2012 ANNUAL REPORT

Philippines Growth
First Metro Story

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The Philippine story is a story of transformation. Once known as the "sick man of Asia," the country has emerged as the "best economic success story" in a world that is increasingly dominated by uncertainty and pessimism. In the past, the economy has often exhibited its resilience, bucking global headwinds and sidestepping economic tailspins. Now the world is taking notice, not because it has dodged another doom, but because positive, meaningful change is happening and inviting everyone to ride in the crest of growth.

The story of First Metro Investment Corporation encapsulates the Philippines' success story. For half a century now, the country's leading investment bank has not only been a witness to the ups and downs of the Philippine capital markets, it has also played an active role in the nation's march towards economic progress, both as a prime mover of capital and a driver of inclusive growth.

The Philippines' success is First Metro's success.

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About Us

First Metro Investment Corporation is a leading investment bank in the country with 49 years of service in the development of the Philippine capital markets. Incorporated in 1963, it is the investment banking arm of the Metrobank Group, one of the largest financial conglomerates in the country.

First Metro provides investment banking services through its strategic business units: Investment Banking and Strategic Finance, Treasury, and Investment Advisory. With consolidated assets of around P80.0 billion as of end-2012, First Metro is the largest investment bank in the country.

In 2011, it became the first investment bank to list its own bonds on the Philippine Dealing and Exchange Corp. (PDEx) corporate securities market. As a quasi-bank licensed by the Bangko Sentral ng Pilipinas, it can also access funds from the public via the issuance of its own debt instruments. It is likewise an accredited government securities eligible dealer authorized by the Securities and Exchange Commission and the Bureau of the Treasury to trade government securities.

First Metro holds a combined 70% market share in peso-denominated corporate and government debt transactions. It helps the government and the private sector through debt and equity underwriting and distribution, arranging and syndicating large, long-term funding requirements, financial advisory, project finance and structured financial solutions.

First Metro is also a leading bond house with key strengths in origination, structuring and execution.

Through the years, First Metro has built a strong financial franchise and has consistently played a leading role in the development of the Philippine capital markets. Building on its competitive strength and proven approach to solving challenges and delivering results, the organization is now primed to deliver its finely honed service excellence to the regional stage.

The company's operating businesses are organized and managed separately according to the nature of services and products provided and markets served, with each segment representing a strategic business unit.

Investment Banking & Strategic Finance
- Debt and Equity Underwriting
- Loan Syndication
- Project Finance
- Private Equity
- Financial Advisory
- Direct Lending for Pre-defined Purposes/Markets
  - Term Loans and/or Project Finance Participation
  - Securitization
  - Mezzanine Financing
  - Asset or Company Acquisition Financing
  - Vendor Financing/ Trade Acceptance
  - Credit Lines and/or Short-term Loans
- Domestic Standby Letters of Credit

Treasury
- Fundraising and Liquidity Management
- Government Securities and Corporate Debt Trading
- Fixed Income Distribution
- Financial Products Structuring

Investment Advisory
- Equities Investment Advisory
- Portfolio Management Advisory
- Equities Research

FIRST METRO
INVESTMENT CORPORATION
Metrobank Group

Vision

First Metro Investment Corporation is the leading investment banking institution and the prime mover in the development of the Philippine capital markets. It will be a respected name in the Asian region.

Mission

Our core purpose is to provide investment banking and related financial solutions to enable our clients to achieve sustainable and optimal returns. We will adhere to the highest standards of integrity and efficiency.

In pursuit of our mission, we commit to:

Our People

We recognize and value their dignity and talents. We provide a professional work environment and career opportunities that reward hard work and performance with competitive compensation. We encourage our associates to achieve professional growth and financial security.

Our Shareholders

We shall optimize shareholders value through sustainable earnings while ensuring sound financial condition. We practice good corporate governance.

Our Country

We shall be a socially responsible corporate citizen committed to the economic upliftment of the Philippines and its people.

Our Values

- Integrity and Prudence
- Passion for Excellence
- Loyalty
- Teamwork
- Innovation
- Respect for the Individual

Right place, right time

The year 2012 was undeniably, the Philippines' best. Bucking strong global headwinds of an anemic US economy and a lingering Eurozone fiscal crisis, the economy emerged as Asia's fastest-growing next to China, and the country was hailed as one of the world's success stories in 2012.

It was a case of being at the right place at the right time.

The Philippines has a geographic advantage being in this part of the world where the two most populous countries and fastest-growing economies are situated.

The phenomenal economic expansion of China and India, with a combined 2.5 billion population, spurred demand for goods and services in the region. This led to the phenomenal two decade economic growth of many neighboring Asian economies. This "contagion" of dynamism was most evident in 2012 when intra-regional trade, investments and tourism reached record highs and made many Asian economies the "growth anchor" for the rest of the world.

Demographic dividends

Another crucial element is timing. Counteracting the slowdown of demand from China, the US and the Eurozone, the Philippines leaned heavily on the resilient service-oriented economy which boosted consumption demand.

Thus, household spending accounted for more than half of the Philippine economy's growth on the demand side in 2012. Our huge population of 90 million, comprised of young, trainable and hardworking people, finally started paying off demographic dividends.

Remittances from overseas Filipinos, as well as the growing business process outsourcing industry, are driving up consumer purchasing capacity in the country and perking up demand for domestic goods and services.

Remittances reached an all-time high USD21.39 billion in 2012, 6.3% more than 2011 levels despite a weak global economy. The BPO industry contributed USD13.0 billion in additional investment flows. These inflows enlarged our middle class and lessened dependence on commodity exports to other markets.

Contagious growth

This combination of domestic factors enabled our economy to expand by 6.6% in real GDP growth in 2012 — the highest in a non-election year since 1988 and by far the fastest growth rate in the ASEAN and the second in Asia next to China.

Financial markets took notice of our economy's remarkable performance and promising outlook. Bond yields plunged to record-low interest rates, benefitting both government and private domestic companies which enjoyed significant growth in profitability. The Philippine Stock Exchange turned in one of its best performances in many decades, ranked second best-performing stock market in the world, next to Thailand. The portfolio flows also buoyed the Philippine peso, making it one of the world's strongest and steadiest currencies in the world.

All these were symptomatic of an effective political and economic leadership, a much-improved fiscal situation, solid external liquidity position and a benign inflation, among other things. International credit rating agencies took notice and upgraded their outlook on the country's credit rating. In March 2013, the Philippines finally obtained its first investment grade sovereign credit rating.

Riding and driving growth

Seizing growth opportunities, many Philippine companies undertook long term fund raising activities through long term bond issues, taking advantage of record low interest rates, or through follow on stock offers which shored their market capitalization. Stronger corporate earnings emboldened business expansion and laid down the groundwork for more capital raising.

First Metro not only rode on these bullish sentiments; in many cases, it drove the growth, consistent with its vision of being the prime mover in the development of capital markets.

As a result, we ended 2012 with a stronger balance sheet, more diversified revenue streams and deeper customer relationships. Our sensible, steady and disciplined approach to managing our business has served us in good stead and has enabled us to seize the right opportunities at the right time.

As the Philippines continues to emerge as one of Asia's economic engines of growth, First Metro will continue to support the corporate sector, through financial advisory or capital raising services, grow their businesses as well as expand to the region, beyond their home markets. We will continue to be a steady partner of the public sector too, particularly the Philippine government, in their funding requirements, specifically in the area of infrastructure projects and local government financing.

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Looking ahead

We see more exciting times ahead, not just for the country, but for the region as a whole, as we inch closer to becoming one integrated market by 2015 under the ASEAN Free Trade Agreement (AFTA). We see greater intra-ASEAN merchandise trade and people mobility leading towards more economic cooperation and integration. With more business-friendly government policies and less bureaucracies, our country and those of our neighbors in the region will be able to sustain our gains and even surpass our current economic performance that many are now calling as "the world's economic success story."

As far back as 2009, First Metro has envisioned itself as a respected investment bank in the region. Since then, we have been slowly but surely laying the groundwork to become a more active regional player. In support of this vision, we started capitalizing on this newfound regional dynamism by forging partnerships and exploring business ties in emerging countries such as Vietnam and Myanmar in 2012. We are also developing strategic partnerships in established financial centers in the region like Singapore and Hong Kong with a view of building an overseas network that will allow us to tap a diversified client base and provide alternative sources of capital in the region.

While uncertainty and volatility will continue to mark the global market environment, under the guidance of our Board of Directors, First Metro will endeavor to maintain strictly a robust risk management structure and corporate governance culture in place.

On behalf of the Board of Directors, may I express my appreciation for the hard work and commitment of our Senior Management, officers and staff. We also thank all our shareholders, our clients and partners for their steadfast support over these years.

Together, let us continue the growth story that First Metro has been and will be.

FRANCISCO C. SEBASTIAN

The Philippines: World's economic success story in 2012

The year 2012 started in weak recovery mode for a global economy that was just coming out from a lingering Eurozone debt crisis, spiking food and oil prices, persistent unemployment in the US and Europe, and the terrible tsunami that devastated Japan. As such, general pessimism loomed that the world may be drawing farther and farther away from the prospect of full recovery more than three years since the onset of the 2008 financial crisis.

Still, the world economy posted a modest growth of 2.3% in 2012, according to World Bank estimates. Developing countries were responsible for more than half of global growth, its report said, and will continue to be an engine of growth. The report estimates that developing countries grew 5.1% in 2012, and that the pace of growth will accelerate to 5.8% in 2015.

Amid this murky economic outlook, the Philippines emerged as the world's bright spot. No other than American economist Nouriel Roubini, during an investment forum organized by First Metro, hailed the country as an "economic success story" due to its strong economic fundamentals and fiscal reforms, coupled with more business-friendly government policies and bureaucracies.

Bucking global headwinds, the Philippine economy ended 2012 with a 6.6% GDP growth – its fastest growth in a non-election year and the fastest pace in Asia next only to China.

Taking notice of the country's remarkable growth performance, international credit rating agencies have raised their outlook on its sovereign credit ratings, now just a notch below investment grade, 11 times since June 2010 due to the continued improvement in the country's external position, banking sector, and fiscal position and management. In March 2013, Fitch upgraded the country to investment grade and we anticipate other rating agencies to follow any time soon.

Confidence in the domestic market in 2012 was also evident in the performance of the equities and bond markets where investors voted with their wallets. The Philippine Stock Exchange index reached its highest level in 2012 with a closing level of 5,812.7, 33.0% higher in local currency terms than in 2011. Its performance was considered the highest after Thailand's stock market.

In addition to raising their share prices, Philippine companies also reaped the gains from record low interest rates and a benign inflation. This led to stronger corporate earnings results, which also benefitted the banking industry.

Bucking global headwinds, the Philippine economy ended 2012 with a 6.6% GDP growth – its fastest growth in a non-election year and the fastest pace in Asia next only to China.

First Metro: Leading the Way

Perhaps no other company mirrors the Philippines' economic success story than First Metro, the country's prime mover of capital.

In 2012, First Metro had a clear two-pronged strategy. We seized fresh opportunities created by the continued rise of the Philippines as one of the fastest-growing economies of the world. In addition, we also helped ensure that the country is able to balance its growth with long-term sustainability by developing its capital markets.

First Metro's growth story stems from our deep understanding of the needs of Philippine companies through the three core areas of our business: Investment Banking and Strategic Finance, Treasury, and Investment Advisory. Each of these strategic business segments played an important role in making 2012 another banner year for First Metro.

A banner year

2012 proved to be another windfall year for First Metro, not only in terms of financial returns, but also in terms of contribution to the Philippine capital markets. We have once again upheld our dominant position by successfully participating in 76.0% of the total capital markets transactions amounting to P612.7 billion in 2012, proof of our leadership, innovation and service excellence.

We realized a net income of P3.3 billion — a 50.0% phenomenal climb from P2.2 billion the previous year. Return on equity stood at 25.0%.

We ended the year with P82.0 billion in assets, 5.0% more than the end-2011 level of P79.0 billion. Capital funds reached P15.0 billion, 31.0% higher.

Treasury contributed P1.08 billion in net revenue. Investment Advisory posted P365.0 million in trading gains and dividends – a 121.0% increase from P165.0 million in 2011.

Investment Banking generated a total fee income of P374.0 million, 26.0% more than a year ago while Strategic Finance earned a net interest income of P218.0 million in 2012.

Significantly contributing to the growth of First Metro's business were the robust earnings from our subsidiaries, most notably First Metro Securities Brokerage Corporation (FirstMetroSec) and First Metro Asset Management, Inc. (FAMI).

Increasing its market share in online trading, FirstMetroSec posted a record-breaking income of P73.0 million in 2012. It stood 16th out of the 133 active trading participants in the Philippine Stock Exchange – its highest ranking since the company started operations in 1994.

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FAMI also benefitted from the heavy doses of liquidity in the system when its assets under management breached the P10.0 billion mark in 2012. It posted a net income of P50.4 million, 168.0% higher than in 2011.

Watershed year
Riding on and driving the Philippines' reputation as the economic success story of the world in 2012, First Metro strengthened its franchise and delivered unmatched services to corporates looking to seize new market opportunities in the domestic capital market and across the region.

We forged landmark deals in all three categories we covered: the public sector, private/corporates and dollar fundraising. Among these notable deals were the following:

Public Sector:
- Two multi-billion tranches of the Republic of the Philippines' sale of Retail Treasury Bonds (RTB) in two tranches: P179.76 billion worth of 15- and 20-year RTB 15, and P188.0 billion of the 20-year RTB 16
- The Republic of the Philippines' issuance of USD500.0 million worth of 10.5-year Onshore Dollar Bonds — the first-ever deal of its kind in the domestic market

Private Sector:
- P21.567 billion IPO of GT Capital Holdings, Inc., hailed as the "Philippine Capital Markets Deal of the Year" by IFR Asia
- STI Education Systems Holdings, Inc.'s P2.7 billion Follow-On Offer
- Ayala Corporation's P10.0 billion Fixed Rate Bonds
- SM Prime Holdings, Inc.'s P7.5 billion Floating and Fixed Rate Notes
- Rockwell Land's P10.0 billion Fixed Rate Corporate Notes
- Puregold Price Club, Inc.'s P5.0 billion worth of Corporate Notes

Dollar Fundraising:
- USD10.0 million Corporate Notes Issuance of Cirtek Holdings Philippines Corporation, a newcomer in the capital markets
- First Pacific Finance Limited's USD200.0 million Term Loan and USD400.0 million Bonds

Casting our net farther
The rise of Asia as the world's economic engine of growth has brought with it increasing demand from companies in the region, particularly in ASEAN, looking for faster and better ways of managing their businesses as they expand beyond their home markets.

Since 2009, First Metro has been setting its sights on these emerging intra-regional opportunities. In 2012, we started to make solid progress on our regionalization strategy by organizing and leading business missions in the newly emerging economies of Myanmar, Sri Lanka and Vietnam. We also revisited China to explore possible deal-making opportunities.

First Metro also forged strategic alliances with select regional investment banks for potential joint participation on cross-border corporate advisory and syndicated finance transactions.

Riding on and driving the Philippines' reputation as the economic success story of the world in 2012, First Metro strengthened its franchise and delivered unmatched services to corporates looking to seize new market opportunities in the domestic capital market and across the region.

In 2012, our subsidiary FirstMetroSec entered into a research collaboration with DBSVickers Securities (Singapore) Pte. Ltd. (DBSVickers). The collaboration aims to offer best-in-class equity research to local and foreign investors and provide clients with actionable investment ideas in the Philippines, through the consolidation of information coming from the two companies.

We also brought three Philippine listed companies to the Pulse of Asia Conference in Singapore to present solid testimonies on the Philippines' economic growth story. The conference was attended by 400 regional fund managers and 85 listed companies from Singapore, China, Hong Kong, South Korea, Malaysia, Indonesia and the Philippines.

We will continue to make investments that will strengthen our position in the right markets as we help more businesses capitalize more fully on increasing intra-regional trade flows in the run-up to the full implementation of the ASEAN Free Trade Agreement in 2015.

In 2012, First Metro made a bold forecast that the Philippines' sovereign credit rating will finally be upgraded into investment grade this year. We regard this as a game changer, as it opens up the domestic capital markets to vast opportunities from technical investors offshore which are restricted to investment-grade markets.

While the Philippines and the rest of Asia are holding up well in a time of global uncertainties, First Metro will remain vigilant to the impact of deeply rooted issues in the U.S. and Europe which might take time to resolve. However, we know the long-term prospects for Asia remain positive.

At First Metro, we regard our people as our biggest assets. We remain focused on developing their potential, building bench strength and enhancing our talent pool to serve a growing franchise in the region.

We are confident that we are well positioned to capture new opportunities in the Philippines and across Asia.

ROBERTO JUANCHITO T. DISPO

Financial Highlights

(In Thousand Php)	2012	2011	2010
Total Assets	**82,501,589**	78,755,330	63,969,135
Total Liabilities	**67,558,949**	67,358,337	54,048,570
Stockholders' Equity	**14,942,640**	11,396,993	9,920,566
CAR	**25.47%**	18.99%	19.82%
Gross Revenues	**3,039,527**	3,707,724	3,114,971
Net Income			
Consolidated	**3,273,879**	2,188,819	1,700,199
Parent	**3,275,278**	1,492,609	921,261
Return on Average Equity			
Consolidated	**24.90%**	20.56%	18.64%
Parent	**35.21%**	20.19%	13.41%

P3.3 billion
Consolidated Net income

P1.08 billion
Treasury Group Net income

P374.0 million
Investment Banking Group Total fee income

P218.0 million
Strategic Finance Division Net interest income

P365.0 million
Investment Advisory Group Net income

A banner year for First Metro and the Philippines

President Benigno Aquino III couldn't have said it better: "This was the best year for the Philippines in a long time."

And there could not be a better showcase than the stellar growth of First Metro, as a prime mover in the development of the country's capital markets.

Expanding market share
2012 proved to be another record-breaking year for First Metro. The country's top investment bank once again solidified its dominant position in the domestic debt and equity capital markets by successfully participating in 76.0% of the total peso-denominated capital markets transactions in 2012, raising a total of P613.1 billion.

Leveraging on its in-depth understanding of the domestic capital markets and its extensive distribution capabilities, First Metro cornered 99.7% of the P367.8 billion total government fundraising deals for 2012. It also participated in 51.3% of the total private debt issuances, raising P133.5 billion. The investment bank contributed significantly as well to the equities capital market by raising P111.8 billion or 62.0% of the total equity transactions for 2012.

Flexing financial muscle
In terms of financial performance, First Metro ended the year with a consolidated net income of P3.3 billion, 50.0% or P1.1 billion higher than the P2.2 billion net income the previous year. Return on equity stood at 25.0%.

All aspects of First Metro's businesses delivered strong growth and made significant contributions to its bottom line.

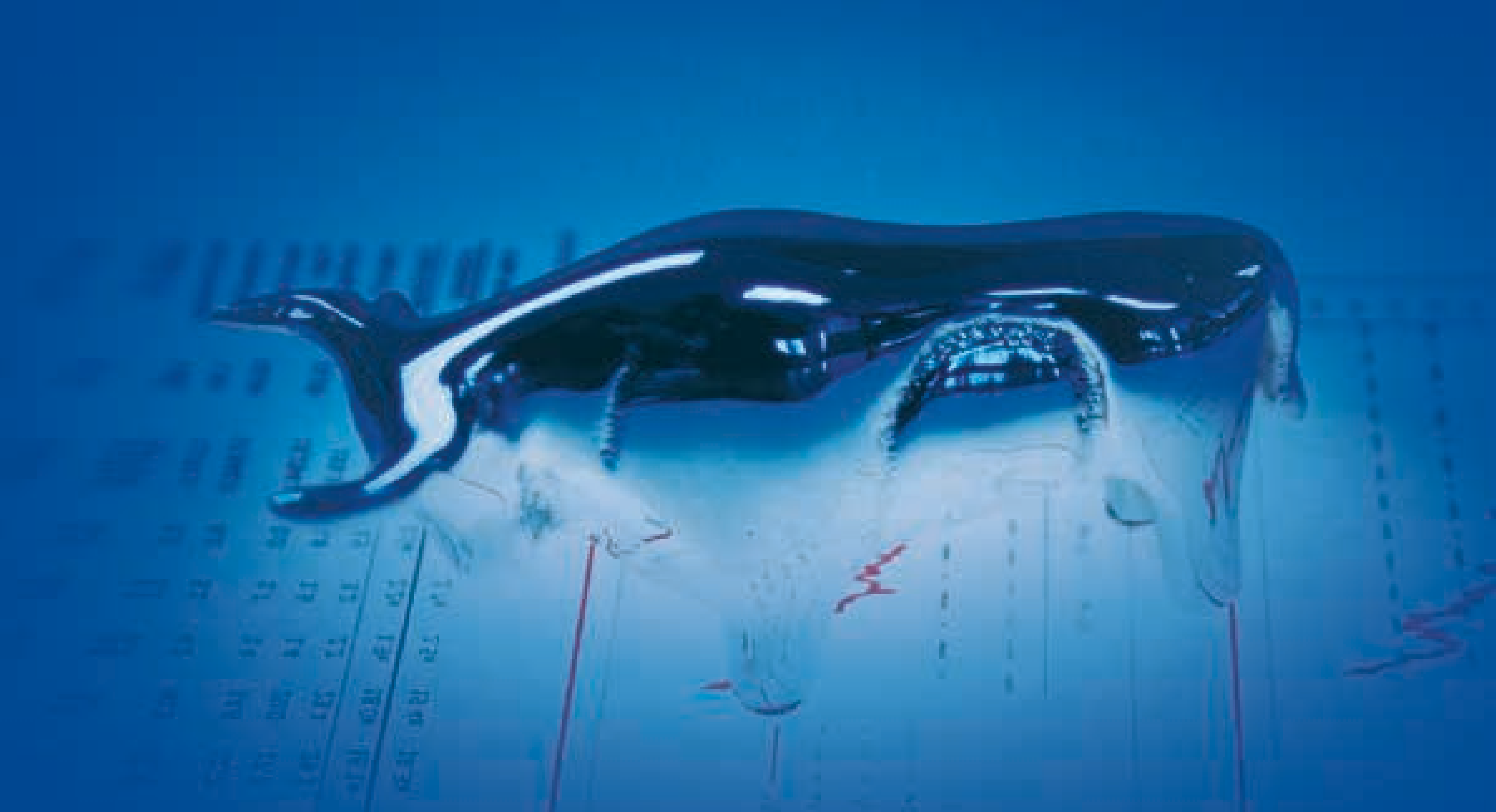
The **Treasury Group** alone booked a solid P1.08 billion income. Net interest income stood at P958.0 million, driven by higher level of securities portfolio. Gains from securities trading amounted to P646.0 million while fee income from securities distribution was at P94.0 million.

The **Investment Banking Group** generated a total fee income of P374.0 million, 26.0% more than the previous year's fees. The bulk was generated through various significant deals.

The **Strategic Finance Division** earned a net interest income of P218.0 million.

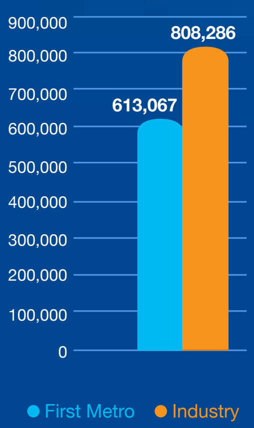
The **Investment Advisory Group** posted P365.0 million in trading gains and dividends from investment in stocks. This was a whopping 121.0% increase or P200.0 million higher than its P165.0 million income in 2011.

First Metro's assets at the end of the year stood at P82.0 billion, 5.0% more than the end-2011 level of P79.0 billion. Capital funds increased by 31.0%, which now stood at P15.0 billion.

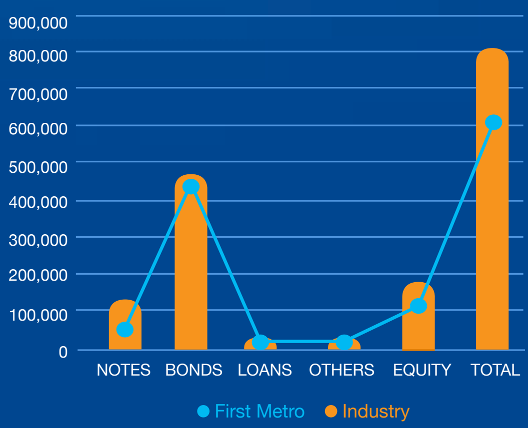


2012 PHILIPPINE DEBT & EQUITY CAPITAL MARKETS

FIRST METRO MARKET SHARE IN 2012



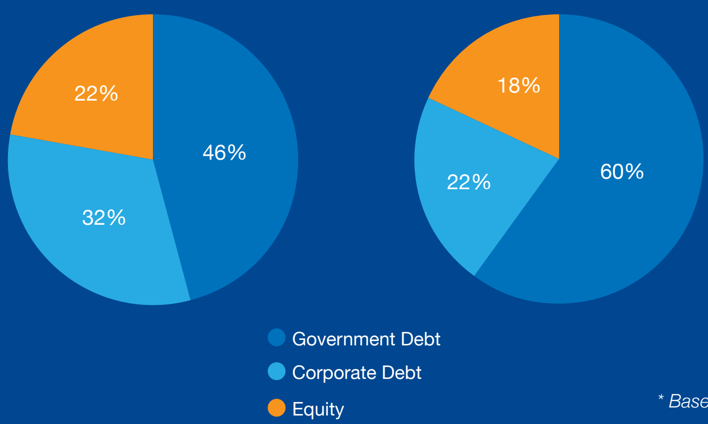
PRODUCTS RAISED IN 2012



2012 DEBT & EQUITY DEALS BREAKDOWN

INDUSTRY

FIRST METRO



** Based on publicly available information*

Riding on the crest

In many respects, 2012 was a "coming out year," not just for the Philippines, but also for First Metro. It was a year filled with groundbreaking deals, local and international awards and recognitions, as well as regional initiatives that reflected the fast-changing economic landscape and capital market developments in the country.

JANUARY

- First Metro is named the Best Domestic Bond House in the Philippines by Hong Kong-based The Asset in its Triple A Country Awards for 2012.
- Monetary Board slashes key policy interest rates by 25 bps to 4.25% for the overnight borrowing or reverse repurchase (RRP) facility and 6.25% for the overnight lending or repurchase (RP) facility.

FEBRUARY

- First Metro bags the prestigious Cesar E. A. Virata Award for Best Securities House (Investment House Category) given by the Philippine Dealing System Holdings Corporation.
- Bangko Sentral ng Pilipinas lowers the reserve requirement from 21.0% to 18.0%.

MARCH

- First Metro completes five capital markets deals:
  - Republic of the Philippines' P179.76 billion Retail Treasury Bonds 15
  - First Pacific Finance Limited's USD200.0 million Term Loan
  - City Savings Bank's P3.0 billion Corporate Notes
  - Smart Communications, Inc.'s P5.5 billion Fixed Rate Corporate Notes
  - San Miguel Brewery, Inc.'s P20.0 billion Fixed Rate Bonds

- The Philippine Stock Exchange index (PSEi) breaches the 5,000 level for the first time in its history.
- Philippine economy posts a 6.4% GDP growth in the first quarter, making the country the second fastest growing economy in Asia after China and the highest in Southeast Asia.

APRIL

- The Philippine Government's P323.4 billion Domestic Debt Consolidation Program wins The Banker's Deal of the Year 2012 for SSA (Sovereign, Supras and Agencies) Bonds category in Asia Pacific.
- First Metro completes GT Capital Holdings, Inc.'s Initial Public Offering, the second largest IPO in Philippine history.
- Bangko Sentral ng Pilipinas lowers inflation forecast to 3.3% from 3.4%.

MAY

- First Metro bags a Gold Award in the Institute of Corporate Directors' Corporate Governance Scorecard for Publicly Listed Companies
- Moody's raises the outlook on the Philippines from stable to positive due to demonstration of prudence in its fiscal management.

JUNE

- First Metro closes the following capital markets deals:
  - First Pacific Finance Limited's USD400.0 million Bonds
  - SM Prime Holdings, Inc.'s P7.5 billion Floating & Fixed Rate Notes
  - Filinvest Land, Inc.'s P7.0 billion Fixed Rate Retail Bonds
- Philippine economy grows 5.9% in the second quarter of 2012, the third fastest growing economy in Asia after China and Indonesia.

JULY

- First Metro's Save & Learn Mutual Funds win nine awards at the Sixth Philippine Investment Fund Association Annual Awards.
- S&P raises the country's long-term foreign currency denominated debt from BB to BB+, one notch below investment grade.

AUGUST

- First Metro issues P7.0 billion Fixed Rate Corporate Bonds.
- First Metro is named Best Equity House in the Philippines by Finance Asia in its 2012 Country Awards for Achievement.
- The 2012 Wealth Report of Citi Private Bank and Knight Frank forecasts the country's growth to average 7.3% from 2010-2050, making the Philippines the sixth fastest growing economy in the world.

SEPTEMBER

- First Metro Securities Brokerage Corporation and DBSVickers Securities (Singapore) Pte., Ltd. sign an agreement for research collaboration.
- Philippine economy registers a 7.2% GDP growth in the third quarter, making the country the best performing economy in Southeast Asia.

OCTOBER

- First Metro hosts an Investment Conference in Ho Chi Minh City, Vietnam, the first by a Philippine investment bank.
- Moody's upgrades the Philippines' sovereign credit rating to Ba1 from Ba2, one notch below investment grade.

NOVEMBER

- First Metro completes four capital markets deals:
  - Philippine Long Distance Telephone Company's P6.2 billion Corporate Notes
  - Ayala Corporation's P10.0 billion Fixed Rate Bonds
  - STI Education Systems Holdings, Inc.'s P2.7 billion Follow-On Offering
  - Rockwell Land, Inc.'s P10.0 billion Fixed Rate Corporate Notes
- GT Capital Holdings, Inc.'s P21.567 billion IPO is recognized as the Philippine Capital Markets Deal of the Year by the International Financing Review Asia. First Metro was the Sole Domestic Coordinator, Bookrunner, Domestic Lead Manager and Domestic Lead Underwriter of this landmark deal.
- PSEi hits the 5,500 level, its 26th record high in 2012.

DECEMBER

- First Metro is Co-Issue Manager for the Republic of the Philippines' USD500.0 million Onshore Dollar Bonds, the first-ever deal of its kind in the domestic market.
- First Metro starts to operate as a non-listed entity.
- The Philippines' foreign exchange reserves hit an all-time high of USD84.25 billion at the close of 2012.
- OFW remittances hit a record high of USD21.4 billion or 6.3% growth from 2011.
- PSEi soars to 5,813 at the end of 2012, breaking new record highs and posting as the second best performing stock market in Asia.

2012 INVESTMENT BANKING DEALS

Date	Client	Amount	Issue	Role
December 2012	Republic of the Philippines (Bureau of the Treasury)	USD500,000,000	10.5-year Onshore Dollar Bonds	Co-Issue Manager
November 2012	Rockwell Land, Inc.	PHP10,000,000,000	7-year Fixed Rate Corporate Notes	Joint Lead Arranger
November 2012	STI Education Systems Holdings, Inc	PHP2,704,688,574	Follow-On Offering	Joint Domestic Lead Manager & Joint Domestic Lead Underwriter
November 2012	Ayala Corporation	PHP10,000,000,000	7-year Fixed Rate Bonds	Underwriter
November 2012	Philippine Long Distance Telephone Company	PHP6,200,000,000	7- and 10-year Corporate Notes	Joint Issue Manager
October 2012	Republic of the Philippines (Bureau of the Treasury)	PHP188,000,000,000	25-year Retail Treasury Bonds 16	Co-Issue Manager
October 2012	Puregold Price Club, Inc.	PHP5,000,000,000	5- and 7-year Corporate Notes	Sole Arranger & Bookrunner
September 2012	Philippine Long Distance Telephone Company	PHP8,800,000,000	7- and 10-year Corporate Notes	Joint Issue Manager
September 2012	San Miguel Corporation	PHP80,000,000,000	Series 2 Preferred Shares	Joint Bookrunner
August 2012	First Metro Investment Corporation	PHP7,000,000,000	5.25- and 7-year Bonds	Issuer
July 2012	Philippine Long Distance Telephone Company	PHP1,500,000,000	7-year Corporate Notes	Sole Issue Manager
July 2012	SM Investments Corporation	PHP15,000,000,000	7- and 10-year Fixed Rate Bonds	Joint Issue Manager & Joint Lead Underwriter
July 2012	Cirtek Holdings Philippines Corporation	USD10,000,000	5-year Fixed Rate Corporate Notes	Arranger
June 2012	First Pacific (Finance) Limited	USD400,000,000	7-year Bonds	Joint Philippine Domestic Manager
June 2012	SM Prime Holdings, Inc.	PHP7,500,000,000	5- and 10-year Floating & Fixed Rate Notes	Arranger
June 2012	Filinvest Land, Inc.	PHP7,000,000,000	7-year Fixed Rate Retail Bonds	Joint Issue Manager & Underwriter
May 2012	Ayala Corporation	PHP10,000,000,000	15-year Fixed Rate Bonds	Joint Underwriter
May 2012	Philippine National Bank	PHP3,500,000,000	10-year Tier 2 Notes	Selling Agent
April 2012	Ayala Land, Inc.	PHP15,000,000,000	7- and 10-year Fixed Rate Bonds	Co-Lead Manager & Underwriter
April 2012	GT Capital Holdings, Inc.	PHP21,567,000,000	Initial Public Offering	Sole Domestic Coordinator, Bookrunner, Domestic Lead Manager & Domestic Lead Underwriter
March 2012	Republic of the Philippines (Bureau of the Treasury)	PHP179,796,000,000	15- and 20-year Retail Treasury Bonds 15	Joint Issue Manager
March 2012	FP Finance (2012) Limited	USD200,000,000	3-year Term Loan	Arranger
March 2012	City Savings Bank	PHP3,000,000,000	5- and 7-year Corporate Notes	Joint Issue Manager
March 2012	Smart Communications, Inc.	PHP5,500,000,000	5- and 10-year Fixed Rate Corporate Notes	Lead Arranger & Sole Bookrunner
March 2012	San Miguel Brewery, Inc.	PHP20,000,000,000	5-, 7- and 10-year Fixed Rate Bonds	Co-Lead Manager
February 2012	Philippine Savings Bank	PHP3,000,000,000	10-year Tier 2 Notes	Limited Selling Agent
January 2012	Manila Electric Company	PHP3,000,000,000	7- and 10-year Corporate Notes	Sole Arranger & Underwriter

A showcase of sustained strength

We reinforced our investment banking leadership and our role in financing the real economy in 2012 with a series of landmark deals that helped address the capital requirements of various types of institutions.

PUBLIC SECTOR

Breaking New Ground

Reflecting a growing vote of confidence from investors, the Philippine government was able to raise P188.0 billion worth of its Retail Treasury Bonds 16 (RTB) in 2012.

The sale of the 25-year RTB – the first in this tenor – broke the record of previous RTB sales as investors quickly swamped the debt sale.

The bonds carried 6.125% coupon rate, and will mature on October 24, 2037. They are designed to provide higher-yield investment alternative to small investors. The strong demand enabled the government to manage its domestic borrowing program for the first quarter of 2013.

First Metro was Co-Issue Manager to the transaction.

Betting on domestic strength

Seizing opportunities from a flood of domestic liquidity, the Philippine government through the Bureau of the Treasury listed its maiden 10.5-year USD500.0 million Onshore Dollar Bonds (ODB) due 2023 on the Philippine Dealing and Exchange Corp. (PDEx) government securities market in 2012.

The demand for the ODB in the primary market was very strong, with an order book of USD1.7 billion which is 3.5 times the issue size. As a result, the ODB was priced competitively at 2.75%, almost aligned to the more liquid and internationally traded RoP.

More importantly, this landmark issuance opens up a new financing alternative to the Republic, further enhancing its economic toolkit.

First Metro was also Co-Issue Manager to the transaction.

CORPORATE SECTOR

Size was the order of the year and the stock market debut of GT Capital Holdings, Inc., the holding company of the family of George S.K. Ty, made all the waves.

Its initial public offering (IPO) became the country's second largest in history, with an offer size of P21.567 billion or 47.4 million shares. The issue was highly successful and was 4.5 times oversubscribed.

The overwhelming domestic demand served as proof that the domestic equity market can already support an issue of this magnitude. It also paved the way for ensuing equity issues in terms of a reliable domestic investor volume.

First Metro was Sole Domestic Coordinator, Bookrunner, Domestic Lead Manager, and Domestic Lead Underwriter for the deal.

It also fortified First Metro's reputation as a prime mover in the capital markets as the landmark transaction was cited by International Financing Review-Asia (IFRAsia) in its 2012 Review of the Year Awards as "Philippine Capital Markets Deal of the Year."

IFRAsia is considered to be one of Asia's most authoritative capital markets magazines.

DEEPENING THE BENCH

First Metro continued its steadfast advocacy to deepen the capital markets by bringing new names that offered more investment opportunities. Among the new corporate issuers in 2012 were the following:

- *P5.0 billion Corporate Notes Issuance of Puregold Price Club, Inc.*

First Metro led 12 institutions in the signing of the P5.0 billion Fixed Rate Corporate Notes Facility Agreement of Puregold Price Club, Inc., now one of the country's biggest retail store operators.

First Metro served as the Sole Arranger and Bookrunner for the maiden issuance of Puregold.

Proceeds from the Notes issuance will be used to fund the supermarket chain's targeted expansion projects that include the opening of 25 new stores in 2013 and other general corporate requirements.

- *USD10.0 million Corporate Notes Issuance of Cirtek Holdings Philippines Corporation*

First Metro joined Metrobank for a USD10.0 million Fixed Rate Corporate Notes issue of Cirtek Holdings Philippines Corporation.

Metrobank served as the Notes Facility Agent while First Metro was the Sole Arranger for the transaction.

Proceeds from the Notes will be used for Cirtek's acquisitions of companies outside the country. Cirtek is an independent complete solutions provider for subcontract manufacturing of semiconductor devices.

P188.0 billion

RTB SOLD BY THE PHILIPPINE GOVERNMENT

GT CAPITAL HOLDINGS, INC.'s IPO, THE 2ND LARGEST IPO IN HISTORY

P21.567 billion

Expanding our horizon

2012 was the year when the shift in the world's economic axis to the ASEAN region grew more evident.

Southeast Asia, once home to many economic laggards and basket cases, is now outpacing bigger nations (with the exception of China), as intra-regional trade rises amid sluggish global expansion.

First Metro, which first saw the opportunity as far back as 2009, gained more traction in creating a footprint in the regional markets.

In 2012, the Philippines' prime mover of capital actively took part in business missions in Myanmar, Sri Lanka and Vietnam and revisited China to explore possible deal-making opportunities.

In October, First Metro hosted an investment conference in Ho Chi Minh City, the first by a Philippine investment bank. The event was well attended by Vietnamese business groups and government agencies, as well as notable Philippine companies from various industries, such as water, power distribution, toll road, hospital, food, beverage and pharmaceutical.

First Metro also forged strategic alliances with select regional investment banks for potential joint participation on cross-border corporate advisory and syndicated finance transactions.

2012 was also a milestone year for subsidiary First Metro Securities Brokerage Corporation (FirstMetroSec) when it entered into a research collaboration with DBSVickers Securities (Singapore) Pte. Ltd. (DBSVickers) in October 2012. The collaboration aims to offer best-in-class equity research to local and foreign investors and provide clients with actionable investment ideas in the Philippines.

In line with this partnership, FirstMetroSec brought three Philippine listed companies to the Singapore leg of the Pulse of Asia Conference organized by DBSVickers. The three local companies – Metro Pacific Investment Corporation, Robinsons Land Corporation, and Puregold Price Club, Inc. – presented the Philippine market and its growth story to 400 regional fund managers and 85 listed companies from Singapore, China, Hong Kong, South Korea, Malaysia, Indonesia and the Philippines.

The response was overwhelmingly positive. Eighty-percent of the institutional investors and regional fund managers have not previously met the three listed companies and expressed strong interest in the Philippine market.

FirstMetroSec and DBSVickers will continue inviting listed firms to future conferences in the United States and Europe, as well as bring individual firms on separate roadshows. The two companies are looking to expand joint distribution and work on new areas of collaboration.

Consistent with its thrust to build its brand in the regional market, First Metro is also working with DBSVickers to explore other debt and equity markets projects.

First Metro and its subsidiaries will remain steadfast in pursuing business opportunities in the emerging and key markets in the region in 2013 and beyond. They will focus on building relationships with target clients and positioning First Metro in the regional market. They are also aiming to benefit from the vast opportunities in these markets, and from potential business flows that will arise from the continued strong growth of the Philippine economy and the liberalization of the ASEAN economic community in 2015.

First Metro and its subsidiaries will remain steadfast in pursuing business opportunities in the emerging and key markets in the region in 2013 and beyond.

Growing with communities

We believe our role is not just in moving capital where it is needed, but also in helping the nation spread its economic gains to the communities so that growth will serve the greater good.

First Metro's Corporate Social Responsibility (CSR) program "First Metro Inspires Cares" focuses on two key advocacies where the company can make a positive contribution to the community: investment literacy and community outreach.

INVESTMENT LITERACY

First Metro's investment literacy initiatives are anchored on how it envisions its role as a prime mover of the Philippine capital markets. It helps raise awareness on the capital markets and shares its expertise as the country's leading investment bank. It also exemplifies the company's commitment in integrating CSR in the various facets of its business.

In 2012, its subsidiary First Metro Asset Management, Inc. (FAMI) mounted a total of 107 Investment Literacy Seminars nationwide, benefitting 4,443 participants from all walks of life – from professionals, Metrobank and non-Metrobank clients, private companies, foundations and government agencies to students and retirees.

Its stock brokerage arm, First Metro Securities Brokerage Corporation (FirstMetroSec), also conducted its own weekly tutorials from October to December 2012. Sessions were held in Metro Manila, Cebu, Davao and Cagayan de Oro with investment topics ranging from diverse personal investment opportunities in the capital markets to investment strategies and stocks portfolio management.

107	INVESTMENT LITERACY SEMINARS CONDUCTED	4,443	INVESTMENT LITERACY SEMINAR PARTICIPANTS
200	PARTICIPATING TEAMS	253	EYEGLASSES DONATED

To reinforce its thought leadership and help inform various publics on current economic and capital markets issues, First Metro organized a total of nine briefings in Metro Manila, Cebu, Davao and Cagayan de Oro in 2012.

The series of briefings drew participants from the local media and clients of First Metro and Metrobank. Some of the topics include: macroeconomic outlook and trends, prospects for the fixed income, equities and corporate debt markets, as well as corporate issuances and emerging growth industries.

Stock X Challenge

For the third year in a row, First Metro organized “Stock X Challenge” which aims to promote stock market awareness and develop future investors in the equities market among the youth. The annual intercollegiate online stock trading competition was held in partnership with the Philippine Stock Exchange and the Catholic Educational Association of the Philippines.

The 2012 competition saw more than 200 teams from various colleges and universities all over the country vying for the coveted spot. A total of 2,137 college and university students attended the 12 Stock X Challenge Portfolio Management Seminars. On top of the seminars held in Metro Manila, roadshows were also conducted in Baguio, Tuguegarao, Isabela, Cebu, Davao, Iloilo and Cagayan de Oro in preparation for the tournament.

For the first time, Stock X Challenge participants were given access to the online stock trading platform of FirstMetroSec. In addition to gaining real-world stock trading experience online, participants also learned to use various research and investment tools with the help of FirstMetroSec.

COMMUNITY OUTREACH

First Metro Investment is also able to share its financial success by giving back to communities.

Bigay Liwanag
Through a community outreach project called Bigay Liwanag, the company has helped more than a thousand vision-impaired public elementary students to have a clearer vision and look forward to a brighter future.

In 2012, First Metro provided 253 students with free prescription glasses and conducted free eye checkup for students of Manila schools that include Marcela Agoncillo Elementary School (Binondo), Cecilio Apostol Elementary School, Juan Sumulong Elementary School (Sta. Cruz) and Lapu-lapu Elementary School (Tondo).

Typhoon Relief Operations
Staff volunteers of First Metro also continued to reach out to communities in need. In 2012, the company and its employees made cash and in-kind donations to Elsie Gaches Village and typhoon victims.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Geared up for game changers

2012 was a relatively less volatile year for the global and domestic markets. Nonetheless, it was also the year when First Metro Investment Corporation intensified gearing up for the game-changing regulatory environment.

Given the new rules from the Bureau of Internal Revenue (BIR) the Philippine Financial Reporting Standards (PFRS 9) and Basel 3, First Metro sustained its vigilance on risk management, strictly adhered to policies and ensured the smooth implementation of its business plans.

Responsibility

First Metro believes that risk management is a responsibility that rests on every individual. This begins with the Board of Directors, which creates the Risk Management Charter, and cascades to the Risk Oversight Committee (ROC) and the various units. The company has three lines of defense in managing risk: the first is the operating business unit, the second is risk management, and the third is audit.

One of its risk management goals is to institutionalize a culture of risk awareness within the organization, including its affiliates and subsidiaries. As such, it constantly updates its Risk Management Manual as ready reference for the identification and recognition of risks, their quantitative measurement, reporting and monitoring.

