,759,965</b>
<b>NET INCOME BEFORE TAXES AND LICENSES</b>	<b>1,439,910,457</b>	<b>1,083,490,773</b>	<b>894,374,559</b>	<b>553,110,139</b>
Taxes and Licenses	204,716,719	174,995,667	119,754,674	79,226,766
<b>NET INCOME BEFORE RECOVERY FROM CREDIT LOSSES</b>	<b>1,235,193,738</b>	<b>908,495,106</b>	<b>774,619,885</b>	<b>473,883,373</b>
Recovery from Credit Losses	-	(66,082,271)	-	(66,082,271)
<b>NET INCOME BEFORE NON- OPERATING INCOME</b>	<b>1,235,193,738</b>	<b>974,577,377</b>	<b>774,619,885</b>	<b>539,965,644</b>
Non-operating Income	94,025,743	142,236,106	31,139,323	82,611,798
<b>NET INCOME BEFORE PROVISION FOR INCOME TAX</b>	<b>1,329,219,481</b>	<b>1,116,813,483</b>	<b>805,759,208</b>	<b>622,577,442</b>
Provision for Income Tax	211,857,021	221,429,952	121,960,817	118,430,610
<b>NET INCOME</b>	<b>P1,117,362,460</b>	<b>P895,383,531</b>	<b>P683,798,391</b>	<b>P504,146,832</b>
<b>Attributable to:</b>				
Equity holders of the Parent Company	P1,110,880,313	P888,686,387	P679,498,266	P498,846,181
Non-controlling interest	6,482,147	6,697,144	4,300,125	5,300,651
	<b>P1,117,362,460</b>	<b>P895,383,531</b>	<b>P683,798,391</b>	<b>P504,146,832</b>
<b>EARNING PER SHARE*</b>	<b>P2.95</b>	<b>P2.36</b>	<b>P1.80</b>	<b>P1.32</b>

\* Attributable to Equity Holders of the Parent Company

**FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	As of June 30	
	2011	2010
<b>COMMON STOCK</b>	<b>₱4,208,692,400</b>	₱4,208,692,400
<b>CAPITAL PAID IN EXCESS OF PAR</b>	<b>2,065,694,042</b>	2,065,694,042
<b>RETAINED EARNINGS</b>		
Balance at beginning of year	5,527,034,737	4,826,034,194
Net income	1,110,880,313	888,686,387
Balance at end of the quarter	6,637,915,050	5,714,720,581
<b>TREASURY STOCK</b>	<b>(2,268,825,841)</b>	(2,269,937,591)
<b>NET UNREALIZED LOSS ON AVAILABLE-FOR-SALE INVESTMENTS</b>		
Balance at beginning of year	115,591,042	(431,605,063)
Unrealized gain (loss) during the period	(159,115,111)	338,387,456
Balance at end of the quarter	(43,524,069)	(93,217,607)
<b>EQUITY IN TRANSLATION ADJUSTMENT</b>	<b>(39,379,598)</b>	(29,422,895)
<b>EQUITY IN UNREALIZED GAIN ON AVAILABLE-FOR-SALE INVESTMENTS OF ASSOCIATES</b>	<b>266,419,151</b>	168,916,960
<b>EQUITY IN REVALUATION INCREMENT</b>	<b>35,934,252</b>	29,948,345
	<b>10,862,925,387</b>	9,795,394,235
<b>NON-CONTROLLING INTEREST</b>	<b>11,672,567</b>	33,439,796
	<b>₱10,874,597,954</b>	₱9,828,834,031

**FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>For the period ended June</b>	
	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	<b>₱1,329,219,481</b>	₱1,116,813,483
Adjustments for:		
Interest income	<b>(1,607,230,847)</b>	(1,548,990,783)
Interest expense	<b>1,057,200,043</b>	1,003,342,822
Profit from assets sold	<b>(426,134,242)</b>	–
Dividend income	<b>(51,156,004)</b>	–
Depreciation and amortization	<b>20,249,061</b>	16,122,062
Changes in operating assets and liabilities:		
Decrease (increase) in the amounts of:		
Financial assets at fair value through profit or loss	<b>(2,876,722,367)</b>	1,182,872,085
Loans and receivables	<b>(1,099,900,088)</b>	(3,220,216,501)
Other assets	<b>(50,432,274)</b>	(59,158,468)
Increase (decrease) in the amounts of:		
Accrued taxes, interest and other expenses	<b>15,266,831</b>	8,919,014
Other liabilities	<b>240,074,376</b>	(106,038,208)
Net cash used in operations	<b>(3,449,566,030)</b>	(1,606,334,494)
Interest income received	<b>1,640,220,063</b>	1,699,519,711
Interest expense paid	<b>(1,033,403,812)</b>	(1,023,157,504)
Income taxes paid	<b>(222,614,535)</b>	(223,852,499)
Net cash used in by operating activities	<b>(3,065,364,314)</b>	(1,153,824,786)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net proceeds from disposals of (additions to):		
Investment properties	<b>454,763,052</b>	427,500
Property and equipment	<b>(23,329,282)</b>	(9,499,397)
Dividends received	<b>43,753,086</b>	81,904,031
Decrease (increase) in the amounts of:		
Available-for-sale investments	<b>6,698,598,624</b>	10,084,353,080
Held-to-Maturity investments	<b>(6,662,000,991)</b>	(5,726,871,505)
Investments in subsidiaries, associates and joint venture	<b>(564,572,040)</b>	(2,180,208,477)
Net cash provided by (used in) investing activities	<b>(52,787,551)</b>	2,250,105,232
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net settlement of bills payable	<b>7,597,384,814</b>	4,207,527,725
Decrease of treasury stock	<b>–</b>	(13,785,700)
Net cash used in financing activities	<b>7,597,384,814</b>	4,193,742,025
<b>NET INCREASE IN CASH &amp; CASH EQUIVALENTS</b>	<b>4,479,232,949</b>	5,290,022,471
<b>CASH &amp; CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		
Cash and other cash items	<b>9,648,394,094</b>	8,156,812,303
Due from Bangko Sentral ng Pilipinas	<b>880,000,000</b>	1,965,000,000
	<b>10,528,394,094</b>	10,121,812,303
<b>CASH &amp; CASH EQUIVALENTS AT END OF THE QUARTER</b>		
Cash and other cash items	<b>12,180,728,703</b>	10,021,834,774
Due from Bangko Sentral ng Pilipinas	<b>2,511,898,340</b>	1,149,000,000
GS purchased under reverse repurchase agreement with BSP	<b>315,000,000</b>	4,241,000,000
	<b>₱15,007,627,043</b>	₱15,411,834,774

**FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**A. Summary of Significant Accounting Policies**

Basis of Financial Statements Preparation

The accompanying financial statements have been prepared in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*. Accordingly, the financial statements do not include all of the information and disclosures required in the annual audited financial statements and should be read in conjunction with the Group's annual audited financial statements as at December 31, 2010.

The 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 except when otherwise indicated.

Statement of Compliance

The financial statements of the First Metro Investment Corporation (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)	99.56
First Metro Save and Learn – Money Market Fund (FMSLMMF)	89.57
First Metro Save and Learn – Fixed Income Fund (FMSLFIF)	27.20
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

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\* On November 3, 2010, the Group disposed its 50% investment in First Metro Travel, Inc. (FMTI), a 60% - owned subsidiary of PVDC, and treated the remaining interest over FMTI as investment in associate after determining that the Group retained significant influence over FMTI.

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 except for FMSBC and mutual funds which apply the trade date accounting instead of settlement date accounting in recognizing purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. Such policy is in accordance with the rules set out in the Securities Regulations Code Rules 68.

All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Parent Company. Control is achieved when the Parent Company 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 Parent Company.

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.

When a change in ownership interest in a subsidiary occur which result in loss of control over the subsidiary, the Parent Company:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Derecognizes the related other comprehensive income recorded in equity and recycle the same to profit or loss or retained earnings
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss

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 with the puttable non-controlling interest recorded under 'Other liabilities' account in the statement of financial position.

#### Non-Controlling Interests

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Parent Company.

Non-controlling interests are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from the Parent Company's shareholders' equity. Any losses applicable to the non-controlling interests in excess of the non-controlling interest are allocated against the interests of the non-controlling interest even if this results in the non-controlling interest having a deficit balance. Acquisitions of non-controlling

interests that does not result in a loss of control are accounted for as equity transaction, whereby the difference between the consideration and the fair value of the share of the net assets acquired is recognized as an equity transaction and attributed to the owners of the Parent Company.

#### 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 Interpretations which were adopted as of January 1, 2010:

#### **New Standards and Interpretations**

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

PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results.

PAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by PFRS 3 (Revised) and PAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after January 1, 2010.

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

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either, the financial position or performance of the Group.

The change in accounting policy was applied prospectively and had no material impact on earnings per share.

The omnibus amendments to PFRSs issued in May 2008 and April 2009 were issued primarily with a view of removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

#### **Improvements to PFRS**

PFRS 8, *Operating Segments*, 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. As the Group's chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information in Note 6 of its financial statements as of December 31, 2010 and 2009.

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

PAS 36, *Impairment of Assets*, amendment 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.

The following amendments and improvements to existing PFRS and Interpretations, which became effective in January 1, 2010, did not have a significant impact on the accounting policies, financial position or performance of the Group.

#### *Amendments to Standards*

- PFRS 2, *Share-based Payment (Amendment) - Group Cash-settled Share-based Payment Transactions*
- PAS 39 *Financial Instruments: Recognition and Measurement (Amendment) - Eligible Hedged Items*

#### *Improvement to PFRS 2008*

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*

#### *Improvements to PFRSs 2009*

- PFRS 2, *Share-based Payment*
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
- PAS 1, *Presentation of Financial Statements*
- PAS 17, *Leases*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- Philippine Interpretation IFRIC-9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC-16, *Hedge of a Net Investment in a Foreign Operation*

### **Significant Accounting Policies**

#### 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 month/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.

### Cash and cash equivalents

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

### 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, except for transactions involving equity securities which are recognized on the trade 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 or amortized 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' profit or loss*

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 markets, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' profit or loss) in the statement of income under 'Other expenses' 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' profit or loss amount.

*Derivatives recorded at FVPL*

The Group assesses whether embedded derivatives are required to be separated from the host contract. Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts, separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in the statement of income. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

The Parent Company and a subsidiary have certain derivatives that are embedded in the debt financial instruments classified as loans and receivables. Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives are taken directly to the statement of income and are included in 'Trading and securities gain' under 'Treasury Income' in statement of income. 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 are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value relating to the held for trading positions are recognized in 'Trading and securities gain' under the 'Treasury income' in the statement of income. Interest earned or incurred is recorded in 'Interest income' or 'Interest expense' in the statement of income, respectively, while dividend income is recorded in 'Dividend income' under 'Income from investments in stocks' in the statement of income according to the terms of the contract, or when the right to receive payment has been established.

*Designated 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.

The Group has not designated any financial assets or liabilities upon initial recognition as at FVPL.

#### *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 changes in as 'Net unrealized gain (loss) on AFS investments'.