2012 Initiatives

In 2012, First Metro produced the second and third batches of the Operating Manuals, this time for the Strategic Support Units (SSUs). The first batch of Operating Manuals was completed in 2011 for the Strategic Business Units (SBUs). First Metro engaged Isla Lipana/PricewaterhouseCoopers consultancy firm for the SBU Manuals, and sought the assistance of Punongbayan & Araullo/Grant Thornton International Ltd. for the SSU manuals.

The 2012 engagement was completed in two batches. In June 2012, the operating manuals for General Accounting, Management Accounting, Operations, MIS-Budget, Human Resources, Credit, Information Technology, Administrative Services, Corporate Planning and Affairs, Legal, Risk Management and Compliance; and one Business Unit: Regional Business Development, were completed.

In November 2012, the operating manuals of Accounting and Information Technology were approved by the Board. The Accounting manual includes Chart of Accounts, Preparation of Accounting Schedules, Preparation of Financial Statements, and Other Accounting Activities. The IT manual, on the other hand, covered Project Management and Systems Development Life Cycle which includes Quality Assurance Testing. The Internal Capital Adequacy Assessment Process (ICAAP) Manual was also approved by the Board.

First Metro also sponsored the fifth of its annual risk seminars for the Board on Basel 3 – the International Paper vs. the local BSP Draft conducted by Deloitte.

The company also collaborated with parent firm Metrobank on the continued implementation of the ICAAP across eight risks: market, credit, operational, liquidity, and interest rate risk in the banking books, compliance, reputational and business/strategic. In addition, it carried out an assessment of underwriting and conglomerate risks. Metrobank subsidiaries were given frameworks for the calculation of the ICAAP numbers and stress testing, which incorporates macro and internal assumptions to construct various scenarios. Final consolidation of the Group's numbers and ICAAP write-ups was done by the parent firm.

Risk Management Culture

First Metro continued to pursue an enterprise-wide risk management (ERM) system, which began in 2007. Proactive, vigilant and integrative, the system focuses on risk management for various business units.

The ERM emphasizes policy, methodology and infrastructure. Policy involves business strategy, definition of risk tolerance, authorities and disclosures. Methodology covers the measurement of risk to eventually achieve risk-based pricing and risk-adjusted returns. Infrastructure involves the hiring, training and development of people; and the organization, operations and technology to support the framework.

The ERM framework is guided by the following functional structure:

Board of Directors

- Establishes risk management strategies and is ultimately accountable for risks taken within the Group
- Understands major risks faced by the company and approves broad risk tolerance levels/limits and other recommendations of the ROC
- Leads in disseminating risk philosophy and control culture throughout the organization

Risk Oversight Committee (ROC)

The ROC is composed of four members of the Board and one representative from the parent bank who possess a range of expertise, as well as adequate knowledge of our institution's risk exposures to develop strategies for preventing losses and minimizing the impact of losses when they occur as well as maximizing returns from opportunities.

The Risk Oversight Charter defines the duties and responsibilities of the ROC members and the reporting functions to the Board, including the membership composition and regularity of meetings. The Committee:

- Recommends for Board approval, corporate policies and guidelines on risk measurement, management and reporting
- Reviews and recommends a system of risk limits for approval by the Board
- Monitors the timely and accurate reporting of risks by Risk Taking Units and/or the Risk Control and Compliance Units
- Analyzes and confirms that the risk infrastructure satisfies corporate policies and is consistent with current technology and techniques
- Ensures that business units provide for ongoing review and validation of the adequacy and soundness of policies and practices
- Creates and promotes a risk culture that requires and encourages the highest standards of ethical behavior among all personnel
- Promotes the professional development and training of staff engaged in both risk management and control activities and risk-taking activities
- Promotes the continuous development of risk programs and infrastructure

Risk Management Division and Control Units

These are composed of the Controller, the Internal Auditor, the Compliance Officer and the Chief Risk Officer whose responsibilities are to:

- Perform the daily mark-to-market valuation and Value-at-Risk calculations for all of our risk positions using independent data sources
- Ensure compliance with internal limits and report limit excesses to appropriate Business Unit Heads and the ROC
- Ensure that proper accounting, operations, legal and technology systems are in place to support risk-taking activities at all times
- Actively assist in the planning, design and testing of new systems or system improvements

Managing Various Types of Risks

The current risk issues that affect First Metro are the following:

Liquidity Risk

This is the potential risk when the company is unable to make a timely payment on any of its financial obligations to customers or counterparties.

Liquidity could be affected by the inability to access long- or short-term deposit substitutes and repurchase markets, or draw from credit facilities, whether due to factors specific to First Metro or to general market conditions. The timing of uncertain events and contingencies could also adversely affect cash requirements and liquidity.

Liquidity risk management techniques are designed to:

- Meet financial commitments when these become contractually due
- Have funds available for purposes of new business which meet credit and pricing standards

- Cover differences in the maturity pattern of assets and liabilities
- Cover shortfalls in projected cash flows
- Cover unplanned expenditures

Outlined in the liquidity and contingency plan is a specific plan of action to implement the liquidity management techniques, which the Board approves through the ROC.

First Metro has a monitoring system to support liquidity risk management policies. The system includes the Maximum Cumulative Outflow (MCO) analysis, identification of large funds providers, and development of core investors.

To further strengthen its monitoring system, First Metro implements additional stressful scenarios in the analysis to comply with the Bangko Sentral ng Pilipinas' (BSP) requirements. The tests show the liquidity requirement in case the scenarios materialize.

Market Risk

This is the risk of loss to future earnings, fair values or future cash flows that may result from changes in the price of a financial instrument. Potential market risk originates from the company's holdings of debt securities and equities.

First Metro manages market risk by segregating its balance sheet into a trading book and a banking book. The management of this portfolio is assigned to the Senior Management Committee, chaired by the President.

The Risk Management team serves under the ROC and performs daily market risk analyses to ensure compliance with policies and procedures. The methodologies used in managing the risk include the daily marking-to-market, monitoring of loss alerts and stop loss limits, profit alert and start sell limits, nominal position limits, as well as Value-at-Risk (VaR) and Earnings-at-Risk (EaR) limits. Monitoring also includes sensitivity analysis/stress testing and backtesting of the VaR as well. VaR is now generated by Riskmark, the risk engine of Credence Analytics. Riskmark's VaR methodology was independently validated by SGV.

Guiding daily monitoring activities are limits structures that are based on annual targets set during budget hearings, approved by the ROC and the Board. Monitoring reports are discussed in the ROC monthly meetings.

Credit Risk

This refers to the risk to earnings or capital arising from an obligor/s', customer/s', or counterparty's failure to perform and/or to meet the terms of any contract with First Metro, subjecting the company to a financial loss. It also includes sovereign risk for some foreign-owned counterparties, where applicable.

Credit risk arises mainly from lending activities, committed underwritings, investments in equities and strategic finance. To assess the creditworthiness of counterparties, First Metro evaluates the company/individual background, management/ownership, industry/competition, financials, the mechanics of the deal, and any credit enhancements.

Counterparties are rated based on a Basel-2 compliant, 10-point internal credit rating patterned after the Metrobank model. The rating is automatically linked to provisioning at the BSP-classified levels. First Metro obtains security or other credit enhancements and limits the duration of its exposures where warranted. The risk-taking units present their proposals to a deal committee. The proposals are then presented to the credit committee/s for final approval.

First Metro also regularly undertakes and reports credit monitoring of risk areas to the ROC for First Metro and its subsidiaries First Metro Asset Management, Inc. and First Metro Securities Brokerage Corporation. These include: ceiling to DOSRI loans, single borrower's limits/group exposure, level of availed facility versus committed credits, portfolio profiles on security, tenor, risk rating, industry, non-performing loans and any other concentrations. Regular stress testing and concentration risk analysis are likewise carried out.

Operational Risk

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, but excludes strategic and reputational risk.

Operational risk management entails resolute vigilance and continuous enhancements. Simply put, an effectively managed operational risk improves the quality and stability of earnings, enhancing one's competitive position in the industry.

The operational risk management framework embodies the company's resolve towards an effective management of operational risks via a staged approach. This involves risk identification, analysis and assessment, treatment, monitoring and reporting.

The Operational Risk Management manual outlines a set of principles that provides a framework for effective supervision and management of operational risk. In line with this framework, various methodologies and tools were established to facilitate management of the risk. These operate under the Operational Risk Self-Assessment (ORSA) framework and include: operational risk incident management and reporting process, risk event database, risk assessment process and monitoring of and reporting on identified Key Risk Indicators (KRIs).

First Metro is also implementing a structured Information Systems Strategic Plan (ISSP) that is in sync with its strategic business direction. This provides reasonable assurance for an effective information systems infrastructure that will support the business' current and future requirements in a controlled and efficient approach. This tool runs in tandem with the IT Risk Control Self-Assessment (IT-RCSA).

First Metro also adopted proactive risk management practices for effective oversight, due diligence and management of risks arising from outsourcing, prior to entering into, as well as, during the lifespan of an outsourcing agreement/arrangement. This can be cost effective and brings other competitive advantages but at the same time poses risks.

Outsourcing risk is the risk that third-party service providers may not act within the intended limits of their authority and/ or not perform in a manner consistent with outsourcing party's strategies, objectives and desired results, as well as, legal and regulatory requirements.

Metrobank's Internal Audit Group reviews operational risk management processes, and provides an independent assurance as to their adequacy and effectiveness.

Compliance Risk
These are risks arising from violations or non-conformity with laws, rules and regulations, circulars, and prescribed practices or ethical standards that may expose First Metro to fines, penalties and even assumption of control by the regulatory authorities in case of capital inadequacy.

The company has an established compliance function and written compliance policy manual that defines the compliance system, its status, authorities and independence. A Compliance Division headed by a Compliance Officer ensures the implementation of this compliance system.

The Compliance Officer leads in identifying, assessing and reporting compliance issues to ensure that the company complies with the laws, rules, regulations and standards set forth by the different regulatory bodies.

Legal Risk
This refers to breaches of applicable laws and regulatory requirements, unenforceability of contracts, lawsuits, or adverse judgment that may lead to potential losses and disruption or result in financial and reputational risk.

The company's Legal Division advises the business units on the following:

- Legal constitution of enforceable commitments during negotiations process
- Appropriate governing laws and jurisdiction for agreements
- Development and documentation of terms for transactions involving collateral, guarantees, syndication, multi-office transactions, and any third-party support
- Documentation of waivers and amendments to the original documents

The Legal Division also ensures that contracting entities have the legal capacity or are duly empowered to contract with First Metro. It also establishes procedures for safeguarding of original documentation and reviews these documents for compliance completeness and enforceability under respective legal jurisdictions.

Leading the way

First Metro Investment Corporation believes in **good corporate governance – it's our way of life!**

We believe that good corporate governance is indispensable to business growth and sustainability. We truly acknowledge that it is only upon our strict adherence to the highest standards of business ethics and fair play that the company can be worthy of our shareholders' trust and confidence.

At First Metro, we have established an excellent reputation as a premier capital market player that gives primordial regard to fairness, accountability and transparency. We are unrelenting in our adherence to the best corporate practices with the end-view of preserving the trust and confidence bestowed by our shareholders.

Milestones in 2012

A solid testament to this commitment is the Gold Award from the Institute of Corporate Directors (ICD) in 2012 for topping the non-bank category of ICD's Corporate Governance Scorecard.

This came after First Metro received in 2011 a Silver Award from the same governance body.

Determined to take the company beyond compliance with regulations, First Metro adopted in 2012 various courses of actions aimed at improving further its governance policies and guidelines. Its Manual on Corporate Governance (Manual) that was first adopted in 2002 embodying the company's governance framework has undergone a series of amendments to incorporate new trends and more stringent corporate governance guidelines issued by the Securities and Exchange Commission (SEC) and the Bangko Sentral ng Pilipinas (BSP).

First Metro also updated the Manual to adhere to the requirements of the BSP under BSP Circular 749 dated February 27, 2012. The updates were approved by the Board on April 26, 2012 and incorporated the following enhancements and updates to the existing provisions in the Manual:

- Qualification and composition of the Board of Directors (BOD): Adopting limits on the number of members and election of sufficient number of non-executive members; minimum number of Independent Directors (IDs); qualifications of directors/ independent directors; term of independent directors where they can only serve for five consecutive years which may be extended for another five years after a two-year period; IDs can only be elected as such in only five companies of the conglomerate; and limitation on the nationality of directors wherein a non-Filipino member may become a director up to foreign equity participation.

- Adoption of the prescribed specific duties and responsibilities of the BOD, individual director, chairperson of the board and officers, including the risk management function; and

- Adoption of stricter Board committee requirements such as that the Corporate Governance Committee chairperson shall be an independent director; Risk Oversight Committee (formerly Risk Management Committee) shall be composed of at least three directors, including one independent director and a chairperson who is a non-executive director and CEO; and that the CFO and Treasurer shall not be appointed as members of Audit Committee.

First Metro also submitted the 2012 Compliance Officer's Certification of Compliance with the Manual of Corporate Governance to the SEC on January 23, 2013. This demonstrated the company's adherence and compliance with the principles and standards of good corporate governance.

Board of Directors

Setting the tone at the top, compliance with the principles of good corporate governance starts with the Board of Directors.

The Board sets the strategic goals and roadmap of the corporation to achieve its vision and mission as guided by its corporate values. The Board of Directors is entrusted with setting the direction and overseeing the implementation of the overall strategic policy of the company in addition to its exercise of its corporate powers.

First Metro's Board is committed to uphold the highest principles of good corporate governance. As an elected body, it is accountable to shareholders for maximizing shareholder value. It is also primarily accountable to the investing public for safeguarding their investments and maintaining public trust.

It is the Board's responsibility to foster the long-term success of the Corporation and secure its sustained competitiveness in a manner consistent with its fiduciary responsibility, which it shall exercise in the best interest of the Corporation, its shareholders and other stakeholders. The Board shall conduct itself with utmost honesty and integrity in the discharge of its duties, functions and responsibilities, under the provisions of the relevant regulatory agency rules and regulations.

Board Composition

The Board is composed of eleven directors, three of whom are independent, elected by the stockholders entitled to vote during the Annual Stockholders Meeting. Members were screened and nominated based on their qualifications, extensive experience and expertise necessary to steer First Metro.

In compliance with BSP Circular 749, all elected directors are of Philippine nationality and a sufficient number is non-executive.

Having fully met the fit and proper test, the Board believes that the quality of its directors, each of whom offers relevant experience and skills, ensures that they are able to challenge, develop and drive the company's vision and strategy, and that the governance standards are consistently upheld.

Role of Independent Directors

Although all Directors have equal responsibilities, the role of Independent Directors is especially significant in safeguarding the interest of all stakeholders by ensuring that strategies and key policies formulated by Management are fully reviewed, examined and disclosed. They also provide independent judgment in matters where divergent views and interests of Management and the Board exist.

Independent Directors are represented by Messrs. Rex C. Drilon II, Abelardo V. Cortez and Manuel I. Ayala.

These independent directors are still within the term limit as prescribed by the SEC and BSP.

The three Independent Directors do not participate in the day-to-day management and do not engage in any business dealing or other relationship with the Group so that they are capable of exercising independent judgment and act in the best interest of the company and its shareholders.

Board Meetings

The Board meets every month, with additional meetings convened as the need arises.

During the reporting period, the Board met thirteen times to deliberate and consider a variety of significant matters that required its guidance and approval.

All Directors have complied with the requirement that they must attend at least 50% of the board meetings in 2012 in line with guidelines set by the SEC and the BSP.

Board Committees

Board-level committees were established to aid the Board in corporate governance and in the performance of its corporate functions and responsibilities. Each Committee has its own Charter detailing its purpose, membership requirements, meetings and duties and responsibilities. The memberships of these committees are distributed to ensure balanced and effective working committees.

The **Executive Committee** approves credit proposals within defined limits and performs other functions delegated to it. All matters passed and acted upon are reported to the Board.

DIRECTORS' ATTENDANCE IN BOARD AND BOARD COMMITTEE MEETINGS FOR 2012								
DIRECTORS	BOARD	EXECUTIVE	CORPORATE GOVERNANCE	AUDIT	RISK OVERSIGHT	NOMINATIONS	TRUST	RELATED PARTY TRANSACTIONS
Francisco C. Sebastian	13/0	8/0	9/0				4/0	
Arthur Ty	10/0*	6/0*						
Solomon S. Cua	13/0	8/0*		7/0				
Roberto Juanchito T. Dispo	13/0	8/0	8/1			2/0	4/0	
Martin Q. Dy Buncio	13/0				12/0	1/1		
Abelardo V. Cortez (Ind)	10/0*			5/0*	8/0*			5/0
Rex C. Drilon II (Ind)	12/1		9/0	7/0	11/1			
Manuel I. Ayala (Ind)	7/3*		4/2*			2/0		5/0
Vicente R. Cuna, Jr.	13/0	8/0					4/0	
Bienvenido E. Laguesma	13/0		2/4*				4/0	
Ismael G. Cruz	13/0				12/0			5/0

Legend: Present/ Absent
**Term of office started April 2012*

Having fully met the fit and proper test, the Board believes that the quality of its directors, each of whom offers relevant experience and skills, ensures that they are able to challenge, develop and drive the company's vision and strategy, and that the governance standards are consistently upheld.

Members: Arthur Ty (Chairman), Francisco C. Sebastian (Vice Chairman), Antonio S. Abacan, Jr., Solomon S. Cua, Roberto Juanchito T. Dispo and Vicente R. Cuna, Jr.

The **Corporate Governance Committee** is an important and desired tool to aid the Board in its primary responsibility for good corporate governance. It ensures the Board's effectiveness and due observance of corporate governance principles and guidelines through the performance of a periodic evaluation of the Board and its committees. It decides whether or not a director has been adequately carrying out his duties and makes recommendations to the Board regarding the continuing education of directors, assignment to board committees and succession plan for the board members and senior officers. It is composed of five directors, two of whom are independent, including the chairman. It convenes at least every quarter or as often as necessary.

Members: Rex C. Drilon II (Chairman), Francisco C. Sebastian, Roberto Juanchito T. Dispo, Bienvenido E. Laguesma and Manuel I. Ayala

The **Audit Committee** is tasked to provide oversight of the senior management's activities in managing risks of the corporation and effectiveness and reliability of the financial reporting process and its systems of internal controls, and coordinating and monitoring of compliance with existing laws, rules and regulations. It is responsible for setting up the Internal Audit Division and appointment of External Auditor. It reviews reports of Internal and External Auditors and ensures that management is taking appropriate actions in a timely manner in addressing reported issues. It is chaired by an independent director and is composed of two other directors and meets every quarter. Pursuant to BSP Circular 749, CEO, CFO and Treasurer shall not be appointed as members of Audit Committee.

Members: Rex C. Drilon II (Chairman), Abelardo V. Cortez and Solomon S. Cua

The **Risk Oversight Committee** (previously Risk Management Committee) is created to assist the Board in overseeing the formulation and maintenance of written policies and procedures relating to management of risks throughout the company. The risk management policy includes a comprehensive risk management approach, detailed structure of limits, risk guidelines and parameters used to govern risk-taking, clear delineation of lines of responsibilities for managing risks, adequate system for measuring and monitoring risks and effective internal controls and comprehensive risk-reporting process. The ROC convenes on a monthly basis. It is composed of at least three directors, including one independent director and a chairperson who is a non-executive director.

Members: Ismael G. Cruz (Chairman), Martin Q. Dy Buncio, Abelardo V. Cortez, Rex C. Drilon II and Rico Villanueva

The **Nominations Committee** reviews and evaluates the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board. This is to aid stockholders to select and elect qualified persons as directors and officers under the "fit and proper rule".

Members: Manuel I. Ayala (Chairman), Roberto Juanchito T. Dispo and Martin Q. Dy Buncio

The **Compensations Committee** is tasked to establish a formal and transparent procedure for developing a policy on remuneration of directors and officers to ensure that their compensation is consistent with the corporation's culture, strategy and the business environment in which it operates.

Members: Arthur Ty (Chairman), Francisco C. Sebastian and Abelardo V. Cortez

The **Trust Committee** is responsible for the proper management and administration of the trust, investment management activities and other fiduciary business of the Trust Department.

Members: Francisco C. Sebastian (Chairman), Roberto Juanchito T. Dispo, Bienvenido E. Laguesma, Vicente R. Cuna, Jr. and Dreda Teresa D. Mendoza (Trust Officer)

The **Related Party Transactions Committee** is created to assist the Board in ensuring that transactions with related parties (including internal Group transactions) are reviewed to assess risks, are subject to appropriate restrictions to ensure that such are conducted at arm's-length terms and that corporate or business resources of the Company are not misappropriated or misapplied. The creation of the RPTC shall ensure that Company transactions with related parties are fair and transparent, and do not benefit a particular group or individual at the expense of public investors or minority shareholders.

Members: Abelardo V. Cortez (Chairman), Manuel I. Ayala, Ismael G. Cruz and Maritess B. Antonio

Remuneration Policy

The members of the Board of Directors are compensated under standard remuneration as follows:

Per diem ranging from P35,000.00 to P100,000.00 and transportation allowance of P15,000.00 are granted to Directors on Annual Stockholders and regular Board meetings. Bonuses ranging from P110,000.00 to P240,000.00 are given to each director during December each year.

As part of good corporate governance, most of the directors, particularly the Independent Directors, are required to chair certain committees created to enhance First Metro's business operations. Their participation in these committees is part of their annual compensation packages.

Accountability and Audit

The Board recognizes its responsibility of ensuring that First Metro's financial reports are accurate and reliable. The Audit Committee assists the Board in overseeing the financial reporting process and the quality financial statements to ensure the reports present a fair and accurate view of First Metro's performance.

The financial statements of First Metro are prepared and are compliant to the requirements of the Philippine Financial Reporting Standards/ Philippine Accounting Standards promulgated by the Philippine Accounting Standards Board, which are in line with International Accounting Standards.

The Board has overall responsibility for First Metro's system of internal controls which includes financial controls, operational and compliance controls, and risk management to ensure that stakeholders' investments and interest are safeguarded.

The Audit Committee likewise maintains a professional relationship with auditors, both internal and external.

An independent Internal Audit function was set up to provide the Board, through the Audit Committee, with reasonable assurance that key organizational and procedural controls are effective, appropriate and complied with. The Internal Audit evaluates the entity's governance, risk management and compliance systems – encompassing governance structure, operations, information systems, financial and reportorial integrity, safeguarding of assets and compliance with laws, rules and regulations and code of conduct. The Internal Audit Division performs its duties and responsibilities and complies with International Standards for the Professional Practice of Internal Auditing. As allowed under BSP regulations, First Metro has outsourced its Internal Audit function to its parent company, Metrobank.

SGV & Co., an independent external auditor appointed by the Board, likewise audits the entity's financial reporting process and expresses an opinion on the fairness of the financial statements. The audit is done under the Philippine Standards on Auditing. SGV & Co. does not perform non-audit works for First Metro that may infringe its independence and objectivity in auditing our financial statements.

Compliance System

It is the oversight responsibility of the Board to ensure that the corporation complies with applicable laws, rules and regulations. To this end, a compliance system was adopted describing the specific roles of each unit, from the Board down to the last unit in the organization, including their responsibilities in complying with applicable laws, rules and regulations. The same is embodied in an updated Compliance System Manual duly approved by the Board in June 28, 2012.

The Chief Compliance Officer is mandated to oversee the implementation of the compliance system.

The thrust of the compliance function is to build the right culture and promote the ethical conduct of doing business. It was created to disseminate and create awareness of applicable laws, rules, regulations and circulars, as well as global standards and principles of good governance.

Disclosure and Transparency

The Board is transparent and fair in the conduct of the annual stockholders meeting of First Metro. Stockholders are encouraged to personally attend such meeting. The Board also promotes the rights of the stockholders and protects the interests of the minority stockholders. For this purpose, First Metro created an Investor Relations Unit to assist and handle queries of shareholders and investors.

On April 26, 2012, the Parent Company held its annual meeting and the stockholders representing at least two-thirds (2/3) of the outstanding capital stock approved and ratified the amendment to the Articles of Incorporation to extend the corporate term of First Metro for another 50 years from June 25, 2013 to June 25, 2063.

On October 12, 2012, the SEC approved the extension of the corporate term of First Metro for 50 years from June 25, 2013 to June 25, 2063.

On that same date, First Metro filed a disclosure with the Philippine Stock Exchange (PSE) on its intention to voluntarily delist its shares and buy back all of its publicly-owned shares via a tender offer following the decision of its Board to operate as a non-listed entity. And the delisting of the Company's shares from the Official Registry of the Exchange was subsequently approved by PSE effective December 21, 2012.

First Metro discloses to BSP, SEC and PSE all the material information such as, earnings results, acquisition or disposal of assets, board changes, related party transactions or changes in ownership, corporate strategy and other information which may have a direct or indirect impact to the decision-making of our stockholders and the investing public. Periodic reports are also submitted to BSP, SEC and PSE (until the date of delisting).

From Corporate Governance to Personal Governance

First Metro continues to observe and practice the standards of good governance as a way of life. It also persists to work harder to attain and maintain the global principles and standards of good governance to uphold its vision as a respected name in the Asian region.

First Metro not only aims to comply with the minimum requirements of good corporate governance, but also advocates the practice of the standards of personal governance in the dealings in life of each and every stakeholder in the company – from shareholders, management, employees and suppliers to customers.

Given the challenging market conditions, tight competition, coupled with more comprehensive regulations in 2012, the Audit Committee has been vigilant of its role of providing strong assistance to the Board of Directors in fulfilling its statutory and fiduciary responsibilities to enhance stakeholders' value and protect their interest.

In complying with its responsibilities defined in the Board-approved Charter, the Audit Committee conscientiously and objectively performs effective oversight of the outsourced internal and external audit functions; transparency and proper reporting; compliance with laws, rules and regulations, and, code of conduct; and, adequate and effective internal controls. The Audit Committee also assures it has maintained its stature in the Company, and that, it has remained independent, while maintaining a constructive working relationship with management.

Activities and Results

The Audit Committee is well prepared to undertake its oversight responsibilities. A clear and well-written Charter approved by the Board helped the Audit Committee and other stakeholders understand its roles and responsibilities. To be able to contribute constructively, the Audit Committee periodically reviewed reports it received to ensure that the information provided is both informative and useful in making its decisions. The Audit Committee members also updated their knowledge and awareness of the Company's operations and related business risks, through meaningful dialogues with management, and regular reporting and meetings with internal and external auditors. The Audit Committee met seven (7) times, and reviewed/ evaluated the matters discussed below, and reported to the Board of Directors its activities and relevant issues. The number and length of Committee meetings are considered sufficient to allow for serious and meaningful discussion of material issues.

- **Internal and External Auditors**

  The Audit Committee provided oversight of outsourced internal and external audit functions.

  Throughout the year, the Audit Committee has worked effectively with Metrobank Internal Audit Group (IAG), internal audit provider, in accordance with insourcing service level agreement, to strengthen Company's internal control processes. The Audit Committee reviewed and approved internal audit methodologies and risk-based audit plan prepared in accordance with the International Standards for the Professional Practice of Internal Auditing (ISPPIA), including revisions thereto, ensuring sufficiency of audit scope with emphasis on major business and regulatory risks. Internal audit completed all focus areas identified in its 2012 risk-based audit plan with adequate resources and required competencies, unrestricted access and overall effectiveness. Results of internal audit activities, including assessment on each unit's operational effectiveness, were thoroughly discussed and evaluated. Implementation of management corrective actions on audit recommendations was likewise monitored.

  The Audit Committee assessed and discussed with the external auditors, SyCip Gorres Velayo & Co., the independence requirement to perform the work, the scope of audit and the approach to the audit; the key risks identified in relation to the financial statements and the Company's controls; accounting policies, disclosure requirements, and observations on the overall quality of financial reporting; and other matters considered relevant to be brought to the attention of the Audit Committee. The Audit Committee then reviewed the 2012 financial statements of the Company audited by external auditors, who are responsible for expressing an independent opinion on such audited financial statements in accordance with accounting standards and principles.

- **Internal Control**

  Internal and external auditors' results of testing on the effectiveness of internal controls, including audit recommendations and management actions to such recommendations were thoroughly reviewed and evaluated. As a result, operating manuals of policies and procedures for most First Metro units were completed and approved by the Board of Directors in 2012. Effective implementation of these policies and procedures, including the minimum internal control standards prescribed by Bangko Sentral ng Pilipinas (BSP), shall be continuously monitored.

- **Risk Management**

  As part of its responsibility over internal controls, high-risk areas or areas of emphasis that will require more consideration by the Audit Committee were also identified.

  The Internal Audit launched the Residual Risk Assessment Process in 2012, which started from the analyses of unresolved audit observations, discussion with management, to management's thorough impact deliberation whether to take further actions to neutralize the risk or request appropriate approval for risk acceptance. This process strengthened management's response to audit recommendations.

- **Corporate Governance**
  The revised Audit Committee Charter, incorporating the updates issued by the BSP on Strengthening Corporate Governance, was reviewed and approved by the Board of Directors. The Audit Committee's upstanding relationship with management, internal audit and external auditors also resulted in the effectiveness of corporate governance processes within the Company. The four (4) pillars of corporate governance (Board of Directors, Management, Internal Audit and External Audit) worked together in support to the achievement of Company's strategies and objectives.

New Developments
The Audit Committee has strengthened and updated its knowledge on areas such as risk management, fraud control, legal compliance, information management and security, and, financial management and reporting, through relevant seminars, written material/guidance, or presentations from and discussions with internal and external audits.

- **Information Technology (IT)**
  Controls and governance around IT were monitored, particularly, the progress of enhancements on Credence iDeal Treasury Management System. Internal Audit and IT Division regularly reported to the Audit Committee updates on Company's on-going system improvements and target dates of implementation.

- **Internal Capital Adequacy Assessment Process (ICAAP)**
  The Internal Audit reported to the Audit Committee the results of audit on First Metro's compliance with Basel II, which includes ICAAP.

- **Re-organization**
  The Internal Audit's risk-based audit plan was aligned with the Company's re-organization of business and support units in its thrust to better reflect extent of audit coverage, provide better customer experience and service quality through unit segmentation.

Effectiveness
The Audit Committee understood the need to monitor its effectiveness, and identify improvement needs and opportunities. The Performance of the Committee for 2012 was reviewed by way of self-evaluation to determine its effectiveness on: committee structure and operation; oversight on financial reporting and disclosures; oversight on risk management and internal controls; oversight on management and internal audit; and oversight on external audit.

Looking Ahead
The Audit Committee shall continuously monitor the business and regulatory environment; be informed of significant emerging risks; review management corrective measures to resolve identified risks and close identified gaps; find ways to uphold strong governance and control environment; and help the Company attain its strategic plans and business objectives.

Conclusion
Based on the work undertaken, the Internal Audit's favorable overall assessment on the adequacy and effectiveness of the Company's risk management, control and governance process, and, representation letter from Company Management with an unqualified opinion from the external auditors on the financial statements, the Audit Committee concludes that it has acted in accordance with its Board-approved Charter; has ensured the independence and objectivity of the outsourced internal and external auditors; and that risk and control mechanisms are in place to achieve the Company's business objectives.

REX C. DRILON II
Chairman

BOARD OF DIRECTORS

FRANCISCO C. SEBASTIAN
CHAIRMAN OF THE BOARD

Mr. Sebastian worked for Ayala International Finance Limited and Filinvest Finance (HK) Ltd. in Hong Kong as an investment banker from 1977 to 1984. He subsequently started his own corporate and financial advisory firm, Integrated Financial Services Ltd., which he managed until he joined the Metrobank Group in 1997.

With his investment banking and international finance experience spanning over 20 years, he took over as President of First Metro Investment Corporation.

In 2005, he was appointed Chairman of First Metro Asset Management, Inc. In 2006, he concurrently became the Vice Chairman of the parent bank, Metropolitan Bank and Trust Company. He also assumed the position of Chairman of Federal Land, Inc. and of Global Business Power Corporation in 2007.

He became Chairman of First Metro in 2011, after serving as its President for 13 years.

Mr. Sebastian graduated Magna Cum Laude with an AB degree in Economics Honors from the Ateneo de Manila University in 1975.

ARTHUR TY
VICE CHAIRMAN

Mr. Ty serves as the Chairman of Metropolitan Bank and Trust Co., Vice Chairman of Philippine Savings Bank (since 2001), Chairman of GT Capital Holdings, Inc. (since 2012) and Chairman of Metropolitan Bank (China) Ltd. (since 2010).

He graduated from the University of California-Los Angeles with a degree in BS Economics and holds a Master's degree in Business Administration from Columbia University.

SOLOMON S. CUA
VICE CHAIRMAN

Mr. Cua has over 20 years of experience in general management, banking, and finance.

Prior to First Metro, he served as Undersecretary of the Department of Finance from 1998 to 2000. In the past ten years, he has served as director of Lepanto Consolidated Mining Corporation and Omico Corporation; Vice Chairman/Senior Executive Vice President of Manila Jockey Club, Inc.; Director of Global Holdings, Inc. and Global Business Power Corporation; President/Director of Philippine Racing Club, Inc.; and Board of Trustee of GT Metro Foundation, Inc.

He is currently the Chairman of AXA Philippines; Vice-Chairman/ Director of the Philippine Racing Club, Inc.; Director of GT Capital Holdings, Inc., Grand Titan Capital Holdings, Inc., Global Treasury, Inc., Greenhills West Association, Inc., Philippine Newtown Global Solutions, Inc.; and Director & Treasurer of Palm Integrated Commodities, Inc.

He graduated from the University of Melbourne and the University of Queensland where he earned the degrees BA in Economics and Mathematical Sciences and Bachelor of Law, respectively. He obtained his Masters in Law from the London School of Economics and Political Sciences.

ROBERTO JUANCHITO T. DISPO
PRESIDENT / DIRECTOR

Mr. Dispo is the President of First Metro and concurrently sits on the Board. He is also a member of the Advisory Board of Metropolitan Bank & Trust Company; Chairman of First Metro Securities Brokerage Corporation; and Vice Chairman of First Metro Asset Management, Inc.

Prior to joining First Metro in 1998, he held various positions in different government offices, including the Department of National Defense, the Department of Trade and Industry, the Department of Finance and the Central Bank of the Philippines (now Bangko Sentral ng Pilipinas). His last government post was Deputy Treasurer of the Philippines with the rank of Assistant Secretary.

Mr. Dispo was responsible in establishing the Geneva-based World Association of Debt Management Offices (WADMO) under the auspices of the United Nations Conference on Trade and Development (UNCTAD), which now has 36 member countries. He is also listed in the Roster of World Experts in Development Management by the United Nations Institute for Training and Research (UNITAR) also in Geneva, Switzerland.

Mr. Dispo holds BSC Economics and Business Management-MBA degrees from San Sebastian College and the Pamantasan ng Lungsod ng Maynila, respectively. He completed a Master's degree in Business Economics from the University of Asia & the Pacific. He also took a diploma course in International Banking and Finance from the Economic Institute of the University of Colorado and another diploma course in Management Development from the Asian Institute of Management.

ISMAEL G. CRUZ
DIRECTOR

Mr. Cruz was elected to the Board in April 2008. He brings over 30 years of experience in investment banking in the Philippines and in the other parts of Asia. He served for several years as Governor of the Philippine Stock Exchange.

He is currently the President of the Philippine Association of Securities Dealers and Brokers, Inc., Director of the Philippine Depository and Trust Corporation, as well as Governor of the Market Governance Board of the Philippine Dealing System, Inc. He is a member of the Capital Markets Council of the Philippines. He is a Trustee of the Securities Investor Protection Fund, Inc. He is a Governor of the Makati Commercial Estate Association, Inc. and an Independent Director of Penta Capital Investment Corp. He is also the founder and President of IGC Securities, Inc. and Chairman and President of Carmen Homes, Inc. He was also a Governor of the Subdivision and Housing Developers Association.

He holds a BS Economics degree and completed academic requirements for a Master in Business Management from the Ateneo de Manila University. In 1980, he was named one of the Ten Outstanding Young Men of the Philippines in the field of International Finance.

BOARD OF DIRECTORS

MARTIN Q. DY BUNCIO
DIRECTOR

Mr. Dy Buncio has served as Director of First Metro since 1995. He has over 20 years of experience in interdisciplinary management.

He has been the Chairman of the Board of Pro-Oil Corp. and Pro-Auto Parts since 2002; President of HJ Marketing since 1993, Design Products Mfg. since 1993, Proline II Mercantile since 1984, and Integra Development Corp. since 1996; and President/General Manager of Proline Sports Center and DYBCOM CORP.

He holds a Bachelor of Arts degree from De La Salle University.

BIENVENIDO E. LAGUESMA
DIRECTOR

Atty. Laguesma has been a Director since April 2005. He has over 35 years of professional experience in law, public service, and governance. He is a member of the Integrated Bar of the Philippines and the Philippine Bar Association.

He joined the Department of Labor and Employment in 1976 where he held various positions and served as Secretary from 1998 to 2001.

He is currently the Chairman of Charter Ping An Insurance Corporation (formerly Philippine Charter Insurance Corporation). He is also a Senior Partner at Laguesma, Magsalin Consulta & Gastardo Law Offices. He is likewise a member of the Social Security Commission.

He took AB Political Science at the Lyceum of the Philippines and graduated in 1971. Atty. Laguesma earned a Bachelor of Laws degree from the Ateneo College of Law in 1975. He undertook the Career Executive Service Development Program in 1984 at the Development Academy of the Philippines and completed Public Sector Administration Course at the Royal Institute of Public Administration in London in 1985. He has attended a governance course of the Institute of Corporate Directors in 2011 and a similar course in 2005.

VICENTE R. CUNA, JR.
DIRECTOR

Mr. Cuna was elected to the Board in April 2011. As a professional, he has over 30 years of marketing, operations and technology experience in the financial services industry.

Prior to joining First Metro, he held several key positions in top financial institutions, among them being a Senior Consultant in JP Morgan New York (1990-1992), Vice President in Citibank New York (1992-1995), Vice President in Citibank Manila (1995-2006), and advisor for both FMICC-HK and Philippine Charter Insurance Corporation (2006-2008).

Currently, Mr. Cuna is Senior Executive Vice President and Head of Metrobank's Institutional Banking Sector; Adviser of Metro Remittance Canada, U.S. and Hawaii; and Director of Asia Top Management International Resources Corporation.

Mr. Cuna finished his Bachelor of Arts in Economics from De La Salle University.

REX C. DRILON II
INDEPENDENT DIRECTOR

Mr. Drilon was elected to the Board in June 2011. He has over 30 years of experience in general management, having served in various key executive positions such as: President of Phil Fuji Xerox Corporation, Yuchengco Group (1994 to 1995), Vice President and General Manager of Jardine Sugar Group, President of Hawaiian Philippine Company as well as HPCo Agridev Corp. (1996-1997), Vice President of Ayala Land, Inc., President of Cebu Holdings, Inc. and Cebu Property Ventures and Development Corp. (1998-2001), and Chief Operating Officer of Ortigas and Company Limited Partnership (2001-2010).

He also currently serves as an Independent Director of Metropolitan Bank and Trust Co., (since 2012), Independent Director of First Metro Asset Management, Inc. (since 2012), Director of Keyland Corporation, Uniwireless Inc. (since 2012), and Chairman of the National Advisory Group for Police Transformation and Development (since 2011).

Mr. Drilon received his Business Administration degree from the University of the East and pursued further studies at the University of Asia and the Pacific. He is a Fellow and Trustee of the Institute for Solidarity in Asia and the Institute of Corporate Directors from 2003 up to the present.

ABELARDO V. CORTEZ
INDEPENDENT DIRECTOR

Atty. Cortez has been a member of the Board since April 2012. He has over 25 years of experience in the local and international banking industry, with concentration on treasury, trust and private banking side of the business. He held the following posts: Money Market Head - Rizal Commercial Banking Corporation (1978 to 1980); Vice President - Treasury Operations, Bank of the Philippine Islands (1980 to 1986); Managing Director/Overall CEO, BPI International Finance Ltd. (Hongkong) from 1987 to 1995; Vice President/Head - Private Banking Group, Bank of the Philippine Islands (1995 to 1996); and Director for Trust and Investment, ATR KimEng Capital Partners, Inc. (1996 to 2011). He was the President of the Financial Executives Institute of the Philippines (FINEX) in 2007 and Co-Chairman of the country's Capital Market Development Council in 2008.

He writes a monthly business column in Businessworld.

Atty. Cortez earned his Bachelor of Laws degree from San Beda College of Law. He completed his Bachelor of Arts degree also at San Beda College, graduating as Cum Laude.

MANUEL I. AYALA
INDEPENDENT DIRECTOR

Mr. Ayala was elected to the Board of Directors in April 2012. He is the Managing Director of IRG Ltd., a boutique investment bank based in Hong Kong. Prior to this, Mr. Ayala was Head of Strategy, Programming and On-Air Branding at Discovery Networks Asia Pacific (1996 to 2000); and Vice President and Deputy General Manager at TNT & Cartoon Network Asia (1993 to 1996). He was the President of Entrepreneurs Organization (EO) in 2012 and is currently the Regional Director of EO's Global Student Entrepreneurs Awards.

Mr. Ayala has a Master's degree in Business Administration from Harvard Graduate School of Business and a Bachelor of Arts degree from Yale University.

BOARD OF DIRECTORS

ANTONIO S. ABACAN, JR.
SENIOR ADVISER

FLORENCIO T. MALLARE
CONSULTANT

ROMUALDO A. ONG
CONSULTANT

ALESANDRA T. TY
CORPORATE SECRETARY

NIMFA B. PASTRANA
ASSISTANT CORPORATE SECRETARY

SENIOR MANAGEMENT

In photo from left to right are Reynaldo B. Montalbo, Jr. (SVP), Group Head – Treasury; Marie Arabella D. Veron (FVP), Group Head – Controllership; Roberto Juanchito T. Dispo (President); and Justino Juan R. Ocampo (SVP), Group Head – Investment Banking.

FAMI & FIRSTMETROSEC

In photo from left to right are Gonzalo G. Ordoñez, President – First Metro Securities Brokerage Corporation (FirstMetroSec) and Augusto M. Cosio, Jr., President – First Metro Asset Management, Inc. (FAMI).

INVESTMENT BANKING

In photo from left to right are Arsenio Kenneth M. Ona (VP), Division Head – Investment Banking I; Abigail B. Magpayo (AVP), Acting Team Head – Equities/Strategic & Capital Markets/Financial Advisory; Anthony Thomas C. Roxas (AVP), Division Head – Strategic Finance; Justino Juan R. Ocampo (SVP), Group Head – Investment Banking; Melissa T. Dimayuga (AVP), Division Head – Investment Banking IV; Francisco Javier P. Bonoan (VP), Division Head – Investment Banking III; and Ma. Teresa V. De Vera (AVP), Division Head – Investment Banking II.

TREASURY

In photo from left to right are Lalaine C. De Guzman (FVP), Division Head – Distribution; Percival C. Peña (AVP), Department Head – ROP; Annagraziela Singzon-Banaad (VP), Division Head – Securities Dealership; David Ignacio C. Estacio (AVP), Department Head – Government Securities; Peter Anthony D. Bautista (AVP), Department Head – Institutional Distribution; Maricel R. Teng (SM), Acting Division Head – Fund Management; Reynaldo B. Montalbo, Jr. (SVP), Group Head – Treasury; and Ina B. Pacheco (AVP), Department Head – Retail Distribution I.

INVESTMENT ADVISORY, REGIONAL BUSINESS DEVELOPMENT, INVESTORS CENTER, TRUST

In photo from left to right are Cristina S. Ulang (SM), Division Head – Research, Investment Advisory; Antonio Manuel L. Torres III (AVP), Regional Business Development; Carlota S. Reyes (AVP), Head – Investors Center Binondo; Stella Maria Piedad I. Torres (FVP), Head – Regional Business Development; Bede Lovell S. Gomez (AVP), Acting Deputy Group Head – Investment Advisory; and Dreda Teresa D. Mendoza (AVP), Division Head – Trust.

CONTROLLERSHIP

In photo from left to right are Marie Arabella D. Veron (FVP), Group Head – Controllership; Carmelita M. Inocentes (SM), Division Head – Operations; Mauro B. Placente (AVP), Division Head – Financial Accounting; and Maria Elena Cresencia Antonia M. Alpuerto (SM), Division Head – Management Accounting.

COMPLIANCE, CREDIT, INFORMATION TECHNOLOGY, RISK

In photo from left to right are Reynaldo L. Bas (SM), Acting Division Head – Information Technology; Maria Eleanor T. Raz (AVP), Deputy Division Head – Credit; Sergio M. Ceniza (AVP), Deputy Division Head – Compliance; Maria Antonia N. Bacabac (FVP), Division Head – Risk Management; Sinfronio A. Alanano (AVP), Deputy Division Head – Risk Management; Jonathan T. Tabac (VP), Division Head – Compliance; and Joel H. Suarez (VP), Division Head – Credit.

STRATEGIC SUPPORT

In photo from left to right are Maria Cristina D. Tomas (SM), Division Head – Human Resources; Nelson L. Caballar (SM), Division Head – Administration; Nimfa B. Pastrana (FVP), Group Head – Strategic Support; and Anna Marie S. Tuprio (M), Acting Division Head – Corporate Planning & Affairs/ Department Head – Corporate Affairs.