When the security is disposed of, the cumulative gain or loss previously recognized in the statement of changes in equity is recognized as 'Trading and securities gain or loss' under 'Treasury income' and/or 'Income from investments in stocks' 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' under 'Treasury income' using the EIR. Dividends earned on holding AFS equity investments are recognized in the statement of income as 'Dividend income' under 'Treasury income' when the right to receive payment has been established. The losses arising from impairment of such investments are recognized as 'Provision for credit losses' in the statement of income.

#### *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 or reclassify other than an insignificant amount of HTM investments before maturity (other than in certain specific circumstances), the entire category would be tainted and reclassified as AFS investments. Furthermore, the Group would be prohibited from classifying any financial assets as HTM investments during the following two years.

After initial measurement, these investments are subsequently measured at amortized cost using the effective interest rate (EIR) method, less 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. 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 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', 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 '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 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 credit losses' in the statement of income.

#### *Financial liabilities carried at amortized cost*

Issued financial instruments or their components, which are not designated at FVPL, are classified as financial liabilities carried at amortized cost 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 its own equity shares. Financial liabilities carried at amortized cost include 'Bills payable', 'Bonds payable', or other appropriate financial liability accounts. 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 have been 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 measured 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 and recorded under 'Trading and securities gain or loss' under 'Other income' 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 BSP, due from banks, 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 against 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 (recovery from) 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 as 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 (recovery from) 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 changes in equity and recognized in the statements of income.

Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in statement of changes in equity.

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' under 'Treasury 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.

### 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 estimated 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 under 'Other income' in the statement of income in the year the asset is derecognized.

### Investments in subsidiaries, associates and joint ventures

#### *Investment in subsidiaries*

Subsidiaries are entities, which the Parent Company 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 Parent Company controls another entity.

#### *Investment in associates*

Associates are entities which the Parent Company has significant influence but not control, generally accompanying a shareholding of between 20.0% and 50.0% 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 separate Parent Company's 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 changes in equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investments. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. Profits and losses resulting from transactions between the Group and an associate are eliminated to the extent of the interest in the associate.

#### *Investment in joint venture*

Investment in joint venture is accounted for under the equity method of accounting. The investment in joint venture is carried in the separate Parent Company's 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

The 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 in the statement of changes in equity.

### 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, less allowance for impairment losses.

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

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 'Other income' in the year of retirement or disposal.

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

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

At each statement of financial position date, the Group assesses whether there is any indication that its nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of the recoverable amount. Recoverable amount is the higher of an asset's 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 statement of financial position 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 the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. 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' under 'Treasury income', 'Interest income from loans' and 'Other 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.

#### *Fees and commission income*

The Group earns fees 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, investment banking 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 including gains and losses from disposal of AFS investments and financial assets held for trading, and all gains and losses from changes in fair value of financial assets and financial liabilities at FVPL.

### *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 'Other 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' in the statement of income.

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 'Rent 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 from loans' 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, FMSBC and FAMI 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 10.0% 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 actuarial losses, 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 resources 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. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as 'Interest expense'.

### Contingencies

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 substantively 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, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries and foreign associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular income tax, and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized except:

- Where the deferred tax asset arises relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transactions that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

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.

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

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

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognized subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it incurred during the measurement period or in profit or loss.

#### 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. Consideration paid or received on the purchase, sale, issue, or cancellation of the Parent Company's own equity instruments is recognized directly in equity. No gain or loss is recognized in the statements of income on the purchase, sale, issue or cancellation of 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, 2010

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 Issued but not yet Effective

#### *Effective 2011*

- *PAS 24, Related Party Disclosures (Amended)*  
The standard is effective for annual periods beginning on or after January 1, 2011, with earlier application permitted for either the partial exemption for government-related entities or for the entire standard. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities.
- *PAS 32, Financial Instruments: Presentation (Amendment) - Classification of Rights Issues*  
The amendment to PAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.
- *Philippine Interpretation IFRIC-14 (Amendment), Prepayments of a Minimum Funding Requirement*  
The amendment to Philippine Interpretation IFRIC-14 is effective for annual periods beginning on or after January 1, 2011, with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.
- *Philippine Interpretation IFRIC-19, Extinguishing Financial Liabilities with Equity Instruments*  
Philippine Interpretation IFRIC-19 is effective for annual periods beginning on or after July 1, 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

#### *Effective 2012*

- *PFRS 7, Financial Instruments: Disclosures (Amendments) - Disclosures - Transfers of Financial Assets*  
The amendments to PFRS 7 are effective for annual periods beginning on or after July 1, 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

- PAS 12, *Income Taxes (Amendment) - Deferred Tax: Recovery of Underlying Assets*  
The amendment to PAS 12 is effective for annual periods beginning on or after January 1, 2012. It provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will normally be through sale.
- 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.

#### *Effective 2013*

- PFRS 9, *Financial Instruments: Classification and Measurement*  
PFRS 9, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, hedge accounting and derecognition will be addressed. The completion of this project is expected in middle of 2011. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets. As of June 30, 2011, the Group has not yet decided whether or not to early adopt PFRS 9 for its 2011 financial reporting. It is still currently evaluating the impact of the possible early adoption of PFRS 9 in its financial statements particularly on the following accounts:
  - a. AFS Investments - debt and equity securities
  - b. HTM Investments
  - c. Loans and Receivables - unquoted commercial papers

#### Improvements to PFRSs 2010

Improvements to PFRSs is an omnibus of amendments to PFRS. The amendments have not been adopted as they become effective for annual periods on or after either July 1, 2010 or January 1, 2011. The amendments listed below, are considered to have a reasonable possible impact on the Group's financial statements:

- PFRS 3, *Business Combinations*
  - a. The improvement clarifies that the amendments to PFRS 7, PAS 32 and PAS 39, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of PFRS 3 (as revised in 2008). The amendment is applicable to annual periods beginning on or after July 1, 2010 and is applied retrospectively.
  - b. The improvement limits the scope of the measurement choices that only the components of non-controlling interest (NCI) that are present ownership interests that entitle their holders

to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. Other components of NCI are measured at their acquisition date fair value, unless another measurement basis is required by another PFRS, e.g., PFRS 2. The improvement is applicable to annual periods beginning on or after July 1, 2010. The amendment is applied prospectively from the date the entity applies PFRS 3 (revised).

- c. It requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post combination expenses. However, if the entity replaces the acquiree's awards that expire as a consequence of the business combination, these are recognized as post-combination expenses. The amendment also specifies the accounting for share-based payment transactions that the acquirer does not exchange for its own awards: if vested - they are part of NCI and measured at their market-based measure; if unvested - they are measured at market based value as if granted at acquisition date, and allocated between NCI and post-combination expense. The amendment is applicable to annual periods beginning on or after July 1, 2010 and is applied prospectively.

The improvements in the Standard will affect future acquisitions of the Group.

- *PFRS 7, Financial Instruments: Disclosures*

The amendment emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments. The amendment is applicable for annual periods beginning January 1, 2011 and is applied retrospectively. Amendments to quantitative and credit risk disclosures are as follow:

- a. Clarify that only financial asset whose carrying amount does not reflect the maximum exposure to credit risk need to provide further disclosure of the amount that represents the maximum exposure to such risk.
- b. Require, for all financial assets, disclosure of the financial effect of collateral held as security and other credit enhancements regarding the amount that best represents the maximum exposure to credit risk (e.g., a description of the extent to which collateral mitigates credit risk).
- c. Remove the disclosure requirement of the collateral held as security, other credit enhancements and an estimate of their fair value for financial assets that are past due but not impaired, and financial assets that are individually determined to be impaired.
- d. Remove the requirement to specifically disclose financial assets renegotiated to avoid becoming past due or impaired.
- e. Clarify that the additional disclosure required for financial assets obtained by taking possession of collateral or other credit enhancements are only applicable to assets still held at the reporting date.

The Group expects that the additional disclosure requirements are expected to have minor impact as information is expected to be readily available.

The Group expects no impact from the adoption of the following amendments to PFRS on its financial position or performance of the Group:

- PAS 1, *Presentation of Financial Statements*
- PAS 27, *Consolidated and Separate Financial Statements*
- Philippine Interpretation IFRIC-13, *Customer Loyalty Programmes*

## **B. Significant Accounting Judgments and Estimates**

The preparation of the financial statements in accordance with PFRS requires the Group's management 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

#### *a. Going Concern*

The management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, Management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

#### *b. Operating lease commitments - Group as lessor*

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.

#### *Operating lease commitments - Group as lessee*

Management exercises judgment in determining whether substantially all the significant risks and rewards of ownership of the leased assets are transferred to the Group. Lease contracts, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased items, are capitalized. Otherwise, they are considered as operating leases.

#### *c. 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 inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

*d. HTM investments*

The classification to HTM investments 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.

*e. 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.

*f. 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.

*g. 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

*a. Credit losses of loans and receivables*

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

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

*b. Fair values of derivatives*

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

*c. 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 which is substantially the same
- the expected cash flows discounted at current rates applicable for securities 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.

*d. 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 or where other objective evidence of impairment exists. This determination of what is significant or prolonged requires judgment. The Group treats 'significant' generally as decrease by more than 20.0% 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.

*e. Recognition of deferred 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 other subsidiaries indicate that certain temporary differences will be realized in the future.

*h. 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.

*i. 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 Group determines an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. This method is used in determining recoverable amounts of property and equipment and investment properties. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base of the cash-generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. This method is normally applied in determining recoverable amounts of investments in subsidiaries, associates and joint venture.

However, since impaired investments comprise of associates that are no longer in operations, the Group based its recoverable value on the net of realizable value of the net assets of the associates which substantially comprise of deposits in banks and accrued liabilities.

## C. Financial Risk Management

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

- Operational risk
- 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. RMC also establishes the risk culture and sets the tone for all institutional risk related activities and ensures that the risk policies are clearly formulated and disseminated 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 operational 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, approving investment outlets and guiding the Fund Managers in the discharge of their respective investing responsibilities.

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.

The Compliance Division (CD) also collaborates with the RMC. The main task of the CD is to monitor and assess compliance of various units of the Parent Company to its rules and regulations as well as their compliance with the rules and regulations prescribed by the government regulatory bodies. The CD is also tasked to properly disseminate these rules and regulations to the various units of the Parent Company.

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

RMG 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 RMG furnishes daily reports to Senior Management and Risk Taking Units and provide monthly reports to RMC.

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

The identified market/interest rate and liquidity, as well as credit and operations risks are consequently measured and then controlled by a system of limits. The RMG 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:

<b>Tool</b>	<b>Purpose</b>
<i>Mark-to-Market</i>	Profit and loss for risk-taking activities
<i>Value at Risk (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

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. These assumptions are reviewed and updated as necessary. 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.

### *Operational Risk*

Management of operational risk has become an important feature of a sound risk management practice in modern financial industry. Simply put, an effectively managed operational risk improves the quality and stability of earnings, thereby enhancing one's competitive position in the industry.

The Parent Company's operational risk management framework outlines its resolve towards an effective management of operational risks via a staged approach which involves risk identification, analysis and assessment, treatment, monitoring and reporting. The document also provides pertinent operational risk management tools that need to be in place.

In line with the framework, the Parent Company has continuously exerted efforts to improve supervision of operational risk. These efforts include reinforcing the risk identification process, by putting in place an Incident Management and Data Collection (IMDG) policy/system. The system has complemented the existing Risk Event Database (RED) of the Parent Company.