FS SPREAD / FINANCIAL
STATEMENT

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of First Metro Investment Corporation (the Company) is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2012 and 2011, including the additional components attached therein, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements and submits the same to the stockholders.

SyCip Gorres Velayo and Co., the independent auditors, appointed by the stockholders has examined the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

FRANCISCO C. SEBASTIAN
Chairman

ROBERTO JUANCHITO T. DISPO
President

MARIE ARABELLA D. VERON
First Vice President/Controller

SUBSCRIBE AND SWORN TO BEFORE ME this March 13, 2013 at Makati City, Philippines, affiant exhibit to me their Philippine Passport Nos. 3158768, EA0032951, and EB3828777 all issued at DFA, Manila on March 4, 2009, February 19, 2010 and October 10, 2011, respectively.

Doc. No. 154
Page No. 32
Book No. 3
Series of 2013.

NOTARY PUBLIC

ATTY. MELISSA B. REYES
NOTARY PUBLIC FOR MAKATI CITY UNTIL DEC. 31, 2014
ROLL NO. 41369 / APPOINTMENT NO. M-270
IBP NO. 913785/PTR NO. 3674214
45/F GT TOWER INTERNATIONAL, AYALA AVENUE
CORNER H.V. DELA COSTA ST., MAKATI CITY

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
First Metro Investment Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of First Metro Investment Corporation and Subsidiaries (the Group) and of First Metro Investment Corporation (the Parent Company), which comprise the consolidated and parent company statements of financial position as at December 31, 2012 and 2011, and the consolidated and parent company statements of income, the consolidated and parent company statements of comprehensive income, the consolidated and parent company statements of changes in equity and the consolidated and parent company statements of cash flows for each of the three years in the period ended December 31, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the Philippines for banks as described in Note 2 to the financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated and parent company financial statements present fairly, in all material respects, the financial position of the Group and of the Parent Company as at December 31, 2012 and 2011, and their performance and their cash flows for the years then ended in accordance with accounting principles generally accepted in the Philippines for banks as described in Note 2 to the financial statements, and the financial performance and cash flows of the Group and of the Parent Company for the year ended December 31, 2010 in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations 19-2011 and 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 19-2011 and 15-2010 in Note 34 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of First Metro Investment Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Vicky Lee-Salas
Partner
CPA Certificate No. 86838
SEC Accreditation No. 0115-AR-3 (Group A)
February 14, 2013, valid until February 14, 2016
Tax Identification No. 129-434-735
BIR Accreditation No. 08-001998-53-2012
April 11, 2012, valid until April 10, 2015
PTR No. 3669690, January 2, 2013, Makati City

February 28, 2013

FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES

STATEMENTS OF FINANCIAL POSITION

	Consolidated		Parent Company	
	December 31			
	2012	2011	**2012**	2011
ASSETS				
Cash and other cash items (Notes 14 and 27)	**₱4,220,173,033**	₱13,099,729,330	**₱2,880,333,726**	₱11,777,396,196
Due from Bangko Sentral ng Pilipinas (Note 14)	**8,500,006,030**	4,272,665,522	**8,500,006,030**	4,272,665,522
Interbank loans receivable and securities purchased under resale agreements	**–**	4,010,000,000	**–**	4,010,000,000
Financial assets at fair value through profit or loss (Notes 7, 27 and 28)	**8,898,910,276**	1,594,454,845	**8,694,467,564**	1,408,053,466
Available-for-sale investments (Notes 7, 27 and 28)	**15,913,926,180**	7,370,843,518	**14,516,621,445**	7,127,052,742
Held-to-maturity investments (Note 7)	**16,334,863,006**	17,597,306,630	**16,334,863,006**	17,597,306,630
Loans and receivables (Notes 8 and 27)	**12,341,338,317**	15,912,392,120	**11,789,386,846**	15,353,982,561
Property and equipment (Note 9)	**92,430,031**	87,680,837	**81,028,824**	79,070,885
Investments in subsidiaries, associates and joint venture (Note 10)	**15,298,387,175**	14,155,896,295	**13,017,255,894**	11,840,417,238
Investment properties (Note 11)	**511,912,055**	512,202,649	**511,912,055**	512,202,649
Deferred tax assets (Note 26)	**1,884,279**	1,489,426	**–**	–
Other assets (Note 12)	**387,758,550**	140,668,902	**340,153,395**	113,710,180
	₱82,501,588,932	₱78,755,330,074	**₱76,666,028,785**	₱74,091,858,069
LIABILITIES AND EQUITY				
LIABILITIES				
Bills payable (Notes 14 and 27)	**₱53,212,112,640**	₱60,785,544,411	**₱53,212,112,640**	₱60,785,544,411
Accounts payable (Note 27)	**349,292,739**	321,197,796	**33,955,778**	45,602,224
Accrued taxes, interest and other expenses (Notes 15 and 27)	**426,184,234**	392,564,979	**399,601,242**	373,524,015
Derivative liability (Note 7)	**–**	61,377,281	**–**	58,239,001
Bonds payable (Note 16)	**11,834,390,150**	4,929,510,084	**11,946,246,805**	5,010,896,739
Income taxes payable	**30,668,954**	4,249,667	**–**	–
Deferred tax liability (Note 26)	**20,532,539**	10,847,684	**–**	–
Other liabilities (Note 17)	**1,685,768,009**	853,044,790	**162,668,500**	127,361,582
	67,558,949,265	67,358,336,692	**65,754,584,965**	66,401,167,972
EQUITY				
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY				
Common stock (Note 19)	**4,208,692,400**	4,208,692,400	**4,208,692,400**	4,208,692,400
Capital paid in excess of par value	**2,065,694,042**	2,065,694,042	**2,065,694,042**	2,065,694,042
Retained earnings (Note 10)	**9,987,945,763**	6,714,067,051	**6,755,350,811**	3,480,073,055
Treasury stock (Note 19)	**(2,646,441,934)**	(2,256,151,891)	**(2,649,208,198)**	(2,256,151,891)
Net unrealized gain on available-for-sale investments (Note 7)	**595,764,040**	229,755,731	**530,914,765**	192,382,491
Equity in translation adjustment (Note 10)	**(56,403,847)**	(39,379,598)	**–**	–
Equity in net unrealized gains on available-for-sale investments of associates (Note 10)	**756,743,059**	423,813,240	**–**	–
Equity in revaluation increment (Note 10)	**–**	35,537,331	**–**	–
	14,911,993,523	11,382,028,306	**10,911,443,820**	7,690,690,097
Equity attributable to non-controlling interests	**30,646,144**	14,965,076	**–**	–
	14,942,639,667	11,396,993,382	**10,911,443,820**	7,690,690,097
	₱82,501,588,932	₱78,755,330,074	**₱76,666,028,785**	₱74,091,858,069

See accompanying Notes to Financial Statements.

FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES

STATEMENT OF INCOME

	Consolidated			Parent Company		
	Years Ended December 31					
	2012	2011	2010	**2012**	2011	2010
INTEREST INCOME (Notes 7, 8, 20 and 27)	**₱3,274,903,402**	₱3,589,451,713	₱3,108,874,970	**₱3,195,081,879**	₱3,534,240,308	₱3,062,625,765
INTEREST EXPENSE (Notes 14, 16, 21, and 27)	**2,351,578,102**	2,456,754,526	1,972,840,435	**2,358,308,162**	2,460,097,570	1,977,020,603
NET INTEREST INCOME	**923,325,300**	1,132,697,187	1,136,034,535	**836,773,717**	1,074,142,738	1,085,605,162
OTHER OPERATING INCOME						
Trading and securities gain (Notes 7 and 27)	**1,177,308,284**	1,489,315,011	1,182,523,305	**928,919,663**	1,354,929,077	1,093,341,541
Service charges, fees and commissions (Note 27)	**716,926,162**	581,329,112	545,568,777	**521,212,681**	448,203,630	430,041,907
Gain on sale of assets (Notes 9, 10 and 11)	**28,588,696**	392,612,386	70,141,040	**28,588,696**	403,418,591	90,883,671
Dividends (Notes 7, 10 and 32)	**83,007,980**	91,823,169	102,669,421	**2,257,417,543**	417,514,600	97,458,386
Miscellaneous (Note 23 and 24)	**110,370,398**	19,947,602	78,033,894	**88,846,550**	9,456,312	69,446,585
TOTAL OPERATING INCOME	**3,039,526,820**	3,707,724,467	3,114,970,972	**4,661,758,850**	3,707,664,948	2,866,777,252
OTHER EXPENSES						
Taxes and licenses	**468,345,967**	526,606,796	394,544,608	**456,323,464**	518,254,940	386,309,984
Provision for (recovery from) impairment and credit losses (Note 13)	**(161,725,913)**	455,932,491	431,403,509	**(293,714,965)**	557,099,064	630,431,273
Compensation and fringe benefits (Notes 22 and 27)	**351,800,655**	309,259,631	244,984,965	**292,641,860**	269,911,505	204,418,944
Foreign exchange losses (Note 7)	**67,338,454**	47,271,735	11,574,603	**67,337,618**	47,336,526	11,631,190
Broker's commission	**55,022,214**	44,841,635	62,801,379	**61,010,973**	61,849,040	63,150,630
Rent, light and water (Note 24)	**48,343,896**	44,107,241	37,759,643	**43,051,483**	39,499,406	32,137,792
Depreciation and amortization of property and equipment (Note 9)	**36,681,444**	30,034,333	27,894,269	**32,734,819**	26,863,229	23,501,098
Entertainment, amusement and recreation (Note 26)	**36,021,415**	22,805,581	17,747,499	**29,544,620**	18,970,980	15,762,577
Realized loss from permanent decline in market value of available-for-sale investments (Note 7)	**–**	17,123,077	79,625,373	**–**	17,123,077	34,310,108
Depreciation of investment properties (Note 11)	**3,514,619**	3,760,970	3,864,803	**3,514,619**	3,760,970	3,864,803
Miscellaneous (Notes 11 and 25)	**289,655,534**	230,252,142	200,816,060	**216,043,714**	179,471,952	152,889,224
	1,194,998,285	1,731,995,632	1,513,016,711	**908,488,205**	1,740,140,689	1,558,407,623
INCOME BEFORE SHARE IN NET INCOME OF ASSOCIATES AND INCOME TAX	**1,844,528,535**	1,975,728,835	1,601,954,261	**3,753,270,645**	1,967,524,259	1,308,369,629
SHARE IN NET INCOME OF ASSOCIATES (Note 10)	**2,126,489,345**	791,191,030	554,226,397	**–**	–	–
INCOME BEFORE INCOME TAX	**3,971,017,880**	2,766,919,865	2,156,180,658	**3,753,270,645**	1,967,524,259	1,308,369,629
PROVISION FOR INCOME TAX (Note 26)	**545,576,401**	509,796,404	428,462,160	**477,992,889**	474,915,237	387,108,178
NET INCOME	**₱3,425,441,479**	₱2,257,123,461	₱1,727,718,498	**₱3,275,277,756**	₱1,492,609,022	₱921,261,451

Attributable to:			
Equity holders of the Parent Company (Note 31)	**₱3,273,878,712**	₱2,188,818,772	₱1,700,199,341
Non-controlling interest:			
Puttable	**136,869,693**	62,664,027	22,851,315
Equity	**14,693,074**	5,640,662	4,667,842
	151,562,767	68,304,689	27,519,157
	₱3,425,441,479	₱2,257,123,461	₱1,727,718,498
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 31)	**₱8.7**	₱5.8	₱4.5

See accompanying Notes to Financial Statements.

FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES

STATEMENTS OF COMPREHENSIVE INCOME

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	2010
NET INCOME FOR THE YEAR	**₱3,425,441,479**	₱2,257,123,461	₱1,727,718,498	**₱3,275,277,756**	₱1,492,609,022	₱921,261,451
OTHER COMPREHENSIVE INCOME (LOSS)						
Net gains on available-for-sale investments (Note 7)	**390,369,635**	116,951,386	548,747,740	**338,532,274**	103,201,510	534,551,361
Equity share in the changes in fair values of available-for-sale investments of associates (Note 10)	**332,929,819**	157,394,089	97,502,191	**–**	–	–
Equity share in change in translation adjustment (Note 10)	**(17,024,249)**	–	(9,956,703)	**–**	–	–
Equity share in changes in revaluation increment (Note 10)	**(35,537,331)**	(396,921)	5,985,907	**–**	–	–
Income tax effect (Notes 7 and 26)	**(14,273,911)**	(2,786,697)	(1,551,635)	**–**	–	–
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**₱4,081,905,442**	₱2,528,285,318	₱2,368,445,998	**₱3,613,810,030**	₱1,595,810,532	₱1,455,812,812
ATTRIBUTABLE TO:						
Equity Holders of the Parent Company	**₱3,920,255,260**	₱2,459,980,629	₱2,340,926,841			
Non-controlling interest:						
Puttable	**142,465,313**	62,664,027	22,851,315			
Equity	**19,184,869**	5,640,662	4,667,842			
	161,650,182	68,304,689	27,519,157			
	₱4,081,905,442	₱2,528,285,318	₱2,368,445,998			

See accompanying Notes to Financial Statements.

FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY

	Consolidated										
	Equity Attributable to Equity Holders of the Parent Company										
	Common Stock (Note 19)	Capital Paid in Excess of Par Value	Retained Earnings (Note 19)	Treasury Stock (Note 19)	Net Unrealized Gain (Loss) on Available-for-Sale Investments (Note 7)	Equity in Net Unrealized Gains on Available-for-Sale Investments of Associates (Note 10)	Equity in Revaluation Increment (Note 10)	Equity in Translation Adjustment (Note 10)	Total	Non-Controlling Interest	Total Equity
Balance at January 1, 2012	**₱4,208,692,400**	**₱2,065,694,042**	**₱6,714,067,051**	**(₱2,256,151,891)**	**₱229,755,731**	**₱423,813,240**	**₱35,537,331**	**(₱39,379,598)**	**₱11,382,028,306**	**₱14,965,076**	**₱11,396,993,382**
Total comprehensive income	**–**	**–**	**3,273,878,712**	**–**	**366,008,309**	**332,929,819**	**(35,537,331)**	**(17,024,249)**	**3,920,255,260**	**19,184,869**	**3,939,440,129**
Cash dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,764,750)**	**(1,764,750)**
Decrease in non-controlling interest	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,739,051)**	**(1,739,051)**
Acquisition of treasury shares (Note 19)	**–**	**–**	**–**	**(390,290,043)**	**–**	**–**	**–**	**–**	**(390,290,043)**	**–**	**(390,290,043)**
Balance at December 31, 2012	**₱4,208,692,400**	**₱2,065,694,042**	**₱9,987,945,763**	**(₱2,646,441,934)**	**₱595,764,040**	**₱756,743,059**	**₱–**	**(₱56,403,847)**	**₱14,911,993,523**	**₱30,646,144**	**₱14,942,639,667**
Balance at January 1, 2011	₱4,208,692,400	₱2,065,694,042	₱5,527,034,737	(₱2,268,825,841)	₱115,591,042	₱266,419,151	₱35,934,252	(₱39,379,598)	₱9,911,160,185	₱9,405,737	₱9,920,565,922
Total comprehensive income	–	–	2,188,818,772	–	114,164,689	157,394,089	(396,921)	–	2,459,980,629	5,640,662	2,465,621,291
Decrease in non-controlling interest	–	–	–	–	–	–	–	–	–	(81,323)	(81,323)
Cash dividends (Note 19)	–	–	(1,001,786,458)	–	–	–	–	–	(1,001,786,458)	–	(1,001,786,458)
Reissuance of treasury shares (Note 19)	–	–	–	12,673,950	–	–	–	–	12,673,950	–	12,673,950
Balance at December 31, 2011	₱4,208,692,400	₱2,065,694,042	₱6,714,067,051	(₱2,256,151,891)	₱229,755,731	₱423,813,240	₱35,537,331	(₱39,379,598)	₱11,382,028,306	₱14,965,076	₱11,396,993,382
Balance at January 1, 2010	₱4,208,692,400	₱2,065,694,042	₱4,826,034,194	(₱2,256,151,891)	(₱431,605,063)	₱168,916,960	₱29,948,345	(₱29,422,895)	₱8,582,106,092	₱31,817,247	₱8,613,923,339
Total comprehensive income	–	–	1,700,199,341	–	547,196,105	97,502,191	5,985,907	(9,956,703)	2,340,926,841	4,667,842	2,345,594,683
Decrease in non-controlling interest	–	–	–	–	–	–	–	–	–	(27,079,352)	(27,079,352)
Cash dividends (Note 19)	–	–	(999,198,798)	–	–	–	–	–	(999,198,798)	–	(999,198,798)
Acquisition of treasury shares (Note 19)	–	–	–	(12,673,950)	–	–	–	–	(12,673,950)	–	(12,673,950)
Balance at December 31, 2010	₱4,208,692,400	₱2,065,694,042	₱5,527,034,737	(₱2,268,825,841)	₱115,591,042	₱266,419,151	₱35,934,252	(₱39,379,598)	₱9,911,160,185	₱9,405,737	₱9,920,565,922

Parent Company

	Common Stock (Note 19)	Capital Paid in Excess of Par Value	Retained Earnings (Note 19)	Treasury Stock (Note 19)	Net Unrealized Gain (Loss) on Available-for-Sale Investments (Note 7)	Total Equity
Balance at January 1, 2012	**₱4,208,692,400**	**₱2,065,694,042**	**₱3,480,073,055**	**(₱2,256,151,891)**	**₱192,382,491**	**₱7,690,690,097**
Total comprehensive income	–	–	**3,275,277,756**	–	**338,532,274**	**3,613,810,030**
Acquisition of treasury shares	–	–	–	**(393,056,307)**	–	**(393,056,307)**
Balance at December 31, 2012	**₱4,208,692,400**	**₱2,065,694,042**	**₱6,755,350,811**	**(₱2,649,208,198)**	**₱530,914,765**	**₱10,911,443,820**
Balance at January 1, 2011	₱4,208,692,400	₱2,065,694,042	₱2,990,433,392	(₱2,256,151,891)	₱89,180,981	₱7,097,848,924
Total comprehensive income	–	–	1,492,609,022	–	103,201,510	1,595,810,532
Cash dividends (Note 19)	–	–	(1,002,969,359)	–	–	(1,002,969,359)
Balance at December 31, 2011	₱4,208,692,400	₱2,065,694,042	₱3,480,073,055	(₱2,256,151,891)	₱192,382,491	₱7,690,690,097
Balance at January 1, 2010	₱4,208,692,400	₱2,065,694,042	₱3,068,370,739	(₱2,256,151,891)	(₱445,370,380)	₱6,641,234,910
Total comprehensive income	–	–	921,261,451	–	534,551,361	1,455,812,812
Cash dividends (Note 19)	–	–	(999,198,798)	–	–	(999,198,798)
Balance at December 31, 2010	₱4,208,692,400	₱2,065,694,042	₱2,990,433,392	(₱2,256,151,891)	₱89,180,981	₱7,097,848,924

See accompanying Notes to Financial Statements.

FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS

	Consolidated			Parent Company		
	Years Ended December 31					
	2012	2011	2010	**2012**	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	**₱3,971,017,880**	₱2,766,919,865	₱2,156,180,658	**₱3,753,270,645**	₱1,967,524,259	₱1,308,369,629
Adjustments for:						
Trading gain on sale of available-for-sale investments (Note 7)	**(516,239,821)**	(1,186,667,437)	(793,916,060)	**(353,852,230)**	(1,070,233,528)	(746,854,755)
Loss (gain) from sale/redemption of unquoted commercial papers (Note 23)	**(60,265,964)**	11,533,646	(54,086,440)	**(56,836,833)**	12,584,713	(54,086,440)
Share in net income of associates (Note 10)	**(2,126,489,345)**	(791,191,030)	(554,226,397)	**–**	–	–
Provision for (recovery from) impairment and credit losses (Note 13)	**(161,725,913)**	455,932,491	431,403,509	**(293,714,965)**	557,099,064	630,431,273
Realized loss from permanent decline in market value of available-for sale investments (Note 7)	**–**	17,123,077	79,625,373	**–**	17,123,077	34,310,108
Dividend income (Notes 7 and 10)	**(83,007,980)**	(91,823,169)	(102,669,421)	**(2,257,417,543)**	(417,514,600)	(97,458,386)
Unrealized foreign exchange gain on forward contracts	**–**	(50,868,250)	–	**–**	(50,868,250)	–
Depreciation and amortization (Notes 9, 11 and 12)	**45,621,766**	39,959,329	35,506,368	**40,040,739**	36,028,337	30,341,334
Unrealized foreign exchange loss on available-for-sale investments	**70,277,301**	13,576,627	–	**70,277,301**	13,576,627	(14,167,680)
Unrealized (gain) loss on held for trading securities (Note 7)	**70,325,881**	9,907,424	(17,182,883)	**82,519,659**	8,330,303	(7,256,003)
Loss (gain) on sale of:						
Investment properties (Note 11)	**(28,310,210)**	(22,417,959)	(45,453,295)	**(28,310,210)**	(22,417,959)	(45,453,295)
Property, plant and equipment (Note 9)	**(278,486)**	(190,001)	(832,862)	**(278,486)**	(190,001)	(832,862)
Investments in subsidiaries and associates (Note 10)	**–**	(370,004,426)	20,742,631	**–**	(380,810,631)	–
Amortization of:						
Premium on unquoted debt securities classified as loans	**11,803,652**	196,231,990	162,957,066	**11,683,955**	196,756,265	161,814,783
Premium on held-to-maturity investments	**12,770,159**	23,504,562	28,643,329	**12,770,159**	23,504,562	20,488,926
Premium on available-for-sale investments	**24,530,156**	16,587,563	60,541,160	**23,766,610**	16,415,650	59,183,090
Premium on bonds payable	**(9,817,401)**	(957,821)	–	**(9,817,401)**	(957,821)	–
Debt issuance cost	**11,772,232**	769,419	–	**11,772,232**	769,419	–
Gain from bond exchange	**(723,287)**	(326,762)	–	**(723,287)**	(326,762)	–
Changes in operating assets and liabilities:						
Decrease (increase) in the amounts of:						
Financial assets at fair value through profit or loss	**(7,405,885,008)**	1,006,679,688	(600,044,844)	**(7,400,037,453)**	1,072,790,960	(573,327,026)
Loans and receivables	**583,465,418**	(1,071,071,178)	(3,582,956,994)	**361,157,711**	(1,081,871,828)	(3,423,874,152)
Other assets	**(56,174,363)**	(59,370,479)	(32,838,482)	**(44,402,677)**	(60,454,474)	(35,413,212)
Increase (decrease) in the amounts of:						
Accrued taxes, interest and other expenses	**33,619,255**	170,687,601	2,801,547	**26,077,227**	165,105,348	(520,670)
Accounts payable	**28,094,943**	90,874,821	18,942,691	**(11,646,446)**	(1,107,721)	(7,495,022)
Other liabilities	**690,745,923**	223,583,832	222,575,520	**36,030,205**	28,403,436	(171,502,485)
Net cash generated from (used in) operations	**(4,894,873,212)**	1,398,983,423	(2,564,287,826)	**(6,027,671,088)**	1,029,258,445	(2,933,302,845)
Income taxes paid	**(511,226,112)**	(512,912,729)	(406,815,840)	**(465,077,979)**	(454,776,580)	(385,903,300)
Net cash provided by (used in) operating activities	**(5,406,099,324)**	886,070,694	(2,971,103,666)	**(6,492,749,067)**	574,481,865	(3,319,206,145)

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2012	2011	2010	**2012**	2011	2010
CASH FLOWS FROM INVESTING ACTIVITIES						
Acquisitions of:						
Available-for-sale investments	**(₱70,696,811,850)**	(₱84,899,376,144)	(₱58,724,774,199)	**(₱68,722,948,357)**	(₱61,235,838,954)	(₱40,021,832,150)
Held-to-maturity investments	**–**	(8,149,658,405)	(8,165,900,063)	**–**	(8,149,658,405)	(8,165,900,063)
Unquoted debt securities classified as loans	**(3,968,744,741)**	(5,585,082,667)	(3,583,483,264)	**(2,797,994,741)**	(5,563,072,394)	(3,552,132,645)
Property and equipment (Note 9)	**(44,265,553)**	(44,874,774)	(26,901,372)	**(37,293,170)**	(41,278,883)	(23,116,799)
Investment properties (Note 11)	**(4,588,000)**	–	–	**(4,588,000)**	–	–
Software costs (Note 12)	**(40,174,657)**	(9,007,964)	(5,948,951)	**(29,665,507)**	(9,007,964)	(5,948,951)
Investment in subsidiaries (Note 10)	**–**	–	–	**(250,000,000)**	–	–
Capital infusion on investments in associates (Notes 10 and 32):	**(1,237,788,656)**	(1,631,593,161)	(2,638,110,072)	**(1,163,788,656)**	(1,473,583,309)	(2,621,501,941)
Proceeds from sale/redemption of:						
Available-for-sale investments	**62,962,262,656**	91,449,360,007	68,104,744,396	**61,931,720,247**	67,676,596,513	49,308,812,047
Unquoted debt securities classified as loans	**8,194,836,874**	5,870,701,347	3,771,871,360	**7,371,554,450**	5,847,226,847	3,768,871,360
Investment in associates (Note 10)	**22,206,138**	713,209,467	190,337,678	**–**	1,074,730,319	276,154,930
Investment properties (Note 11)	**41,104,260**	220,685,745	73,566,509	**41,104,260**	220,685,745	73,566,509
Property and equipment (Note 9)	**3,113,401**	1,730,490	1,756,530	**2,878,898**	1,711,317	1,756,530
Return of investment from an associate (Note 10)	**313,950,000**	–	105,978,179	**313,950,000**	–	105,978,179
Dividends received from financial instruments	**78,543,663**	91,791,945	104,920,483	**87,153,945**	87,672,132	97,832,295
Dividends received from associates (Notes 10 and 32)	**931,363,114**	155,084,789	–	**931,363,114**	155,084,789	–
Net cash outflow from sale of a subsidiary (Note 32)	**–**	–	(24,960,041)	**–**	–	–
Proceeds from maturities of held-to maturity investments	**1,249,673,465**	–	2,420,356,113	**1,249,673,465**	–	2,420,356,113
Net cash provided by (used in) investing activities	**(2,195,319,886)**	(1,817,029,325)	1,603,453,286	**(1,076,880,052)**	(1,408,732,247)	1,662,895,414
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from issuance of:						
Bills payable	**437,209,690,894**	730,889,931,071	484,771,372,509	**437,209,690,894**	730,889,931,071	484,771,372,509
Bonds payable (Notes 16 and 32)	**6,902,925,235**	4,873,968,025	–	**6,933,395,235**	4,954,443,025	–
Capital infusion to subsidiaries (Note 10):	**–**	–	–	**(77,000,000)**	(105,000,000)	(565,000,000)
Payments of bills payable	**(444,783,122,665)**	(722,937,879,625)	(481,985,214,754)	**(444,783,122,665)**	(722,937,879,625)	(481,985,214,754)
Redemption of bonds payable (Note 16)	**–**	(55,200,000)	–	**–**	(150,000,000)	–
Dividends paid (Notes 19 and 32)	**–**	(998,534,032)	(999,251,634)	**–**	(999,716,933)	(999,251,634)
Issuance of treasury shares (Note 19)	**–**	12,673,950	–	**–**	–	–
Acquisition of treasury shares (Notes 19 and 32)	**(390,290,043)**	–	(12,673,950)	**(393,056,307)**	–	–
Net cash provided by (used in) financing activities	**(1,060,796,579)**	11,784,959,389	1,774,232,171	**(1,110,092,843)**	11,651,777,538	1,221,906,121
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(8,662,215,789)**	10,854,000,758	406,581,791	**(8,679,721,962)**	10,817,527,156	(434,404,610)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	**13,099,729,330**	9,648,394,094	8,156,812,303	**11,777,396,196**	8,362,534,562	7,711,939,172
Due from Bangko Sentral ng Pilipinas	**4,272,665,522**	880,000,000	1,965,000,000	**4,272,665,522**	880,000,000	1,965,000,000
Interbank loans receivable and securities purchased under resale agreements	**4,010,000,000**	–	–	**4,010,000,000**	–	–
	21,382,394,852	10,528,394,094	10,121,812,303	**20,060,061,718**	9,242,534,562	9,676,939,172
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	**4,220,173,033**	13,099,729,330	9,648,394,094	**2,880,333,726**	11,777,396,196	8,362,534,562
Due from Bangko Sentral ng Pilipinas	**8,500,006,030**	4,272,665,522	880,000,000	**8,500,006,030**	4,272,665,522	880,000,000
Interbank loans receivable and securities purchased under resale agreements	**–**	4,010,000,000	–	**–**	4,010,000,000	–
	₱12,720,179,063	₱21,382,394,852	₱10,528,394,094	**₱11,380,339,756**	₱20,060,061,718	₱9,242,534,562

(Forward)

OPERATIONAL CASH FLOWS FROM INTEREST

	Consolidated			Parent Company		
	Years Ended December 31					
	2012	2011	2010	**2012**	2011	2010
Interest paid	**₱2,583,025,316**	₱2,378,126,801	₱1,979,685,993	**₱2,317,125,562**	₱2,381,813,581	₱1,983,477,571
Interest received	**3,246,347,885**	3,586,313,641	3,257,255,705	**3,205,558,458**	3,758,415,198	3,199,953,353

See accompanying Notes to Financial Statements

1. Corporate Information

First Metro Investment Corporation (the Parent Company) is an investment house. On September 22, 2000, the Parent Company was merged with Solidbank Corporation (Solidbank) with Solidbank as the surviving entity and subsequently renamed as First Metro Investment Corporation. The Parent Company's shares of stock (originally Solidbank) were listed in the Philippine Stock Exchange, Inc. (PSE) on October 25, 1963 and were subsequently delisted effective December 21, 2012. The Parent Company is a 98.1%-owned subsidiary of Metropolitan Bank & Trust Company (Metrobank or Ultimate Parent Company).

The Parent Company is primarily engaged in investment banking and has a quasi-banking license from the Bangko Sentral ng Pilipinas (BSP). It provides services such as equity and debt underwriting and private placements, loan syndication and arrangements, financial advisory and securities dealership. In September 2011, the BSP authorized the Parent Company to perform trust and other fiduciary business.

The Parent Company's principal place of business is located at 45th Floor, GT Tower International, Ayala Avenue corner H.V. dela Costa Street, Makati City.

2. Accounting Policies

Basis of Preparation
The accompanying financial statements are prepared on a historical cost basis except for financial assets at fair value through profit or loss (FVPL), available-for-sale (AFS) investments and derivative instruments 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 First Metro Investment Corporation and Subsidiaries (the Group) and of the Parent Company have been prepared in accordance with accounting principles generally accepted in the Philippines for banks, particularly on the availment of the exemption from the tainting provision of the Parent Company's held-to-maturity (HTM) investments disposed through a government-initiated bond exchange, which was permitted by the BSP for prudential reporting and the Securities and Exchange Commission (SEC) for financial reporting purposes.

Except for the effects of accounting for HTM investments under the tainting rule in 2011 (Note 7), the financial statements of the Group and of the Parent Company for the three years in the period ended December 31, 2012 have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Presentation of Financial Statements
The statements of financial position of the Group and of the Parent Company are presented in order of liquidity. An analysis regarding the recovery of assets or settlement of liabilities within twelve (12) months after the statement of financial position date (current) and more than twelve (12) months after the statement of financial position date (non-current) is presented in Note 18.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Parent Company and the following wholly owned and majority owned subsidiaries:

Subsidiary	Effective Percentage of Ownership 2012	2011
Securities Brokerage:		
First Metro Securities Brokerage Corporation (FMSBC) and Subsidiary	**100.0**	100.0
Financial Markets:		
PBC Capital Investment Corporation (PBC) and Subsidiary	**100.0**	100.0
Insurance Brokerage:		
First Metro Insurance Brokers Corporation (FMIBC)	**100.0**	100.0
Mutual Funds:		
First Metro Global Opportunity Fund, Inc. (FMGOF)*	**100.0**	100.0
First Metro Philippine Equity Exchange Traded Fund, Inc. (FMPEETFI)	**100.0**	–
First Metro Save and Learn Dollar Bond Fund, Inc. (FMSLDBF)**	**99.1**	99.7
First Metro Save and Learn Fixed-Income Fund, Inc. (FMSLFIF)	**19.5**	30.8
Others:		
Prima Ventures Development Corporation (PVDC)	**100.0**	100.0
FMIC Equities, Inc. (FEI)	**100.0**	100.0
SBC Properties, Inc. (SPI)	**100.0**	100.0
Resiliency (SPC), Inc. (Resiliency)	**100.0**	100.0
First Metro Asset Management, Inc. (FAMI)	**70.0**	70.0

* *Formerly First Metro Save and Learn Global Currency Fund, Inc.*
** *Formerly First Metro Save and Learn Money Market Fund, Inc.*

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 for the same reporting year as the Parent Company's financial statements, using consistent accounting policies, except for FMSBC which uses closing prices instead of bid prices in the valuation of equity securities. Such policy is in accordance with the rules set out in the Securities Regulations Code (SRC). In the consolidated financial statements of the Group, the valuation of equity securities of FMSBC are adjusted for the difference of closing and bid prices to align the valuation with the Group's accounting policy.

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

Subsidiaries are 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.

Changes in the Parent Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for within equity. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners 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 up to the date of disposal, as appropriate. Losses within a subsidiary are attributed to the non-controlling interest even if such results in a deficit balance.

When a change in ownership interest in a subsidiary occurs which results in a 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 recycles 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

<u>Non-Controlling Interests</u>
Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not attributed, directly or indirectly, to the Parent Company.

Non-controlling interests are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from the Parent Company's shareholders' equity.

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.

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, 2012.

New Standards and Interpretations

- PFRS 7, *Financial Instruments: Disclosures - Transfers of Financial Assets* (Amendments)
  The amendments require additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendments affect disclosures only (Note 14) and have no impact on the Group's financial position or performance.

- PAS 12, *Income Taxes – Deferred Tax: Recovery of Underlying Assets* (Amendments)
  This amendment to PAS 12 clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Property*, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a 'sale' basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ('use' basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset. The amendments have no impact on the Group's financial position or performance.

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.

Transactions and balances
Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction qualifies for recognition. Foreign currency-denominated monetary assets and liabilities are translated in Philippine peso based on the Philippine Dealing System (PDS) closing rate prevailing at end of year, and foreign currency-denominated income and expenses, at PDS weighted average rate (PDSWAR) for the year. Foreign exchange differences arising from restatements of foreign currency-denominated assets and liabilities are credited to or charged against operations except for AFS equity securities in the year in which the rates change.

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

Financial Instruments - Initial Recognition and Subsequent Measurement
Date of recognition
Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place 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 instruments at FVPL, the initial measurement of financial instruments 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 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 financial instruments traded in active markets at the reporting 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 any significant change in the 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 from 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 'Miscellaneous expense' unless it qualifies for recognition as some other type of asset. In cases where transaction price used is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable, or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' profit or loss amount.

Derivatives recorded at FVPL - Embedded derivatives
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 and that the host contracts are not held for trading or designated at fair value through 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 debt financial instruments classified as loans and receivables and bonds payable. 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'. 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' in the statement of income. Interest earned or incurred from debt securities is recorded as 'Interest

income' or 'Interest expense' in the statement of income, respectively, while dividend income from equity securities is recorded as 'Dividends' 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 are 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 financial instruments at FVPL.

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 reclassifies 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.

After initial measurement, these investments are subsequently measured at amortized cost using the effective interest 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 effective interest rate (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 impairment and credit losses'. The effects of revaluation on foreign currency-denominated HTM investments are recognized in the statement of income.

The Group follows Philippine generally accepted accounting principles (GAAP) for banks in accounting for its HTM investments. Under Philippine GAAP for banks, particular sales of HTM investments in participation of the government-initiated bond exchange program have been granted exemption by both SEC and the BSP from the tainting rules of PAS 39. Also, the gain on exchange on the Parent Company's participation in the bond exchange program of the Philippine government is deferred and amortized over the term of the new bonds based on effective interest method.

Loans and receivables
This accounting policy relates to the statement of financial position captions ‘Due from BSP’, ‘Interbank loans receivable (IBLR) and securities purchased under resale agreements (SPURA)’, and ‘Loans and receivables’. These are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as ‘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’, and ‘IBLR and SPURA’ are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in ‘Interest income’ in the statement of income. The losses arising from impairment are recognized in ‘Provision for impairment and credit losses’ in the statement of income.

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

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

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

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 effective interest 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. Any effects of restatement on foreign currency-denominated liabilities are recognized in profit or loss in the statement of income.

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 'Miscellaneous income' 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 'Bills Payable' 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 in 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 effective interest method.

Reclassification of Financial Assets
A financial asset is reclassified out of the financial assets at FVPL category when the following conditions are met:

- the financial asset is no longer held for the purpose of selling or repurchasing it in the near term; and
- there is a rare circumstance.

The Group evaluated its AFS investments whether the ability and intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the HTM category is permitted only when the Group has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified out of the AFS category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the effective interest method. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the effective interest method. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of income.

Classification of Financial Instruments Between Debt and Equity

A financial instrument is classified as debt, if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

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.

Impairment of Financial Assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a 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 a 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 include loans and receivables, due from BSP, IBLR and 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 the collective assessment for impairment.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be recognized based on the original EIR of the asset. Loans, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to the 'Provision for impairment and credit losses' in the statement of income.

If the Group determines that no objective evidence of an 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. The similarity in credit risk characteristics is 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 the collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as industry, collateral type, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such changes in property prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

Restructured loans
Where possible, the Group seeks to restructure loans rather than to take possession of the collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subjected to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized in 'Provision for impairment and credit losses' in the statement of income.

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

In the 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 the statement of comprehensive income and recognized in the statement 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 the statement of comprehensive income.

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

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 when:

- 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 risks and rewards of the asset but has transferred the control over 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 over 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 the 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 has 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.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount 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 at gross in the statement of financial position.

Derivative Financial Instruments and Hedge Accounting

Initial recognition and subsequent measurement

The Group use derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risks. Such derivative financial instruments are recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the statement of income, except for the effective portion of cash flow hedges, which is recognized in other comprehensive income.

For the purpose of hedge accounting, hedges are classified as:

(a) a hedge of the fair value of an asset, liability or a firm commitment (fair value hedge);
(b) a hedge of the exposure to variability in cash flows attributable to an asset or liability or a forecasted transaction (cash flow hedge); or
(c) a hedge of a net investment in a foreign operation (net investment hedge).

Hedge accounting is applied to derivatives designated as hedging instruments in a fair value, cash flow or net investment hedge provided certain criteria are met.

Hedge accounting

At the inception of a hedging relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis that they actually have been highly effective throughout the financial reporting periods for which they were designated. The Group considers the hedge as highly effective if the result of the hedge effectiveness testing falls within the range of 80.0% to 125.0% .

Current versus Non-current Classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into a current and non-current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows):

- When the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the reporting date, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.

Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and a non-current portion only if a reliable allocation can be made.

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

Investments in Subsidiaries, Associates and Joint Ventures
Investment in subsidiaries
Subsidiaries are entities, which the 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 the Parent Company has significant influence but not control, generally accompanying a shareholding of between 20.0% and 50.0% of the voting rights. Upon initial recognition of investments in associates, the Parent Company determines any difference between the cost of the investment and the Parent Company's share of the net fair value of the associate's identifiable assets and liabilities. Any excess of the cost of the investment over the fair value of the associate is attributable to goodwill and is included in the carrying amount of the investment. Any excess of the Parent Company's share of the net fair value of the associate's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the Parent Company's share of the associate's profit or loss in the period in which the investment is acquired.

Investment in joint venture
The Group also has interests in joint ventures which are jointly controlled entities. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

Consolidated financial statements
The Group's investments in associates and joint venture are accounted for using the equity method of accounting. Under the equity method, the investments in associates and joint venture are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share in the net assets of the associates and joint venture. The consolidated statement of income reflects the share in the results of operations of the associates and joint venture. Where there has been a change recognized in the investees' other comprehensive income, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of comprehensive income. Dividends received from associates and joint venture are treated as a return of capital and deducted from the carrying value of the equity investment. 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 arising from transactions between the Group and the associate are eliminated to the extent of the interest in the associates and joint venture. Appropriate adjustments to the Group's share of the associate's profits or losses after acquisition are also made to account, for example, for depreciation of the depreciable assets based on their fair values at the acquisition date. Similarly, appropriate adjustments to the Group's share of the associate's profits or losses after acquisition are made for impairment losses recognized by the associate, such as for goodwill or property, plant and equipment.

Where necessary, adjustments are made to the financial statements of associates to bring the accounting policies used in line with those used by the Group.

Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in statement of income.

Parent Company financial statements
The Parent Company's investments in subsidiaries, associates and joint venture are carried at cost less any impairment in value. Under the cost method, the Parent Company recognizes income from the investment only to the extent that the investor receives distributions from accumulated profits of the subsidiary, associate or joint venture arising after the date of acquisition.

Equity in Translation Adjustment
The accounts of First Metro International Investment Company Ltd. - Hongkong (FMIIC), an associate, are maintained in the currency of the country in which it operates. Adjustments resulting from the translation of financial statements of FMIIC into Philippine peso are shown in the statement of comprehensive income.

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

Depreciation is calculated using 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 lease agreements, whichever is shorter

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

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

Investment Properties
Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at the 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 the 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 when the costs are incurred.

Depreciation is calculated on a straight-line basis using the useful life of 34 and 10 years from the time of acquisition for condominium units and land improvements, respectively.

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 as 'Gain on sale of assets' 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.

Intangible Assets

Intangible assets refer to the Group's computer software. An intangible asset is recognized only when the cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the statement of income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income under "Miscellaneous expense" (Note 25).

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit (CGU) level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of income when the asset is derecognized.

Impairment of Nonfinancial Assets
At each reporting date, the Group assesses whether there is any indication that its nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of the recoverable amount. Recoverable amount is the higher of an asset's 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 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.

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

Property, plant and equipment and investment properties
For property, plant and equipment and investment properties, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased 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 profit or loss 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 useful life.

Investments in associates and joint venture
After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investments in associates and joint venture. If this is the case, the Group calculates the amount of impairment as being the difference between the recoverable amount of investment in the associate or joint venture and the acquisition cost and recognizes the amount under 'Provision for impairment and credit losses' in the statement income.

Common Stock
Common stocks are classified as equity and are recorded at par. Proceeds in excess of par value are recorded as 'Additional paid-in capital' in the statement of financial position. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

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 and all transactions costs directly attributable 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 statement of income on the purchase, sale, issue or cancellation of own equity instruments.

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 but excluding any taxes or duties. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. 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 effective interest rate (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. 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 an integral part of the EIR, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as 'Interest income' in the statement of income.

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR 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, 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
This 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 'Miscellaneous income'.

Gain on sale or redemption of unquoted debt securities
This income results from sale or redemption of unquoted debt securities classified as loans. The gain on sale or redemption of unquoted debt securities is recorded under 'Miscellaneous income' in the statement of income.

Gain on sale of assets
Gain on sale of assets is recognized when the significant risks and rewards of ownership of the asset have passed to the buyer, usually on the date of delivery, and the collectability of the sales price is reasonably assured. Any income recognized is recorded under'Gain on sale of assets' in the statement of income.

Expenses
Expenses constitute costs of administering the business and these are charged to operations as incurred.

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

a) There is a change in contractual terms, other than renewal or extension of the arrangement;
b) A renewal option is exercised or an extension is 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, or at the date of renewal or extension period for scenario b).

Group as lessee
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in 'Property and equipment' with the corresponding liability to the lessor included in 'Other liabilities' in the statement of financial position. Lease payments are apportioned between the

finance charges and the 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 under 'Rent, light and water' account in the statement of income on a straight-line basis over the lease term.

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

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

<u>Retirement Benefits</u>
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 the defined benefit pension plans is the present value of the defined benefit obligation at the reporting 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 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 rates 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 the 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, less actuarial losses not yet recognized. 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 tax

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 taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as of reporting date.

Deferred tax

Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the reporting 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, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), 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 from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income 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 reporting 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 tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets 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 reporting date.

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current tax liabilities and the 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 was incurred during the measurement period or in profit or loss.

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 the BSP. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

Subsequent Events

Post-year-end events that provide additional information about the Group's financial position at reporting date (adjusting event) are reflected in the financial statements. Post-year-end events that are not adjusting events, if any, 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 operating segments is presented in Note 6.

New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2012
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.

Effective 2013

- PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments)
  These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:
  a) The gross amounts of those recognized financial assets and recognized financial liabilities;
  b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
  c) The net amounts presented in the statement of financial position;
  d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
     i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
     ii. Amounts related to financial collateral (including cash collateral); and
  e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

  The amendments to PFRS 7 are to be retrospectively applied for annual periods beginning on or after January 1, 2013. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

- PFRS 10, *Consolidated Financial Statements*
  PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The standard becomes effective for annual periods beginning on or after January 1, 2013.

As a result of the reassessment based on PFRS 10 requirements, the Parent Company will consolidate FMSALBF and FMSALEF, which are currently accounted for as investments in associate, in its 2013 consolidated financial statements. The change in accounting for its investments in FMSALBF and FMSALEF (Note 10) will increase total consolidated assets by ₱5.2 billion and ₱2.6 billion as of December 31, 2012 and 2011, respectively, and total consolidated liabilities by ₱5.1 billion and ₱2.7 billion as of December 31, 2012 and 2011, respectively. Consolidated revenues will also increase by ₱1.2 billion and ₱129.5 million for the year ended December 31, 2012 and 2011, respectively, while consolidated income before income tax will increase by ₱899.9 million and ₱102.1 million for the year ended December 31, 2012 and 2011, respectively.

The Parent Company re-assessed the control conclusion for these equity-accounted investments (the Funds), that although the Parent Company owns less than half of the voting power of these investees, the Parent Company controls these investees because it has the power to direct the relevant activities of the funds through FAMI, a subsidiary, who is the fund manager and it has the exposure to variable returns from its investment with the funds and its ability to use its power over the fund to affect its return.

- PFRS 11, *Joint Arrangements*
  PFRS 11 replaces PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The standard becomes effective for annual periods beginning on or after January 1, 2013.

- PFRS 12*, Disclosure of Interests in Other Entities*
  PFRS 12 includes all of the disclosures related to consolidated financial statements that were previously in PAS 27, as well as all the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The standard becomes effective for annual periods beginning on or after January 1, 2013. The adoption of PFRS 12 will affect disclosures only and have no impact on the Group's financial position or performance.

- PFRS 13, *Fair Value Measurement*
  PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The standard becomes effective for annual periods beginning on or after January 1, 2013. The Group does not anticipate a material impact of the standard on the Group's financial position and performance.

- PAS 1, *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income or OCI* (Amendments)
  The amendments to PAS 1 change the grouping of items presented in OCI. Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Group's

financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012. The amendments will be applied retrospectively and will result to the modification of the presentation of items of OCI.

- PAS 19, *Employee Benefits* (Revised)
  Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. The amendments become effective for annual periods beginning on or after January 1, 2013. Once effective, the Group has to apply the amendments retroactively to the earliest period presented.

  The Group reviewed its existing employee benefits and determined that the amended standard has significant impact on its accounting for retirement benefits. The Group obtained the services of an external actuary to compute the impact to the financial statements upon adoption of the standard. The effects are detailed below:

	Consolidated		**Parent Company**	
	As at 31 December 2012 ₱'000	As at 1 January 2012 ₱'000	**As at 31 December 2012 ₱'000**	As at 1 January 2012 ₱'000
Increase (decrease) in:				
Statement of financial position				
Net defined benefit liability	**71,116**	30,111	**64,213**	23,914
Deferred tax asset	**21,335**	9,033	**19,264**	7,174
Other comprehensive income	**(65,030)**	(22,763)	**(59,692)**	(18,829)
Retained earnings	**(15,249)**	(1,685)	**(14,743)**	(2,089)

	Consolidated 2012 ₱'000	**Parent Company 2012 ₱'000**
Statement of income		
Net benefit cost	**(1,263)**	**(563)**
Income tax expense	**379**	**169**
Profit for the year	**884**	**394**
Attributable to the owners of the Parent Company	**771**	**394**
Attributable to non-controlling interests	**113**	**–**

- PAS 27, *Separate Financial Statements* (as revised in 2011)
  As a consequence of the issuance of the new PFRS 10, and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in the separate financial statements. The adoption of the amended PAS 27 will not have a significant impact on the separate financial statements of the entities in the Group. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

- PAS 28*, Investments in Associates and Joint Ventures* (as revised in 2011)
  As a consequence of the issuance of the new PFRS 11, and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
  This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after January 1, 2013.

Effective 2014

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
  The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Group's financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

Effective 2015

- PFRS 9, *Financial Instruments*
  PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement.* Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

  The Group decided not to early adopt PFRS 9 for its 2012 financial reporting. However, an assessment of the possible financial impact of the early adoption of PFRS 9 on the financial statements is conducted regularly in compliance to SEC Memorandum Circular No. 3. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no effect on the classification and measurement of financial liabilities.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
  This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

Annual Improvements to PFRSs (2009-2011 cycle)

The Annual Improvements to PFRSs (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.

- PFRS 1*, First-time Adoption of PFRS - Borrowing Costs*
  The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, Borrowing Costs. The amendment does not apply to the Group as it is not a first-time adopter of PFRS.

- PAS 1, *Presentation of Financial Statements - Clarification of the requirements for comparative information*
  The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- PAS 16, *Property, Plant and Equipment - Classification of servicing equipment*
  The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment will not have any significant impact on the Group's financial position or performance.

- PAS 32, *Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments*
  The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The Group expects that this amendment will not have any impact on its financial position or performance.

- PAS 34, *Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities*
  The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

3. 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 the 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
In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the financial statements:

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, the period of lease contract relative to the estimated useful economic life of the leased property, and the 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 statements 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 (Note 5).

d. *Classification of 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. In 2012 and 2011, the Group has followed Philippine GAAP for banks in accounting for its HTM investments (Notes 2 and 7).

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 (Note 7).

f. *Embedded derivatives*
Where a hybrid instrument is not classified as financial asset 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 (Note 7).

g. *Existence of significant influence over an associate with less than 20% ownership*
In determining whether the Group has significant influence over an investee requires significant judgment. Generally, a shareholding of 20.0% to 50.0% of the voting rights of an investee is presumed to give the Group a significant influence.

There are instances that an investor exercises significant influence even if its ownership is less than 20.0%. The Group applies significant judgment in assessing whether it holds significant influence over an investee and considers the following: (a) representation on the board of directors or equivalent governing body of the investee; (b) participation in policy-making processes, including participation in decisions about dividends or other distributions; (c) material transactions between the investor and the investee; (d) interchange of managerial personnel; or (e) provision of essential technical information.

The Group directly holds 17.0% in Lepanto Consolidated Mining Company (LCMC), an associate, as of December 31, 2012 and 2011. The reasons why the presumption that the Group does not have significant influence is overcome even if the Group holds, directly or indirectly through subsidiaries, less than 20.0% of the voting or potential voting power of LCMC but concludes that the Group has significant influence are disclosed in Note 10.

h. *Existence of control over a subsidiary with less than 50% voting power*
In determining whether the Group has control over an investee requires significant judgment. Generally, a shareholding of 51.0% to 100.0% of the voting rights of an investee is presumed to give the Group control over that investee.

The Group also applies judgment in assessing whether it holds control over an investee where the Group's ownership interest is 50% and below. For this, the Group considers the following factors: (a) power over more than half of the voting rights by virtue of an agreement with other investors; (b) power to govern the financial and operating policies of the entity under a statute or an agreement; (c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or (d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

The Group directly holds 19.5% and 30.8% in First Metro Save & Learn Fixed Income Fund (FMSLFIF), a subsidiary, as of December 31, 2012 and 2011, respectively. The Group assessed that control over FMSLFIF exists because of its more than half representation in the Board of Directors (BOD) of the Fund.

i. *Reassessment of economic relationship over an associate when ownership interest increased during the year*
In January 2012, the Group's ownership interest in Global Business Power Corporation (GBPC) increased to 49.1% from 30.0% after the conversion into common shares of the Group's deposit for future subscription. The increased in ownership triggered the need to reassess whether the Parent Company obtain control over GBPC as a result of the increase in its ownership interest.

The Group concluded that no control was obtained because of the less than 50.0% representation in the BOD of GBPC and the execution of the voting trust agreement (VTA) between the Parent Company and GT Capital Holdings, Inc. (GT) which became effective in April 2012. The VTA states that for the duration of the agreement, in case of conflict between the representatives of GT and the Parent Company on the BOD of GBPC, it is understood and agreed that the decision of the representatives of GT shall prevail.

j. *Contingencies*
The Group is currently involved in certain legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe these proceedings will have a material effect on the Group's consolidated financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (Note 29).

Estimates

a. *Credit losses on loans and receivables*
The Group reviews its impaired loans and receivables at each reporting date to assess whether additional 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.

The carrying amount of loans and receivables and the allowance for credit losses are disclosed in more detail in Notes 8 and 13.

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.

Fair values of derivatives, as of December 31, 2012 and 2011, are disclosed in Note 5 and in Note 7.

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.

The carrying values of unquoted equity securities are disclosed in Note 7.

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 a decrease by more than 20.0% of the

original cost of the investment and 'prolonged' as a continuous decline in value for more 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.

The carrying value of AFS equity securities is disclosed in more detail in Notes 7.

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.

The carrying amount of deferred tax assets, for both the Group and the Parent Company, are disclosed in more detail in Note 26.

f. *Present value of retirement obligation*
The cost of the 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 reporting dates.

While the Group believes that the assumptions are reasonable and appropriate, significant differences between actual experience and assumptions may materially affect the cost of employee benefits and related obligations.

As of December 31, 2012 and 2011, the balance of the Group's present value of defined benefit obligations and other employee benefits is shown in Note 22.

g. *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 associates that are no longer in operation, the Group based its recoverable value on the net realizable value of the net assets of the associates which substantially comprise deposits in banks and accrued liabilities.

The carrying value of property and equipment and investment property, and the related allowance for impairment losses, where applicable, are disclosed in more detail in Notes 9, 11 and 13, respectively. The carrying amount of investments in subsidiaries, associates and joint venture and the related allowance for impairment losses on these investments are disclosed in Notes 10 and 13, respectively.

4. Financial Risk Management (Risk Management Division)

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 Group'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 Oversight Committee (ROC), is actively involved in planning, approving, reviewing, and assessing all risks involved within the Parent Company. ROC 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 ROC'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 with 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 general guidelines and advice on all transactional dealings which consider facet of risks i.e. market, credit, operational risks, etc. The 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 have 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. It also provides support on the monitoring and reviewing active credit and investments positions.

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 the reviewing/screening of 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 ROC. 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 Division (RMD). The CRO likewise evaluates all risk policy proposals and reports to be presented to the ROC. The CRO, through the RMD, also coordinates with the Risk Taking Units (RTUs) and the Risk Control and Compliance Units (RCCUs) of the Parent Company with regard to the submission of requisite reports on their risk compliance and control activities.

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

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, such as equity prices, interest rate and foreign currency, and liquidity, as well as credit and operations risks are consequently measured and then controlled by a system of limits. The RMD defines and presents for approval of the ROC and BOD the various risk management measures to be used in quantifying those risks.

Operational Risk
The Parent Company's operational risk management framework outlines its 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, various methodologies and tools were established to facilitate management of operational risk. These include operational risk incident management and reporting process, risk event database and risk assessment process. The Parent Company has, likewise, recently implemented its monitoring and reporting process for identified Key Risk Indicators (KRI). These indicators are monitored and reviewed on a periodic basis to alert management of changes that maybe indicative of risk concerns, as well as, provide insights into the Parent Company's risk position.

Moreover, the Parent Company is currently implementing a structured Information Systems Strategic Plan (ISSP) that is in sync with Parent Company's strategic business direction.

The Parent Company, likewise, recently developed a responsive risk management policy for effective oversight, due diligence and management of risks arising from outsourcing, prior to entering into, as well as, during the lifespan of an outsourcing agreement/arrangement. This is recognizing that while outsourcing can be cost effective and brings other competitive advantages, it also poses an Outsourcing Risk. Outsourcing Risk is the risk that third party service providers may not act within the intended limits of their authority and/or not perform in a manner consistent with outsourcing party's strategies, objectives and desired results, as well as, legal and regulatory requirements.

The Ultimate Parent Company, on the other hand, thru its Internal Audit Group (IAG), reviews operational risk management processes and provide an independent assurance as to its adequacy and effectiveness.

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 these accredited counterparties, and any violations are reported to the designated control units.

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 an independent credit ratings provider and its Internal Credit Risk Rating System (ICRRS).

Concentrations of Credit Risk
Concentrations of credit risk arise 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 is guided by the regulatory ceilings on the management of concentration risk. In addition, internal limits were set at not more than 20% and 25% of the selected financial assets for counterparties and industry exposures, respectively.

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

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. IAG undertakes the periodic review of business units and credit processes.

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

- Formulating credit policies in 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 enhance skills and 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.
- Screening of prospective borrowers/deals by the Dealcom prior to endorsement to other Committees, like Crecom/EXCOM.
- Limiting concentrations of exposures by periodic monitoring of counterparties including where industry it belongs.
- Continous monitoring by credit quality on various portfolios including certain subsidiaries.
- Maintaining an 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.

  The ICRRS contains the following:

  a. Borrower Risk Rating (BRR) - The BRR is an assessment of the credit worthiness of the borrower (or guarantor) without considering the type or amount of the facility and security arrangements. It is an indicator of the probability that a borrower cannot meet its credit obligations in a foreseen manner.

The assessment is described below:

Component	Description	Credit Factor Weight
Financial Condition	Refers to the financial condition of the borrower as indicated by certain financial ratios. The Financial Factor Evaluation is conducted manually by the Credit Division.	40.0%
Industry Analysis	Refers to the prospects of the industry as well as the company's performance and position in the industry.	30.0%
Management Quality	Refers to the management's ability to run the company successfully.	30.0%

b. Facility Risk Factor (FRF) - This is determined for each individual facility considering the term of the facility, security arrangement and quality of documentation. This factor can downgrade or upgrade the BRR based on the elements relating to cover (collateral including pledged cash deposits and guarantee), quality of documentation and structure of transactions.

c. Adjusted Borrower Risk Rating (ABRR) - the combination of BRR and FRF results to ABRR.

d. Composite Risk Rating (CRR) for borrowers with multiple facilities - the weighted average ABRR shall be computed and used in determining the CRR.

The following table shows the description of ICRRS grade:

Credit Quality*	**ICRRS Grade**	**Description**
High Grade		
	1	Excellent
	2	Strong
Standard Grade		
	3	Good
	4	Satisfactory
	5	Acceptable
Substandard Grade		
	6	Watchlist
	7	Especially mentioned
Impaired	8	Substandard
	9	Doubtful
	10	Loss

* Applied on exposure to financial assets

1 - Excellent
An "excellent" rating is given to a borrower with no history of delinquencies or defaults, highly liquid and sustaining strong operating trends, unlikely to be affected by external factors and has a competent management that uses current business models.

2 - Strong
A "strong" rating is given to borrowers with the same characteristics as those rated as "excellent" rating, but is only adequately liquid.

3 - Good
A "good" rating is given to a borrower with no history of default in the last 12 months. The entity's borrowing base can support its line of credit, and it is meeting performance expectations. It is unlikely to be affected by external factors and has a competent management that uses current business models.

4 - Satisfactory
A "satisfactory" rating is given to a borrower that pays as agreed, but is not necessarily non-delinquent. The entity has adequate to marginal liquidity and generally meets performance expectations. While there are external factors that may affect the entity, these will likely be overcome. A lack of key management experience may be a current problem for the entity, and such could be brought about by a recent departure of a key employee.

5 - Acceptable
An "acceptable" rating is given to a borrower that is current in its payments while not necessarily paying as agreed. The entity has marginal liquidity and has a declining trend in operations or an imbalanced position in the statement of financial position, though not to the point that repayment is jeopardized. There are identified external disruptions though the impact on the entity is uncertain. There may also be some turnover causing key management positions to stay vacant.

6 - Watchlist
This rating is given to a borrower that may either be current in its payments, or 30 to 60 days past due. The entity has marginal liquidity and may not be meeting performance expectations, even having defaulted on some of its loans. There are identified disruptions that negatively affect the entity's performance, though there are near-term solutions. Management may also have changed its business model with negative implications for the entity.

7 - Especially Mentioned
The borrower in this rating shows evidence of weakness in its financial condition, having expected financial difficulties. There is a real risk that the entity's ability to pay the interest and principal on time could be jeopardized. Without government intervention, external factors will negatively impact the entity. The entity's ability or willingness to service debt is in doubt, likely causing a need to reschedule payments.

8 - Substandard
For a "substandard" borrower, the debt burden has become too heavy, only to be made worse by weak or negative cash flows and interest coverage. This makes the collection of principal or interest payments questionable, causing an assessment of default of up to 50%. Unless given closer supervision, the institution will likely suffer a future loss. External factors may be causing an adverse trend, or there may be a significant weakness in the entity's collateral. Management has an unfavorable record and lacks managerial capability.

9 - Doubtful
This rating is given to a nonperforming borrower where a payment default has occurred, due to the borrower's inability or unwillingness to service debt over an extended period of time. Loss is unavoidable and significant, although the extent of probable loss on the loan cannot be exactly quantified at the current time. However, there may be external factors that may

strengthen the entity's assets, e.g. merger, acquisition, and capital injection. Management has an unfavorable record and lacks managerial capability.

10 - Loss
This rating is given to a borrower when debt service or the prospect for re-establishment of credit worthiness, has become remote. This may be due to the fact that the borrower and/or his co-makers have become insolvent, thus the lender may already be preparing foreclosure procedures. A full provision is made on that part of the principal which is not fully and adequately covered. While the loan covers basically worthless assets, writing off these loans is neither practical nor desirable for the lender.

- Risk Rating References - Investment Securities
  In ensuring a quality investment portfolio, the Parent Company uses the ICRRS as well as credit risk ratings from published data providers like Moody's, Standard & Poor's and other reputable rating agencies.

  In undertaking its investment transactions, the Parent Company is also guided by the BOD - approved manual of procedures and the applicable rules and regulations issued by the concerned regulatory bodies of the government. The Parent Company's Compliance Unit, in collaboration with Legal Unit is tasked with monitoring adherence to these risk areas.

- Collateral
  The Parent Company's Credit Policy Manual provides for a separate collateral appraisal by an independent appraisal firm and a re-appraisal for at least every two years as circumstances warrant.

- Monitoring of compliance by the RMD of the approved exposure limits, likewise, with concentration limit.

Maximum exposure to credit risk after collateral held or other credit enhancements
An analysis of the maximum exposure to credit risk after taking into account any collateral held or other credit enhancements for the Group and the Parent Company is shown below:

	Consolidated			
	2012			
	Gross Maximum Exposure	Fair Value of Collateral or Credit Enhancement	Net Exposure	Financial Effect of Collateral or Credit Enhancement
Credit risk exposure relating to on-balance sheet assets are as follows:				
Interbank loans receivable and securities purchased under resale agreements	**₱–**	**₱–**	**₱–**	**₱–**
Loans and receivables - net				
Loans and discounts:				
Corporate lending				
Fully secured	**2,440,688,405**	**5,408,823,131**	**–**	**2,440,688,405**
Partially secured	**2,413,109,244**	**1,952,727,786**	**460,381,458**	**1,952,727,786**
Unsecured	**413,000,000**	**–**	**413,000,000**	**–**
	5,266,797,649	**7,361,550,917**	**873,381,458**	**4,393,416,191**
Others				
Fully secured	**44,868,396**	**81,930,579**	**–**	**44,868,396**
Unsecured	**8,255,183**	**–**	**8,255,183**	**–**
	53,123,579	**81,930,579**	**8,255,183**	**44,868,396**
Sales contract receivable				
Partially secured	**14,167,058**	**9,438,400**	**4,728,658**	**9,438,400**
	₱5,334,088,286	**₱7,452,919,896**	**₱886,365,299**	**₱4,447,722,987**

	Consolidated			
	2011			
	Gross Maximum Exposure	Fair Value of Collateral or Credit Enhancement	Net Exposure	Financial Effect of Collateral or Credit Enhancement
Credit risk exposure relating to on-balance sheet assets are as follows:				
Interbank loans receivable and securities purchased under resale agreements	₱4,010,000,000	₱4,010,000,000	₱–	₱4,010,000,000
Loans and receivables - net				
Loans and discounts:				
Corporate lending				
Fully secured	3,169,631,251	6,729,893,767	–	3,169,631,251
Partially secured	2,451,428,571	1,989,003,064	462,425,507	1,989,003,064
Unsecured	222,685,386	–	222,685,386	–
	5,843,745,208	8,718,896,831	685,110,893	5,158,634,315
Others				
Fully secured	36,978,642	87,297,789	–	36,978,642
Unsecured	8,021,779	–	8,021,779	–
	45,000,421	87,297,789	8,021,779	36,978,642
Sales contract receivable				
Partially secured	15,239,844	9,438,400	5,801,444	9,438,400
	₱9,913,985,473	₱12,825,633,020	₱698,934,116	₱9,215,051,357

	Parent Company			
	2012			
	Gross Maximum Exposure	**Fair Value of Collateral or Credit Enhancement**	**Net Exposure**	**Financial Effect of Collateral or Credit Enhancement**
Credit risk exposure relating to on- balance sheet assets are as follows:				
Interbank loans receivable and securities purchased under resale agreements				
Loans and receivables - net				
Loans and discounts:				
Corporate lending				
Fully secured	**₱2,440,688,405**	**₱5,408,823,131**	**₱–**	**₱2,440,688,405**
Partially secured	**2,413,109,244**	**1,952,727,786**	**460,381,458**	**1,952,727,786**
Unsecured	**398,000,000**	**–**	**398,000,000**	**–**
	5,251,797,649	**7,361,550,917**	**858,381,458**	**4,393,416,191**
Others				
Fully secured	**44,868,396**	**81,930,579**	**–**	**44,868,396**
Unsecured	**7,387,669**	**–**	**7,387,669**	**–**
	52,256,065	**81,930,579**	**7,387,669**	**44,868,396**
Sales contract receivable				
Partially secured	**14,167,058**	**9,438,400**	**4,728,658**	**9,438,400**
	₱5,318,220,772	**₱7,452,919,896**	**₱870,497,785**	**₱4,447,722,987**

	Parent Company			
	2011			
	Gross Maximum Exposure	Fair Value of Collateral or Credit Enhancement	Net Exposure	Financial Effect of Collateral or Credit Enhancement
Credit risk exposure relating to on-balance sheet assets are as follows:				
Interbank loans receivable and securities purchased under resale agreements	₱4,010,000,000	₱4,010,000,000	₱–	₱4,010,000,000
Loans and receivables - net				
Loans and discounts:				
Corporate lending				
Fully secured	2,750,330,154	6,729,893,767	–	2,750,330,154
Partially secured	2,451,428,571	1,989,003,064	462,425,507	1,989,003,064
Unsecured	420,509,636	–	420,509,636	–
	5,622,268,361	8,718,896,831	882,935,143	4,739,333,218

(Forward)

	Parent Company			
	2011			
	Gross Maximum Exposure	Fair Value of Collateral or Credit Enhancement	Net Exposure	Financial Effect of Collateral or Credit Enhancement
Others				
Fully secured	₱36,978,642	₱87,297,789	₱–	₱36,978,642
Unsecured	7,208,901	–	7,208,901	–
	44,187,543	87,297,789	7,208,901	36,978,642
Sales contract receivable				
Partially secured	15,239,844	9,438,400	5,801,444	9,438,400
	₱9,691,695,748	₱12,825,633,020	₱895,945,488	₱8,795,750,260

Collateral and other credit enhancements
The Group holds collateral against loans and receivables in the form of real estate and chattel mortgages, guarantees, and other registered securities over assets. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing and these are periodically updated following the internally approved guidelines on accepted collaterals. Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements. The Parent Company is not allowed to sell or pledge collateral held for reverse repurchase agreements. Collateral, usually, is not held against investment securities and no such collateral was held as of December 31, 2012 and 2011.

It is the Group's policy to dispose foreclosed properties acquired in an orderly fashion.

Concentration of risks of financial assets with credit risk exposure
An analysis of concentrations of credit risk by industry at the reporting date is shown below:

	Consolidated			
	2012			
	Loans and Receivables*	**Loans and Advances to Banks****	**Investment Securities*****	**Total**
Philippine government	**₱1,927,839,415**	**₱–**	**₱37,008,296,353**	**₱38,936,135,768**
Financial intermediaries	**6,332,876,224**	**12,720,097,705**	**1,664,007,528**	**20,716,981,457**
Electricity, gas and water	**4,453,168,383**	**–**	**360,748,962**	**4,813,917,345**
Real estate, renting and business activities	**2,799,375,937**	**–**	**1,187,676,776**	**3,987,052,713**
Transportation, storage and communication	**241,800**	**–**	**142,915,778**	**143,157,578**
Manufacturing	**115,082,825**	**–**	**200,134,504**	**315,217,329**
Hotels and restaurants	**399,590,521**	**–**	**–**	**399,590,521**
Mining and quarrying	**–**	**–**	**358,963,830**	**358,963,830**
Wholesale and retail trade	**15,516,029**	**–**	**91,396,310**	**106,912,339**
Private households	**57,038,130**	**–**	**–**	**57,038,130**
Others (various industries)	**30,323,518**	**–**	**105,750,555**	**136,074,073**
	16,131,052,782	**12,720,097,705**	**41,119,890,596**	**69,971,041,083**
Less allowance for credit losses	**804,704,447**	**–**	**–**	**804,704,447**
	₱15,326,348,335	**₱12,720,097,705**	**₱41,119,890,596**	**₱69,166,336,636**

* *Comprises Loans and receivables including commitments which amounted to ₱2,985,010,018.*
** *Comprises Cash and other cash items and Due from BSP excluding petty cash fund which amounted to ₱81,358.*
*** *Comprises Financial assets at FVPL (excluding derivative asset on embedded call options on Bonds issued by the Parent Company in November 2011 amounting to ₱27,808,866), AFS investments and HTM investments.*

	Consolidated			
	2011			
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Total
Philippine government	₱1,838,730,174	₱8,282,665,522	₱23,609,197,749	₱33,730,593,445
Financial intermediaries	7,460,888,350	13,099,674,780	1,258,150,819	21,818,713,949
Electricity, gas and water	5,989,680,569	–	75,259,845	6,064,940,414
Real estate, renting and business activities	2,431,348,757	–	831,924,457	3,263,273,214
Transportation, storage and communication	1,017,079,264	–	275,295,420	1,292,374,684
Manufacturing	644,060,547	–	52,125,142	696,185,689
Hotels and restaurants	401,737,515	–	24,270,300	426,007,815
Mining and quarrying	391,290	–	336,543,755	336,935,045
Wholesale and retail trade	79,728,795	–	46,036,729	125,765,524
Private households	62,805,459	–	–	62,805,459
Others (various industries)	16,962,988	–	21,528	16,984,516
	19,943,413,708	21,382,340,302	26,508,825,744	67,834,579,754
Less allowance for credit losses	787,021,588	–	–	787,021,588
	₱19,156,392,120	₱21,382,340,302	₱26,508,825,744	₱67,047,558,166

* *Comprises Loans and receivables including commitments which amounted to ₱3,244,000,000.*

** *Comprises Cash and other cash items and Due from BSP excluding petty cash fund which amounted to ₱54,550.*

*** *Comprises Financial assets at FVPL (excluding derivative asset on embedded call options on Bonds issued by the Parent Company in November 2011 amounting to ₱53,779,249), AFS investments and HTM investments.*

	Parent Company			
	2012			
	Loans and Receivables*	**Loans and Advances to Banks****	**Investment Securities*****	**Total**
Philippine government	**₱1,900,658,759**	**₱8,500,006,030**	**₱35,734,011,989**	**₱46,134,676,778**
Financial intermediaries	**6,049,779,396**	**2,880,273,726**	**1,437,972,542**	**10,368,025,664**
Electricity, gas and water	**4,329,408,495**	**–**	**323,516,212**	**4,652,924,707**
Real estate, renting and business activities	**2,703,532,099**	**–**	**1,173,025,876**	**3,876,557,975**
Transportation, storage and communication	**241,800**	**–**	**111,929,028**	**112,170,828**
Manufacturing	**100,965,043**	**–**	**183,468,572**	**284,433,615**
Hotels and restaurants	**399,590,521**	**–**	**–**	**399,590,521**
Mining and quarrying	**–**	**–**	**358,864,830**	**358,864,830**
Private households	**52,732,736**	**–**	**–**	**52,732,736**
Wholesale and retail trade	**330,998**	**–**	**90,706,205**	**91,037,203**
Others (various industries)	**8,485,265**	**–**	**104,192,989**	**112,678,254**
	15,545,725,112	**11,380,279,756**	**39,517,688,243**	**66,443,693,111**
Less allowance for credit losses	**771,328,248**	**–**	**–**	**771,328,248**
	₱14,774,396,864	**₱11,380,279,756**	**₱39,517,688,243**	**₱65,672,364,863**

* *Comprises Loans and receivables including commitments which amounted to ₱2,985,010,018.*

** *Comprises Cash and other cash items and Due from BSP excluding petty cash fund which amounted to ₱60,000.*

*** *Comprises Financial assets at FVPL (excluding derivative asset on embedded call options on Bonds issued by the Parent Company in November 2011 amounting to ₱28,263,772), AFS investments and HTM investments.*

	Parent Company			
	2011			
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Total
Philippine government	₱1,836,069,069	₱8,282,665,522	₱23,415,642,885	₱33,534,377,476
Financial intermediaries	7,395,255,749	11,777,396,196	1,112,117,005	20,284,768,950
Electricity, gas and water	5,831,813,652	–	1,037,801,863	6,869,615,515
Real estate, renting and business activities	2,381,005,056	–	831,524,457	3,212,529,513
Transportation, storage and communication	1,017,079,264	–	241,029,120	1,258,108,384
Manufacturing	613,689,682	–	32,965,960	646,655,642
Hotels and restaurants	401,737,515	–	–	401,737,515
Mining and quarrying	391,290	–	307,313,655	307,704,945
Private households	43,682,300	–	50,760,625	94,442,925
Wholesale and retail trade	602,888	–	43,560,625	44,163,513
Others (various industries)	6,187,992	–	–	6,187,992
	19,527,514,457	20,060,061,718	27,072,716,195	66,660,292,370
Less allowance for credit losses	884,531,896	–	–	884,531,896
	₱18,642,982,561	₱20,060,061,718	₱27,072,716,195	₱65,775,760,474

* *Comprises Loans and receivables including commitments which amounted to ₱3,289,000,000.*

** *Comprises Cash and other cash items and Due from BSP.*

*** *Comprises Financial assets at FVPL (excluding derivative asset on embedded call options on Bonds issued by the Parent Company in November 2011 amounting to ₱54,658,986), AFS investments and HTM investments.*

The following tables show the credit quality of financial assets:

	Consolidated			
	2012			
	Loans and Receivables	**Loans and Advances to banks***	**Investment Securities****	**Total**
Neither past due nor impaired	**₱12,692,639,980**	**₱12,720,097,705**	**₱40,226,455,708**	**₱65,639,193,393**
Impaired	**453,402,784**	**–**	**920,818,922**	**1,374,221,706**
Gross	**13,146,042,764**	**12,720,097,705**	**41,147,274,630**	**67,013,415,099**
Less allowance for credit losses***	**804,704,447**	**–**	**–**	**804,704,447**
Net	**₱12,341,338,317**	**₱12,720,097,705**	**₱41,147,274,630**	**₱66,208,710,652**

* *Comprises Cash and other cash items, Due from BSP and Interbank loans receivable and securities purchased under resale agreements excluding petty cash fund which amounted to ₱81,358.*

** *Comprises Financial assets at FVPL (excluding derivative asset on embedded call options on Bonds issued by the Parent Company in November 2011 amounting to ₱27,808,866), AFS investments and HTM investments.*

*** *Includes allowance for collective impairment.*

	Consolidated			
	2011			
	Loans and Receivables	Loans and Advances to banks*	Investment Securities**	Total
Neither past due nor impaired	₱16,282,446,019	₱21,382,340,302	₱25,731,117,110	₱63,395,903,431
Impaired	416,967,689	–	777,708,634	1,194,676,323
Gross	16,699,413,708	21,382,340,302	26,508,825,744	64,590,579,754
Less allowance for credit losses***	787,021,588	–	–	787,021,588
Net	₱15,912,392,120	₱21,382,340,302	₱26,508,825,744	₱63,803,558,166

* *Comprises Cash and other cash items, Due from BSP and Interbank loans receivable and securities purchased under resale agreements excluding petty cash fund which amounted to₱54,550.*

** *Comprises Financial assets at FVPL (excluding derivative asset on embedded call options on Bonds issued by the Parent Company in November 2011 amounting to ₱53,779,249), AFS investments and HTM investments.*

*** *Includes allowance for collective impairment.*

	Parent Company			
	2012			
	Loans and Receivables	**Loans and Advances to banks***	**Investment Securities****	**Total**
Neither past due nor impaired	**₱12,182,005,679**	**₱11,380,279,756**	**₱38,596,869,321**	**₱62,159,154,756**
Impaired	**378,709,415**	**–**	**920,818,922**	**1,299,528,337**
Gross	**12,560,715,094**	**11,380,279,756**	**39,517,688,243**	**63,458,683,093**
Less allowance for credit losses***	**771,328,248**	**–**	**–**	**771,328,248**
Net	**₱11,789,386,846**	**₱11,380,279,756**	**₱39,517,688,243**	**₱62,687,354,845**

* *Comprises Cash and other cash items, Due from BSP and Interbank loans receivable and securities purchased under resale agreements excluding petty cash fund which amounted to ₱60,000.*

** *Comprises Financial assets at FVPL (excluding derivative asset on embedded call options on Bonds issued by the Parent Company in November 2011 amounting to ₱28,263,772) AFS investments and HTM investments.*

*** *Includes allowance for collective impairment.*

	Parent Company			
	2011			
	Loans and Receivables	Loans and Advances to banks*	Investment Securities**	Total
Neither past due nor impaired	₱15,830,855,066	₱20,060,061,718	₱25,300,735,323	₱61,191,652,107
Impaired	407,659,391	–	777,018,529	1,184,677,920
Gross	16,238,514,457	20,060,061,718	26,077,753,852	62,376,330,027
Less allowance for credit losses***	884,531,896	–	–	884,531,896
Net	₱15,353,982,561	₱20,060,061,718	₱26,077,753,852	₱61,491,798,131

* *Comprises Cash and other cash items, Due from BSP and Interbank loans receivable and securities purchased under resale agreements.*

** *Comprises Financial assets at FVPL (excluding derivative asset on embedded call options on Bonds issued by the Parent Company in November 2011 amounting to ₱54,658,986), AFS investments and HTM investments.*

*** *Includes allowance for collective impairment.*

The table below shows the credit quality per class of financial assets based on the Group's rating system, gross of allowance for credit losses:

	Consolidated					
	December 31, 2012					
	Neither past due nor impaired					
	High Grade	Standard Grade	Substandard Grade	Unrated	Impaired	Total
Loans and advances to banks						
Due from BSP	₱–	₱8,500,006,030	₱–	₱–	₱–	₱8,500,006,030
Cash and other cash items*	863	3,820,050,812	400,040,000	–	–	4,220,091,675
Interbank loans receivable and securities purchased under resale agreements	–	–	–	–	–	–
	863	12,320,056,842	400,040,000	–	–	12,720,097,705
Financial assets at FVPL						
Government debt securities	–	6,937,747,045	–	–	–	6,937,747,045
Equity securities	507,796,428	1,135,200,062	290,356,550	1,325	–	1,933,354,365
Derivative asset**	–	27,384,035	–	–	–	27,384,035
	507,796,428	8,100,331,142	290,356,550	1,325	–	8,898,485,445
AFS investments						
Government debt securities	–	13,735,686,302	–	–	–	13,735,686,302
Private debt securities	338,806,000	–	–	–	–	338,806,000
Equity securities						
Quoted	16,000	622,437,619	–	82,200,000	920,818,922	1,625,472,541
Unquoted	17,411,075	–	51,285,395	141,005,202	–	209,701,672
Mutual Funds	–	–	–	4,259,665	–	4,259,665
	356,233,075	14,358,123,921	51,285,395	227,464,867	920,818,922	15,913,926,180
HTM investments						
Government debt securities	–	16,334,863,006	–	–	–	16,334,863,006
	–	16,334,863,006	–	–	–	16,334,863,006
Loans and receivables						
Loans and discounts						
Corporate lending	–	5,530,154,989	45,287,785	–	–	5,575,442,774
Others	14,400	2,010,288,423	14,820,000	61,580,218	–	2,086,703,041
	14,400	7,540,443,412	60,107,785	61,580,218	–	7,662,145,815
Unquoted commercial papers	3,715,376,119	1,193,899,999	–	–	331,250,000	5,240,526,118
Accrued interest receivable	506,155,091	146,715,813	1,133,950	–	3,393,750	657,398,604
Accounts receivable	–	44,329,540	10,000	63,507,711	80,888,561	188,735,812
Sales contract receivable	–	–	–	14,167,058	–	14,167,058
Others	131,398	1,415,695,829	–	2,467	–	1,415,829,694
	4,221,677,008	10,341,084,593	61,251,735	139,257,454	415,532,311	15,178,803,101
	₱5,085,707,374	₱61,454,459,504	₱802,933,680	₱366,723,646	₱1,336,351,233	₱69,046,175,437

* *Excludes petty cash fund amounting to ₱81,358.*

** *Excludes derivative asset on embedded call options on Bonds issued by the Parent Company in November 2011 amounting to ₱27,808,866.*

	Consolidated					
	December 31, 2011					
	Neither past due nor impaired					
	High Grade	Standard Grade	Substandard Grade	Unrated	Impaired	Total
Loans and advances to banks						
Due from BSP	₱4,272,665,522	₱–	₱–	₱–	₱–	₱4,272,665,522
Cash and other cash items*	100,000,000	12,999,664,780	–	10,000	–	13,099,674,780
Interbank loans receivable and securities purchased under resale agreements	4,010,000,000	–	–	–	–	4,010,000,000
	8,382,665,522	12,999,664,780	–	10,000	–	21,382,340,302
Financial assets at FVPL						
Government debt securities	92,821,499	355,906,486	–	–	–	448,727,985
Equity securities	210,999,437	694,281,734	134,300,365	1,497,825	–	1,041,079,361
Derivative asset**	–	50,868,250	–	–	–	50,868,250
	303,820,936	1,101,056,470	134,300,365	1,497,825	–	1,540,675,596

(Forward)

	Consolidated					
	December 31, 2011					
	Neither past due nor impaired					
	High Grade	Standard Grade	Substandard Grade	Unrated	Impaired	Total
AFS investments						
Government debt securities	₱4,383,876,252	₱1,179,286,883	₱–	₱–	₱–	₱5,563,163,135
Private debt securities	351,837,000	–	–	–	–	351,837,000
Equity securities						
Quoted	22,487,708	421,637,832	–	49,529,807	1,021,494,012	1,515,149,359
Unquoted	17,411,074	–	27,963,126	139,105,202	138,555,685	323,035,087
	4,775,612,034	1,600,924,715	27,963,126	188,635,009	1,160,049,697	7,753,184,581
HTM investments						
Government debt securities	17,597,306,630	–	–	–	–	17,597,306,630
	17,597,306,630	–	–	–	–	17,597,306,630
Loans and receivables						
Loans and discounts						
Corporate lending	850,000,000	3,434,138,106	1,881,433,975	–	–	6,165,572,081
Others	–	535,484	500,913	43,850,569	–	44,886,966
	850,000,000	3,434,673,590	1,881,934,888	43,850,569	–	6,210,459,047
Unquoted commercial papers	5,842,674,069	3,216,106,870	–	–	359,375,000	9,418,155,939
Accrued interest receivable	405,622,406	133,989,999	48,377,318	29,461	4,246,875	592,266,059
Accounts receivable	204,235	120,895,063	10,000	78,460,723	53,345,814	252,915,835
Sales contract receivable	–	–	–	15,239,844	–	15,239,844
Others	938	177,076,751	32,661,852	637,443	–	210,376,984
	7,098,501,648	7,082,742,273	1,962,984,058	138,218,040	416,967,689	16,699,413,708
	₱38,157,906,770	₱22,784,388,238	₱2,125,247,549	₱328,360,874	₱1,577,017,386	₱64,972,920,817

* *Excludes petty cash fund amounting to ₱54,550.*

** *Excludes derivative asset on embedded call options on Bonds issued by the Parent Company in November 2011 amounting to ₱53,779,249.*

	Parent Company					
	December 31, 2012					
	Neither past due nor impaired					
	High Grade	**Standard Grade**	**Substandard Grade**	**Unrated**	**Impaired**	**Total**
Loans and advances to banks						
Due from BSP	**₱–**	**₱8,500,006,030**	**₱–**	**₱–**	**₱–**	**₱8,500,006,030**
Cash and other cash items*	**863**	**2,480,232,863**	**400,040,000**	**–**	**–**	**2,880,273,726**
Interbank loans receivable and securities purchased underresale agreements	**–**	**–**	**–**	**–**	**–**	**–**
	863	**10,980,238,893**	**400,040,000**	**–**	**–**	**11,380,279,756**
Financial assets at FVPL						
Government debt securities	**–**	**6,937,747,045**	**–**	**–**	**–**	**6,937,747,045**
Equity securities	**410,547,928**	**1,038,020,802**	**279,888,018**	**–**	**–**	**1,728,456,748**
Derivative assets**	**–**	**27,384,035**	**–**	**–**	**–**	**27,384,035**
	410,547,928	**8,003,151,882**	**279,888,018**	**–**	**–**	**8,693,587,828**
AFS Investments						
Government debt securities	**–**	**12,461,401,937**	**–**	**–**	**–**	**12,461,401,937**
Private debt securities	**338,806,000**	**–**	**–**	**–**	**–**	**338,806,000**
Equity securities						
Quoted	**–**	**586,583,019**	**–**	**–**	**920,818,922**	**1,507,401,941**
Unquoted	**17,411,074**	**–**	**51,285,395**	**141,005,202**	**–**	**209,701,671**
	356,217,074	**13,047,984,956**	**51,285,395**	**141,005,202**	**920,818,922**	**14,517,311,549**
HTM investments						
Government debt securities	**–**	**16,334,863,006**	**–**	**–**	**–**	**16,334,863,006**
	–	**16,334,863,006**	**–**	**–**	**–**	**16,334,863,006**
Loans and receivables						
Loans and discounts						
Corporate lending	**–**	**5,530,154,989**	**30,287,785**	**–**	**–**	**5,560,442,774**
Others	**–**	**2,010,000,000**	**14,820,000**	**52,148,280**	**–**	**2,076,968,280**
	–	**7,540,154,989**	**45,107,785**	**52,148,280**	**–**	**7,637,411,054**

(Forward)

	Parent Company					
	December 31, 2012					
	Neither past due nor impaired					
	High Grade	**Standard Grade**	**Substandard Grade**	**Unrated**	**Impaired**	**Total**
Unquoted commercial papers	**₱3,427,776,119**	**₱1,010,444,744**	**₱–**	**₱–**	**₱331,250,000**	**₱4,769,470,863**
Accrued interest receivable	**475,167,881**	**144,190,355**	**948,919**	**–**	**3,393,750**	**623,700,905**
Accounts receivable	**–**	**40,441,592**	**10,000**	**40,444,219**	**44,065,665**	**124,961,476**
Sales contract receivable	**–**	**–**	**–**	**14,167,058**	**–**	**14,167,058**
Others	**131,398**	**1,415,689,874**	**–**	**2,467**	**–**	**1,415,823,739**
	3,903,075,398	**10,150,921,554**	**46,066,704**	**106,762,024**	**378,709,415**	**14,585,535,095**
	₱4,669,841,263	**₱58,517,160,291**	**₱777,280,117**	**₱247,767,226**	**₱1,299,528,337**	**₱65,510,887,130**

* *Excludes petty cash fund amounting to ₱60,000.*
** *Excludes derivative asset on embedded call options on Bonds issued by the Parent Company in November 2011 amounting to ₱28,263,772*

	Parent Company					
	December 31, 2011					
	Neither past due nor impaired					
	High Grade	Standard Grade	Substandard Grade	Unrated	Impaired	Total
Loans and advances to banks						
Due from BSP	₱4,272,665,522	₱–	₱–	₱–	₱–	₱4,272,665,522
Cash and other cash items	100,040,000	11,677,346,196	–	10,000	–	11,777,396,196
Interbank loans receivable and securities purchased underresale agreements	4,010,000,000	–	–	–	–	4,010,000,000
	8,382,705,522	11,677,346,196	–	10,000	–	20,060,061,718
Financial assets at FVPL						
Government debt securities	92,821,499	355,906,486	–	–	–	448,727,985
Equity securities	181,331,437	560,390,243	112,076,565	–	–	853,798,245
Derivative assets*	–	50,868,250	–	–	–	50,868,250
	274,152,936	967,164,979	112,076,565	–	–	1,353,394,480
AFS Investments						
Government debt securities	4,190,321,388	1,179,286,883	–	–	–	5,369,608,271
Private debt securities	351,837,000	–	–	–	–	351,837,000
Equity securities						
Quoted	22,471,708	421,637,832	–	–	1,021,494,012	1,465,603,552
Unquoted	17,411,074	–	27,963,126	139,105,202	7,425,000	191,904,402
	4,582,041,170	1,600,924,715	27,963,126	139,105,202	1,028,919,012	7,378,953,225
HTM investments						
Government debt securities	17,597,306,630	–	–	–	–	17,597,306,630
	17,597,306,630	–	–	–	–	17,597,306,630
Loans and receivables						
Loans and discounts						
Corporate lending	850,000,000	3,454,138,106	1,737,433,975	–	–	6,041,572,081
Others	–	535,484	500,913	43,148,523	–	44,184,920
	850,000,000	3,454,673,590	1,737,934,888	43,148,523	–	6,085,757,001
Unquoted commercial papers	5,825,344,564	3,113,158,130	–	–	359,375,000	9,297,877,694
Accrued interest receivable	403,175,364	131,933,086	47,324,721	–	4,246,875	586,680,046
Accounts receivable	204,236	7,906,552	10,000	24,129,978	44,037,516	76,288,282
Sales contract receivable	–	–	–	15,239,844	–	15,239,844
Others	938	176,633,894	–	36,758	–	176,671,590
	7,078,725,102	6,884,305,252	1,785,269,609	82,555,103	407,659,391	16,238,514,457
	₱37,914,931,360	₱21,129,741,142	₱1,925,309,300	₱221,670,305	₱1,436,578,403	₱62,628,230,510

* *Excludes derivative asset on embedded call options on Bonds issued by the Parent Company in November 2011 amounting to ₱54,658,986*

Impaired loans and receivables - are loans and receivables for which the Group determines that it is probable that it will be unable to collect all principal and interest due based on the contractual terms of the promissory note and security agreements. These loans are graded 8, 9 and 10 in the Group's ICRRS if provided with allowance.