The conduct of Information Technology - Risk Control Self Assessment (IT-RCSA), that is aimed to identify the strengths and address weaknesses of the company's growing IT environment was, likewise, implemented in 2010. Regular review, enhancement and testing of the Parent Company's business continuity processes to address possible contingencies have been performed as well.

Starting 2010, Metrobank, thru its Internal Audit Group, will review operational risk management processes and provide an independent assurance as to the adequacy and effectiveness of the operational risk management framework and processes.

### *Credit Risk*

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 its 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 in 2007.

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 30.0% of the unimpaired capital.

Monitoring reports are done monthly wherein the same are elevated to the RMC on its monthly meeting for information and appropriate actions. 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.

#### *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 areas like documentation and collateral requirements as well as credit assessments and risk grading processes. The monitoring and reporting procedures are likewise documented. The guidelines provided by the regulators 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 Division prior to loan approval.
- Limiting concentrations of exposure to counterparties and industries (for loans), and by issuer (for investment securities).
- Screening of prospective borrowers/deals by the Dealcom prior to endorsement to other Committees, like Crecom/Excom.
- 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 and private 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, real estate and power generation companies.

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 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, 2011:

	2011					
	Corporate Lending	Investment Banking	Investment Advisory	Treasury	Others	Total
<b>Results of Operations</b>						
Net interest income (expense)	P122,880,336	P-	(P24,830,538)	P466,053,868	(P14,072,861)	P550,030,805
Non-interest income	199,653	234,541,480	84,033,976	368,475,933	404,045,821	1,091,296,863
Income - net of interest expense	123,079,989	234,541,480	59,203,438	834,529,801	389,972,960	1,641,327,668
Non-interest expense	30,458,441	28,493,676	32,169,647	103,682,404	319,513,374	514,317,542
Income (loss) before share in net income of investees	92,621,548	206,047,804	27,033,791	730,847,397	70,459,586	1,127,010,126
Share in net income of investees	-	-	-	-	202,209,355	202,209,355
Provision for income tax	(6,759,246)	-	(12,995,973)	(167,499,684)	(24,602,118)	(211,857,021)
Minority interest in net income of consolidated subsidiaries	-	-	-	-	(6,482,147)	(6,482,147)
<b>Net income attributable to equity holders of the Parent Company</b>	<b>P85,862,302</b>	<b>P206,047,804</b>	<b>P14,037,818</b>	<b>P563,347,713</b>	<b>P241,584,676</b>	<b>P1,110,880,313</b>
<b>Statement of Financial Position</b>						
Total assets	P8,680,466,412	P-	P3,101,660,009	P39,836,682,620	P21,170,123,226	P72,788,932,267
Total liabilities	8,562,245,455	-	3,099,289,244	36,979,034,422	13,273,765,192	61,914,334,313
<b>Other Segment Information</b>						
Capital expenditures	-	-	-	-	19,805,910	19,805,910
Depreciation and amortization	-	-	-	-	8,852,714	8,852,714

- **Seasonality or Cyclicity of Interim Operations**

The Parent Company'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's Management 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 Parent Company's own debt and equity securities for the period. Neither were there any repurchases nor repayments of said securities.

- **Dividends**

On May 24, 2011, the BOD of the Parent Company approved the cash dividend declaration of ₱2.66 per share or ₱1.0 billion. Mr. Roberto Juanchito T. Dispo, President, was authorized by the BOD to set the record and payment dates of the cash dividend declaration after receipt of the BSP's approval. As of to date, the Parent Company has not yet received the BSP's approval.

- **Material Events**

The Parent Company is still waiting for the BSP's approval for the commencement of operations of its Cebu branch.

- **Contingent Accounts**

In the normal course of the Parent 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 ₱10.0 per share from ₱100.0 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:

	<b>January to June</b>	
	<b>2011</b>	2010
a. Net income*	<b>₱1,110,880,313</b>	₱888,686,387
b. Weighted average number of common shares	<b>377,056,150</b>	377,056,150
c. Earning per share (a/b)	<b>₱2.95</b>	₱2.36

\* Attributable to Equity holders of the Parent Company

**Item 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION  
(June 30, 2011 vs. December 31, 2010) AND RESULTS OF OPERATIONS  
(January -June 2011 vs. January - June 2010).**

**ECONOMIC AND FINANCIAL MARKET ENVIRONMENT**

The Philippines’ recent performance for the first half of 2011 indicated that the economy has stabilized since the global financial crisis, with more robust and less variable growth, this according to the World Bank Director. The government, one year into office, had taken important reforms to address long-standing constraints towards achieving inclusive growth, notable of which was the improvements in the transparency of the public sector budget and of public financial management to enhance governance.

The country, along with China and India tightened monetary policy as the region fought inflation and easing growth, with our very own Bangko Sentral ng Pilipinas, imposing a 20.0% from 19.0% reserve requirement and draining about ₱38.0 billion from the market. On the other hand, benchmark interest rates remain unchanged at 4.5% after two previous rate increases. The biggest counterweight to rising rates is the massive liquidity in the system as our economy on an annual basis generates net saving of ₱1.4 trillion. This unbated liquidity growth will continue to search yields, assets and outlets and thereby temper any potential rates uptick.

In the Philippine bond market, due to more aggressive tightening of monetary policy by the BSP and coupled with tight fiscal position of the National Government (NG), bond yields rose during the last two months of the second quarter of 2011. Last June 15, 2011, the Republic of the Philippines’ dollar-denominated bonds (ROPs) got an upgrade from Moody’s Investor Service, from “Ba3” to “Ba2” while last June 23, 2011, the long-term foreign currency issue was likewise upgraded by Fitch to “BB+” from “BB”, just notch lower from the investment grade. These recent credit upgrades were, however, the indications the National Government had looked forward to push through with the issuance of the 20- and 25-year treasury bonds, including debt swap for the 10- and 20-year bonds to prolong the average maturity of its outstanding debt.

Furthermore, due to the recent credit upgrades, shorter-tenor yields for FXTN such as series 5-67 with remaining 3-year life registered a decline of 10.5 bps while longer-tenor yields such as series 10-42 with 5-year tenor and series 10-52 with 10-year tenor registered increases 2.5 and 4.5 bps month-on-month, respectively, due to inflationary pressures emanating from China. The year-to-date average weekly volume of FXTN for 2011 was ₱50.6 billion, down from ₱58.1 billion last year as traders began to fear an upward pressure on yields because of the BSP’s move to increase the reserve requirements.

In the Philippine equities market, the total value turnover at the Philippine Stock Exchange (PSE) reached ₱661.7 billion, 28.9% higher than the ₱513.3 billion registered in the same period last year. The capitalization of listed issues at the end of the first half rose by 33.4%, from ₱6.68 trillion to ₱8.91 trillion. The PSEi advanced by 2.14% or 90.07 points at the end at 4291.21 as of June 30, 2011.

During the second quarter, trading apparently was mixed but it picked up due to investor’s confidence -boosting news arising from the credit ratings upgrade by the international ratings agencies. Foreign investors kept to the sidelines on account of the Euro zone’s on-going debt crisis and China’s declining exports.

Total capital raised was ₱62.6 billion for January to June 2011 and is mainly attributed to the initial public offering of Megawide Construction Corporation (MWIDE), follow-on offerings of San Miguel Purefoods Company, Inc. (PF), stock rights offering of SM Development Corporation (SMDC), Metropolitan Bank Trust Company (MBT) and Robinsons Land Corporation (RLC) among others. This only proved that the economy remained fundamentally on sound footing and will continue to test new highs heading into the second half of 2011.

## FINANCIAL POSITION

As of June 30, 2011, the consolidated total assets of the Group stood at ₱72.8 billion, 13.8% or ₱8.8 billion increase from ₱64.0 billion as of December 31, 2010.

The changes in consolidated total assets were primarily due to the movements in the following accounts:

1. **Cash and Other Cash Items** rose by 26.2% or ₱2.5 billion higher than the December 31, 2010 balance of ₱9.6 billion;
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 increase of 185.4% or ₱1.6 billion was mainly for the purpose of maintaining very high liquidity, both for statutory and legal reserves and in compliance to the 1.0% increase in the reserve requirements on deposit substitutes as mandated by BSP as well as for market opportunities;
3. **Securities Purchased Under Resale Agreements** represents government securities purchased under resale agreements with BSP;
4. **Financial Assets at Fair Value Through Profit or Loss** increased by 113.2% or ₱2.9 billion, mainly due to the net effect of ₱110.0 billion acquisition and ₱108.8 billion sale of government securities (mostly Fixed Rate Treasury Notes (FXTNs) and RTBs), and net acquisition of equity securities of ₱1.7 billion;
5. **Available-for-Sale Investments** represent investments in government securities such as FXTNs, and RTBs. This account went down by ₱6.9 billion or 54.1%, from ₱12.7 billion to ₱5.8 billion. This was chiefly due to the net effect of ₱10.3 billion and ₱0.1 billion acquisitions of investments in government and equity securities, respectively, and sale of government securities of ₱17.3 billion;
6. **Held-to-Maturity Investments** increased by 70.5% or ₱6.7 billion due to acquisitions of FXTNs amounting to ₱6.8 billion and net amortization of premium of ₱0.1 billion.

Variances in the following statement of financial position accounts explain further the Group's business strategies for the period ended:

- **Loans and Receivables** went up by 6.9% or ₱1.1 billion; Time Loans and Bills Discounted increased by ₱995.0 million due to newly-granted loans. On the other hand, Unquoted Debt Securities Classified as Loans (UDSCL) decreased by 1.5% or ₱143.7 million due to the net effect of the acquisitions and early redemptions of various debt securities amounting to

₱1.9 billion and ₱2.1 billion, respectively. Movement in UDSCL was also due to amortization of premium or discount of the outstanding debt securities. Accounts receivable went down by 24.3% or ₱74.9 million while dividend receivables increased by 394.4% or ₱7.4 million. Accrued interest receivables also decreased by ₱33.0 million from ₱565.6 million to ₱532.6 million;

- **Property and Equipment** pertains to buildings and improvements, furniture and equipment owned by the Group. The incremental of ₱9.2 million or 12.4% was mainly on account of the acquisition of various office and transportation equipment, and improvements to office premises totaling to ₱24.1 million, net disposal of ₱0.6 million and recognized depreciation expense amounting to ₱14.3 million;
- **Investments in Subsidiaries, Associates and Joint Venture** represents the costs of investments in shares of stocks in allied/non-allied undertakings. The 4.6% increment was mainly due to the booking of share in net earnings of the Parent Company's subsidiaries and associates;
- **Other Assets** includes prepayments, refundable deposits, deferred charges, unissued office supplies, input taxes, intangible assets and others. The 17.2% or ₱46.1 million surge was mainly due to increase in creditable taxes and prepaid expenses;
- **Bills Payable** comprises of deposit substitutes and other borrowings obtained from local banks, private firms and individuals. The 14.4% or ₱7.6 billion increment was due to the effect of the net proceeds from deposit substitutes and settlement of other borrowings amounting to ₱11.6 billion and ₱4.0 billion, respectively;
- **Accrued Taxes, Interest and Other Expenses** consists of expenses incurred on taxes, licenses, interests on borrowings, retirement liability and other expenses of the Group which have remained unpaid as of June 30, 2011. The 17.6% increase was mainly due to upward movement in accrued interest payable in relation to the increase in bills payable;
- **Accounts Payable** increased by 110.0% or ₱253.4 million chiefly due to the booking of payable to participants and customers of Parent Company's subsidiaries;
- **Bonds Payable** of ₱55.2 million refers to the Parent Company's outstanding issuance of 4-year Floating Rate Bonds;
- **Other Liabilities** consists of withholding taxes, dividends, subscription and premium payables, payables for securities purchased, non-equity non-controlling interest and other miscellaneous liabilities;
- **Non-controlling Interest** went up by 24.1% or ₱2.3 million due to growth in the net assets of Parent Company's subsidiary not directly owned by it;
- **Retained Earnings** increased by 20.1% due to the Group's results of operations during the period;