Past due but not impaired loans and receivables - are loans and receivables where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate based on the cash flows of the available collateral or status of collection of the amounts due to the Group.

As of December 31, 2012 and 2011, the Group and the Parent Company has no outstanding past due but not impaired loans and receivables.

Liquidity Risk and Funding Management
Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Group's inability to meet its obligations when they come due without incurring unacceptable losses or costs.

Liquidity management is among the most important activities conducted within the Parent Company. The Parent Company manages its liquidity risk through analyzing net funding requirements under alternative scenarios, diversification of funding sources and contingency planning.

For liquidity risk, the Parent Company uses the Maximum Cumulative Outflow (MCO or Liquidity Gap) analysis in analyzing its funding requirements. The report is prepared twice a month and forwarded to the SMC and the RTU. The assumptions employed in the preparation of this report are approved by the BOD. These assumptions are reviewed and updated, as necessary, by the Senior Management through the Risk Management Division and Treasury Group. In addition, the Parent Company develops a Liquidity and Contingency funding plan to serve as reference in case of an occurrence of an event. This plan is also approved by the BOD.

The Parent Company's liquidity risk is managed by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a balanced loan portfolio which is repriced on a regular basis. Deposits with banks are made on a short-term basis with almost all being available on demand or within one month.

The Treasury Group uses liquidity forecast models that estimate the Parent Company's cash flow needs based on the Parent Company's actual contractual obligations and under normal and extraordinary circumstances. Based on the behavioral pattern of the deposit substitute accounts, which has been observed to have a "core deposit" level of about 80.0% to 90.0%, liquidity forecast and/or plans for its use are determined like earmarking for future loans and for other investment outlets. The plans and strategies in the liquidity risk management are contained in the Board-approved Liquidity Risk Management and Contingency Funding Plan.

Liquidity is monitored by the Parent Company on a daily basis and further analyzed at predetermined scenarios/situations.

The table below shows the maturity profile of the financial instruments, based on contractual undiscounted cash flows:

	Consolidated								
	December 31, 2012								
	On Demand	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	1 to 2 Years	2 to 5 Years	Beyond 5 Years	Total
Financial Assets									
Loans and advances									
Cash and other cash items	₱793,863,850	₱3,290,679,893	₱135,629,289	₱–	₱–	₱–	₱–	₱–	₱4,220,173,032
Due from BSP	8,000,006,030	500,000,000	–	–	–	–	–	–	8,500,006,030
Interbank loans receivable and SPURA	–	–	–	–	–	–	–	–	–
	8,793,869,880	3,790,679,893	135,629,289	–	–	–	–	–	12,720,179,062
Loans and receivables									
Loans and discounts									
Corporate lending	37,141	1,624,499	80,981,281	63,550,125	329,061,946	2,112,757,058	1,829,815,560	3,592,793,672	8,010,621,282
Others	–	1,227,996	2,448,858	3,662,911	6,867,029	12,528,470	31,123,898	33,965,466	91,824,628
	37,141	2,852,495	83,430,139	67,213,036	335,928,975	2,125,285,528	1,860,939,458	3,626,759,138	8,102,445,910
Unquoted commercial papers	–	99,132,954	146,397,184	459,079,986	1,684,748,469	3,344,389,057	5,619,198,446	4,299,915,331	15,652,861,427
Accrued interest receivable	185,031	348,261,856	252,247,287	56,704,430	–	–	–	–	657,398,604
Accounts receivable	180,795,474	–	–	–	–	–	–	–	180,795,474
Sales contract receivable	–	223,300	446,601	669,901	1,339,802	3,107,505	8,038,812	8,038,812	21,864,733
Dividends receivable	624,163	160,454,153	1,254,751,378	–	–	–	–	–	1,415,829,694
Other receivables	–	–	8,867,247	–	–	–	–	–	8,867,247
	181,641,809	610,924,758	1,746,139,836	583,667,353	2,022,017,246	5,472,782,090	7,488,176,716	7,934,713,281	26,040,063,089
Financial Assets at FVPL									
Government debt securities	–	1,642,053	175,755,590	270,380,993	223,933,848	63,579,225	189,032,292	6,920,169,232	7,844,493,233
Equity securities	–	1,933,354,365	–	–	–	–	–	–	1,933,354,365
AFS Investments									
Government debt securities	–	26,462,671	20,348,848	603,825,646	317,598,170	639,196,339	2,197,431,756	21,307,960,845	25,112,824,275
Private debt securities	–	–	4,339,323	7,232,205	340,239,410	–	–	–	351,810,938
Quoted equity investments	–	–	–	–	–	–	–	1,629,732,207	1,629,732,207
Unquoted equity investments	–	–	–	–	–	–	–	209,701,671	209,701,671
HTM investments									
Government debt securities	–	22,104,676	38,818,080	209,201,802	517,569,559	1,035,139,119	6,496,917,357	21,941,420,856	30,261,171,449
	–	1,983,563,765	239,261,841	1,090,640,646	1,399,340,987	1,737,914,683	8,883,381,405	52,008,984,811	67,343,088,138
	₱8,975,511,689	₱6,385,168,416	₱2,121,030,966	₱1,674,307,999	₱3,421,358,233	₱7,210,696,773	₱16,371,558,121	₱59,943,698,092	₱106,103,330,289

	Consolidated								
	December 31, 2012								
	On Demand	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	1 to 2 Years	2 to 5 Years	Beyond 5 Years	Total
Financial Liabilities									
Financial liabilities at amortized cost									
Bills payable	₱–	₱37,809,763,767	₱9,317,134,536	₱3,465,321,944	₱186,088,062	₱2,683,477,266	₱–	₱–	₱53,461,785,575
Bonds payable	–	–	78,378,689	155,600,219	155,600,219	622,400,876	6,695,309,502	7,293,579,550	15,000,869,055
Accrued interest and other expenses	–	249,202,697	92,879,455	21,780,902	866,057	23,654,930	–	–	388,384,041
Accounts payable	–	–	349,292,739	–	–	–	–	–	349,292,739
Other liabilities	–	558,616	78,834,090	–	–	–	–	–	79,392,706
	–	38,059,525,080	9,916,519,509	3,642,703,065	342,554,338	3,329,533,072	6,695,309,502	7,293,579,550	69,279,724,116
Puttable non-controlling interest	–	–	–	–	–	–	–	–	–
	₱–	₱38,059,525,080	₱9,916,519,509	₱3,642,703,065	₱342,554,338	₱3,329,533,072	₱6,695,309,502	₱7,293,579,550	₱69,279,724,116
Commitments	₱1,785,010,018	₱–	₱1,200,000,000	₱–	₱–	₱–	₱–	₱–	₱2,985,010,018

	Consolidated								
	December 31, 2011								
	On Demand	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	1 to 2 Years	2 to 5 Years	Beyond 5 Years	Total
Financial Assets									
Loans and advances									
Cash and other cash items	₱11,025,080,023	₱2,090,761,351	₱–	₱–	₱–	₱–	₱–	₱–	₱13,115,841,374
Due from BSP	1,172,665,522	3,103,756,528	–	–	–	–	–	–	4,276,422,050
Interbank loans receivable and SPURA	–	4,011,002,500	–	–	–	–	–	–	4,011,002,500
	12,197,745,545	9,205,520,379	–	–	–	–	–	–	21,403,265,924
Loans and receivables									
Loans and discounts									
Corporate lending	355,686	65,399,879	113,624,254	110,010,692	500,821,650	558,517,350	3,660,857,905	3,965,993,570	8,975,580,986
Others	–	835,004	1,633,777	2,449,852	4,850,175	8,844,166	17,395,548	29,499,242	65,507,764
	355,686	66,234,883	115,258,031	112,460,544	505,671,825	567,361,516	3,678,253,453	3,995,492,812	9,041,088,750
Unquoted commercial papers	–	38,008,248	636,681,266	660,391,923	310,950,309	1,986,484,364	5,310,679,738	2,549,742,795	11,492,938,643
Accrued interest receivable	41,788	303,052,576	238,610,912	48,418,135	–	–	–	–	590,123,411
Accounts receivable	–	214,645,684	38,270,152	–	–	–	–	–	252,915,836
Sales contract receivable	–	223,300	446,601	669,901	1,339,802	2,679,604	8,572,589	10,718,416	24,650,213
Dividends receivable	3,405	4,114,711	143,644,873	3,746,681	7,665,953	16,053,594	1,500,053	–	176,729,270
Other receivable	–	–	33,647,714	–	–	–	–	–	33,647,714
	400,879	626,279,402	1,206,559,549	825,687,184	825,627,889	2,572,579,078	8,999,005,833	6,555,954,023	21,612,093,837
Financial Assets at FVPL									
Government debt securities	–	476,947	47,415,662	1,129,917	23,086,966	25,039,585	72,067,121	485,716,553	654,932,751
Equity securities	–	1,041,079,361	–	–	–	–	–	–	1,041,079,361
AFS Investments									
Government debt securities	–	23,835,315	10,052,941	64,576,283	298,669,791	7,007,636,220	1,162,761,243	8,039,070,661	16,606,602,454
Private debt securities	–	–	3,471,458	5,785,764	11,571,528	348,918,056	–	–	369,746,806
Quoted equity investments	–	–	–	–	–	1,270,673,877	–	–	1,270,673,877
Unquoted equity investments	–	–	–	–	–	185,169,506	–	–	185,169,506
HTM investments									
Government debt securities	–	12,658,333	50,342,846	1,484,805,991	517,569,559	1,035,139,119	3,105,417,357	24,327,953,317	30,533,886,522
	–	1,078,049,956	111,282,907	1,556,297,955	850,897,844	9,872,576,363	4,340,245,721	32,852,740,531	50,662,091,277
	₱12,198,146,424	₱10,909,849,737	₱1,317,842,456	₱2,381,985,139	₱1,676,525,733	₱12,445,155,441	₱13,339,251,554	₱39,408,694,554	₱93,677,451,038
Financial Liabilities									
Financial liabilities at amortized cost									
Bills payable	₱–	₱39,876,520,057	₱26,292,213,758	₱1,799,232,444	₱5,981,018,047	₱26,124,875	₱506,584,900	₱–	₱74,481,694,081
Bonds payable	–	–	33,501,965	55,836,609	111,673,218	223,346,435	670,039,305	4,975,361,609	6,069,759,141
Accrued interest and other expenses	–	241,571,593	60,082,797	4,157,798	17,357,231	–	–	–	323,169,419
Accounts payable	–	250,277,370	61,287,039	–	9,633,387	–	–	–	321,197,796
Other liabilities	–	475,147	51,448,791	–	–	9,187,500	–	–	61,111,438
	–	40,368,844,167	26,498,534,350	1,859,226,851	6,119,681,883	258,658,810	1,176,624,205	4,975,361,609	81,256,931,875
Puttable non-controlling interest	703,853,298	–	–	–	–	–	–	–	703,853,298
	₱703,853,298	₱40,368,844,167	₱26,498,534,350	₱1,859,226,851	₱6,119,681,883	₱258,658,810	₱1,176,624,205	₱4,975,361,609	₱81,960,785,173

Consolidated

	December 31, 2011								
	On Demand	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	1 to 2 Years	2 to 5 Years	Beyond 5 Years	Total
Gross-settled Derivatives									
Forward Contracts									
Floating receive leg	₱–	₱–	₱–	₱–	₱5,480,000,000	₱–	₱–	₱–	₱5,480,000,000
Fixed payment leg	–	–	–	–	5,487,000,000	–	–	–	5,487,000,000
	₱–	₱–	₱–	₱–	(₱7,000,000)	₱–	₱–	₱–	(₱7,000,000)
Commitments	₱1,244,000,000	₱–	₱2,000,000,000	₱–	₱–	₱–	₱–	₱–	₱3,244,000,000

Parent Company

	December 31, 2012								
	On Demand	**Up to 1 Month**	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**1 to 2 Years**	**2 to 5 Years**	**Beyond 5 Years**	**Total**
Financial Assets									
Loans and advances									
Cash and other cash items	**₱721,894,997**	**₱2,158,438,730**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱2,880,333,727**
Due from BSP	**8,000,006,030**	**500,000,000**	**–**	**–**	**–**	**–**	**–**	**–**	**8,500,006,030**
Interbank loans receivable and SPURA	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	8,721,901,027	**2,658,438,730**	**–**	**–**	**–**	**–**	**–**	**–**	**11,380,339,757**
Loans and receivables									
Loans and discounts									
Corporate lending	**37,141**	**1,624,499**	**80,800,272**	**63,367,105**	**314,061,946**	**2,112,757,058**	**1,829,815,560**	**3,592,793,672**	**7,995,257,253**
Others	**–**	**1,190,952**	**2,374,769**	**3,551,778**	**6,651,807**	**12,170,674**	**30,857,866**	**33,965,466**	**90,763,312**
	37,141	**2,815,451**	**83,175,041**	**66,918,883**	**320,713,753**	**2,124,927,732**	**1,860,673,426**	**3,626,759,138**	**8,086,020,565**
Unquoted commercial papers	**–**	**70,157,788**	**53,373,884**	**84,033,692**	**934,690,546**	**1,833,184,957**	**1,743,814,326**	**810,272,365**	**5,529,527,558**
Accrued interest receivable	**–**	**316,498,665**	**250,653,768**	**56,548,471**	**–**	**–**	**–**	**–**	**623,700,904**
Accounts receivable	**124,961,476**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**124,961,476**
Sales contract receivable	**–**	**223,300**	**446,601**	**669,901**	**1,339,802**	**3,107,505**	**8,038,812**	**8,038,812**	**21,864,733**
Dividends receivable	**624,163**	**160,454,153**	**1,254,456,999**	**–**	**–**	**–**	**–**	**–**	**1,415,535,315**
Other receivable	**–**	**–**	**288,423**	**–**	**–**	**–**	**–**	**–**	**288,423**
	125,622,780	**550,149,357**	**1,642,394,716**	**208,170,947**	**1,256,744,101**	**3,961,220,194**	**3,612,526,564**	**4,445,070,315**	**15,801,898,974**

	December 31, 2012								
	On Demand	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	1 to 2 Years	2 to 5 Years	Beyond 5 Years	Total
Financial Assets at FVPL									
Government debt securities	₱–	₱1,642,053	₱175,755,590	₱270,380,993	₱223,933,848	₱63,579,225	₱189,032,292	₱6,920,169,232	₱7,844,493,233
Equity securities	–	1,728,456,747	–	–	–	–	–	–	1,728,456,747
AFS Investments									
Government debt securities	–	23,317,507	20,102,890	587,565,491	285,279,926	570,559,852	1,998,592,642	19,378,636,170	22,864,054,478
Private debt securities	–	–	4,339,323	7,232,205	340,239,410	–	–	–	351,810,938
Quoted equity investments	–	–	–	–	–	–	–	1,507,401,941	1,507,401,941
Unquoted equity investments	–	–	–	–	–	–	–	209,011,567	209,011,567
HTM investments									
Government debt securities	–	22,104,676	38,818,080	209,201,802	517,569,559	1,035,139,119	6,496,917,357	21,941,420,856	30,261,171,449
	–	1,775,520,983	239,015,883	1,074,380,491	1,367,022,743	1,669,278,196	8,684,542,291	49,956,639,766	64,766,400,353
	₱8,847,523,807	₱4,984,109,070	₱1,881,410,599	₱1,282,551,438	₱2,623,766,844	₱5,630,498,390	₱12,297,068,855	₱54,401,710,081	₱91,948,639,084
Financial Liabilities									
Financial liabilities at amortized cost									
Bills payable	₱–	₱37,809,763,767	₱9,317,134,536	₱3,465,321,944	₱186,088,062	₱2,683,477,266	₱–	₱–	₱53,461,785,575
Bonds payable	–	–	78,990,323	156,835,016	156,835,016	627,340,064	6,749,678,397	7,364,868,250	15,134,547,066
Accrued interest and other expenses	–	232,026,567	93,501,678	21,780,902	866,057	23,654,930	–	–	371,830,134
Accounts payable	–	–	33,955,779	–	–	–	–	–	33,955,779
Other liabilities	–	408,543	99,751,833	–	–	9,375,000	–	–	109,535,376
	₱–	₱38,042,198,877	₱9,623,334,149	₱3,643,937,862	₱343,789,135	₱3,343,847,260	₱6,749,678,397	₱7,364,868,250	₱69,111,653,930
Commitments	₱1,785,010,018	₱–	₱1,200,000,000	₱–	₱–	₱–	₱–	₱–	₱2,985,010,018

	Parent Company								
	December 31, 2011								
	On Demand	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	1 to 2 Years	2 to 5 Years	Beyond 5 Years	Total
Financial Assets									
Loans and advances									
Cash and other cash items	₱10,949,170,190	₱828,226,006	₱–	₱–	₱–	₱–	₱–	₱–	₱11,777,396,196
Due from BSP	1,172,665,522	3,103,756,528	–	–	–	–	–	–	4,276,422,050
Interbank loans receivable and SPURA	–	4,011,002,500	–	–	–	–	–	–	4,011,002,500
	12,121,835,712	7,942,985,034	–	–	–	–	–	–	20,064,820,746
Loans and receivables									
Loans and discounts									
Corporate lending	351,542	64,637,879	110,928,038	106,711,772	367,797,257	537,120,212	3,618,203,787	3,919,784,195	8,725,534,682
Others	–	835,004	1,633,777	2,449,852	4,739,343	8,142,120	17,395,548	29,499,242	64,694,886
	351,542	65,472,883	112,561,815	109,161,624	372,536,600	545,262,332	3,635,599,335	3,949,283,437	8,790,229,568
Unquoted commercial papers	–	36,057,298	637,476,135	644,500,545	312,309,529	1,960,591,434	5,219,806,832	2,548,417,251	11,359,159,024
Accrued interest receivable	41,788	300,594,257	235,493,136	48,408,217	–	–	–	–	584,537,398
Accounts receivable	–	28,479,089	3,771,678	–	–	–	–	–	32,250,767
Sales contract receivable	–	223,300	446,601	669,901	1,339,802	2,679,604	8,572,589	10,718,416	24,650,213
Dividends receivable	3,405	1,847,294	174,784,133	–	–	–	–	–	176,634,832
Other receivable			36,758						36,758
	396,735	432,674,121	1,164,570,256	802,740,287	686,185,931	2,508,533,370	8,863,978,756	6,508,419,104	20,967,498,560
Financial Assets at FVPL									
Government debt securities	–	476,947	47,415,662	1,129,917	23,086,966	25,039,585	72,067,121	485,716,553	654,932,751
Equity securities	–	853,798,245	–	–	–	–	–	–	853,798,245
AFS Investments									
Government debt securities	–	23,666,426	9,160,203	63,182,831	294,108,882	6,998,548,021	1,047,982,233	7,899,740,646	16,336,389,242
Private debt securities	–	–	3,471,458	5,785,764	11,571,528	348,918,056	–	–	369,746,806
Quoted equity investments	–	–	–	–	–	1,221,128,070	–	–	1,221,128,070
Unquoted equity investments	–	–	–	–	–	184,479,401	–	–	184,479,401
HTM investments									
Government debt securities	–	12,658,333	50,342,846	1,484,805,991	517,569,559	1,035,139,119	3,105,417,357	24,327,953,317	30,533,886,522
	–	890,599,951	110,390,169	1,554,904,503	846,336,935	9,813,252,252	4,225,466,711	32,713,410,516	50,154,361,037
	₱12,122,232,447	₱9,266,259,106	₱1,274,960,425	₱2,357,644,790	₱1,532,522,866	₱12,321,785,622	₱13,089,445,467	₱39,221,829,620	₱91,186,680,343

	Parent Company								
	December 31, 2011								
	On Demand	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	1 to 2 Years	2 to 5 Years	Beyond 5 Years	Total
Financial Liabilities									
Financial liabilities at amortized cost									
Bills payable	₱–	₱39,876,520,057	₱26,292,213,758	₱1,799,232,444	₱5,981,018,047	₱26,124,875	₱506,584,900	₱–	₱74,481,694,081
Bonds payable	–	–	34,050,000	56,750,000	113,500,000	227,000,000	681,000,000	5,056,750,000	6,169,050,000
Accrued interest and other expenses	–	229,701,510	60,469,075	4,157,798	17,357,231	–	–	–	311,685,614
Accounts payable	–	–	45,602,224	–	–	–	–	–	45,602,224
Other liabilities	–	351,206	42,632,750	–	–	18,562,500	–	–	61,546,456
	–	40,106,572,773	26,474,967,807	1,860,140,242	6,111,875,278	271,687,375	1,187,584,900	5,056,750,000	81,069,578,375
Gross-settled Derivatives									
Forward Contracts									
Floating receive leg	₱–	₱–	₱–	₱–	₱5,480,000,000	₱–	₱–	₱–	₱5,480,000,000
Fixed payment leg	–	–	–	–	5,487,000,000	–	–	–	5,487,000,000
	₱–	₱–	₱–	₱–	(₱7,000,000)	₱–	₱–	₱–	(₱7,000,000)
Commitments	₱1,244,000,000	₱–	₱2,000,000,000	₱–	₱–	₱–	₱–	₱–	₱3,244,000,000

Financial assets
Analysis of equity and debt securities at fair value through profit or loss into maturity groupings is based on the expected date on which these assets will be realized. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date the assets will be realized.

Financial liabilities
The maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date. When a counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Group can be required to pay.

Market Risk
Market risk is the risk of loss to future earnings, fair values or future cash flows that may result from changes in the price of a financial instrument. The Parent Company's market risk originates from its holdings of debt securities and equities.

The Parent Company manages market risk by segregating its balance sheet into a trading book and a banking book. The management of this portfolio is assigned to the SMC, chaired by the President.

The RMD serves under the ROC and performs daily market risk analyses to ensure compliance with the company's policies and procedures. The methodologies used in managing the risk include the daily marking-to-market, monitoring of loss alerts and stop loss limits, profit alert and start sell limits, nominal position limits as well as Value-at-Risk (VaR) and Earnings-at-Risk (EaR) limits. Monitoring also includes sensitivity analysis/stress testing and backtesting of the VaR. The VaR and backtesting risk management tools for fixed income has been enhanced starting January 2011 with the full operation of RiskMark, whose VaR methodology was independently validated by SGV. The Bank is also calculating VaR for its equity risk through the Bloomberg facility.

The VaR methodology prescribes the use of historical data set with a minimum sample size of 260 trading days of most recently observed daily percentage changes in price (a one-year "rolling window"). The VaR amount is equal to that percentile associated with the specified level of confidence set at 99.0%.

The summary of the interest rate and equity VaR arising from PHP-denominated bonds and equity investments follows:

	2012		2011
	Interest Rate	**Equity**	Interest Rate
Year-end	**(₱23,342,325)**	**(₱37,402,354)**	(₱727,498)
High	**(216,575,472)**	**(49,499,834)**	(185,429,998)
Low	**(1,616,196)**	**(18,402,433)**	(140,564)
Average	**(34,548,720)**	**(36,312,759)**	(26,453,392)

The Parent Company was in the process of finalizing its equity VaR calculation.

Stress testing on the portfolio is also done on a daily basis to complement the VaR methodology. The stress testing results are reported to the President and Treasurer as well as to the Controller and the Chief Risk Officer and subsequently to the ROC and the BOD.

Guiding daily monitoring activities are limits structures that are based on annual targets set during budget hearings, approved by the ROC and the BOD. Monitoring reports are discussed in the ROC monthly meetings.

Interest rate risk
The Group follows a prudent policy in managing its assets and liabilities to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. Majority of the Parent Company's loan portfolio have no repricing rate arrangements. The determination of the applicable rates is sourced from the Parent Company’s approved lending rates. Lending rates are determined based on funding cost plus certain spreads. As of December 31, 2012 and 2011, 7.1% and 8.2% of the total loans and discounts were subject to periodic interest repricing, respectively, for the Group, and 6.9% and 6.5%, respectively, for the Parent Company. The remaining loans earned fixed annual interest rates.

Another interest rate risk area where the Parent Company has exposures is on the effect of future changes in the prevailing level of interest rates on its fixed and floating interest rate-financial assets and liabilities. It has identified the financial assets and liabilities that are to mature or to reprice in the future and monitors its effect on the statement of income and equity.

The tables below demonstrate the sensitivity to a reasonable possible change in interest rates with all other variables held constant, of the Group’s net income before tax (through the impact on interest on floating rate instruments and financial debt assets at FVPL) and the Group’s equity (through the impact on unrealized gain/loss on AFS fixed rate debt securities).

	Consolidated						
	December 31, 2012						
		Sensitivity of net interest	**Sensitivity of equity**				
	Increase in basis points	**income and trading gains**	**0 up to 6 months**	**6 months to 1 year**	**1 year to 5 Years**	**More than 5 years**	**Total**
Currency PhP	**+50**	**(₱84,729,622)**	**₱–**	**₱–**	**(₱1,773,952)**	**(₱724,827,286)**	**(₱726,601,238)**
Currency PhP	**-50**	**66,217,480**	**–**	**–**	**1,811,538**	**790,718,754**	**792,530,292**

	Consolidated						
	December 31, 2011						
		Sensitivity of net interest	Sensitivity of equity				
	Increase in basis points	income and trading gains	0 up to 6 months	6 months to 1 year	1 year to 5 Years	More than 5 years	Total
Currency PhP	+50	₱30,945,606	₱–	₱–	(₱1,775,488)	(₱255,881,989)	(₱257,657,477)
Currency PhP	-50	(30,934,282)	–	–	1,813,125	279,580,128	281,393,253

	Parent Company						
	December 31, 2012						
		Sensitivity of net interest	**Sensitivity of equity**				
	Increase in basis points	**income and trading gains**	**0 up to 6 months**	**6 months to 1 year**	**1 year to 5 Years**	**More than 5 years**	**Total**
Currency PhP	**+50**	**(₱84,808,960)**	**₱–**	**₱–**	**₱–**	**(₱723,497,256)**	**(₱723,497,256)**
Currency PhP	**-50**	**66,296,817**	**–**	**–**	**–**	**789,328,842**	**789,328,842**

	Parent Company						
	December 31, 2011						
		Sensitivity of net interest	Sensitivity of equity				
	Increase in basis points	income and trading gains	0 up to 6 months	6 months to 1 year	1 year to 5 Years	More than 5 years	Total
Currency PhP	+50	₱5,447,855	₱–	₱–	₱–	(₱254,556,693)	(₱254,556,693)
Currency PhP	-50	(5,436,530)	–	–	–	278,195,021	278,195,021

The impact on the Company's equity already excludes the impact on transactions affecting the statement of income. The sensitivity to predetermined basis points of 50 is considered stressful enough for this purpose.

Foreign exchange risk
Foreign exchange risk is the risk to earnings or capital arising from changes in foreign exchange rates. The Group takes an exposure to effects on the fluctuations in the prevailing foreign currency exchange rates on its cash flows.

The tables below summarize the Group and the Parent Company's exposure to foreign currency risk as of December 31, 2012 and 2011:

	Consolidated		
	2012		
	US Dollar	**Euro**	**HK Dollar**
Financial assets			
Loans and advances			
Cash and other cash items	**US$4,211,765**	**€143,563**	**HK$3,022,067**
Loans and receivable			
Accrued interest receivable	**504,825**	**23,725**	**–**
Dividends receivable	**–**	**–**	**9,800**
Financial Assets at FVPL			
Government securities	**129,388,765**	**–**	**–**
AFS Investments			
Government securities	**13,724,583**	**4,999,500**	**800,100**
Equity securities			
	US$147,829,938	**€5,166,788**	**HK$3,831,967**
Financial liabilities			
Bills payable	**US$144,957,181**	**€5,000,000**	**HK$–**
Accrued interest payable	**111,881**	**3,363**	**–**
	US$145,069,062	**€5,003,363**	**–**
Open exposure before forward contract	**US$2,760,876**	**€163,425**	**HK$3,831,967**
Off-balance sheet financial asset			
Forward contract	**–**	**–**	**–**
	US$2,760,876	**€163,425**	**HK$3,831,967**

	Consolidated		
	2011		
	US Dollar	Euro	HK Dollar
Financial assets			
Loans and advances			
Cash and other cash items	US$19,190,971	€67,862	HK$–
Loans and receivable			
Accrued interest receivable	350,720	24,516	–
Dividends receivable	–	–	6,300
Financial Assets at FVPL			
Government securities	6,000,000	–	–
AFS Investments			
Government securities	19,202,500	4,999,500	–
Equity securities	–	–	696,150
	US$44,744,191	€5,091,878	HK$702,450

(Forward)

	Consolidated		
	2011		
	US Dollar	Euro	HK Dollar
Financial liabilities			
Bills payable	US$169,658,921	€5,000,000	HK$–
Accrued interest payable	436,397	3,710	–
	US$170,095,318	€5,003,710	HK$–
Open exposure before forward contract	(US$125,351,127)	€88,168	HK$702,450
Off-balance sheet financial asset			
Forward contract	125,000,000	–	–
	(US$351,127)	€88,168	HK$702,450

	Parent Company		
	2012		
	US Dollar	**Euro**	**HK Dollar**
Financial assets			
Loans and advances			
Cash and other cash items	**US$4,211,765**	**€143,563**	**HK$–**
Loans and receivable			
Accrued interest receivable	**504,825**	**23,725**	**–**
Financial Assets at FVPL			
Government securities	**129,388,765**	**–**	**–**
AFS Investments			
Government securities	**13,724,583**	**4,999,500**	**–**
Equity securities	**–**	**–**	**–**
	US$147,829,938	**€5,166,788**	**HK$–**
Financial liabilities			
Bills payable	**US$144,957,181**	**€5,000,000**	**HK$–**
Accrued interest payable	**111,881**	**3,363**	**–**
	US$145,069,062	**€5,003,363**	**HK$–**
Net assets (liabilities) in foreign currency	**US$2,760,876**	**€163,425**	**HK$–**
Off-balance sheet financial asset			
Forward contract	**–**	**–**	**–**
	US$2,760,876	**€163,425**	**HK$–**

	Parent Company		
	2011		
	US Dollar	Euro	HK Dollar
Financial assets			
Loans and advances			
Cash and other cash items	US$18,803,110	€67,862	HK$–
Loans and receivable			
Accrued interest receivable	350,720	24,516	–
Financial Assets at FVPL			
Government securities	6,000,000	–	–
AFS Investments			
Government securities	19,202,500	4,999,500	–
Equity securities	–	–	–
	US$44,356,330	€5,091,878	HK$–
Financial liabilities			
Bills payable	US$169,658,921	€5,000,000	HK$–
Accrued interest payable	436,397	3,710	–
	US$170,095,318	€5,003,710	HK$–
Net assets (liabilities) in foreign currency	(US$125,738,988)	€88,168	HK$–
Off-balance sheet financial asset			
Forward contract	125,000,000	–	–
	(US$738,988)	€88,168	HK$–

The exchange rates used to convert the Group's US Dollar-denominated assets and liabilities into Philippine Peso as of December 31, 2012 follow:

	2012		
	US Dollar-Philippine Peso	**Euro-Philippine Peso**	**HKD-Philippine Peso**
Exchange rate	**₱41.05 to US$1.00**	**₱54.17 to €1.00**	**₱5.30 to HK$1.00**

	2011		
	US Dollar-Philippine Peso	Euro-Philippine Peso	HKD-Philippine Peso
Exchange rate	₱43.84 to US$1.00	₱56.64 to €1.00	₱5.64 to HK$1.00

The following tables set forth the impact of the range of reasonable possible changes in the US Dollar-Philippine Peso exchange rate and Euro-Philippine Peso exchange rate on the Group's income before income tax and equity (due to the revaluation of monetary assets and liabilities) for the years ended December 31, 2012 and 2011 before and after taking into account the effect of the forward contract entered by the Group to hedge its foreign currency risk in US Dollar borrowings:

	Consolidated	
	2012	
Reasonable Possible Change	**Change in Income Before Income Tax**	**Change in Equity**
US Dollar		
1.0%	**₱1,293,910**	**₱42,375**
(1.0%)	**(1,293,910)**	**(42,375)**
Euro		
1.0%	**88,534**	**–**
(1.0%)	**(88,534)**	**–**
HK Dollar		
1.0%	**160,592**	**42,380**
(1.0%)	**(160,592)**	**(42,380)**

	Consolidated	
	2011	
Reasonable Possible Change	Change in Income Before Income Tax	Change in Equity
US Dollar		
1.0%	(₱54,953,934)	₱–
(1.0%)	54,953,934	–
Euro		
1.0%	49,939	–
(1.0%)	(49,939)	–
HK Dollar		
1.0%	355	39,259
(1.0%)	(355)	(39,259)

	Parent Company	
	2012	
Reasonable Possible Change	**Change in Income Before Income Tax**	**Change in Equity**
US Dollar		
1.0%	**₱1,132,516**	**₱–**
(1.0%)	**1,132,516**	**–**
Euro		
1.0%	**88,534**	**–**
(1.0%)	**(88,534)**	**–**
HK Dollar		
1.0%	**–**	**–**
(1.0%)	**–**	**–**

	Parent Company	
	2011	
Reasonable Possible Change	Change in Income Before Income Tax	Change in Equity
US Dollar		
1.0%	(₱55,123,973)	₱–
(1.0%)	55,123,973	–
Euro		
1.0%	49,939	–
(1.0%)	(49,939)	–
HK Dollar		
1.0%	–	–
(1.0%)	–	–

The Parent Company entered into forward contracts in 2011 to purchase US dollar. Below is the foreign currency sensitivity analysis after considering the effect of the hedging transaction:

	Consolidated	
	2011	
Reasonable Possible Change	Change in Income Before Income Tax	Change in Equity
US Dollar		
1.0%	(₱153,934)	₱–
(1.0%)	153,934	–

	Parent Company	
	2011	
Reasonable Possible Change	Change in Income Before Income Tax	Change in Equity
US Dollar		
1.0%	(₱323,973)	₱–
(1.0%)	323,973	–

Equity price risk

Equity price risk is the risk that the fair values of equities will fluctuate as a result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposures arise from the Parent Company's investment portfolio and a few golf shares.

The Parent Company's policies and procedures as well as risk limit structures on its equity investment portfolio are approved by the ROC and BOD. Management's strategies and plans are discussed in the regular Incom meetings. The committee is headed by the President and the members include the Treasurer and the investment managers.

The following tables set forth, for the period indicated, the impact of a reasonable possible change in the PSE index (PSEi), with all other factors being held constant, on the Group's and the Parent Company's unrealized gain or loss on held for trading securities:

	Consolidated			
	2012		2011	
Changes in PSEi	**17.0%**	**(17.0%)**	14.4%	(14.4%)
Change on trading income under:				
Mining and oil industry	**₱49,070,780**	**(₱49,070,780)**	₱51,037,958	(₱51,037,958)
Holding firm industry	**69,523,988**	**(69,523,988)**	25,063,197	(25,063,197)
Financial industry	**17,099,301**	**(17,099,301)**	20,115,583	(20,115,583)
Property industry	**20,717,659**	**(20,717,659)**	20,190,275	(20,190,275)
Industrial industry	**71,905,293**	**(71,905,293)**	12,117,673	(12,117,673)
Services industry	**38,684,536**	**(38,684,536)**	11,598,829	(11,598,829)
Total	**₱267,001,557**	**(₱267,001,557)**	₱140,123,515	(₱140,123,515)
As a percentage of the Group's net trading gain for the year	**69.2%**	**(69.2%)**	164.4%	(164.4%)

	Parent Company			
	2012		2011	
Changes in PSEi	**17.0%**	**(17.0%)**	14.4%	(14.4%)
Change on trading income under:				
Mining and oil industry	**₱49,056,118**	**(₱49,056,118)**	₱45,697,456	(₱45,697,456)
Holding firm industry	**58,977,647**	**(58,977,647)**	23,480,243	(23,480,243)
Property industry	**17,579,845**	**(17,579,845)**	20,161,994	(20,161,994)
Financial industry	**12,272,761**	**(12,272,761)**	10,103,266	(10,103,266)
Industrial industry	**64,208,947**	**(64,208,947)**	9,718,296	(9,718,296)
Services industry	**33,709,225**	**(33,709,225)**	7,746,568	(7,746,568)
Total	**₱235,804,543**	**(₱235,804,543)**	₱116,907,823	(₱116,907,823)
As a percentage of the Parent Company's net trading gain for the year	**79.3%**	**(79.3%)**	172.6%	(172.6%)

The increase or decrease in PSEi will directly impact the statement of income of both the Group and Parent Company.

The following tables set forth, for the period indicated, the impact of changes in the PSEi to the Group's and the Parent Company's unrealized gain or loss on AFS investments:

	Consolidated			
	2012		2011	
Changes in PSEi	**17.0%**	**(17.0%)**	14.4%	(14.4%)
Change on equity under:				
Property industry	**₱144,795,738**	**(₱144,795,738)**	₱39,099,376	(₱39,099,376)
Services industry	**5,777,025**	**(5,777,025)**	30,290,767	(30,290,767)
Financial industry	**51,478,702**	**(51,478,702)**	29,910,414	(29,910,414)
Mining and oil industry	–	–	3,439,789	(3,439,789)
Industrial industry	–	–	–	–
Total	**₱202,051,465**	**(₱202,051,465)**	₱102,740,346	(₱102,740,346)
As a percentage of the Group's net unrealized gain for the year	**33.0%**	**(33.0%)**	44.7%	(44.7%)

	Parent Company			
	2012		2011	
Changes in PSEi	**17.0%**	**(17.0%)**	14.4%	(14.4%)
Change on equity under:				
Property industry	**₱144,795,738**	**(₱144,795,738)**	₱39,099,376	(₱39,099,376)
Services industry	**5,774,669**	**(5,774,669)**	30,290,767	(30,290,767)
Financial industry	**42,641,163**	**(42,641,163)**	24,407,771	(24,407,771)
Mining and oil industry	**–**	**–**	3,439,789	(3,439,789)
Industrial industry	**–**	**–**	–	–
Total	**₱193,211,570**	**(₱193,211,570)**	₱97,237,703	(₱97,237,703)
As a percentage of the Group's net unrealized gain for the year	**36.4%**	**(36.4%)**	50.5%	(50.5%)

The increase or decrease in PSEi will directly impact the equity of both the Group and Parent Company.

5. Fair Value Measurement

The methods and assumptions used by the Group in estimating the fair value of financial instruments are:

Cash and other cash items and due from BSP, financial liabilities at cost except for bills payable and bonds payable - Carrying amounts approximate fair values due to the relatively short-term maturities of these investments.

Trading and investment securities - Fair values of debt securities (both AFS and HTM investments) and quoted equity investments are generally based on their quoted market prices. Where the AFS debt securities are not quoted or the market prices are not readily available, the Group obtains its valuations from independent parties offering pricing services, uses adjusted quoted market prices of comparable investments, or applies discounted cash flow methodologies. For equity investments that are not quoted, the investments are carried at cost less allowance for impairment losses due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

Derivative instruments - Fair values are estimated based on prices derived using acceptable valuation models.

Loans and receivables - Fair values of loans are estimated using the discounted cash flow methodology, using the Group's current incremental lending rates for similar types of loans. Where the instrument reprices on a quarterly basis or has a relatively short maturity, the carrying amount approximate fair value.

Bills payable - Carrying value approximates fair value for borrowings with relatively short maturity. For certain borrowings which are long-term in nature, fair values are estimated using the discounted cash flow methodology using the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

Bonds payable - In 2012 and 2011, the fair value of bonds payable is based on its discounted cash flow.

As of December 31, 2012 and 2011, except for the following financial instruments, the carrying values of the Group and Parent Company's financial assets and liabilities as reflected in the statements of financial position and related notes approximate their respective fair values as of the statements of financial position date:

	Consolidated			
	2012		2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Loans and receivables:				
Loans and discounts:				
Corporate lending	**₱5,266,905,433**	**₱6,671,216,896**	₱5,843,858,663	₱7,087,153,220
Others	**53,015,794**	**65,538,063**	44,886,966	51,133,942
Other receivables:				
Unquoted commercial papers	**4,825,194,627**	**5,473,187,753**	8,996,962,655	10,371,219,912
Sales contract receivable	**14,167,058**	**18,852,057**	15,239,844	19,427,258
HTM investments:				
Government bonds	**16,334,863,006**	**19,587,905,274**	17,597,306,630	20,308,046,102
Financial Liabilities				
Financial liabilities at amortized cost:				
Bills payable	**53,212,112,640**	**53,177,156,422**	60,785,544,411	60,830,203,286
Bonds payable	**11,834,390,150**	**12,472,949,934**	4,929,510,084	5,054,744,965

	Parent Company			
	2012		2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Loans and receivables:				
Loans and discounts:				
Corporate lending	**₱5,251,905,433**	**₱6,656,216,896**	₱5,622,270,984	₱6,942,081,000
Others	**52,148,280**	**64,644,423**	44,184,920	50,321,064
Other receivables:				
Unquoted commercial papers	**4,354,139,372**	**5,027,087,412**	8,876,684,411	10,250,941,667
Sales contract receivable	**14,167,058**	**18,852,057**	15,239,844	19,427,258
HTM investments:				
Government bonds	**16,334,863,006**	**19,587,905,274**	17,597,306,630	20,308,046,102
Financial Liabilities				
Financial liabilities at amortized cost				
Bills payable	**53,212,112,640**	**53,177,156,422**	60,785,544,411	60,830,203,286
Bonds payable	**11,946,246,805**	**12,588,871,724**	5,010,896,739	5,136,131,620

The following tables show financial instruments recognized at fair value, analyzed based on inputs to fair value as follows:

- Level 1: Quoted market prices in active markets for identical assets or liabilities;
- Level 2: Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3: Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Consolidated		
	2012		
	Level 1	Level 2	Total
Financial Assets			
Financial assets at FVPL			
Government debt securities	**₱6,937,747,045**	**₱–**	**₱6,937,747,045**
Equity securities	**1,933,354,365**	**–**	**1,933,354,365**
Derivative assets	**–**	**27,384,035**	**27,384,035**

(Forward)

	Consolidated		
	2012		
	Level 1	**Level 2**	**Total**
AFS investments			
Debt securities			
Government	**₱13,730,523,794**	**₱5,162,508**	**₱13,735,686,302**
Private	**338,806,000**	**–**	**338,806,000**
Equity securities	**1,629,732,207**	**–**	**1,629,732,207**
Financial Liabilities			
Derivative liabilities	**–**	**–**	**–**

	Consolidated		
	2011		
	Level 1	Level 2	Total
Financial Assets			
Financial assets at FVPL			
Government debt securities	₱448,727,985	₱–	₱448,727,985
Equity securities	1,041,079,361	–	1,041,079,361
Derivative assets	–	104,647,499	104,647,499
AFS investments			
Debt securities			
Government	5,553,827,881	9,335,254	5,563,163,135
Private	351,837,000	–	351,837,000
Equity securities	1,270,673,877	–	1,270,673,877
Financial Liabilities			
Derivative liabilities	–	61,377,281	61,377,281

	Parent Company		
	2012		
	Level 1	**Level 2**	**Total**
Financial Assets			
Financial assets at FVPL			
Government debt securities	**₱6,937,747,045**	**₱–**	**₱6,937,747,045**
Equity securities	**1,728,456,747**	**–**	**1,728,456,747**
Derivatives assets	**–**	**28,263,772**	**28,263,772**
AFS investments			
Debt securities			
Government	**12,456,239,430**	**5,162,507**	**12,461,401,937**
Private	**338,806,000**	**–**	**338,806,000**
Equity securities	**1,507,401,941**	**–**	**1,507,401,941**
Financial Liabilities			
Derivative liabilities	**–**	**–**	**–**

	Parent Company		
	2011		
	Level 1	Level 2	Total
Financial Assets			
Financial assets at FVPL			
Government debt securities	₱448,727,985	₱–	₱448,727,985
Equity securities	853,798,245	–	853,798,245
Derivative assets	–	105,527,236	105,527,236
AFS investments			
Debt securities			
Government	5,360,273,017	9,335,254	5,369,608,271
Private	351,837,000	–	351,837,000
Equity securities	1,221,128,069	–	1,221,128,069
Financial Liabilities			
Derivative liabilities	–	58,239,001	58,239,001

As of December 31, 2012 and 2011, the Group and the Parent Company have no financial instruments that are reported under Level 3 and no transfers were made among the three levels in the fair value hierarchy.

6. 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 operating segments are as follows:

- Treasury - manages the liquidity and funding requirements of the Parent Company and the distribution of financial instruments such as government securities and corporate papers. It offers a wide variety of profitable and secure instruments such as treasury bills, treasury notes/bonds, commercial papers, and promissory notes. As a quasi-bank licensed by the BSP, it borrows money from the public and issues its own financial instruments. Moreover, it is an accredited government securities eligible dealer authorized by the Bureau of Treasury in trading government securities and it remains a dominant selling agent in the distribution of government securities, government-owned or controlled corporations and other corporate issuances;

- Investment Banking and Strategic Finance - is responsible for raising long-term funding requirements of the government and the private sectors. Its products and services include debt and equity underwriting, loan syndication, financial advisory, project finance and structured financial solutions. It holds over 50.0% market share in origination and underwriting of debt and equity. Strategic Finance also handles the loan portfolio of the Parent Company and pursues corporate markets by providing proprietary lending facilities and unique structures. Among its proprietary structures include loans against receivables, participation in securitization, trade acceptances, term loans and "special funded" short-term facilities;

- Investment Advisory - develops and enhances the wealth of private clients, uncovering investment opportunities and seeking a thorough understanding of the market through first-hand research. It also provides meticulous and comprehensive professional portfolio advisory and research services to both individuals and firms;

- Mutual Funds - these are the fund business of the Group;

- Strategic Investments - these are the business of the Group which are involved in power, leasing and finance, life and non-life insurance and mining industries.

- Others - principally consists of institutions with significant presence in each of its respective markets which include stock brokerage, auto sales and real estate.

No operating segments have been aggregated to form the reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

The following tables present revenue and income information of the Group's operating segments measured in accordance with PFRS as of and for the years ended December 31, 2012, 2011 and 2010:

	2012									
	Treasury	Investment Banking	Investment Advisory	Strategic Finance	Mutual Funds	Strategic Investments	Others	Total Segment	Adjustment/ Elimination	Consolidated
Results of Operations										
Net interest income	₱957,910,359	₱–	(₱66,194,058)	₱217,698,736	₱68,149,317	(₱223,380,320)	(₱30,858,734)	₱923,325,300	₱–	₱923,325,300
Non-interest income	684,715,760	374,369,426	364,988,048	28,933,208	181,854,394	–	409,728,143	2,044,588,979	–	2,044,588,979
Total revenue	1,642,626,119	374,369,426	298,793,990	246,631,944	250,003,711	(223,380,320)	378,869,409	2,967,914,279	–	2,967,914,279
Intersegment income	–	–	24,545,996	–	–	–	38,071,310	62,617,306	(62,617,306)	–
Revenue - net of interest expense	1,642,626,119	374,369,426	323,339,986	246,631,944	250,003,711	(223,380,320)	416,940,719	3,030,531,585	(62,617,306)	2,967,914,279
Non-interest expense	(148,521,106)	(49,847,453)	(80,805,730)	(63,025,539)	(14,873,470)	(36,971,290)	(791,958,462)	(1,186,003,050)	62,617,306	(1,123,385,744)
Income (loss) before share in net income of Investees	1,494,105,013	324,521,973	242,534,256	183,606,405	235,130,241	(260,351,610)	(375,017,743)	1,844,528,535	–	1,844,528,535
Share in net income of investees	–	–	–	–		2,126,489,345	–	2,126,489,345	–	2,126,489,345
Income tax provision	(417,770,102)	–	(28,605,295)	(9,355,165)	(13,427,149)	(4,064,933)	(72,353,757)	(545,576,401)	–	(545,576,401)
Non-controlling interest in net income of consolidated subsidiaries	–	–	–	–	(136,869,693)	–	(14,693,074)	(151,562,767)	–	(151,562,767)
Net income attributable to the Parent Company	₱1,076,334,911	₱324,521,973	₱213,928,961	₱174,251,240	₱84,833,399	₱1,862,072,802	(₱462,064,574)	₱3,273,878,712	₱–	₱3,273,878,712
Statement of Financial Position										
Total assets	₱47,883,020,463	₱–	₱2,210,142,389	₱8,044,141,326	₱3,378,317,584	₱17,175,987,758	₱3,809,979,412	₱82,501,588,932	₱–	₱82,501,588,932
Total liabilities	43,360,770,273	–	2,301,859,214	7,970,085,858	1,534,238,500	9,377,169,157	3,014,826,263	67,558,949,265	–	67,558,949,265
Other Segment Information										
Capital expenditures	–	–	–	–	921,000,000	643,788,656	90,902,413	1,655,691,069	(327,000,000)	1,328,691,069
Deferred tax assets	–	–	–	–			1,884,279	1,884,279	–	1,884,279
Depreciation and amortization	–	–	–	–			45,621,766	45,621,766	–	45,621,766
Provision for (recovery from) impairment and credit losses	–	–	–	–			(161,725,913)	(161,725,913)	–	(161,725,913)

	2011									
	Treasury	Investment Banking	Investment Advisory	Strategic Finance	Mutual funds	Strategic investments	Others	Total Segment	Adjustment/ Elimination	Con
Results of Operations										
Net interest income	₱1,069,107,454	₱–	(₱58,697,714)	₱234,135,941	₱33,929,774	(₱199,763,780)	₱53,985,512	₱1,132,697,187	₱–	₱1,132
Non-interest income	1,349,267,066	295,605,440	164,549,122	1,207,918	94,919,350	–	622,206,652	2,527,755,548	–	2,527
Total revenue	2,418,374,520	295,605,440	105,851,408	235,343,859	128,849,124	(199,763,780)	676,192,164	3,660,452,735	–	3,660
Intersegment income	–	–	4,728,352	–			32,716,566	37,444,918	(37,444,918)	
Revenue - net of interest expense	2,418,374,520	295,605,440	110,579,760	235,343,859	128,849,124	(199,763,780)	708,908,730	3,697,897,653	(37,444,918)	3,660
Non-interest expense	(899,260,112)	(48,609,029)	(64,843,572)	(62,935,764)	(8,797,658)	(50,924,209)	(586,798,473)	(1,722,168,817)	37,444,918	(1,684
Income (loss) before share in net income of Investees	1,519,114,408	246,996,411	45,736,188	172,408,095	120,051,466	(250,687,989)	122,110,257	1,975,728,836	–	1,975
Share in net income of investees	–	–	–	–	13,864,337	777,326,693	–	791,191,030	–	791
Income tax provision	(389,992,664)	–	(30,703,844)	(17,743,737)	(5,321,054)	(12,994,913)	(53,040,193)	(509,796,405)	–	(509
Non-controlling interest in net income of consolidated subsidiaries	–	–	–	–	–	–	(68,304,689)	(68,304,689)	–	(68
Net income attributable to the Parent Company	₱1,129,121,744	₱246,996,411	₱15,032,344	₱154,664,358	₱128,594,749	₱513,643,791	₱765,375	₱2,188,818,772	₱–	₱2,188
Statement of Financial Position										
Total assets	₱42,961,377,840	₱–	₱1,130,713,897	₱8,943,904,188	₱1,943,385,908	₱16,229,957,095	₱7,545,991,146	₱78,755,330,074	₱–	₱78,755
Total liabilities	41,489,076,651	–	1,124,802,706	8,862,287,621	731,289,869	12,376,127,497	2,774,752,348	67,358,336,692	–	67,358
Other Segment information										
Capital expenditures	–	–	–	–	859,009,853	877,583,008	44,874,774	1,781,467,635	(105,000,000)	1,676
Deferred tax assets	–	–	–	–	–	–	1,489,426	1,489,426	–	1
Depreciation and amortization	–	–	–	–	–	–	39,959,329	39,959,329	–	39
Provision for impairment and credit losses	–	–	–	–	–	–	455,932,491	455,932,491	–	455

	2010									
	Treasury	Investment Banking	Investment Advisory	Strategic Finance	Mutual funds	Strategic investments	Others	Total Segment	Adjustment/ Elimination	Consolidated
Results of Operations										
Net interest income	₱955,915,341	₱–	(₱45,609,469)	₱234,047,871	₱21,112,188	(₱141,426,925)	₱41,168,759	₱1,065,207,765	₱–	₱1,065,207,765
Non-interest income	1,072,324,981	290,787,028	357,100,841	3,442,255	36,351,742	–	278,181,755	2,038,188,602	–	2,038,188,602
Total revenue	2,028,240,322	290,787,028	311,491,372	237,490,126	57,463,930	(141,426,925)	319,350,514	3,103,396,367	–	3,103,396,367
Intersegment Income	–	–	20,476,994	–	–	–	15,769,846	36,246,840	(36,246,840)	–
Revenue - net of interest expense	2,028,240,322	290,787,028	331,968,366	237,490,126	57,463,930	(141,426,925)	335,120,360	3,139,643,207	(36,246,840)	3,103,396,367
Non-interest expense	(707,963,716)	(37,960,917)	(28,906,194)	(42,880,562)	(14,942,491)	(39,766,761)	(629,021,465)	(1,501,442,106)	–	(1,501,442,106)
Income (loss) before share in net income of Investees	1,320,276,606	252,826,111	303,062,172	194,609,564	42,521,439	(181,193,686)	(293,901,105)	1,638,201,101	(36,246,840)	1,601,954,261
Share in net income of investees	–	–	–	–	39,592,736	514,633,661	–	554,226,397	–	554,226,397
Income tax provision	(351,416,673)	–	(13,242,177)	(9,550,636)	(8,649,019)	(10,280,908)	(35,322,747)	(428,462,160)	–	(428,462,160)
Non-controlling interest in net income of consolidated subsidiaries	–	–	–	–	(22,851,315)	–	(4,667,842)	(27,519,157)	–	(27,519,157)
Net income attributable to the Parent Company	₱968,859,933	₱252,826,111	₱289,819,995	₱185,058,928	₱50,613,841	₱323,159,067	(₱333,891,694)	₱1,736,446,181	(₱36,246,840)	₱1,700,199,341
Statement of Financial Position										
Total assets	₱38,069,976,432	₱–	₱2,514,847,831	₱6,264,832,518	₱1,266,388,652	₱13,730,043,321	₱2,123,046,743	₱63,969,135,497	₱–	₱63,969,135,497
Total liabilities	36,384,191,478	–	2,444,162,259	6,159,198,628	464,252,036	7,939,710,580	657,054,594	54,048,569,575	–	54,048,569,575
Other Segment Information										
Capital expenditures	–	–	–	–	591,508,131	2,621,501,941	26,901,372	3,239,911,444	(565,000,000)	2,674,911,444
Deferred tax assets	–	–	–	–	–	–	627,814	627,814	–	627,814
Depreciation and amortization	–	–	–	–	–	–	35,506,368	35,506,368	–	35,506,368
Provision for impairment and credit losses	–	–	–	–	–	–	431,403,509	431,403,509	–	431,403,509

Inter-segment revenues are eliminated upon consolidation and reflected in the ‘adjustment/elimination’ column.

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 are either 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 or credited to business segments based on a pool rate which approximates the cost of funds.

Non-interest income consists of ‘Service charges, fees and commissions’, ‘Gain from sale of assets’, ‘Trading and securities gain (loss)’, ‘Foreign exchange gain (loss)’, ‘Dividends’ and ‘Miscellaneous income’.

Non-interest expense consists of ‘Compensation and fringe benefits’, ‘Taxes and licenses’, ‘Provision for impairment and credit losses’, ‘Depreciation and amortization, ‘Entertainment, amusement and recreation’, ‘Rent, light and water’ and ‘Miscellaneous expense’.

Capital expenditure consists of additions to property, plant and equipment and investments to subsidiaries and associates.

For the years ended December 31, 2012, 2011 and 2010, the Group has a significant customer in its Treasury segment, which contributed ₱2.5 billion, ₱3.0 billion and ₱2.3 billion, respectively, to the consolidated revenue.

The only foreign operation of the Group is handled by FMIIC for which the Parent Company has a 20.0% ownership interest.

7. Trading and Investment Securities

This account consists of:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Financial assets at FVPL	**₱8,898,910,276**	₱1,594,454,845	**₱8,694,467,564**	₱1,408,053,466
AFS investments	**15,913,926,180**	7,370,843,518	**14,516,621,445**	7,127,052,742
HTM investments	**16,334,863,006**	17,597,306,630	**16,334,863,006**	17,597,306,630
	₱41,147,699,462	₱26,562,604,993	**₱39,545,952,015**	₱26,132,412,838

Financial Assets at FVPL
Financial assets at FVPL consist of the following held-for-trading (HFT) securities and derivative asset:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
HFT securities:				
Government debt securities	**₱6,937,747,045**	₱448,727,985	**₱6,937,747,045**	₱448,727,985
Equity securities	**1,933,354,365**	1,041,079,361	**1,728,456,747**	853,798,245
Derivative asset	**27,808,866**	104,647,499	**28,263,772**	105,527,236
	₱8,898,910,276	₱1,594,454,845	**₱8,694,467,564**	₱1,408,053,466

As of December 31, 2012, 2011 and 2010, HFT securities include fair value loss of ₱70.3 million and ₱9.9 million in 2012 and 2011, respectively, and fair value gain of ₱17.2 million in 2010, for the Group, and fair value loss of ₱82.5 million in 2012 and ₱8.3 million in 2011, and fair value gain of ₱7.3 million in 2010, for the Parent Company.

Peso-denominated HFT debt securities bear nominal annual interest rates ranging from 4.6% to 12.8%, 4.9% to 9.1%, and 4.6% to 16.5% in 2012, 2011 and 2010, respectively. Dollar-denominated HFT securities bear nominal annual interest rates ranging from 2.8% to 9.5% and 4.0% to 9.5% in 2012 and 2011, respectively. There were no dollar-denominated HFT debt securities in 2010.

Dividends earned from HFT equity securities amounted to ₱38.3 million, ₱39.1 million, and ₱23.2 million in 2012, 2011, and 2010, respectively, for the Group, and ₱33.8 million, ₱34.7 million, and ₱19.0 million in 2012, 2011, and 2010, respectively, for the Parent Company.

AFS Investments

AFS investments consist of the following:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Debt securities (Notes 14 and 16):				
Government	**₱13,735,686,302**	₱5,563,163,135	**₱12,461,401,937**	₱5,369,608,271
Private	**338,806,000**	351,837,000	**338,806,000**	351,837,000
	14,074,492,302	5,915,000,135	**12,800,207,937**	5,721,445,271
Equity securities:				
Quoted	**1,629,732,207**	1,270,673,877	**1,507,401,941**	1,221,128,069
Unquoted	**209,701,671**	185,169,506	**209,011,567**	184,479,402
	1,839,433,878	1,455,843,383	**1,716,413,508**	1,405,607,471
	₱15,913,926,180	₱7,370,843,518	**₱14,516,621,445**	₱7,127,052,742

Peso-denominated AFS debt securities bear nominal annual interest rates ranging from 5.0% to 8.9%, 5.0% to 8.9%, and 5.9% to 9.5% in 2012, 2011 and 2010, respectively. Foreign-denominated AFS debt securities bear nominal annual interest rates ranging from 2.9% to 7.8%, 2.9% to 9.5%, and 2.9% to 4.1% in 2012, 2011 and 2010, respectively, for dollar-denominated AFS debt securities, and 3.3% to 4.1% in 2012, 2011 and 2010, for euro-denominated AFS debt securities.

Unquoted equity securities are investments where the Group and the Parent Company generally have less than 20.0% in equity holdings. These are strategic investments initiated by the Group and the Parent Company with the objective of generating income through dividends. The Group and the Parent Company intend to hold on/retain their holdings in companies that provide acceptable or modest returns. The Group and the Parent Company will dispose of these investments depending on liquidity requirements but the primary consideration would be the profit out of the sale or disposal.

Dividends earned from AFS equity securities amounted to ₱44.7 million, ₱49.3 million, and ₱76.2 million in 2012, 2011, and 2010, respectively, for the Group, and ₱43.3 million, ₱48.1 million, and ₱75.2 million in 2012, 2011, and 2010, respectively, for the Parent Company.

In 2011, PBC participated in bond exchange transactions using its AFS investments. PBC received 20-year Benchmark Bonds with coupon of 8.0% and total face value of ₱95.1 million, at a price of 98.8%. PBC realized net trading loss of ₱1.0 thousand from the bond exchange transactions.

The changes in the net unrealized gain (loss) on AFS investments of the Group follow:

	2012		
	Parent Company	**Non-controlling Interests**	**Total**
Balance at January 1	**₱229,755,731**	**₱–**	**₱229,755,731**
Net fair value changes during period on AFS investments, net of tax	**757,336,960**	**134,998,585**	**892,335,545**
Realized gain on sale of AFS investments	**(391,328,651)**	**(124,911,170)**	**(516,239,821)**
Realized loss from permanent decline in market value of AFS investments	**–**	**–**	**–**
Net change during the year	**366,008,309**	**10,087,415**	**376,095,724**
Balance at December 31	**₱595,764,040**	**₱10,087,415**	**₱605,851,455**

	2011		
	Parent Company	Non-controlling Interests	Total
Balance at January 1	₱115,591,042	₱–	₱115,591,042
Net fair value changes during period on AFS investments, net of tax	1,283,709,049	–	1,283,709,049
Realized gain on sale of AFS investments	(1,186,667,437)	–	(1,186,667,437)
Realized loss from permanent decline in market value of AFS investments	17,123,077	–	17,123,077
Net change during the year	114,164,689	–	114,164,689
Balance at December 31	₱229,755,731	₱–	₱229,755,731

	2010		
	Parent Company	Non-controlling Interests	Total
Balance at January 1	(₱431,605,063)	₱–	(₱431,605,063)
Net fair value changes during period on AFS investments, net of tax	1,261,486,792	–	1,261,486,792
Realized gain on sale of AFS investments	(793,916,060)	–	(793,916,060)
Realized loss from permanent decline in market value of AFS investments	79,625,373	–	79,625,373
Net change during the year	547,196,105	–	547,196,105
Balance at December 31	₱115,591,042	₱–	₱115,591,042

The changes in the net unrealized gain (loss) on AFS investments of the Parent Company follow:

	Parent Company		
	2012	2011	2010
Balance at January 1	**₱192,382,491**	₱89,180,981	(₱445,370,380)
Net fair value changes during period on AFS investments, net of tax	**692,384,504**	1,156,311,961	1,247,096,008
Realized gain on sale of AFS investments	**(353,852,230)**	(1,070,233,528)	(746,854,755)
Realized loss from permanent decline in market value of AFS investments	**–**	17,123,077	34,310,108
Net change during the year	**338,532,274**	103,201,510	534,551,361
Balance at December 31	**₱530,914,765**	₱192,382,491	₱89,180,981

HTM Investments

As of December 31, 2012 and 2011, HTM investments consist of government bonds amounting to ₱16.3 billion and ₱17.6 billion, respectively, for the Group and Parent Company (Notes 14 and 16).

As of December 31, 2012 and 2011, the unamortized premium related to HTM investments amounted to ₱60.5 million and ₱73.3 million, respectively, for the Group and Parent Company. Effective interest rates on the HTM investments range from 7.7% to 8.2%, 7.7% to 8.2% and 7.7% to 8.1% for the Group and Parent Company in 2012, 2011 and 2010, respectively. HTM investments bear nominal annual interest rates ranging from 7.9% to 10.4% in 2012, 2011 and 2010.

Bond Exchange Program of the Republic of the Philippines

In July 2011, the Republic of the Philippines (ROP) through the Department of Finance and the Bureau of Treasury embarked on the 6th phase of its Domestic Debt Consolidation via a Liability Management exercise executed through the Exchange Offer, Subscription Offer and Tender Offer - i.e., exchange of eligible fixed-income government bonds for a new issuance of 10-year bonds (due 2022) or 20-year bonds (due 2031) wherein the proceeds of a simultaneous issuance of additional new 20-year bonds were used to buy back Eligible Bonds via Tender Offer.

To encourage existing bondholders to participate given the existing tainting rule on HTM investments under PAS 39, on June 28, 2011, the SEC granted all holders of eligible bonds currently classified as HTM that will exchange more than an insignificant amount of such bonds under this program, an exemptive relief from the tainting rule subject to the following conditions:

- disclosure to SEC of the (i) date of the exchange, (ii) amount of eligible bonds exchanged, and (iii) amount of total HTM portfolio before and after the exchange;
- day 1 profit or loss shall not be recognized and any unrealized gains or losses shall be amortized over the term of the new benchmark bonds;
- exemption shall not extend to Eligible Bonds that will be bought back by the ROP and shall not likewise apply if transaction would be a combination of tender offer for cash and exchange for new bonds;
- basis of preparation of the financial statements shall not be PFRS but should be the prescribed financial reporting framework for entities which are given relief from certain requirements of the full PFRS. This basis of financial reporting shall be adopted by the availing entity until such time that the ground for its coverage under the tainting rule of PAS 39 is no longer present; and
- appropriate clearance shall be obtained from the BSP and Insurance Commission, as the primary regulators of banks and insurance companies, respectively.

On October 11, 2011, the BSP through Circular 738 issued exemption from the tainting provision for prudential reporting on certain securities booked under the HTM category which are covered by an offer and accepted tender offer pursuant to liability management transactions of the ROP, among others.

In July 2011, given its nature of business, the Parent Company participated in the domestic bond exchange covering its ₱3.0 billion eligible government bonds classified as HTM investments to extend the bond holdings (from maturity date of December 16, 2020 to July 19, 2031) and benefit from the higher yields (from 5.9% to 8.0%). FMIC has complied with the disclosure and other requirements of the SEC as follows:

a. total HTM Investments portfolio of FMIC before and after the exchange remain the same while the gain on exchange of ₱14.5 million is deferred and amortized over the term of the new bonds; and
b. as disclosed in Note 2, the financial statements of the Group and the Parent Company have been prepared in accordance with Philippine GAAP for banks.

Reporting under PFRS
As of December 31, 2011, had the Parent Company accounted for the transaction under PFRS, the unamortized balance of the deferred gain on exchange of ₱14.1 million would have been credited to the Parent Company's 2011 net income. The entire HTM investments portfolio of the Parent Company with an amortized cost of ₱16.3 billion and ₱17.6 billion would have been reclassified to AFS investments and carried at fair value, with a net unrealized gain of ₱3.3 billion and ₱2.7 billion for 2012 and 2011, respectively (under the equity section and statement of comprehensive income of the Group and the Parent Company).

Trading and Securities Gain
The composition of trading and securities gain (loss) follows:

	Consolidated		
	2012	2011	2010
Realized from sale of:			
HFT securities	**₱726,261,031**	₱278,120,905	₱405,066,189
AFS investments	**516,239,821**	1,186,667,437	793,916,060
	1,242,500,852	1,464,788,342	1,198,982,249
Changes in fair value of financial instruments at FVPL:			
HFT securities	**(70,325,881)**	(9,907,424)	17,182,883
Derivative liability	**31,103,696**	36,385,305	(33,641,827)
Derivative asset	**(25,970,383)**	(1,951,212)	–
	(65,192,568)	24,526,669	(16,458,944)
	₱1,177,308,284	₱1,489,315,011	₱1,182,523,305

	Parent Company		
	2012	2011	2010
Realized from sale of:			
HFT securities	**₱652,878,610**	₱258,598,305	₱372,872,610
AFS investments	**353,852,230**	1,070,233,528	746,854,755
	1,006,730,840	1,328,831,833	1,119,727,365
Changes in fair value of financial instruments at FVPL:			
HFT securities	**(82,519,659)**	(8,330,303)	7,256,003
Derivative liability	**31,103,696**	36,410,677	(33,641,827)
Derivative asset	**(26,395,214)**	(1,983,130)	–
	(77,811,177)	26,097,244	(26,385,824)
	₱928,919,663	₱1,354,929,077	₱1,093,341,541

Derivative Financial Instruments

Embedded derivatives from investments in private commercial papers with call options

As of December 31, 2011, the Group and the Parent Company have outstanding investments in private commercial papers amounting to ₱939.5 million and ₱889.3 million, respectively, which contain embedded call options. The call options allow the issuers of the commercial papers to redeem the instruments prior to their maturity but subject to prepayment penalties ranging from 1.5% to 3.0%.

As of December 31, 2011, the fair value of the embedded derivative liability amounted to ₱61.4 million for the Group and ₱58.2 million for the Parent Company.

In 2012, all investments in private commercial papers with outstanding prepayment option were redeemed in various dates. As a result, the Group and the Parent Company recognized gain from redemption of unquoted debt securities amounting to ₱25.3 million and ₱21.6 million, respectively, that was booked under 'Miscellaneous income' in the statement of income (Note 23).

Embedded derivatives from issuance of corporate fixed bonds with call option

On November 25, 2011, the Parent Company issued fixed corporate bonds amounting to ₱5.0 billion which contain an embedded call option. The call option allows the Parent Company to redeem the bonds at 102.0% of its face value plus accrued interest on any interest period date after November 25, 2015. At the date of inception, the fair value of the embedded call option amounted to ₱55.7 million and ₱56.6 million for the Group and the Parent Company, respectively. As of December 31, 2012, the fair valuation of the embedded call option for the Group and the Parent Company amounted to ₱27.8 million and ₱28.3 million, respectively. As of December 31, 2011, the fair valuation of the embedded call option resulted in the recognition of a derivative asset amounting to ₱53.8 million and ₱54.7 million for the Group and the Parent Company, respectively.

Foreign currency forwards

On August 22, 2011 and September 30, 2011, the Parent Company entered into one-year foreign currency forward contracts with notional amount of US$50 million and US$75 million, respectively. The forward contracts are intended to hedge the foreign currency exposure on US dollar borrowings, specifically the principal. Under the forward contracts, the Parent Company will pay a fixed amount of Philippine peso in exchange for specific amounts of US dollar. The forward contracts maturity dates are August 22, 2012 and September 28, 2012, respectively (Note 27). Based on the hedge effectiveness testing made by the Parent Company for the year ended December 31, 2011, the forward contracts are 66.5% and 58.1% effective, respectively.

In 2012, the Group and the Parent Company recognized ₱50.9 million foreign exchange loss from the settlement of the forward contracts.

Details of the Group's and the Parent Company's derivatives follow:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Balance at beginning of year				
Derivative asset	**₱104,647,499**	₱–	**₱105,527,236**	₱–
Derivative liability	**(61,377,281)**	(123,420,765)	**(58,239,001)**	(118,368,358)
	43,270,218	(123,420,765)	**47,288,235**	(118,368,358)
Effect of bifurcation	–	55,730,461	–	56,642,116
Net changes in fair value of derivatives recognized in statement of income:				
Trading gain	**5,133,313**	34,434,093	**4,708,482**	34,427,547
Foreign exchange gain (loss)	**(292,348,491)**	50,868,250	**(292,348,491)**	50,868,250
Fair value of settled instruments	**271,753,826**	25,658,179	**268,615,546**	23,718,680
	(15,461,352)	166,690,983	**(19,024,463)**	165,656,593
Balance at end of year				
Derivative asset	**27,808,866**	104,647,499	**28,263,772**	105,527,236
Derivative liability	–	(61,377,281)	–	(58,239,001)
	₱27,808,866	₱43,270,218	**₱28,263,772**	₱47,288,235

8. Loans and Receivables

This account consists of:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Loans and discounts:				
Corporate lending	**₱5,575,334,989**	₱6,165,572,936	**₱5,560,334,989**	₱6,041,572,936
Others	**53,123,579**	45,000,421	**52,256,065**	44,187,543
Unearned discounts	–	(114,310)	–	(3,478)
	5,628,458,568	6,210,459,047	**5,612,591,054**	6,085,757,001
Unquoted commercial papers (Note 14)	**5,240,526,119**	9,418,155,940	**4,769,470,864**	9,297,877,694
Dividend receivable	**1,415,829,694**	176,729,269	**1,415,535,315**	176,634,832
Accrued interest receivable	**657,398,604**	592,266,059	**623,700,904**	586,680,046
Accounts receivable	**180,795,474**	252,915,835	**124,961,476**	76,288,282
Sales contract receivable	**14,167,058**	15,239,844	**14,167,058**	15,239,844
Other receivables	**8,867,247**	33,647,714	**288,423**	36,758
	13,146,042,764	16,699,413,708	**12,560,715,094**	16,238,514,457
Allowance for credit losses (Note 13)	**(804,704,447)**	(787,021,588)	**(771,328,248)**	(884,531,896)
	₱12,341,338,317	₱15,912,392,120	**₱11,789,386,846**	₱15,353,982,561

The following table shows the breakdown of loans and receivables to related parties as of December 31, 2012 and 2011:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Loans and discounts:				
Corporate lending	**₱2,882,870,989**	₱3,301,365,317	**₱2,867,870,989**	₱3,177,365,317
Others	**53,015,794**	43,961,401	**52,148,280**	43,148,523
Dividends receivable	**1,409,751,378**	207,482,744	**1,409,457,000**	174,820,892
Accrued interest receivable	**55,144,256**	55,554,272	**54,959,225**	54,974,569
Accounts receivable	**44,749,069**	47,502,885	**46,652,852**	49,466,827
	₱4,445,531,486	₱3,655,866,619	**₱4,431,088,346**	₱3,499,776,128

As of December 31, 2012 and 2011, 7.1% and 8.2% of the total loans and discounts were subject to periodic interest repricing, respectively, for the Group, and 6.9% and 6.5%, respectively, for the Parent Company. The remaining loans earned fixed annual interest rates ranging from 3.0% to 15.0% in 2012 and 2011 for the Group and the Parent Company.

Unquoted Commercial Papers
This account consists of various debt instruments issued by government-owned or controlled corporations and private corporations. As of December 31, 2012, 2011 and 2010, the nominal annual interest for these securities ranges from 5.5% to 12.9%, 5.0% to 12.0% and 5.0% to 12.5%, respectively, for the Group, and 5.6% to 12.9%, 5.0% to 12.0% and 5.0% to 12.5%, respectively, for the Parent Company.

As of December 31, 2012 and 2011, the unamortized premium related to unquoted commercial papers amounted to ₱9.2 million and ₱11.1 million, respectively, for the Group, and ₱9.7 million and ₱8.2 million, as of December 31, 2012 and 2011, respectively, for the Parent Company.

As of December 31, 2012 and 2011, 5.4% and 3.1%, respectively, of the outstanding unquoted commercial papers were subject to periodic interest repricing for the Group, and 6.0% and 3.1%, respectively, for the Parent Company. The remaining unquoted commercial papers earned fixed annual interest rates ranging from 5.5% to 12.0% and 5.6% to 12.0% in 2012 and 2011 for the Group and the Parent Company, respectively.

Dividend Receivable
Dividend receivable of ₱1.4 billion in 2012 represents the unpaid dividends from GBPC, an associate. Out of this amount, ₱1.1 billion has been collected as of February 28, 2012.

BSP Reporting
As of December 31, 2012 and 2011, unsecured non-performing loans (NPLs) amounted to ₱56.2 million and nil, respectively, for the Group and the Parent Company. As of December 31, 2012 and 2011, there were no secured NPLs for the Group and the Parent Company.

Generally, NPLs refer to loans whose principal and/or interest is unpaid for thirty (30) days or more after due date or after they have become past due in accordance with existing BSP rules and regulations. This applies to loans payable in lump sum and loans payable in quarterly, semi-annual, or annual installments, in which case, the total outstanding balance thereof shall be considered non-performing.

In the case of receivables that are payable in monthly installments, the total outstanding balance thereof shall be considered non-performing when three or more installments are in arrears.

In the case of receivables that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered non-performing at the same time that they become past due in accordance with existing BSP regulations, i.e., the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches 10.0% of the total receivable balance.

Receivables are classified as non-performing in accordance with BSP regulations, or when, in the opinion of management, collection of interest or principal is doubtful. Receivables are not reclassified as performing until interest and principal payments are brought current or the loans are restructured in accordance with existing BSP regulations, and that future payments appear assured.

Restructured receivables which do not meet the requirements to be treated as performing receivables shall also be considered as NPLs.

Current banking regulations allow banks and non-bank financial intermediaries with quasi-banking functions with no unbooked valuation reserves and capital adjustments to exclude from the non-performing classification those receivables from customers classified as Loss in the latest examination of the BSP which are fully covered by allowance for credit losses, provided that interest on said receivables shall not be accrued. As of December 31, 2012, NPLs of the Group and the Parent Company are 100% covered by allowance for credit losses. As of December 31, 2011, the Group and the Parent Company have no receivables classified as NPLs.

As of December 31, 2012 and 2011, the Group and the Parent Company have outstanding restructured loans amounting to ₱0.1 million and ₱3.4 million, respectively.

The following table shows the breakdown of loans and discounts, gross of unearned discounts, of the Group and of the Parent Company as to secured and unsecured, and the breakdown of secured loans as to type of security as of December 31, 2012 and 2011 (amounts in thousands).

	Consolidated				**Parent Company**			
	2012		2011		**2012**		2011	
	Amount	**%**	Amount	%	**Amount**	**%**	Amount	%
Secured loans:								
Shares of stock	**₱2,274,665**	**40.4**	₱1,533,600	24.7	**₱2,274,665**	**40.5**	₱1,533,600	25.2
Chattel	**456,009**	**8.1**	1,613,505	26.0	**455,374**	**8.1**	1,613,505	26.5
Real estate	**978,322**	**17.4**	124,994	2.0	**978,322**	**17.4**	124,994	2.1
Assignment of receivables	–	–	513	–	–	–	513	–
Others - guarantee	**1,050,000**	**18.7**	2,350,000	37.8	**1,050,000**	**18.7**	2,350,000	38.6
	4,758,996	**84.6**	5,622,612	90.5	**4,758,361**	**84.7**	5,622,612	92.4
Unsecured loans	**869,463**	**15.4**	587,961	9.5	**854,230**	**15.3**	463,148	7.6
	₱5,628,459	**100.0**	₱6,210,573	100.0	**₱5,612,591**	**100.0**	₱6,085,760	100.0

As of December 31, 2012 and 2011, information on the concentration of credit risk as to industry of the Group's and the Parent Company's loans and discounts follows (amounts in thousands, gross of unearned discounts):

	Consolidated				**Parent Company**			
	2012		2011		**2012**		2011	
	Amount	**%**	Amount	%	**Amount**	**%**	Amount	%
Financial intermediaries	**₱3,794,464**	**67.4**	₱3,893,600	62.7	**₱3,794,464**	**67.6**	₱3,913,600	64.3
Electricity, gas and water	**1,367,871**	**24.3**	1,757,365	28.3	**1,367,871**	**24.4**	1,657,365	27.2
Real estate, renting and business activities	–	–	67,147	1.1	–	–	67,147	1.1
Wholesale and retail trade	**108**	**0.0**	44,501	0.7	**108**	**0.0**	501	–
Private households	**53,016**	**0.9**	44,500	0.7	**52,148**	**0.9**	43,687	0.7
Manufacturing	–	–	2,947	0.1	–	–	2,947	0.1
Others (various industries)	**413,000**	**7.4**	400,513	6.4	**398,000**	**7.1**	400,513	6.6
	₱5,628,459	**100.0**	₱6,210,573	100.0	**₱5,612,591**	**100.0**	₱6,085,760	100.0

The BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30.0% of the total loan portfolio.

9. Property and Equipment

The composition of and movements in property and equipment account follow:

	Consolidated					
	2012			2011		
	Leasehold Improvements	**Furnitures, Fixtures and Equipment**	**Total**	Leasehold Improvements	Furnitures, Fixtures and Equipment	Total
Cost						
Balance at beginning of year	**₱83,786,335**	**₱148,108,399**	**₱231,894,734**	₱62,059,301	₱131,434,098	₱193,493,399
Acquisitions	**8,993,106**	**35,272,447**	**44,265,553**	21,807,034	23,067,740	44,874,774
Disposals	**(170,300)**	**(11,123,970)**	**(11,294,270)**	(80,000)	(6,393,439)	(6,473,439)
Balance at end of year	**92,609,141**	**172,256,876**	**264,866,017**	83,786,335	148,108,399	231,894,734
Accumulated depreciation and Amortization						
Balance at beginning of year	**42,243,556**	**101,970,341**	**144,213,897**	29,664,138	89,448,376	119,112,514
Depreciation and amortization	**20,396,473**	**16,284,971**	**36,681,444**	12,600,311	17,434,022	30,034,333
Disposals	**–**	**(8,459,355)**	**(8,459,355)**	(20,893)	(4,912,057)	(4,932,950)
Balance at end of year	**62,640,029**	**109,795,957**	**172,435,986**	42,243,556	101,970,341	144,213,897
Net book value at end of year	**₱29,969,112**	**₱62,460,919**	**₱92,430,031**	₱41,542,779	₱46,138,058	₱87,680,837

	Parent Company					
	2012			2011		
	Building Improvements	**Furnitures, Fixtures and Equipment**	**Total**	Building Improvements	Furnitures, Fixtures and Equipment	Total
Cost						
Balance at beginning of year	**₱73,265,405**	**₱124,083,126**	**₱197,348,531**	₱51,753,995	₱110,698,033	₱162,452,028
Acquisitions	**8,054,276**	**29,238,894**	**37,293,170**	21,591,410	19,687,473	41,278,883
Disposals	**(170,300)**	**(10,530,940)**	**(10,701,240)**	(80,000)	(6,302,380)	(6,382,380)
Balance at end of year	**81,149,381**	**142,791,080**	**223,940,461**	73,265,405	124,083,126	197,348,531
Accumulated depreciation and Amortization						
Balance at beginning of year	**34,950,581**	**83,327,065**	**118,277,646**	23,408,600	72,866,881	96,275,481
Depreciation and amortization	**18,865,746**	**13,869,073**	**32,734,819**	11,541,981	15,321,248	26,863,229
Disposals	**–**	**(8,100,828)**	**(8,100,828)**	–	(4,861,064)	(4,861,064)
Balance at end of year	**53,816,327**	**89,095,310**	**142,911,637**	34,950,581	83,327,065	118,277,646
Net book value at end of year	**₱27,333,054**	**₱53,695,770**	**₱81,028,824**	₱38,314,824	₱40,756,061	₱79,070,885

As of December 31, 2012 and 2011, the gross carrying value of fully depreciated property and equipment that are still in use amounted to ₱76.3 million and ₱68.9 million respectively, for the Group and ₱64.2 million and ₱57.5 million, respectively, for the Parent Company.

In 2012, 2011 and 2010, the Group and the Parent Company recognized gain from sale of property and equipment amounting to ₱0.3 million , ₱0.2 million and ₱0.8 million, respectively, booked under "Gain on sale of assets" account in the statements of income.

10. Investments in Subsidiaries, Associates and Joint Venture

This account consists of:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Acquisition cost				
Balance at beginning of year	**₱11,212,604,851**	₱9,913,410,527	**₱12,142,810,815**	₱11,258,147,194
Additions	**1,237,788,656**	1,631,593,161	**1,490,788,656**	1,578,583,309
Disposals	**(22,206,138)**	(332,398,837)	**–**	(693,919,688)
Return of investment	**(313,950,000)**	–	**(313,950,000)**	–
Balance at end of year	**12,114,237,369**	11,212,604,851	**13,319,649,471**	12,142,810,815

(Forward)

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Accumulated equity in net earnings				
Balance at beginning of year	**₱2,551,395,700**	₱2,100,916,555	**₱–**	₱–
Equity share in net earnings	**2,126,489,345**	791,191,030	**–**	–
Cash dividends (Notes 8 and 32)	**(2,165,999,222)**	(329,905,681)	**–**	–
Disposals	**–**	(10,806,204)	**–**	–
Balance at end of year	**2,511,885,823**	2,551,395,700	**–**	–
Equity in unrealized gains on AFS investments of associates				
Balance at beginning of year	**423,813,240**	266,419,151	**–**	–
Equity share in changes in fair value of AFS investments of associates	**332,929,819**	157,394,089	**–**	–
Balance at end of year	**756,743,059**	423,813,240	**–**	–
Equity in revaluation increment				
Balance at beginning of year	**35,537,331**	35,934,252	**–**	–
Share in changes in revaluation increment of associates	**(35,537,331)**	(396,921)	**–**	–
Balance at end of year	**–**	35,537,331	**–**	–
Equity in translation adjustment				
Balance at beginning of year	**(39,379,598)**	(39,379,598)	**–**	–
Share in changes in translation adjustment of an associate	**(17,024,249)**	–	**–**	–
Balance at end of year	**(56,403,847)**	(39,379,598)	**–**	–
Allowance for impairment losses (Note 13)	**(28,075,229)**	(28,075,229)	**(302,393,577)**	(302,393,577)
	₱15,298,387,175	₱14,155,896,295	**₱13,017,255,894**	₱11,840,417,238

The carrying values of the Group's and the Parent Company's investments in investee companies and the related percentages of ownership are shown below:

	Ownership (%)		Consolidated		Parent Company	
	2012	2011	**2012**	2011	**2012**	2011
Acquisition cost:						
Subsidiaries:						
PBC	**100.0**	100.0	**₱–**	₱–	**₱324,798,000**	₱324,798,000
FMSBC	**100.0**	100.0	**–**	–	**130,000,000**	130,000,000
SPI	**100.0**	100.0	**–**	–	**69,261,041**	69,261,041
FEI	**100.0**	100.0	**–**	–	**12,500,000**	12,500,000
FMIBC	**100.0**	100.0	**–**	–	**2,362,243**	2,362,243
PVDC	**100.0**	100.0	**–**	–	**4,200,000**	4,200,000
FMGOF	**100.0**	100.0	**–**	–	**127,000,000**	50,000,000
Resiliency	**100.0**	100.0	**–**	–	**5,000,000**	5,000,000
FMPEETFI	**100.0**	–	**–**	–	**250,000,000**	–
FMSLDBF	**99.1**	99.7	**–**	–	**200,000,000**	200,000,000
FAMI	**70.0**	70.0	**–**	–	**8,235,000**	8,235,000
FMSLFIF	**19.5**	30.8	**–**	–	**254,307,675**	254,307,675
			–	–	**1,387,663,959**	1,060,663,959
Associates:						
Cathay International Resources, Corp. (CIRC)	**35.0**	35.0	**183,310,499**	486,669,780	**175,000,000**	488,950,000
Charter Ping An Insurance Corporation (CPAIC)*	**33.3**	33.3	**365,021,687**	313,412,098	**59,977,343**	59,977,343
Global Business Power Corporation (GBPC)	**49.1**	30.0	**8,895,777,696**	8,464,387,960	**7,280,960,570**	6,641,150,589
Travel Services, Inc. (TSI)**	**30.0**	30.0	**9,900,000**	9,900,000	**-**	–
Philippine AXA Life Insurance Corporation (PALIC)	**28.2**	28.2	**1,100,629,019**	1,026,178,355	**172,140,059**	172,140,059
First Metro Save and Learn Balanced Fund, Inc. (FMSALBF)	**23.5**	26.3	**390,227,835**	221,669,314	**261,202,510**	161,202,510
FMIIC	**20.0**	20.0	**136,191,238**	154,790,444	**151,377,350**	151,377,350
Skyland Realty Development Corporation (SRDC)	**20.0**	20.0	**1**	1	**3,334**	3,334
Dahon Realty Corporation	**20.0**	20.0	**1**	1	**1**	1

(Forward)

	Ownership (%)		Consolidated		Parent Company	
	2012	2011	**2012**	2011	**2012**	2011
Orix Metro Leasing and Finance Corp (OMLFC)	**20.0**	20.0	**₱489,224,031**	₱406,950,880	**₱183,157,361**	₱183,157,361
LCMC	**17.0**	17.0	**2,281,009,465**	2,312,146,600	**2,397,129,052**	2,393,150,377
First Metro Save and Learn Equity Fund, Inc. (FMSALEF)	**26.5**	25.9	**1,447,095,702**	759,790,861	**948,644,354**	528,644,354
			15,298,387,174	14,155,896,294	**11,629,591,934**	10,779,753,278
Joint Venture:						
Aurora Towers, Inc.	**50.0**	50.0	**1**	1	**1**	1
			₱15,298,387,175	₱14,155,896,295	**₱13,017,255,894**	₱11,840,417,238

* *Formerly Philippine Charter Insurance Corporation*
** *Formerly First Metro Travel, Inc.*

Investment in FMPEETFI
In November 2012, the BOD of the Parent Company approved the investment of ₱250.0 million in FMPEETF that would be used for the paid-up capital of the latter. In December 2012, FMPEETF filed an application for registration with the SEC. The application was approved on January 15, 2013.

Investment in CIRC
As of December 31, 2011, the Group's investment in CIRC includes deposits for future subscription amounting to ₱314.0 million. The deposits for future subscription will be converted to a fixed number of common shares upon CIRC's determination of the increase in authorized capital stock to be subscribed by existing stockholders. On December 18, 2012, the subscription agreement was rescinded and the Group received an amount of ₱314.0 million which represents the return of the deposits for future subscription.

Investment in GBPC
As of December 31, 2011, the Group's investment in GBPC includes deposits for future subscription amounting to ₱5.6 billion.