- **Equity in Translation Adjustment** pertains to foreign currency adjustment with regard to the Parent Company's foreign currency denominated equity investments with FMIIC;
- **Net Unrealized Gains ( Losses) on AFS investments** went down by 137.7% or ₱159.1 million due to the decline in the market value of the Group's outstanding AFS investments;
- **Capital Funds** reached to ₱10.9 billion as of June 30, 2011, which translates to 17.87% capital adequacy ratio (CAR). This is far beyond the 10.0% CAR required by BSP on non-bank financial intermediaries with quasi-banking function.

## RESULTS OF OPERATIONS

For the six months ended June 30, 2011, the Group realized a net income of ₱1.1 billion or 24.8% higher than the ₱0.9 billion posted during the same period of last year.

Detailed discussions on the changes in the consolidated statement of income accounts are as follows:

- **Treasury Income** contributed ₱1.5 billion gross income, which is just about the same level of income recognized in the same period of last year;
- **Investment Banking Fees** for the first half of 2011 contributed ₱319.3 million of the total revenue generated. This was 17.7% higher than the ₱271.3 million fees earned in the same period of last year. The notable deals which the Parent Company secured were as follows:
  - a) Bureau of the Treasury's ₱104.0 billion Retail Treasury Bonds as Issue Manager and Selling Agent;
  - b) Power Sector Assets and Liabilities Management Corporation's ₱75.0 billion ROP Guaranteed Syndicated Loan as Arranger;
  - c) Panay Energy Development Corporation's ₱14.0 billion Loan Facility as Lead Arranger;
  - d) Metrobank's ₱10.0 Billion Stock Rights Offering as Lead Underwriter;
  - e) SM Prime Holdings, Inc.'s ₱7.0 billion Fixed and Floating Rate Notes and ₱5.0 billion Floating Rate Notes both as Arranger;
  - f) Beacon Electric Asset Holdings, Inc.'s ₱11 billion Corporate Notes as Joint Lead Arranger and Bookrunner;
  - g) Ayala Corporation's ₱10.0 billion Multiple Put Fixed Rate Retail Bond as Underwriter;
  - h) Manila Water Company, Inc.'s ₱10.0 billion Fixed Rate Corporate Notes as Arranger;
  - i) Federal Land, Inc.'s ₱6.6 billion Corporate Notes as Arranger;
  - j) MERALCO's ₱5.0 billion Fixed and Floating Rate Notes as Arranger and Bookrunner;
  - k) GT Capital Holding, Inc.'s ₱5.0 billion Fixed Rate Corporate Notes as Arranger;
  - l) SM Investment Corporation's ₱5.0 billion Fixed Rate corporate Notes as Selling Agent;
  - m) Aboitiz Power Corporation's ₱5.0 billion Fixed Rate Corporate Notes as Issue Manager;
  - n) Rockwell Land Corporation's ₱4.0 billion Fixed Rate Corporate Notes as Arranger;
  - o) Property Company of Friends, Inc.' ₱1.5 billion Fixed Rate Corporate Notes as Issue Manager;

- ***Income from Investment in Stocks*** for the first two quarters of 2011 has substantially declined by 54.2% from ₱195.3 million to ₱89.4 million for the same period of last year. This was principally driven by the recognition of lower trading gain arising from the net acquisition of equity securities (refer to Financial Assets at FVPL account) and decline in the market value of the outstanding equity securities as of June 30, 2011, respectively. Also, the Group earned only ₱48.3 million dividends for this period as compared to ₱110.3 million of the same period of last year;
- ***Interest Income*** includes interest income earned from loans and receivables, due from BSP and other banks. The 4.6% growth in interest income was due to increase in loan portfolio and bank deposit accounts (refer to loans and receivables, cash and other cash items, and due from BSP accounts);
- ***Other Income*** represents income earned on sale of assets, lease of real property and equipment and other fees and commissions earned. The 387.3% surge was mainly due to the recognition of higher other professional fees and income from sale of assets as compared to the same period of last year;
- ***Non-Operating Income*** substantially represents share in net earnings of Parent Company's associates. The 33.9% decrease was due to lower results of operations of Parent Company's associates;
- ***Interest Expense*** refers to interest on outstanding bills payable to banks, individuals and private firms either paid or accrued. The 5.4% increase was mainly due to increase in average volume of bills payable from ₱52.3 billion to ₱54.5 billion;
- ***Employee's Compensation and Fringe Benefits*** consists of the gross remuneration 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% rise in this account;
- ***Depreciation and Amortization*** represents the monthly/periodic depreciation of the Group's buildings, furniture, fixtures and equipment, as well as, the monthly amortization of deferred charges, leasehold rights and improvements. The 14.0% increase is the consequence of the procurement of various office and transportation equipment and building improvements;
- ***Rent Expenses*** pertains to expenses incurred for office spaces and/or equipment leased by the Group. The 9.7% increment was mainly due to the additional floor area in the head office being leased by the Parent Company in 2011;
- ***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 Parent Company. The 24.6% increase was mainly due to intensified marketing strategies employed during the period;
- ***Management and Other Professional Fees*** comprises of expenses for services rendered by individuals/firms on retainer or contractual basis;

- **Supervision Fees** represents the Parent Company's share in the cost of maintaining the appropriate supervising and examining department in BSP. The 33.1% or ₱2.1 million increase was due to increase in average net assessable assets in this period as compared to the same period of last year;
- **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. The 31.4% net increase in other expenses was mainly due to increase in donation and charitable expenses;
- **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 17.0% increase was mainly due to increase in gross receipts taxes paid as reinforced by the increase in the operating income of the Group;
- **Provision for Income Tax** includes corporate income taxes, deferred taxes and taxes on tax-paid investment securities.