On January 16, 2012, the SEC approved the increase in GBPC's authorized capital stock. Consequentially, GBPC issued 199,058,600 shares for the Parent Company's deposit for future subscription. This resulted in an increase in the percentage of ownership of the Parent Company to 49.1% from 30.0%. As a result of the additional investment, the equity-accounted amount for GBPC increased by ₱135.7 million. The notional goodwill applicable to this tranche of acquisition is ₱481.4 million.

In 2012, GBPC made a capital call amounting to ₱1.6 billion. This amount will allow the Parent Company to maintain its 49.1% interest at GBPC. The Parent Company subscribed to 18,212,638 shares amounting to ₱639.8 million. The shares were issued on January 3, 2013. The remaining balance of capital call amounting to ₱960.2 million is included in the Parent Company's Capital Commitments (Note 29).

Investment in LCMC
As of December 31, 2012 and 2011, the Group's direct ownership in LCMC is 17.0%. In 2012 and 2011, the Group has 2 out of 9 board seats (or 22.2%) in the BOD of LCMC. Although the Parent Company holds less than 20.0% of the ownership interest and voting control in LCMC, the Parent Company has the ability to exercise significant influence through its nominated directors' active participation on the LCMC Board of Directors and management sub-committee.

In May 2011, the Parent Company partially disposed of its ownership in LCMC to a third party which resulted in a gain from disposal amounting to ₱370.0 million and ₱380.0 million in the consolidated and parent company statements of income, respectively, recorded under ‘Gain on sale of assets’ account. The sale transaction did not result in a change in the number of board representatives of the Parent Company in LCMC.

None of the Group’s equity-accounted investees are publicly listed entities and consequentially do not have published price quotations, except for LCMC, which is listed on the PSE. Based on its price of ₱1.0 for class A shares and ₱1.1 for class B shares in 2012, and ₱1.5 for class A shares and ₱1.7 for class B shares in 2011, the fair value of the investment in LCMC amounted to ₱7.4 billion and ₱11.6 billion as of December 31, 2012 and 2011, respectively.

Investment in FMSALBF and FMSALEF
The net asset value of the Group’s investments in FMSALBF and FMSALEF amounted to ₱340.0 million and ₱1.5 billion as of December 31, 2012, respectively, and ₱58.5 million and ₱213.0 million as of December 31, 2011, respectively. The net asset value of the Parent Company’s investments in FMSALBF and FMSALEF amounted to ₱352.9 million and ₱1.2 billion as of December 31, 2012, respectively, and ₱49.8 million and ₱198.2 million as of December 31, 2011, respectively.

The Parent Company earned dividends amounting to ₱14.3 million, ₱1.4 million, and nil in 2012, 2011, and 2010, respectively, for its investment in subsidiaries, and ₱2.2 billion, ₱330.0 million, and nil in 2012, 2011, and 2010, respectively, for its investment in associates.

The following tables present the financial information of significant associates with classified statement of financial position as of and for the years ended December 31, 2012, 2011, and 2010 (amounts in thousands):

2012

	Statement of Financial Position				**Statement of Comprehensive Income**		
Associate	**Current Assets**	**Noncurrent Assets**	**Current Liabilities**	**Noncurrent Liabilities**	**Revenue**	**Costs and Expenses**	**Net Income**
GBPC	**₱19,262,107**	**₱39,430,628**	**₱4,885,422**	**₱35,685,108**	**₱19,194,276**	**₱15,812,436**	**₱2,592,319**
LCMC	**1,281,723**	**7,757,342**	**899,246**	**562,404**	**123,654**	**203,222**	**(58,457)**
CIRC	**962,613**	**2,062,329**	**436,491**	**2,064,707**	**2,130,468**	**2,135,365**	**44,535**

2011

	Statement of Financial Position				Statement of Comprehensive Income		
Associate	Current Assets	Noncurrent Assets	Current Liabilities	Noncurrent Liabilities	Revenue	Costs and Expenses	Net Income
GBPC	₱23,462,261	₱38,796,243	₱5,541,591	₱36,093,963	₱16,010,847	₱11,580,988	₱1,528,796
LCMC	1,565,255	7,809,068	1,275,554	589,732	237,010	187,559	52,872
CIRC	277,450	2,676,420	480,989	1,979,396	204,116	178,506	17,928

2010

	Statement of Financial Position				Statement of Comprehensive Income		
Associate	Current Assets	Noncurrent Assets	Current Liabilities	Noncurrent Liabilities	Revenue	Costs and Expenses	Net Income
GBPC	₱25,071,319	₱37,617,866	₱13,715,661	₱29,394,184	₱4,698,606	₱4,252,794	₱507,523
LCMC	924,082	7,176,388	2,500,997	1,130,540	134,063	156,239	19,709
CIRC	254,808	1,956,811	6,852	1,733,783	1,330,383	1,837,294	3,703

The following tables present the financial information of significant associates with unclassified statement of financial position as of and for the years ended December 31, 2012, 2011, and 2010 (amounts in thousands):

2012

	Statements of Financial Position		Statements of Income		
Name of Company	**Total Assets**	**Total Liabilities**	**Gross Income**	**Operating Income (Loss)**	**Net Income (Loss)**
PALIC	**₱44,702,889**	**₱40,789,355**	**₱12,279,551**	**₱3,620,106**	**₱868,557**
OMLFC	**16,359,308**	**13,798,447**	**2,544,427**	**690,437**	**495,485**
CPAIC	**5,642,295**	**4,473,130**	**2,893,733**	**281,802**	**201,252**
FMSALEF	**5,584,866**	**30,033**	**1,034,059**	**932,072**	**908,636**
FMSALBF	**1,607,221**	**30,931**	**280,679**	**253,339**	**246,781**
FMIIC	**847,469**	**26,137**	**3,853**	**(7,875)**	**(7,875)**

2011

	Statements of Financial Position		Statements of Income		
Name of Company	Total Assets	Total Liabilities	Gross Income	Operating Income (Loss)	Net Income (Loss)
PALIC	₱38,942,856	₱35,275,081	₱4,306,249	₱1,108,080	₱967,472
OMLFC	12,575,856	10,426,319	2,241,357	2,495,634	504,390
CPAIC	4,821,077	3,850,215	2,257,438	208,326	150,203
FMSALEF	3,097,927	129,328	177,144	133,961	105,898
FMSALBF	786,465	8,643	34,471	21,885	11,526
FMIIC	911,828	28,095	3,583	(10,505)	(10,505)

2010

	Statements of Financial Position		Statements of Income		
Name of Company	Total Assets	Total Liabilities	Gross Income	Operating Income (Loss)	Net Income (Loss)
PALIC	₱35,609,663	₱32,044,565	₱3,800,678	₱4,716,288	₱795,453
OMLFC	9,659,639	7,848,777	457,370	94,988	94,934
CPAIC	4,056,517	3,310,902	1,679,724	151,843	102,008
FMSALEF	1,691,002	1,658,583	581,170	536,365	525,001
FMSALBF	474,536	10,827	116,107	107,063	105,299
FMIIC	921,863	28,033	6,190	(8,021)	(8,021)

Major assets of significant associates include the following (amounts in thousands):

2012

Name of Company	**Cash and cash equivalents**	**AFS investments**	**Financial assets at FVPL**	**Receivables-net**	**Investments held to cover linked liabilities**	**Equipment for lease**
PALIC	**₱2,025,982**	**₱7,949,889**	**₱–**	**₱–**	**₱33,714,030**	**₱–**
OMLFC	**2,198,211**	**–**	**–**	**12,087,689**	**–**	**1,545,116**
CPAIC	**–**	**1,790,528**	**–**	**3,584,185**	**–**	**–**
FMSALEF	**338,682**	**–**	**4,906,732**	**8,833**	**–**	**–**
FMSALBF	**100,050**	**202,884**	**1,292,226**	**–**	**–**	**–**

2011

Name of Company	Cash and cash equivalents	AFS investments	Financial assets at FVPL	Receivables-net	Investments held to cover linked liabilities	Equipment for lease
PALIC	₱3,160,172	₱8,841,469	₱–	₱–	₱25,286,199	₱–
OMLFC	1,941,541	–	–	9,181,613	–	1,033,761
CPAIC	–	1,258,191	–	2,856,424	–	–
FMSALEF	644,889	132,007	2,202,918	6,190	–	–
FMSALBF	20,542	204,018	–	–	–	–

2010

Name of Company	Cash and cash equivalents	AFS investments	Financial assets at FVPL	Receivables-net	Investments held to cover linked liabilities	Equipment for lease
PALIC	₱1,957,197	₱9,938,076	₱–	₱–	₱22,672,192	₱–
OMLFC	1,195,544	–	–	7,314,984	–	769,787
CPAIC	–	1,118,569	–	2,618,157	–	–
FMSALEF	378,780	–	1,143,773	787	–	–
FMSALBF	92,885	–	323,226	–	–	–

Limitation on dividend declaration of associates
CPAIC
Section 195 of the Insurance Code provides that a domestic nonlife insurance company shall declare or distribute dividends on its outstanding stock only from profits remaining on hand after retaining unimpaired:

- the entire paid-up capital stock;
- the margin of solvency required;
- the legal reserve fund required; and
- a sum sufficient to pay all net losses reported or in the course of settlement and all liabilities for expenses and taxes.

GBPC
In accordance with the loan agreements of Panay Power Corporation (PPC), a subsidiary of GBPC through its majority owned subsidiary Panay Power Holdings Corporation, with Metrobank, PPC is restricted from performing corporate acts without the prior consent or approval of Metrobank, one of which relate to declaration of dividends to stockholders.

As of December 31, 2012 and 2011, the Parent Company has no share on commitments and contingencies of its associates and joint venture.

11. Investment Properties

The composition of and movements in this account for the Group and the Parent Company follow:

		2012			2011	
	Land	**Building/land improvements/ condominium for sale/lease**	**Total**	Land	Building/land improvements/ condominium for sale/lease	Total
Cost						
Balance at beginning of year	**₱503,091,415**	**₱118,107,151**	**₱621,198,566**	₱709,352,142	₱136,258,356	₱845,610,498
Additions	**–**	**4,588,000**	**4,588,000**	–	–	–
Disposals	**(16,666,764)**	**–**	**(16,666,764)**	(206,260,727)	(18,151,205)	(224,411,932)
Balance at end of year	**486,424,651**	**122,695,151**	**609,119,802**	503,091,415	118,107,151	621,198,566
Accumulated depreciation						
Balance at beginning of year	**–**	**62,808,059**	**62,808,059**	–	70,223,954	70,223,954
Depreciation	**–**	**3,514,619**	**3,514,619**	–	3,760,970	3,760,970
Disposals	**–**	**–**	**–**	–	(11,176,865)	(11,176,865)
Balance at end of year	**–**	**66,322,678**	**66,322,678**	–	62,808,059	62,808,059
Allowance for impairment losses (Note 13)	**(30,885,069)**	**–**	**(30,885,069)**	(46,187,858)	–	(46,187,858)
Net book value at end of year	**₱455,539,582**	**₱56,372,473**	**₱511,912,055**	₱456,903,557	₱55,299,092	₱512,202,649

The aggregate fair value of investment properties as of December 31, 2012 and 2011 amounted to ₱926.9 million and ₱1.0 billion, respectively, for the Group and the Parent Company. Fair value has been determined based on valuations made by independent appraisers. Valuations were derived on the basis of recent sales of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made.

In 2012, 2011 and 2010, the Group and the Parent Company recognized gains from the disposal of investment properties amounting to ₱28.3 million, ₱22.4 million and ₱45.5 million, respectively.

Direct operating expenses on investment properties that generated rental income during the period and are included under ‘Miscellaneous expenses’ in the statements of income amounted to ₱4.8 million, ₱4.9 million and ₱0.7 million in 2012, 2011 and 2010, respectively. Direct operating expenses on investment properties that did not generate rental income during the period and are included under ‘Miscellaneous expenses’ in the statements of income amounted to ₱3.8 million, ₱8.0 million and ₱1.8 million in 2012, 2011 and 2010, respectively.

12. Other Assets

This account consists of:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Creditable withholding tax	**₱263,976,849**	₱216,888,450	**₱237,728,764**	₱205,829,988
Prepaid expenses	**37,810,817**	32,237,823	**36,115,412**	30,887,413
Tax credit certificates	**9,988,950**	10,435,880	**9,988,950**	10,435,880
Retirement asset (Note 22)	**8,278,061**	9,744,502	**8,278,061**	9,744,502
Software licenses	**45,797,071**	11,048,117	**36,513,990**	10,639,784
Miscellaneous	**21,906,802**	29,644,242	**11,528,218**	15,253,855
	387,758,550	309,999,014	**340,153,395**	282,791,422
Allowance for impairment losses (Note 13)	–	(169,330,112)	–	(169,081,242)
	₱387,758,550	₱140,668,902	**₱340,153,395**	₱113,710,180

Movements in software licenses follow:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Cost				
Balance at beginning of year	**₱24,648,302**	₱15,640,338	**₱20,778,627**	₱11,770,663
Additions	**40,174,657**	9,007,964	**29,665,507**	9,007,964
Balance at end of year	**64,822,959**	24,648,302	**50,444,134**	20,778,627
Accumulated Amortization				
Balance at beginning of year	**13,600,185**	7,436,159	**10,138,843**	4,734,705
Amortization (Note 25)	**5,425,703**	6,164,026	**3,791,301**	5,404,138
Balance at end of year	**19,025,888**	13,600,185	**13,930,144**	10,138,843
Net book value at end of year	**₱45,797,071**	₱11,048,117	**₱36,513,990**	₱10,639,784

Creditable withholding taxes arise from income such as service charges, fees and commissions, interest income and rental income, in which customers are required to withhold taxes.

Prepaid expenses consist of prepaid guarantee fees, prepaid taxes (i.e., real estate tax, documentary stamp tax) and other prepaid expenses (i.e., licenses, insurance, membership fees).

Miscellaneous assets include unused office supplies and rental and other deposits.

13. **Allowance for Impairment and Credit Losses**

Changes in the allowance for impairment and credit losses follow:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Balance at beginning of year				
Loans and receivables	**₱787,021,588**	₱521,200,160	**₱884,531,896**	₱508,849,076
Investment properties	**46,187,858**	22,311,169	**46,187,858**	22,311,169
Investments in associates	**28,075,229**	129,490,672	**302,393,577**	403,809,020
Other assets	**169,330,112**	–	**169,081,242**	–
	1,030,614,787	673,002,001	**1,402,194,573**	934,969,265
Provision for (reversal of) impairment and credit losses	**(161,725,913)**	455,932,491	**(293,714,965)**	557,099,064
Write-offs and others	**(5,224,129)**	(98,319,705)	**(3,872,714)**	(89,873,756)
	(166,950,042)	357,612,786	**(297,587,679)**	467,225,308
Balance at end of year				
Loans and receivables (Note 8)	**804,704,447**	787,021,588	**771,328,248**	884,531,896
Investment properties (Note 11)	**30,885,069**	46,187,858	**30,885,069**	46,187,858
Investments in associates (Note 10)	**28,075,229**	28,075,229	**302,393,577**	302,393,577
Other assets (Note 12)	**–**	169,330,112	**–**	169,081,242
	₱863,664,745	₱1,030,614,787	**₱1,104,606,894**	₱1,402,194,573

Below is the breakdown of the provision for (reversal of) impairment and credit losses in 2012, 2011 and 2010.

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	**2010**
Loans and receivables	**₱18,785,404**	₱349,173,852	₱280,831,168	**(₱113,203,648)**	₱450,589,295	₱284,779,278
Investments in associates	**–**	(101,415,443)	129,490,672	**–**	(101,415,443)	324,570,326
Investment properties	**(11,430,075)**	38,843,970	21,081,669	**(11,430,075)**	38,843,970	21,081,669
Other assets	**(169,081,242)**	169,330,112	–	**(169,081,242)**	169,081,242	–
	(₱161,725,913)	₱455,932,491	₱431,403,509	**(₱293,714,965)**	₱557,099,064	₱630,431,273

With the foregoing level of allowance for impairment and credit losses, management believes that the Group and the Parent Company have sufficient allowance to cover any losses that the Group and the Parent Company may incur from the noncollection or nonrealization of receivables and other risk assets.

A reconciliation of the allowance for credit losses on loans and receivables by class follows:

	Consolidated				
	2012				
	Corporate lending	**Unquoted commercial papers**	**Accrued interest receivable**	**Accounts receivable**	**Total**
At January 1, 2012	**₱321,713,418**	**₱419,050,636**	**₱2,142,647**	**₱44,114,887**	**₱787,021,588**
Provision for (recovery from) credit losses	**(13,176,078)**	**(3,719,144)**	**1,251,103**	**34,429,523**	**18,785,404**
Write-offs/others	**–**	**–**	**–**	**(1,102,545)**	**(1,102,545)**
At December 31, 2012 (Note 8)	**₱308,537,340**	**₱415,331,492**	**₱3,393,750**	**₱77,441,865**	**₱804,704,447**
Individual impairment	**₱–**	**₱331,250,000**	**₱3,393,750**	**₱77,441,865**	**₱412,085,615**
Collective impairment	**308,537,340**	**84,081,492**	**–**	**–**	**392,618,832**
	₱308,537,340	**₱415,331,492**	**₱3,393,750**	**₱77,441,865**	**₱804,704,447**
Gross amount of loans and receivables individually determined to be impaired	**₱–**	**₱331,250,000**	**₱3,393,750**	**₱118,759,034**	**₱453,402,784**

	Consolidated				
	2011				
	Corporate Lending	Unquoted commercial papers	Accrued interest receivable	Accounts receivable	Total
At January 1, 2011	₱132,244,207	₱184,560,465	₱43,006,095	₱161,389,393	₱521,200,160
Provision for (recovery from) credit losses	44,816,865	302,270,833	2,142,647	(56,493)	349,173,852
Write-offs/others	144,652,346	(67,780,662)	(43,006,095)	(117,218,013)	(83,352,424)
At December 31, 2011 (Note 8)	₱321,713,418	₱419,050,636	₱2,142,647	₱44,114,887	₱787,021,588
Individual impairment	₱–	₱302,270,833	₱2,142,647	₱44,114,887	₱348,528,367
Collective impairment	321,713,418	116,779,803	–	–	438,493,221
	₱321,713,418	₱419,050,636	₱2,142,647	₱44,114,887	₱787,021,588
Gross amount of loans and receivables individually determined to be impaired	₱–	₱359,375,000	₱4,246,875	₱53,345,814	₱416,967,689

	Parent Company				
	2012				
	Corporate lending	**Unquoted commercial papers**	**Accrued interest receivable**	**Accounts receivable**	**Total**
At January 1, 2011	**₱419,301,097**	**₱419,050,636**	**₱2,142,647**	**₱44,037,516**	**₱884,531,896**
Provision for (recovery from) credit losses	**(110,763,757)**	**(3,719,144)**	**1,251,103**	**28,150**	**(113,203,648)**
At December 31, 2011 (Note 8)	**₱308,537,340**	**₱415,331,492**	**₱3,393,750**	**₱44,065,666**	**₱771,328,248**
Individual impairment	**₱–**	**₱331,250,000**	**₱3,393,750**	**₱44,065,666**	**₱378,709,416**
Collective impairment	**308,537,340**	**84,081,492**	**–**	**–**	**392,618,832**
	₱308,537,340	**₱415,331,492**	**₱3,393,750**	**₱44,065,666**	**₱771,328,248**
Gross amount of loans and receivables individually determined to be impaired	**₱–**	**₱331,250,000**	**₱3,393,750**	**₱44,065,666**	**₱378,709,416**

	Parent Company				
	2011				
	Corporate lending	Unquoted commercial papers	Accrued interest receivable	Accounts receivable	Total
At January 1, 2011	₱128,438,033	₱184,560,465	₱43,006,095	₱152,844,483	₱508,849,076
Provision for (recovery from) credit losses	146,232,308	302,270,833	2,142,647	(56,493)	450,589,295
Write-offs/others	144,630,756	(67,780,662)	(43,006,095)	(108,750,474)	(74,906,475)
At December 31, 2011 (Note 8)	₱419,301,097	₱419,050,636	₱2,142,647	₱44,037,516	₱884,531,896
Individual impairment	₱–	₱302,270,833	₱2,142,647	₱44,037,516	₱348,450,996
Collective impairment	419,301,097	116,779,803	–	–	536,080,900
	₱419,301,097	₱419,050,636	₱2,142,647	₱44,037,516	₱884,531,896
Gross amount of loans and receivables individually determined to be impaired	₱–	₱359,375,000	₱4,246,875	₱44,037,516	₱407,659,391

Movements in the allowance for credit and impairment losses on investments in associates and investment properties follow:

	Consolidated			
	Investments in associates	**Investment properties**	**Other assets**	**Total**
At January 1, 2012	**₱28,075,229**	**₱46,187,858**	**₱169,330,112**	**₱243,593,199**
Recovery from impairment losses	**–**	**(11,430,075)**	**(169,081,242)**	**(180,511,317)**
Disposal/write-offs	**–**	**(3,872,714)**	**(248,870)**	**(4,121,584)**
At December 31, 2012	**₱28,075,229**	**₱30,885,069**	**₱–**	**₱58,960,298**
At January 1, 2011	₱129,490,672	₱22,311,169	₱–	₱151,801,841
Provision for (recovery from) impairment losses	(101,415,443)	38,843,970	169,330,112	106,758,639
Disposal	–	(14,967,281)	–	(14,967,281)
At December 31, 2011	₱28,075,229	₱46,187,858	₱169,330,112	₱243,593,199

	Parent Company			
	Investments in associates	Investment properties	Other assets	Total
At January 1, 2012	**₱302,393,577**	**₱46,187,858**	**₱169,081,242**	**₱517,662,677**
Provision for (recovery from) impairment losses	**–**	**(11,430,075)**	**(169,081,242)**	**(180,511,317)**
Disposal	**–**	**(3,872,714)**	**–**	**(3,872,714)**
At December 31, 2012	**₱302,393,577**	**30,885,069**	**₱–**	**₱333,278,646**
At January 1, 2011	₱403,809,020	₱22,311,169	₱–	₱426,120,189
Provision for (recovery from) impairment losses	(101,415,443)	38,843,970	169,081,242	106,509,769
Disposal	–	(14,967,281)	–	(14,967,281)
At December 31, 2011	₱302,393,577	₱46,187,858	₱169,081,242	₱517,662,677

14. **Bills Payable**

This account consists of:

	2012	2011
Deposit substitutes:		
Promissory notes issued	**₱39,830,174,849**	₱48,602,263,517
Repurchase agreements	**4,199,869,291**	4,516,690,334
Borrowings from local banks	**6,682,068,500**	7,666,590,560
Interbank call loans	**2,500,000,000**	–
	₱53,212,112,640	₱60,785,544,411

Deposit substitutes have maturities of 15-364 days. Peso-denominated deposit substitutes bear annual interest rates ranging from 0.5% to 5.4%, 1.0% to 6.4%, and 1.0% to 5.0% in 2012, 2011 and 2010, respectively. Dollar-denominated deposit substitutes bear annual interest rates ranging from 0.9% to 2.4% and 0.6% to 2.3% in 2012, and 2011, respectively.

The following are the carrying values of the investment securities pledged and transferred under repurchase agreement transactions of the Group and the Parent Company:

	2012		2011	
	Pledged Securities	Bills Payable	Pledged Securities	Bills Payable
HTM investments (Note 7)	**₱2,656,262,691**	**₱2,067,471,138**	₱397,211,573	₱399,053,389
Unquoted commercial papers (Note 8)	**2,123,274,960**	**2,132,398,153**	4,123,842,889	4,117,636,945
	₱4,779,537,651	**₱4,199,869,291**	₱4,521,054,462	₱4,516,690,334

Included in the repurchase agreements is a repurchase transaction with a foreign bank amounting to ₱2.0 billion. The following are the significant terms and conditions:

- Notional amount - ₱2.0 billion
- Effective date - September 28, 2012, Maturity Date - March 28, 2014
- Initial reference portfolio - Debt securities issued by the Republic of the Philippines, face value of ₱2.6 billion, coupon rate of 7.9% and maturity date of February 19, 2019
- Margin Requirements - The Parent Company will transfer cash margin to the counterparty when the aggregate credit support value is less than or equal to 135% of the notional amount.
- Repo Rate - 5.4%
- The Parent Company has early termination right subject to payment of the make-whole and unwind costs

- Trigger Event - the occurrence of any of the following events:
  (a) a rating downgrade of two notches or greater of the reference assets
  (b) a failure of the Parent Company to provide cash margin
  (c) the Philippine 5-year credit default swaps trades above 500 bps
  (d) if there is default, restructuring, or winding up of any debt obligation of the Republic of the Philippines
  (e) the ultimate Parent Company ceases to hold at least 50% of the issued share capital of the Parent Company

  Upon occurrence of any of the foregoing trigger events, the counterparty may accelerate this repurchase transaction according to the following settlement provisions:

  (a) the Parent Company shall pay its counterparty the notional amount plus interest up to, but excluding, the Trigger settlement date plus the present value of the financing rate that would be due for the remaining duration of the repurchase transaction and unwind costs
  (b) upon receipt of the settlement amount, the counterparty shall deliver the reference asset to the Parent Company

Borrowings from local banks represent dollar-, euro- and peso-denominated loans. Outstanding borrowing from local banks denominated in dollar amounted to ₱5.9 billion and ₱6.9 billion as of December 31, 2012 and 2011, respectively, bearing an annual interest rates ranging from 1.3% to 1.5% and 1.4% to 2.1%, respectively. Outstanding borrowing from local banks denominated in euro amounted to ₱270.9 million and ₱283.7 million as of December 31, 2012 and 2011, respectively, bearing an annual interest rate of 1.2% and 2.3%, respectively. In January 2007, the Parent Company borrowed peso funds amounting to to ₱500.0 million which bear interest of 6.4% and will mature in January 2014.

Interbank call loans are short-term borrowings that have terms of 1-5 days and bear annual interests ranging from 1.2% to 3.6%, 4.0% to 5.4% and 4.1% to 4.9% in 2012, 2011 and 2010, respectively.

Interest expense on bills payable of the Group and the Parent Company follow (Note 21):

	Consolidated		
	2012	2011	2010
Deposit substitutes:			
Promissory notes issued	**₱1,569,163,316**	₱1,821,091,338	₱1,406,672,134
Repurchase agreements	**173,634,840**	434,199,088	483,968,478
Borrowings from local banks	**141,697,035**	79,696,901	32,566,626
Interbank call loans	**24,121,389**	76,653,170	39,654,195
	₱1,908,616,580	₱2,411,640,497	₱1,962,861,433

	Parent Company		
	2012	2011	2010
Deposit substitutes:			
Promissory notes issued	**₱1,569,977,924**	₱1,821,091,338	₱1,406,672,134
Repurchase agreements	**173,634,840**	436,248,207	483,968,478
Borrowings from local banks	**141,697,035**	79,696,901	32,566,626
Interbank call loans	**24,121,389**	76,653,170	39,654,195
	₱1,909,431,188	₱2,413,689,616	₱1,962,861,433

Under BSP Circular No. 732, deposit substitutes are subject to statutory and liquidity reserves of 10.0% and 11.0%, respectively. In March 2012, the BSP issued Circular No. 753, mandating the unification of the statutory/legal and liquidity reserves requirement on deposit substitutes. Likewise, effective the reserve week starting April 6, 2012, the Parent Company's deposit substitutes are subject to reserve requirement of 18.0%. As of December 31, 2012 and 2011, the Parent Company's available reserves on these deposits as reported to the BSP follow:

	2012	2011
Due from BSP	**₱8,000,006,030**	₱1,172,665,522
Cash and other cash items	–	10,943,662,824
	₱8,000,006,030	₱12,116,328,346

As of December 31, 2012 and 2011, the Parent Company is in compliance with the regulations on reserve requirements.

15. Accrued Taxes, Interest and Other Expenses

This account consists of:

	Consolidated		**Parent Company**	
	2012	2011	**2012**	2011
Financial liabilities:				
Accrued interest payable	**₱272,383,036**	₱233,402,045	**₱273,005,260**	₱233,777,491
Accrued salaries payable	**47,794,316**	41,787,603	**39,431,264**	37,609,989
Accrued fees payable	**21,783,048**	23,831,326	**18,379,804**	17,693,115
Accrued rent payable	**12,718,296**	8,697,553	**12,612,522**	8,697,553
Accrued other expenses payable	**33,705,344**	15,450,892	**28,401,284**	13,907,466
	388,384,040	323,169,419	**371,830,134**	311,685,614
Nonfinancial liabilities:				
Accrued taxes and licenses	**27,784,651**	63,672,024	**27,771,108**	61,838,401
Retirement liability (Note 22)	**10,015,543**	5,723,536	–	–
	37,800,194	69,395,560	**27,771,108**	61,838,401
	₱426,184,234	₱392,564,979	**₱399,601,242**	₱373,524,015

16. Bonds Payable

Details of this account follow:

	Consolidated	
	2012	2011
Bonds payable	**₱12,000,000,000**	₱5,000,000,000
Unamortized premium	**44,955,239**	54,772,640
	12,044,955,239	5,054,772,640
Unamortized deferred finance charges	**(99,620,089)**	(44,787,556)
Bonds held by subsidiaries	**(110,945,000)**	(80,475,000)
	₱11,834,390,150	₱4,929,510,084

	Parent Company	
	2012	2011
Bonds payable	**₱12,000,000,000**	₱5,000,000,000
Unamortized premium	**45,866,894**	55,684,295
	12,045,866,894	5,055,684,295
Unamortized deferred finance charges	**(99,620,089)**	(44,787,556)
	₱11,946,246,805	₱5,010,896,739

Fixed Rate Corporate Bonds Due 2017 and 2019
On August 10, 2012, the Parent Company issued ₱7.0 billion fixed rate corporate bonds. The bonds have two tenors:

a. Php4.0 billion worth of bonds have a tenor of five years and three months at an interest rate of 5.50% which will mature on November 10, 2017 (Five Year Bonds), and
b. Php3.0 billion worth of bonds have a tenor of seven years at an interest rate of 5.75% which will mature on August 10, 2019 (Seven Year Bonds).

The Company shall pay interest on the outstanding principal amount of the notes on each interest quarterly. All payments of interest shall be computed on the basis of 30/360 days.

The Bonds are scripless in form and sold in principal amounts of ₱50,000 and in multiples of ₱5,000 in excess of ₱50,000 with an option to redeem in whole, but not in part, on any interest payment date after the fourth and fifth anniversary of the issue date of the Five Year Bonds and Seven Year Bonds, respectively, at 102.0% of its face value plus accrued interest.

The Bonds are exempt securities pursuant to certain provisions of the Securities Regulation Code (SRC) and are covered by a deed of assignment on government securities to be held in trust by a collateral agent. The aggregate market value of such securities shall be 100.0% of the issued amount and in the event that it falls below the 100.0%, additional government securities shall be offered to increase and maintain the cover at 100.0%. As of December 31, 2012, the carrying amount of the government securities assigned as collateral and classified under HTM investments (Note 7) amounted to ₱9.97 billion with a market value of ₱12.54 billion. As of December 31, 2012, the Parent Company had complied with the terms of the issue.

In 2012, the amount of interest expense recognized by the Group and the Parent Company on the Bonds amounted to ₱158.3 and ₱157.5 million, respectively, which includes amortization of premium and deferred finance charges amounting to ₱3.9 million.

Fixed Rate Corporate Bonds Due 2017
On November 25, 2011, the Parent Company issued fixed rate corporate bonds (the Bonds) amounting to ₱5.0 billion with fixed interest rate of 5.7% per annum computed based on 30/360 days, payable every quarter starting February 25, 2012 and will mature on February 25, 2017.

The Bonds are scripless in form and sold in principal amounts of ₱50,000 and in multiples of ₱5,000 in excess of ₱50,000 with an option to redeem in whole, but not in part, on any interest payment date after the fourth anniversary of the issue date of the Bonds at 102.0% of its face value plus accrued interest. At initial transaction date, the Parent Company assessed that the prepayment option qualified for bifurcation. As a result, the Group and the Parent Company initially recognized ₱55.7 million derivative asset, respectively (Note 7).

The Bonds are exempt securities pursuant to certain provisions of the Securities Regulation Code (SRC) and are covered by a deed of assignment on government securities to be held in trust by a collateral agent. The aggregate market value of such securities shall be 100.0% of the issued amount and in the event that it falls below the 100.0%, additional government securities shall be offered to increase and maintain the cover at 100.0%. As of December 31, 2012 and 2011, the carrying amount of the government securities assigned as collateral and classified under HTM investments (Note 7) amounted to ₱10.0 billion and ₱4.4 billion, respectively, with market value of ₱12.4 billion and ₱5.3 billion, respectively. As of December 31, 2012 and 2011, the Parent Company had complied with the terms of the issue.

In 2012, the amount of interest expense recognized on the Bonds amounted to ₱275.1 million and ₱281.8 million for the Group and the Parent Company, respectively, net of amortization of premium and deferred finance charges amounting to ₱1.9 million for the Group and the Parent Company. In 2011, the amount of interest expense recognized on the Bonds amounted to ₱28.3 million and ₱29.6 million for the Group and the Parent Company, respectively, net of amortization of premium and deferred finance charges amounting to ₱1.0 million for the Group and the Parent Company.

Floating Rate Bonds (FRBs) Due 2011

On July 12, 2007, the Parent Company issued FRBs amounting to ₱150.0 million which matured on July 12, 2011. These were issued at face value with an initial coupon rate of 4.5% per annum. The FRBs were subject to quarterly repricing starting October 12, 2007 with the repricing rate pegged at the 3-month PDS Treasury Fixing Rate ("PDST-F") as published in the Philippine Dealing and Exchange Corporation page, plus 0.3% margin. The interest was paid every quarter starting October 12, 2007.

In 2011 and 2010, interest expense on FRBs for the Group and the Parent Company amounted to ₱1.2 million, and ₱2.4 million, respectively, for the Group, and ₱1.2 million, and ₱6.6 million, respectively, for the Parent Company.

On July 12, 2011, the Parent Company settled the amount of the FRBs.

17. Other Liabilities

This account consists of:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Financial liabilities:				
Payables for securities purchased	**₱52,262,564**	₱9,400,473	**₱73,180,307**	₱19,145,228
Dividends payable	**26,571,526**	23,487,522	**26,571,526**	23,487,522
Premiums payable	**14,833,477**	18,560,796	**–**	–
Subscriptions payable	**–**	9,187,500	**9,375,000**	18,562,500
Miscellaneous	**558,616**	475,147	**408,543**	351,206
	94,226,183	61,111,438	**109,535,376**	61,546,456
Nonfinancial liabilities:				
Non-equity non-controlling interests	**1,528,681,915**	712,603,857	**–**	–
Withholding taxes payable	**40,236,443**	52,396,058	**38,517,802**	50,601,440
Other deferred credits (Note 7)	**13,416,977**	14,140,264	**13,416,977**	14,140,264
Miscellaneous	**9,206,491**	12,793,173	**1,198,345**	1,073,422
	1,591,541,826	791,933,352	**53,133,124**	65,815,126
	₱1,685,768,009	₱853,044,790	**₱162,668,500**	₱127,361,582

Breakdown of 'Payables for securities purchased' follows:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Third party	**₱52,262,564**	₱9,400,473	**₱52,262,564**	₱9,400,473
Related parties	**–**	–	**20,917,743**	9,744,755
	₱52,262,564	₱9,400,473	**₱73,180,307**	₱19,145,228

Non-equity non-controlling interests arise when funds are consolidated and where the Group holds less than 100.0% of the investment in those funds. When this occurs, the Group acquires a liability in respect of non-controlling interests in the funds of which the Group has control. Such non-controlling interests are distinguished from equity non-controlling interests since these are puttable instruments.

18. Maturity Analysis of Financial and Nonfinancial Assets and Liabilities

The following tables present the assets and liabilities of the Group and of the Parent Company by contractual maturity and settlement dates as of December 31, 2012 and 2011:

	Consolidated					
	2012			2011		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Financial Assets						
Cash and other cash items	**₱4,220,173,033**	**₱–**	**₱4,220,173,033**	₱13,099,729,330	₱–	₱13,099,729,330
Due from BSP	**8,500,006,030**	**–**	**8,500,006,030**	4,272,665,522	–	4,272,665,522
Interbank loans receivable and securities purchased under resale agreements	**–**	**–**	**–**	4,010,000,000	–	4,010,000,000
Financial assets at FVPL	**8,898,485,445**	**–**	**8,898,485,445**	1,594,454,845	–	1,594,454,845
AFS investments	**–**	**15,913,926,180**	**15,913,926,180**	–	7,370,843,518	7,370,843,518
HTM investments	**–**	**16,334,863,006**	**16,334,863,006**	1,257,725,522	16,339,581,108	17,597,306,630
Loans and receivables - at gross (Note 8)	**4,905,461,191**	**8,240,581,573**	**13,146,042,764**	2,244,043,793	14,455,484,225	16,699,528,018
	26,524,125,699	**40,489,370,759**	**67,013,496,458**	26,478,619,012	38,165,908,851	64,644,527,863
Nonfinancial Assets						
Investments in subsidiaries, associates and joint venture - at gross (Note 10)	**–**	**15,326,462,404**	**15,326,462,404**	–	14,183,971,524	14,183,971,524
Property and equipment (Note 9)	**–**	**92,430,031**	**92,430,031**	–	87,680,837	87,680,837
Investment properties - at gross (Note 11)	**–**	**542,797,124**	**542,797,124**	–	558,390,507	558,390,507
Deferred tax assets (Note 26)	**–**	**1,884,279**	**1,884,279**	–	1,489,426	1,489,426
Other assets - at gross (Note 12)	**37,810,817**	**349,947,733**	**387,758,550**	32,206,150	277,792,864	309,999,014
	37,810,817	**16,313,521,571**	**16,351,332,388**	32,206,150	15,109,325,158	15,141,531,308
Allowance for impairment and credit losses (Note 13)	**–**	**(863,664,745)**	**(863,664,745)**	–	(1,030,614,787)	(1,030,614,787)
Unearned interest and discounts (Note 8)	**–**	**–**	**–**	(114,310)	–	(114,310)
	–	**(863,664,745)**	**(863,664,745)**	(114,310)	(1,030,614,787)	(1,030,729,097)
	₱26,561,936,516	**₱55,939,227,585**	**₱82,501,164,101**	₱26,510,710,852	₱52,244,619,222	₱78,755,330,074
Financial Liabilities						
Bills payable	**₱50,645,239,117**	**₱2,566,873,523**	**₱53,212,112,640**	₱60,285,544,411	₱500,000,000	₱60,785,544,411
Accrued interest and other expenses payable (Note 15)	**388,384,040**	**–**	**388,384,040**	323,169,419	–	323,169,419
Accounts payable	**349,292,739**	**–**	**349,292,739**	321,197,796	–	321,197,796
Derivative liability	**–**	**–**	**–**	–	61,377,281	61,377,281
Bonds payable	**–**	**11,834,390,150**	**11,834,390,150**	–	4,929,510,084	4,929,510,084
Other liabilities (Note 17)	**94,226,183**	**–**	**94,226,183**	33,363,142	27,748,296	61,111,438
	51,477,142,079	**14,401,263,673**	**65,878,405,752**	60,963,274,768	5,518,635,661	66,481,910,429

(Forward)

	Consolidated					
	2012			2011		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Nonfinancial Liabilities						
Accrued taxes and other expenses payable (Note 15)	**₱27,784,651**	**₱10,015,543**	**₱37,800,194**	₱63,672,024	₱5,723,536	₱69,395,560
Income taxes payable	**30,668,954**	**–**	**30,668,954**	4,249,667	–	4,249,667
Deferred tax liability (Note 26)	**–**	**20,532,539**	**20,532,539**	–	10,847,684	10,847,684
Other liabilities (Note 17)	**1,591,541,826**	**–**	**1,591,541,826**	791,933,352	–	791,933,352
	1,649,995,431	**30,548,082**	**1,680,543,513**	859,855,043	16,571,220	876,426,263
	₱53,127,137,510	**₱14,431,811,755**	**₱67,558,949,265**	₱61,823,129,811	₱5,535,206,881	₱67,358,336,692

	Parent Company					
	2012			2011		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial Assets						
Cash and other cash items	**₱2,880,333,726**	**₱–**	**₱2,880,333,726**	₱11,777,396,196	₱–	₱11,777,396,196
Due from BSP	**8,500,006,030**	**–**	**8,500,006,030**	4,272,665,522	–	4,272,665,522
Interbank loans receivable and securities purchased under resale agreements	**–**	**–**	**–**	4,010,000,000	–	4,010,000,000
Financial assets at FVPL	**8,694,467,564**	**–**	**8,694,467,564**	1,408,053,466	–	1,408,053,466
AFS investments - at gross (Note 7)	**–**	**14,516,621,445**	**14,516,621,445**	–	7,127,052,742	7,127,052,742
HTM investments	**–**	**16,334,863,006**	**16,334,863,006**	1,257,725,522	16,339,581,108	17,597,306,630
Loans and receivables - at gross (Note 8)	**4,792,036,367**	**7,768,678,727**	**12,560,715,094**	1,971,459,813	14,267,058,122	16,238,517,935
	24,866,843,687	**38,620,163,178**	**63,487,006,865**	24,697,300,519	37,733,691,972	62,430,992,491
Nonfinancial Assets						
Investments in subsidiaries, associates and joint venture - at gross (Note 10)	**–**	**13,319,649,471**	**13,319,649,471**	–	12,142,810,815	12,142,810,815
Property and equipment (Note 9)	**–**	**81,028,824**	**81,028,824**	–	79,070,885	79,070,885
Investment properties - at gross (Note 11)	**–**	**542,797,124**	**542,797,124**	–	558,390,507	558,390,507
Other assets - at gross (Note 12)	**36,115,412**	**304,037,983**	**340,153,395**	30,855,740	251,935,682	282,791,422
	36,115,412	**14,247,513,402**	**14,283,628,814**	30,855,740	13,032,207,889	13,063,063,629
Allowance for impairment and credit losses (Note 13)	**–**	**(1,104,606,894)**	**(1,104,606,894)**	–	(1,402,194,573)	(1,402,194,573)
Unearned interest and discounts (Note 8)	**–**	**–**	**–**	(3,478)	–	(3,478)
	–	**(1,104,606,894)**	**(1,104,606,894)**	(3,478)	(1,402,194,573)	(1,402,198,051)
	₱24,902,959,099	**₱51,763,069,686**	**₱76,666,028,785**	₱24,728,152,781	₱49,363,705,288	₱74,091,858,069
Financial Liabilities						
Bills payable	**₱50,645,239,117**	**₱2,566,873,523**	**₱53,212,112,640**	₱60,285,544,411	₱500,000,000	₱60,785,544,411
Accrued interest and other expenses payable (Note 15)	**371,830,134**	**–**	**371,830,134**	311,685,614	–	311,685,614
Accounts payable	**33,955,778**	**–**	**33,955,778**	45,602,224	–	45,602,224
Derivative liability	**–**	**–**	**–**	–	58,239,001	58,239,001
Bonds payable	**–**	**11,946,246,805**	**11,946,246,805**	–	5,010,896,739	5,010,896,739
Other liabilities (Note 17)	**100,160,376**	**9,375,000**	**109,535,376**	42,983,956	18,562,500	61,546,456
	51,151,185,405	**14,522,495,328**	**65,673,680,733**	60,685,816,205	5,587,698,240	66,273,514,445
Nonfinancial Liabilities						
Accrued taxes and other expenses payable (Note 15)	**27,771,108**	**–**	**27,771,108**	61,838,401	–	61,838,401
Other liabilities (Note 17)	**53,133,124**	**–**	**53,133,124**	65,815,126	–	65,815,126
	80,904,232	**–**	**80,904,232**	127,653,527	–	127,653,527
	₱51,232,089,637	**₱14,522,495,328**	**₱65,754,584,965**	₱60,813,469,732	₱5,587,698,240	₱66,401,167,972

19. **Equity**

Details of the Parent Company's capital stock as of December 31, 2012 and 2011 follow:

	2012		2011	
	Shares	**Amount**	Shares	Amount
Common stock - ₱10 par value				
Authorized - 800,000,000 shares				
Issued - 420,869,240 shares				
Issued and paid-up capital	**420,869,240**	**₱4,208,692,400**	420,869,240	₱4,208,692,400
Less treasury shares	**48,188,915**	**2,649,208,198**	43,813,090	2,256,151,891
Total issued and outstanding at end of year	**372,680,325**	**₱1,559,484,202**	377,056,150	₱1,952,540,509

As of December 31, 2012 and 2011, the total number of shareholders of the Parent Company's common share is 1,370 and 1,467, respectively.

Acquisition of Treasury shares
In 2010, PBC acquired 444,700 shares of stock of the Parent Company for ₱12.7 million. The Parent Company's shares of stock which are held by PBC was sold to a third party in 2011.

In December 2012, the Parent Company acquired 4.4 million of its own shares for a total cost of ₱393.1 million to address the Minimum Public Ownership Requirement of the PSE. Subsequently, the Parent Company was delisted from the PSE. A portion of the treasury shares of the Parent Company which numbers to 700,320 shares were previously owned by FMSBC.