## **DISCUSSION OF KEY PERFORMANCE INDICATORS**

In evaluating its performance, the Parent 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 Parent Company in controlling costs, evaluating performance and planning future goals.

The Parent 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 Group for the six months ended June 30, 2011 and 2010 as well as, for the year-ended December 31, 2010:

<b>PERFORMANCE INDICATOR</b>	<b>As of</b>		
	<b>June 30, 2011 (Unaudited)</b>	June 30, 2010 (Unaudited)	December 31, 2010 (Audited)
Return on average assets <sup>1/</sup>	<b>3.25%</b>	2.88%	2.80%
Return on average equity <sup>2/</sup>	<b>21.39</b>	19.50	18.64
Cost-to-income ratio <sup>3/</sup>	<b>31.34</b>	29.25	27.53
Non-performing loans ratio <sup>4/</sup>	<b>0.05</b>	—	0.02
Capital adequacy ratio <sup>5/</sup>	<b>17.87</b>	19.83	19.82

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

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

<sup>3/</sup> Operating expenses for the cost-to-income ratios do not include provision for credit losses and provision for income taxes.

<sup>4/</sup> Non-performing loans were gross of valuation reserves, but, are fully covered.

<sup>5/</sup> 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 Group has no plans of entering into any material commitments for capital expenditures in the future.
2. To the knowledge and information of the Group, there are no events or uncertainties that will have a material impact on the Group's liquidity.
3. There are no known events that will trigger direct or contingent financial obligation that is material to the Group, 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 Group 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 Group'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 Group.

**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, 2011

Type of Loans/Receivables	Total	1 Month	2 - 3 Months	4 - 6 Months	7 Months to 1 Year	1 - 2 Years	2 - 5 Years	5 Years - above	Past due accounts & Items in Litigation
a) Loans and Discounts									
1) Time Loans	6,324,081,696	388,000,000	551,400,000	482,382,644	899,066,310	3,047,135,533	232,335,463	723,761,746	-
2) Bills Discounted	4,038,106	-	-	-	-	-	1,038,106	-	3,000,000
3) Fringe Benefit Loans	41,900,660	297,569	2,324,674	6,489,077	5,635,489	8,908,353	16,027,115	2,218,383	-
4) Restructured Loans	676,562	-	-	-	676,562	-	-	-	-
Sub-total	6,370,697,024	388,297,569	553,724,674	488,871,721	905,378,361	3,056,043,886	249,400,684	725,980,129	3,000,000
Less: Unearned Discount	5,061	-	-	-	-	5,061	-	-	-
<b>Net Loans and Discounts</b>	<b>6,370,691,963</b>	<b>388,297,569</b>	<b>553,724,674</b>	<b>488,871,721</b>	<b>905,378,361</b>	<b>3,056,038,825</b>	<b>249,400,684</b>	<b>725,980,129</b>	<b>3,000,000</b>
b) Other Receivables									
1) Unquoted Debt Securities Classified as Loans	9,671,352,495	-	1,500,000,000	400,000,000	553,763,650	1,189,549,220	6,028,039,625	-	-
2) Sales Contract Receivable	15,147,912	-	-	15,147,912	-	-	-	-	-
3) Accounts Receivable	233,447,401	143,781,088	372,944	396,424	172,250	281,260	54,297,980	139,194	34,006,261
4) Accrued Interest Receivable	532,634,209	71,029,053	192,773,366	265,279,278	-	-	-	3,552,512	-
5) Dividends Receivable	9,280,071	9,276,666	-	-	-	-	2,467	938	-
6) Other receivables	41,176,706	1,107,716	-	40,068,990	-	-	-	-	-
Sub-total	10,503,038,794	225,194,523	1,693,146,310	720,892,604	553,935,900	1,189,830,480	6,082,340,072	3,692,644	34,006,261
Less: Allowance for Credit Accounts	252,000,669	-	-	-	-	-	-	-	-
<b>Net Other Receivables</b>	<b>10,251,038,125</b>	<b>225,194,523</b>	<b>1,693,146,310</b>	<b>720,892,604</b>	<b>553,935,900</b>	<b>1,189,830,480</b>	<b>6,082,340,072</b>	<b>3,692,644</b>	<b>34,006,261</b>
<b>Net Loans/Receivables (a + b)</b>	<b>16,621,730,088</b>								

**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) Sales Contract Receivables	Represent receivables from sale of investment property	10 years
7) Accounts Receivable	Miscellaneous advances to customers, official travel of officers and employees.	1 to 5 years
8) Accrued Interest Receivable	Interest earned but not yet collected/received on loans, investments and deposits.	1mo to 5 years
9) Dividends Receivable	Dividends earned but not yet collected/received on held for tading and other investment securities	1mo to 1 year
10) Other Receivables	Represent mainly receivables from securitization of assets	3 years

**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:



**ROBERTO JUANCHITO T. DISPO**

President 