Dividend Declaration
Details of the Parent Company's dividend distribution follow:

	Dividend				
Date of Declaration	Per Share	Total Amount	Date of BSP Approval	Record Date	Payment Date
May 24, 2011	₱2.66	₱1,002,969,359	August 12, 2011	August 31, 2011	September 8, 2011
June 22, 2010	₱2.65	999,198,798	August 11, 2010	September 8, 2010	September 30, 2010

Capital Management
The primary objectives of the Group's capital management are to ensure that it complies with externally imposed capital requirements and it maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Group manages its capital structure attuned to the changes in economic conditions and the risk characteristics of its activities. The Group may adjust the amount of dividend payments to shareholders or issue capital securities in order to maintain or adjust its capital structure.

Regulatory Qualifying Capital
Under existing BSP regulations, the determination of the Parent Company's compliance with regulatory requirements and ratios is based on the amount of the Parent Company's "unimpaired capital" (regulatory net worth) as reported to the BSP, which is determined on the basis of regulatory accounting policies which, in some respect, differ from that of the PFRS.

In addition, the risk-based capital ratio of the Company, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.0% on a consolidated basis (Parent Company and subsidiaries engaged in financial allied undertakings excluding insurance companies). Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board (MB) of the BSP.

On August 4, 2006, the BSP issued Circular No. 538, the revised risk based capital adequacy framework for the Philippine Banking system to conform with the basel II recommendation which took effect on July 1, 2007. The Group is in compliance with the capital adequacy ratio during the period 2012 and 2011. The capital-to-risk assets ratio of the Group as reported to the BSP as of December 31, 2012 and December 31, 2011 are shown in the table below:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Tier 1 capital	**₱11,819,712,874**	₱9,546,921,870	**₱11,819,712,874**	₱9,526,921,870
Tier 2 capital	**603,598,676**	263,464,194	**547,215,247**	243,275,581
Gross qualifying capital	**12,423,311,550**	9,810,386,064	**12,366,928,121**	9,770,197,451
Less: Required deductions	**119,882,078**	85,156,122	**978,547,946**	892,816,611
Total qualifying capital	**₱12,303,429,472**	₱9,725,229,942	**₱11,388,380,175**	₱8,877,380,840
Risk weighted assets	**₱48,303,505,672**	₱51,201,664,198	**₱46,690,568,054**	₱49,688,039,619
Tier 1 capital ratio	**24.3%**	18.6%	**24.3%**	17.9%
Total capital ratio	**25.5%**	19.0%	**24.4%**	17.9%

The breakdown of the risk-weighted assets for 2012 is presented as follows (in millions):

	Consolidated	Parent Company
Total Credit risk-weighted assets	**₱31,243**	**₱30,325**
Total Market risk-weighted assets	**13,490**	**13,065**
Total Operational risk-weighted assets	**3,571**	**3,301**
Total risk-weighted assets	**₱48,304**	**₱46,691**

The regulatory qualifying capital of the Parent Company consists of Tier 1 (core) capital, which comprises paid-up common stock, additional paid in capital, surplus including current year profit, cumulative foreign currency translation less required deductions such as treasury shares, unsecured credit accommodations granted to subsidiaries and affiliates. Certain adjustments are made to PFRS - based results and reserves, as prescribed by the BSP. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes net unrealized gains on AFS investments - equity securities (subject to 55% discount) and general loan loss provision.

The Group and its individual regulated operations have complied with all externally imposed capital requirements throughout the period.

The issuance of BSP Circular No. 639 covering the Internal Capital Adequacy Assessment Process (ICAAP) in 2009 supplements the BSP's risk-based capital adequacy framework under Circular No. 538. In compliance with this new circular, the Metrobank Group has adopted and developed its ICAAP framework to ensure that the appropriate level and quality of capital is maintained by the Group. Under this framework, the assessment of risks extends beyond the Pillar 1 set of credit, market and operational risks and onto other risks deemed material by the Group. The level and structure of capital are assessed and determined in light of the Group's business environment, plans, performance, risks and budget, as well as regulatory edicts. The Group follows the Metrobank Group's ICAAP framework and submits the result of its assessment to the Ultimate Parent Company. The BSP requires submission of ICAAP documents on a group-wide basis every January 31. The Group, through the Ultimate Parent Company, has complied with the requirement.

On January 15, 2013, the BSP issued Circular No. 781, covering the Basel III Implementing Guidelines on Minimum Capital Requirements. The guidelines revised the risk-based capital adequacy framework that will significantly impact the Group as its equity investments in non-financial allied undertakings and non-allied undertakings and significant minority investments in other financial allied undertakings will be fully deducted from Common Equity Tier I Capital. Refer to Note 10 for the Group's investments in subsidiaries, associates and joint ventures. BSP Circular No. 781 will take effect on January 1, 2014.

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following the BSP guidelines.

In the consolidated statements, a portion of the Group's retained earnings corresponding to the net earnings of the subsidiaries and accumulated equity in net earnings of the associates amounting to ₱3.0 billion and ₱2.9 billion as of December 31, 2012 and 2011, respectively, is not available for dividend declaration. The accumulated equity in net earnings becomes available for dividends upon receipt of cash dividends from the investees.

Minimum Capital Requirement

As required by the'Omnibus Rules and Regulations for Investment Houses and Universal Banks Registered as Underwriters of Securities', investment houses shall have a minimum initial paid-in capital of ₱300.0 million or such amount as the BSP may prescribe at the time of incorporation. Further, BSP requires a ₱200.0 million minimum paid-in capital for investment houses to be established in Metro Manila.

The Parent Company's paid-in capital is ₱3.6 billion, which is above the required externally imposed minimum paid-in capital.

20. Interest Income

This account consists of interest income on:

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	2010
HTM investments	**₱1,328,696,387**	₱1,216,259,137	₱698,272,034	**₱1,328,696,387**	₱1,216,259,137	₱ 698,272,034
Loans and receivables	**955,795,477**	1,185,710,909	1,093,416,023	**926,888,237**	1,164,420,172	1,069,630,540
AFS investments	**511,380,632**	468,890,512	749,040,415	**494,828,219**	452,847,176	735,658,262
Deposits with banks	**161,267,512**	413,935,918	329,997,931	**128,469,241**	398,263,113	321,228,262
Due from BSP	**141,790,061**	120,917,728	49,327,342	**141,790,061**	120,917,728	49,327,342
Financial assets at FVPL	**125,983,347**	85,754,419	70,826,769	**125,983,347**	85,754,419	70,826,769
IBLR and SPURA	**46,679,257**	26,497,951	94,808,160	**46,679,257**	26,497,951	94,808,160
Others	**3,310,729**	71,485,139	23,186,296	**1,747,130**	69,280,612	22,874,396
	₱3,274,903,402	₱3,589,451,713	₱3,108,874,970	**₱3,195,081,879**	₱3,534,240,308	₱3,062,625,765

In 2012, 2011 and 2010, the Group did not recognize any interest income on impaired loans and receivables.

21. Interest Expense

This account consists of interest expense on:

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	2010
Deposit substitutes (Note 14):						
Promissory notes issued	**₱1,569,163,316**	₱1,821,091,338	₱1,406,672,134	**₱1,569,977,924**	₱1,821,091,338	₱1,406,672,134
Repurchase agreements	**173,634,840**	434,199,088	483,968,478	**173,634,840**	436,248,207	483,968,478
Bonds Payable (Note 16)	**433,360,907**	28,264,723	2,415,708	**439,276,359**	29,558,648	6,595,876
Borrowings from local banks (Note 14)	**141,697,035**	79,696,901	32,566,626	**141,697,035**	79,696,901	32,566,626
Interbank call loans (Note 14)	**24,121,389**	76,653,170	39,654,195	**24,121,389**	76,653,170	39,654,195
Others	**9,600,615**	16,849,306	7,563,294	**9,600,615**	16,849,306	7,563,294
	₱2,351,578,102	₱2,456,754,526	₱1,972,840,435	**₱2,358,308,162**	₱2,460,097,570	₱1,977,020,603

22. Retirement Plans

The Parent Company, FMSBC and FAMI have funded, noncontributory defined benefit retirement plans covering substantially all its officers and regular employees. Under these retirement plans, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements.

The Parent Company's, FMSBC's and FAMI's annual contribution to the retirement plan consists of a payment covering the current service cost, amortization of the unfunded actuarial accrued liability and interest on such unfunded actuarial liability.

The following table shows the assumptions used in the actuarial valuation:

		January 1, 2012				
		Actuarial Assumptions				
	Date of Actuarial Valuation Report	**Retirement Age**	**Average Remaining Working Life**	**Expected Return on Assets**	**Salary Rate Increase**	**Discount Rate**
Parent Company	**January 1, 2012**	**55**	**8**	**6.5%**	**10.0%**	**5.9%**
FMSBC	**January 1, 2012**	**55**	**7**	**5.0%**	**10.0%**	**6.1%**
FAMI	**January 1, 2012**	**55**	**6**	**8.0%**	**10.0%**	**6.0%**

		January 1, 2011				
		Actuarial Assumptions				
	Date of Actuarial Valuation Report	Retirement Age	Average Remaining Working Life	Expected Return on Assets	Salary Rate Increase	Discount Rate
Parent Company	January 1, 2011	55	8	6.0%	10.0%	9.1%
FMSBC	January 1, 2011	55	8	6.0%	10.0%	9.4%
FAMI	January 1, 2010	55	7	6.0%	8.0%	8.7%

The overall expected rate of return on assets is determined based on market prices prevailing on the date of the valuation, applicable to the period over which the obligation is to be settled.

Discount rates used to arrive at the present value of the obligation of the Parent Company, FMSBC and FAMI as of December 31, 2012 and 2011 follow:

	2012	2011
Parent Company	**5.9%**	9.1%
FMSBC	**6.1%**	9.4%
FAMI	**6.0%**	8.7%

The net retirement liability and asset recognized and shown under 'Accrued taxes, interest and other expenses payable' and 'Other assets', respectively in the Group's and the Parent Company's statements of financial position follows:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Present value of funded obligation	**₱229,680,700**	₱160,143,570	**₱207,242,800**	₱143,377,200
Fair value of plan assets	**(156,827,097)**	(134,053,330)	**(151,307,895)**	(129,207,473)
	72,853,603	26,090,240	**55,934,905**	14,169,727
Unrecognized actuarial losses	**(71,116,121)**	(29,882,639)	**(64,212,966)**	(23,685,662)
Unrecognized past service cost - nonvested benefits	–	(228,567)	–	(228,567)
Net retirement liability (asset)	**₱1,737,482**	(₱4,020,966)	**(₱8,278,061)**	(₱9,744,502)
Retirement asset (Note 12)	**₱8,278,061**	₱9,744,502	**₱8,278,061**	₱9,744,502
Retirement liability (Note 15)	**10,015,543**	5,723,536	–	–

The movements in the net retirement liability (asset) recognized in the Group's and the Parent Company's statements of financial position are as follows:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Balance at beginning of year	**(₱4,020,966)**	₱2,658,269	**(₱9,744,502)**	(₱621,149)
Retirement expense	**24,555,695**	21,021,042	**20,263,688**	17,676,924
Contributions paid	**(18,797,247)**	(27,700,277)	**(18,797,247)**	(26,800,277)
Balance at end of year	**₱1,737,482**	(₱4,020,966)	**(₱8,278,061)**	(₱9,744,502)

Asset limits recognized in the Parent Company's statements of financial position were determined as follows:

	2012	2011
(a) Retirement asset	**₱8,278,061**	₱9,744,502
(b) Asset ceiling limit		
i. Unrecognized actuarial losses	**64,212,966**	23,685,662
ii. Unrecognized past service cost	–	228,567
Limit	**64,212,966**	23,914,229
Lower of (a) and (b)	**₱8,278,061**	₱9,744,502

Changes in the present value of the defined benefit obligation are as follows:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Balance at beginning of year	**₱160,143,570**	₱112,478,948	**₱143,377,200**	₱102,769,769
Current service cost	**22,128,400**	15,925,428	**19,392,700**	13,527,300
Interest cost	**9,509,203**	10,258,933	**8,356,364**	9,352,049
Benefits paid	**(11,224,429)**	(2,260,045)	**(11,224,429)**	(2,260,045)
Actuarial loss	**49,123,956**	23,740,306	**47,340,965**	19,988,127
Balance at end of year	**₱229,680,700**	₱160,143,570	**₱207,242,800**	₱143,377,200

The movements in the fair value of plan assets recognized are as follows:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Balance at beginning of year	**₱134,053,330**	₱98,647,760	**₱129,207,473**	₱94,874,857
Contributions paid	**18,797,247**	27,700,277	**18,797,247**	26,800,277
Benefits paid	**(11,224,429)**	(2,260,045)	**(11,224,429)**	(2,260,045)
Expected return on plan assets	**9,124,731**	5,918,865	**8,882,438**	5,692,491
Actuarial gains	**6,076,218**	4,046,473	**5,645,166**	4,099,893
Balance at end of year	**₱156,827,097**	₱134,053,330	**₱151,307,895**	₱129,207,473
Actual return on plan assets	**₱15,200,949**	₱9,965,338	**₱14,527,604**	₱9,792,384

The Group and the Parent Company expect to contribute ₱32.6 million and ₱21.2 million, respectively, to its defined benefit pension plan in 2013.

The amounts of retirement expense included in 'Compensation and fringe benefits' in the statements of income are as follows:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Current service cost	**₱22,128,400**	₱15,925,428	**₱19,392,700**	₱13,527,300
Interest cost	**9,509,203**	10,258,933	**8,356,364**	9,352,049
Expected return on plan assets	**(9,124,731)**	(5,918,865)	**(8,882,438)**	(5,692,491)
Net actuarial loss recognized during the year	**1,814,256**	265,480	**1,168,495**	–
Amortization of past service cost	**228,567**	490,066	**228,567**	490,066
	₱24,555,695	₱21,021,042	**₱20,263,688**	₱17,676,924

The major categories of plan assets at their fair values follow:

	Consolidated			
	2012		2011	
	Amount	**%**	Amount	%
Fixed-income securities	**₱111,381,387**	**70.9%**	₱80,200,129	59.7%
Equities	**39,362,136**	**25.1%**	37,232,921	27.7%
Cash	**5,028,438**	**3.2%**	15,827,869	11.8%
Others	**1,326,965**	**0.8%**	1,080,577	0.8%
	₱157,098,926	**100.0%**	₱134,341,496	100.0%

	Parent Company			
	2012		2011	
	Amount	**%**	Amount	%
Fixed-income securities	**₱108,258,864**	**71.5%**	₱77,121,111	59.6%
Equities	**37,605,685**	**24.8%**	35,883,096	27.7%
Cash	**4,445,492**	**2.9%**	15,397,874	11.9%
Others	**1,261,556**	**0.8%**	1,016,056	0.8%
	₱151,571,597	**100.0%**	₱129,418,137	100.0%

Equity securities included in the plan assets do not include shares of the Parent Company.

Amounts for the current and previous years are as follows:

	Consolidated				
	2012	2011	2010	2009	2008
Present value of funded obligation	**₱229,680,700**	₱160,143,570	₱112,478,948	₱96,860,000	₱126,261,508
Fair value of plan assets	**(156,827,097)**	(134,053,330)	(98,647,760)	(68,001,367)	(85,850,323)
Unfunded status	**72,853,603**	26,090,240	13,831,188	28,858,633	40,411,185
Experience adjustment on plan assets	**6,076,218**	4,046,473	6,048,356	11,026,040	(9,201,006)
Experience adjustment on plan liabilities	**(49,123,956)**	23,740,306	–	(3,597,448)	(4,851,990)

	Parent Company				
	2012	2011	2010	2009	2008
Present value of funded obligation	**₱207,242,800**	₱143,377,200	₱102,769,769	₱89,364,700	₱124,797,342
Fair value of plan assets	**(151,307,895)**	(129,207,473)	(94,874,857)	(65,493,526)	(83,678,134)
Unfunded status	**55,934,905**	14,169,727	7,894,912	23,871,174	41,119,208
Experience adjustment on plan assets	**5,645,166**	4,099,893	5,777,561	10,798,997	(8,728,328)
Experience adjustment on plan liabilities	**47,340,965**	19,988,127	–	(9,203,808)	–

23. Miscellaneous Income

This account consists of:

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	2010
Gain (loss) from sale/redemption of unquoted commercial papers	**₱60,265,964**	(₱11,533,646)	₱54,086,440	**₱56,836,833**	(₱12,584,713)	₱54,086,440
Rental income	**11,680,285**	9,358,974	6,003,710	**10,204,024**	7,882,712	6,003,710
Trust fee income	**957,492**	36,759	–	**957,492**	36,759	–
Others	**37,466,657**	22,085,515	17,943,744	**20,848,201**	14,121,554	9,356,435
	₱110,370,398	₱19,947,602	₱78,033,894	**₱88,846,550**	₱9,456,312	₱69,446,585

24. Leases

The Group and the Parent Company lease the premises they occupy. The lease contracts are for periods ranging from two to five years and are renewable upon mutual agreement of parties. Annual lease payments are generally fixed. In 2012, 2011 and 2010, rent expense recognized under 'Rent, light and water expenses' in the statements of income amounted to ₱41.9 million, ₱39.3 million and ₱33.8 million, respectively, for the Group, and ₱35.9 million, ₱35.5 million and ₱29.1 million, respectively, for the Parent Company.

Future minimum rentals payable under non-cancellable operating leases of the Group and of the Parent Company as of December 31, 2012 and 2011 follow:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Within one year	**₱22,940,883**	₱29,898,056	**₱22,940,883**	₱29,898,056
After one year but not more than five years	**796,307**	17,531,715	**796,307**	17,531,715
	₱23,737,190	₱47,429,771	**₱23,737,190**	₱47,429,771

As of December 31, 2012 and 2011, the Group and the Parent Company leases its investment property on a short-term basis and is renewable annually upon mutual agreement of the parties.

The Group and the Parent Company have no future minimum rentals receivable under non-cancellable operating leases as of December 31, 2012 and 2011.

In 2012, 2011 and 2010, rental income from investment properties (included under 'Miscellaneous income') amounted to ₱7.3 million, ₱4.9 million and ₱4.6 million, respectively, for the Group and the Parent Company (Note 11).

25. Miscellaneous Expenses

This account consists of:

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	2010
Transfer and exchange fees	**₱39,419,046**	₱24,105,217	₱6,591,134	**₱27,112,590**	₱13,653,839	₱–
Professional fees	**28,669,966**	34,508,008	23,454,344	**23,789,988**	19,940,542	19,130,882
Communication	**21,859,213**	18,290,365	17,718,693	**17,565,547**	14,993,296	14,824,815
Supervision fees	**19,337,885**	17,977,088	28,380,149	**19,337,885**	17,977,088	28,380,149
Security, messengerial and janitorial	**17,141,507**	13,249,199	12,185,146	**13,235,816**	10,556,135	10,456,379
Advertising	**15,765,004**	12,114,896	10,122,448	**5,495,492**	6,777,386	6,813,342
Transportation and travel	**11,869,115**	9,742,968	7,811,576	**8,656,147**	7,555,239	6,450,822
Internal audit fee (Note 27)	**10,475,205**	–	–	**10,475,205**	–	–
Referral and service fees	**10,127,847**	3,915,526	2,316,606	**–**	–	–
Membership dues	**9,952,904**	8,826,853	7,004,330	**9,487,296**	8,211,882	6,474,516
Fuel and lubricants	**9,605,997**	8,400,715	6,303,635	**9,605,997**	8,400,715	6,303,635
Insurance	**9,507,932**	8,552,463	8,322,082	**7,441,545**	7,328,013	7,539,789
Online trading fees	**9,424,342**	5,782,237	645,520	**-**	-	-
Stationery and supplies used	**7,250,845**	6,493,844	5,240,212	**5,065,275**	4,130,829	3,729,254
Amortization of software cost	**5,425,703**	6,164,026	3,747,296	**3,791,301**	5,404,138	2,975,433
Custodianship, collateral agent, and maintenance fees	**4,488,482**	2,027,918	–	**4,488,482**	2,027,918	–
Litigation/asset-acquired expenses (Note 11)	**3,756,475**	7,194,149	9,270,902	**3,756,475**	7,194,149	9,270,902
Research and other technical cost	**3,553,715**	1,057,668	2,134,750	**–**	–	–
Bank service charges and other service fees	**2,956,321**	1,964,221	3,256,311	**2,956,321**	1,964,221	3,256,311
Information technology expenses	**2,888,979**	3,148,459	2,115,850	**2,888,979**	3,148,459	1,788,250
Repairs and maintenance	**2,123,658**	1,509,559	1,613,914	**1,366,338**	1,024,163	1,107,772
Donations	**895,000**	10,799,731	91,900	**895,000**	10,709,731	91,900
Periodical and magazine subscriptions	**458,217**	458,217	369,939	**458,217**	411,905	369,939
Others	**42,702,176**	23,968,815	42,119,323	**38,173,818**	28,062,304	23,925,134
	₱289,655,534	₱230,252,142	₱200,816,060	**₱216,043,714**	₱179,471,952	₱152,889,224

Others consist mostly of expenses for advertising and publicity, company sponsorships, corporate social responsibility (CSR) initiatives, corporate give aways, maintenance and administrative costs.

26. Income and Other Taxes

The provision for income tax consists of:

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	2010
Current						
Final tax	**₱481,669,967**	₱462,792,182	₱393,151,698	**₱465,077,979**	₱454,776,580	₱385,903,300
Corporate	**68,890,343**	50,079,104	33,877,363	**12,914,910**	20,138,657	1,204,878
	550,560,310	512,871,286	427,029,061	**477,992,889**	474,915,237	387,108,178
Deferred	**(4,983,909)**	(3,074,882)	1,433,099	**–**	–	–
	₱545,576,401	₱509,796,404	₱428,462,160	**₱477,992,889**	₱474,915,237	₱387,108,178

Under Philippine tax laws, the Parent Company and its domestic subsidiaries are subject to percentage and other taxes (presented as 'Taxes and licenses' in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp taxes (DST).

Income taxes include corporate income tax, as discussed below, as well as final withholding taxes paid at the rates of 20.0% of gross interest income from peso-denominated debt instruments and other deposit substitutes, and 7.5% of gross interest income from foreign currency deposits in a depository bank under the expanded foreign currency deposit system.

The RCIT rate shall be 30.0%. Interest allowed as a deductible expense is reduced by an amount equivalent to 33.0% of interest income subjected to final tax.

The NIRC of 1997 also provides for rules on the imposition of a 2.0% MCIT on the gross income as of the end of the taxable year beginning on the fourth taxable year immediately following the taxable year in which the Company commenced its business operations. Any excess MCIT over the RCIT can be carried forward on an annual basis and credited against the RCIT for the three immediately succeeding taxable years.

Starting July 1, 2008, the Optional Standard Deduction (OSD) equivalent to 40.0% of gross income may be claimed as an alternative deduction in computing for the RCIT. The Parent Company has elected to claim itemized deductions instead of OSD for its 2012, 2011and 2010 RCIT computations.

Current tax regulations also provide for the ceiling on the amount of entertainment, amusement and recreation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense for a service company like the Parent Company and its subsidiaries is limited to the actual EAR paid or incurred but not to exceed 1% of net revenue. The regulations also provide for an MCIT of 2.0% on modified gross income and allow a NOLCO. The MCIT and NOLCO may be applied against the Group's and Parent Company's income tax liability and taxable income, respectively, over a three-year period from the year of inception.

As of December 31, 2012 and 2011, net deferred tax asset of the Group represents the tax effect of the allowance for impairment and credit losses and NOLCO of subsidiaries amounting to ₱1.9 million and ₱1.5 million, respectively.

The components of consolidated net deferred tax liabilities follow:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Deferred tax liabilities on:				
Unrealized gain on AFS investments	**₱26,503,771**	₱12,229,860	**₱–**	₱–
Unrealized gain on HFT investments	**610,174**	408,615	**–**	–
Unrealized foreign exchange gain	**–**	148,202	**–**	–
Retirement asset	**2,483,418**	2,923,351	**2,483,418**	2,923,351
Rent receivable	**–**	115,194	**–**	–
Leasing income differential	**38,597**			
	29,635,960	15,825,222	**2,483,418**	2,923,351

(Forward)

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Deferred tax assets on:				
MCIT	**₱2,483,418**	₱–	**₱2,483,418**	₱–
Unamortized past service cost	**442,783**	536,432	**–**	–
Accrued retirement liability	**1,424,350**	706,259	**–**	–
Allowance for impairment and credit losses	**–**	2,923,351	**–**	2,923,351
Accrued expenses	**4,752,870**	811,496	**–**	–
	9,103,421	4,977,538	**2,483,418**	2,923,351
	₱20,532,539	₱10,847,684	**₱–**	₱–

As of December 31, 2012 and 2011, the Group and the Parent Company recognized deferred tax liability directly against equity (as a reduction to other comprehensive income) amounting to ₱14.3 million and ₱2.8 million, respectively, for the Group and nil for the Parent Company.

The Parent Company and certain subsidiaries did not set up deferred tax assets on the following:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Temporary differences on:				
NOLCO	**₱737,939,765**	₱1,668,165,636	**₱707,845,283**	₱1,640,171,199
Allowance for impairment and credit losses	**804,704,447**	787,021,588	**771,328,248**	884,531,896
Accumulated depreciation on investment properties and other foreclosed properties	**66,322,684**	62,808,059	**66,322,684**	62,808,059
Unrealized loss on AFS investments	**1,518,789**	293,309,640	**–**	249,938
Unamortized past service cost	**15,330,900**	16,886,764	**15,330,900**	16,886,764
Carryforward benefits of MCIT	**34,173,073**	21,669,660	**34,169,824**	21,343,535
	₱1,659,989,658	₱2,849,861,347	**₱1,594,996,939**	₱2,625,991,391

The Group believes that it is not probable that these temporary differences will be realized in the future.

As of December 31, 2012 and 2011, deferred tax liabilities have not been recognized on the undistributed earnings of certain subsidiaries and associates, and the related equity in translation adjustment since such amounts are not taxable.

Details of the Parent Company's NOLCO follow:

Inception Year	Amount	Used	Expired	Balance	Expiry Year
2009	₱932,325,916	₱364,693,202	₱567,632,714	₱–	2012
2010	707,845,283	–	–	707,845,283	2013
	₱1,640,171,199	₱364,693,202	₱567,632,714	₱707,845,283	

Details of the Parent Company's MCIT follow:

Inception Year	Amount	Used	Expired	Balance	Expiry Year
2010	₱1,204,878	₱–	₱–	₱1,204,878	2013
2011	20,138,657	–	–	20,138,657	2014
2012	12,826,289	–	–	12,826,289	2015
	₱34,169,824	₱–	₱–	₱34,169,824	

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

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	2010
Statutory income tax rate	**30.0%**	30.0%	30.0%	**30.0%**	30.0%	30.0%
Tax effects of:						
Tax-exempt and tax-paid Income	**(15.0)**	(30.6)	(27.4)	**(30.0)**	(46.6)	(45.5)
Equity in net earnings of associates	**(16.1)**	(8.6)	(7.7)	**–**	–	–
Non-deductible expenses	**15.5**	29.8	7.8	**15.3**	50.8	13.4
Unrecognized deferred tax assets	**(0.7)**	(2.2)	17.2	**(2.6)**	(10.1)	31. 7
Others	**–**	–	–	**–**	–	–
Effective income tax rate	**13.7%**	18.4%	19.9%	**12.7%**	24.1%	29.6%

27. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions or if they are subjected to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are based on terms similar to those offered to non-related parties.

In the ordinary course of business, the Group and the Parent Company have transactions with its subsidiaries, associated companies, affiliates, and with certain related interests collectively referred to as directors, officers, stockholders and other related interests (DOSRI). These transactions consist primarily of loan transactions, management contracts, outright purchases and sales of trading and investment securities and other regular banking transactions.

Existing BSP regulations limit the amount of individual loans to DOSRI, of which 70.0% must be secured, to the total amount of their respective deposits and book value of their respective investments in the Parent Company. In the aggregate, loans to DOSRI generally should not exceed 100% of the Parent Company’s combined capital accounts, net of deferred income tax, unbooked valuation reserves and other capital adjustments as may be required by the BSP.

The following table shows information on loans to DOSRI as of December 31, 2012 and 2011:

	2012	2011	2010
Total outstanding DOSRI loans	**₱1,550,664,952**	₱1,542,647,860	₱2,242,057,043
Percent of DOSRI loans to total loans	**27.6%**	25.4%	44.7%
Percent of unsecured DOSRI loans to total DOSRI	**29.0%**	30.0%	20.4%

Under BSP Circular No. 423, loans and other credit accommodations and guarantees secured by assets are considered as non-risk by the Parent Company and therefore excluded from DOSRI individual and aggregate ceilings.

Total interest income on DOSRI loans amounted to ₱104.4 million, ₱103.6 million and ₱72.0 million in 2012, 2011 and 2010, respectively.

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year:

	Consolidated				
	2012				
	Sale of securities	Purchase of securities	Availments of term loans	Issuance of promissory notes	Borrowings
Ultimate Parent Company	₱123,066,985,879	₱120,021,499,928	₱–	₱–	₱54,960,000,000
Subsidiaries	38,797,023,149	41,681,832,927	–	191,750,000	–
Associates	1,124,028,052	881,386,794	1,367,870,989	2,732,239,813	–
Affiliates	5,669,801,772	4,221,578,804	1,610,000,000	8,494,650,000	56,875,000,000
Key management personnel	–	–	–	252,797,245	–
	₱168,657,838,852	₱166,806,298,453	₱2,977,870,989	₱11,671,437,058	₱111,835,000,000

	Consolidated				
	2011				
	Sale of securities	Purchase of securities	Availments of term loans	Issuance of promissory notes	Borrowings
Ultimate Parent Company	₱29,843,903,375	₱29,124,564,231	₱–	₱–	₱183,127,000,000
Subsidiaries	22,722,058,956	538,217,116	20,000,000	352,044,435	–
Associates	3,722,315,555	23,830,454,363	–	1,784,537,721	–
Affiliates	30,911,152,563	30,880,493,643	3,695,000,000	7,855,000,000	36,750,000,000
Key management personnel	–	–	–	854,194	–
	₱87,199,430,449	₱84,373,729,353	₱3,715,000,000	₱9,992,436,350	₱219,877,000,000

	Parent Company				
	2012				
	Sale of Securities	Purchase of securities	Availments of term loans	Issuance of bills payables	Borrowings
Ultimate Parent Company	₱123,066,985,879	₱120,021,499,928	₱–	₱–	₱54,960,000,000
Subsidiaries	38,492,468,665	41,404,408,325	–	191,750,000	–
Associates	1,037,922,172	725,781,622	1,367,870,989	2,732,239,813	–
Affiliates	5,669,801,772	4,221,578,804	1,500,000,000	8,494,650,000	56,875,000,000
Key management personnel	–	–	–	252,797,245	–
	₱168,267,178,488	₱166,373,268,679	₱2,867,870,989	₱11,671,437,058	₱111,835,000,000

	Parent Company				
	2011				
	Sale of Securities	Purchase of securities	Availments of term loans	Issuance of bills payables	Borrowings
Ultimate Parent Company	₱29,843,903,375	₱29,124,564,231	₱–	₱–	₱183,127,000,000
Subsidiaries	22,722,058,956	538,217,116	20,000,000	352,044,435	–
Associates	3,722,315,555	23,830,454,363	–	1,784,537,721	–
Affiliates	6,470,052,176	6,629,920,290	3,604,000,000	7,855,000,000	36,750,000,000
Key management personnel	–	–	–	854,194	–
	₱62,758,330,062	₱60,123,156,000	₱3,624,000,000	₱9,992,436,350	₱219,877,000,000

The following are the balances of the Group's related party transactions as of December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2011 (amounts in thousands):

			Elements of Transactions				
			Statements of Financial Position		Statements of Income		
Related Party	Relationship		2012	2011	2012	2011	2010
Metrobank	Ultimate Parent Company	Cash and other cash items	₱2,216,392	₱2,720,293			
		Bills payable	7,282,069	4,974,591			
		Financial assets at FVPL	355,821	306,371			
		Accrued interest payable	5,784	2,301			
		Accrued interest receivable	13	–			
		Accounts payable	589	–			
		Sale of securities			₱34,425	₱36,486	₱72,279
		Interest income			31,851	15,715	7,878
		Dividends			4,043	1,048	–
		Interest expense			87,827	70,320	32,040

(Forward)

			Elements of Transactions				
			Statements of Financial Position		Statements of Income		
Related Party	Relationship		2012	2011	2012	2011	2010
		Internal audit fee			**₱10,475**	₱–	₱–
		Fees and commissions			**–**	3,546	–
FMSALEF	Associate	Loans and receivables	**₱84,345**	₱126,010			
		Accrued interest receivable	**860**	572			
		Accounts receivable	**12**	–			
		Sale of securities			**–**	13,771	1,045
		Interest income			**7,184**	1,214	–
		Interest expense			**129**	–	–
FMSALBF	Associate	Loans and receivable	**120,130**	70,000			
		Accounts receivable	**1**	–			
		Sale of securities			**31,241**	(767)	285
		Interest income			**3,459**	397	–
		Interest expense			**71**	–	–
GBPC	Associate	Accounts receivable	**25**	–			
		Bills payable	**–**	1,045			
		Interest expense			**3,215**	145	21
TSI	Associate	Accounts receivable	**260**	–			
		Bills payable	**–**	538			
		Accounts payable	**53**	–			
		Interest expense			**16**	39	186
PALIC	Associate	Sale of securities			**7,509**	919	107
CPAIC	Associate	Accounts payable	**92**	–			
		Sale of securities			**113**	–	–
ATI	Joint Venture	Accounts Receivable	**44,066**	–			
Global Business Holdings, Inc. (GBHI)	Other related parties	Loans and receivables	**–**	–			
		AFS investments	**–**	–			
		Accrued interest receivable	**–**	–			
		Accounts payable	**–**	–			
		Interest income			**–**	–	2,874
		Fees and commissions			**–**	–	–
Toledo Power Corporation (TPC)	Other related parties	Loans and receivables	**–**	191,050			
		Accrued interest receivable	**–**	1,145			
		Interest income			**3,873**	13,565	23,123
		Interest expense			**528**	–	–
Toledo Cebu International Trading Resources Corporation	Other related parties	Loans and receivables	**–**	29,000			
		Accrued interest receivable	**–**	41			
		Interest income			**845**	1,927	2,447
Panay Power Corporation	Other related parties	Loans and receivables	**454,761**	614,887			
		Accrued interest receivable	**10,825**	14,274			
		Accounts payable	**–**	6,498			
		Bills payable	**1,368**	–			
		Interest income			**35,407**	41,605	59,882
		Fees and commissions			**–**	12,815	71,054
		Interest expense			**2,297**	–	–
Panay Energy Development Corporation	Other related parties	Loans and receivables	**913,109**	951,429			
		Accrued interest receivable	**25,773**	21,648			
		Interest income			**99,213**	97,583	–
Philippine Savings Bank (PSB)	Other related parties	Cash and other cash items	**693,221**	5,195,028			
		AFS investments	**586,583**	422,516			
		Bills Payable	**500,000**	–			
		Financial assets at FVPL	**493,281**	346,840			

(Forward)

Related Party	Relationship		Elements of Transactions: Statements of Financial Position 2012	Statements of Financial Position 2011	Statements of Income 2012	Statements of Income 2011	Statements of Income 2010
		Net unrealized gain on AFS investments	**₱272,967**	₱115,128			
		Dividends receivable	**5,415**	–			
		Accounts receivable	**20**	–			
		Accrued interest receivable	**267**	–			
		Accounts payable	**57**	–			
		Accrued interest payable	**201**	–			
		Sale of securities			**(₱4,134)**	₱1,528	₱137,815
		Interest income			**56,664**	122,992	101,682
		Fees and commission			**248**	–	–
		Dividend income			**18,762**	4,752	5,753
		Interest expense			**9,299**	7,586	9,453
		Unrealized trading gain			**17,920**	42,448	–
Toyota Cubao, Inc. (TCI)	Other related parties	AFS investments	**7,200**	7,200			
		Interest income			**–**	1,029	16,175
Toyota Financial Services Philippines, Inc. (TFSPI)	Other related parties	Loans and receivables	**1,500,000**	1,500,000			
		Accounts receivable	**40**	–			
		Accrued interest receivable	**18,361**	18,361			
		Interest income			**100,298**	100,024	68,509
GT Capital Holdings, Inc.	Other related parties	Accounts receivable	**17**	–			
		Fees and commissions			**163,484**	3,118	–
		Interest expense			**100**	–	–
Federal Land, Inc.	Other related parties	Fees and commissions			**–**	21,505	–
		Interest expense			**6,250**	–	–
Toyota Motors Phils., Inc.	Other related parties	Interest expense			**35,932**	38,770	7,387
Metrobank Card Corp	Other related parties	Accounts receivable	**128**	–			
		Fees and commissions			**–**	–	6,452
GBH Power Resources, Inc.	Other related parties	Interest expense			**408**	–	123

The Group and the Parent Company granted credit lines to related parties. As of December 31, 2012 and 2011, the amount of undrawn commitments/facilities of the Group and the Parent Company follow:

Related Party	Consolidated 2012	Consolidated 2011	Parent Company 2012	Parent Company 2011
Subsidiary				
FMSBC	**₱–**	₱–	**₱400,000,000**	₱80,000,000
Affliates				
TCI	**–**	35,000,000	**–**	–
	₱–	₱35,000,000	**₱400,000,000**	₱80,000,000

Terms of Transactions with Ultimate Parent Company

Terms of cash deposits

These are peso and dollar-denominated demand, savings, and time deposits. Peso deposits carry interest from 0.3% to 0.4% in 2012, 2011, and 2010 while dollar deposits carry interest from 0.3% to 1.1% in 2012, 2011, and 2010.

Derivative transactions
In 2011, the Parent Company entered into derivative transactions with Metrobank which represents one-year foreign currency forward contracts with notional amount of US$75 million. The forward contracts matured on September 28, 2012 (Note 7). The Parent Company incurred ₱2.8 million foreign exchange loss as a result of the settlement of the forward contracts.

Borrowings
The Parent Company also obtained dollar- and euro-denominated short-term borrowings from Metrobank to fund its purchase of foreign currency-denominated securities. In 2012, 2011 and 2010, the interest rates on the said borrowings range from 0.9% to 2.4%, 0.9% to 2.5% and 0.9% to 1.8%, respectively. The borrowings are unsecured and are settled in cash.

Terms of Transactions with Subsidiaries
Investment in debt securities of the Parent Company
As of December 31, 2012 and 2011, the subsidiaries had the following investments in debt securities of the Parent Company which are eliminated and classified as treasury bonds in the consolidated financial statements of the Group:

Subsidiary	**2012**	2011
FMSLFIF	**₱110,470,000**	₱80,000,000
PBC	**475,000**	475,000

Management Fees
The Parent Company and its subsidiaries executed a management contract for a monthly fee. Management fee represents payments for services rendered by seconded employees from the Parent Company such as accounting, taxation, financial control, legal and related services, administrative services and government reportorial requirements. The table below shows the management fee charged by the Parent Company in 2012, 2011 and 2010:

	2012	2011	2010
FAMI	**₱24,665,996**	₱4,848,351	₱20,596,994
FMSBC	**1,200,000**	600,000	345,000
SPI	**600,000**	600,000	600,000
PBC	**600,000**	600,000	135,000
FMIBC	**5,000**	5,000	5,000
PVDC	**5,000**	5,000	5,000
FEI	**5,000**	5,000	5,000
	₱27,080,996	₱6,663,351	₱21,691,994

Terms of Transactions with other related parties
Loans and receivables
The loans granted to related parties are secured by properties of the respective borrowers while loans to Toyota Financial Services Philippines, Inc. is 70.0% guaranteed by Philippine Export-Import Credit Agency (PHILEXIM). The loans bear interest of 6.6% with maturity date of April 10, 2013.

In 2010, the Ultimate Parent Company sold its remaining shares in GBHI to Cellini Holdings, Inc., a company wherein the majority stockholders of the Ultimate Parent Company have indirect minority interest. Beginning December 31, 2010, the Group does not consider GBHI as a related party. The related party transactions disclosed for GBHI are those transactions with GBHI up to the date of disposal of the Ultimate Parent Company.

As of December 31, 2009, deferred income of the Group and the Parent Company includes a gain on sale of its interest in Avon River Holdings to Claredon Tower Holdings Corp. in 2003 amounting to ₱17.8 million. CTHC is a 100.0% owned subsidiary of GBPC, a 30.0% owned company of the Parent Company. The amount of income deferred is up to the extent of Parent Company's effective ownership in CTHC. In 2010, deferred income amounting to ₱17.6 million was recognized as an income due to disposal of 26.0% ownership in TCI.

In 2012 and 2011, the Group did not recognize provision for impairment losses on its outstanding receivables from related parties, except for its accounts receivable from Aurora Towers, a joint venture. The Group recognized provision for impairment and credit losses amounting to ₱28,150 and ₱56,493 in 2012 and 2011, respectively. As of December 31, 2012, the accounts receivable from Aurora Towers is fully provided with allowance for impairment and credit losses.

Underwriting activities
In 2011 and 2010, the Parent Company acted as underwriter and lead arranger, respectively, for GT's capital raising activities. Fees earned from underwriting activities amounted to ₱21.5 million in 2010, and ₱163.5 million in 2011. These are recognized in the statement of income under "Service charges, fees and commissions".

In 2012, the Parent Company has been mandated by GT to act as the Issue Manager and Bookrunner in the latter's proposed issuance of ₱8.0 billion fixed rate bonds (Bonds). The Bonds are expected to be issued in February 2013.

Transactions with retirement plans
Under PFRS, certain post-employment benefit plans are considered as related parties. The Group and the Parent Company's retirement plans are being managed by the Ultimate Parent Company's Trust Banking Group. The Group's retirement funds may hold or trade its related parties' shares or securities. A summary of transactions with related party retirement plans follows.

	Consolidated		Parent Company	
	2012	**2011**	**2012**	**2011**
Equity shares				
Metrobank	**₱–**	₱1,790,550	**₱–**	₱1,790,550
Associates	**8,599,700**	8,650,000	**8,599,700**	8,650,000
Other related parties	**744,000**	–	**744,000**	–
Total	**₱9,343,700**	₱10,440,550	**₱9,343,700**	₱10,440,550

The Parent Company's senior officer exercises the voting rights for the foregoing equity shares.

The following are the balances of the retirement fund's related party transactions as of December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012:

		Elements of Transactions				
		Statement of Financial Position		Statement of Income		
Counterparty		**2012**	2011	**2012**	2011	2010
Metrobank	Cash and other cash items	**₱4,290,435**	₱15,341,586	**₱167,277**	₱199,425	₱43,342
	AFS Investments	–	1,790,550			
	Trading gains			**851,261**	–	–
FMSALBF	AFS Investments	**7,979,700**	6,360,000			
LCMC	AFS Investments	**1,364,000**	2,290,000			
	Trading gains			**105,494**	–	–

Compensation of key management personnel
The compensation of key management personnel are as follows:

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	2010
Short-term employee benefits	**₱119,135,087**	₱105,477,390	₱97,743,356	**₱102,678,595**	₱92,671,454	₱93,557,877
Post-employment benefits	**10,110,353**	9,735,967	7,126,119	**8,110,536**	8,986,072	7,126,119
	₱129,245,440	₱115,213,357	₱104,869,475	**₱110,789,131**	₱101,657,526	₱100,683,996

28. Trust Operations

Properties held by the Parent Company in fiduciary or agency capacity for their customers are not included in the accompanying statements of financial position since these are not assets of the Parent Company (Note 29).

In compliance with current banking regulations relative to the Parent Company's trust functions, as of December 31, 2012 and 2011, government securities with a total face value of ₱4.0 million classified as 'HFT investments' and ₱0.5 million classified as 'AFS investments', respectively, are deposited with the BSP.

29. Commitments and Contingent Accounts

The Group, specifically the 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.

The following is a summary of contingencies and commitments/facilities at their peso-equivalent contractual amounts arising from off-balance sheet items:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Firm commitment to underwrite	**₱1,200,000,000**	₱2,000,000,000	**₱1,200,000,000**	₱2,000,000,000
Capital commitments	**960,190,018**	–	**960,190,018**	–
Undrawn commitments/ facilities to lend				
Third parties	**14,820,000**	799,000,000	**14,820,000**	799,000,000
Related parties	**400,000,000**	35,000,000	**400,000,000**	80,000,000
Stand-by letter of credit	**410,000,000**	410,000,000	**410,000,000**	410,000,000
Trust Division accounts	**321,031,491**	113,478,111	**321,031,491**	113,478,111
	₱3,306,041,509	₱3,357,478,111	**₱3,306,041,509**	₱3,402,478,111

30. Financial Performance

The following basic ratios measure the financial performance of the Parent Company:

	2012	2011	2010
Return on average equity	**35.2%**	20.2%	13.4%
Return on average assets	**4.4**	2.2	1.6
Net interest margin over average earning assets	**1.8**	2.1	2.2

31. Earnings Per Share

EPS are computed as follows:

	Consolidated		
	2012	2011	2010
a. Net income attributable to equity holders of the Parent Company	**₱3,273,878,712**	₱2,188,818,772	₱1,700,199,341
b. Weighted average number of common shares (Note 19)	**377,420,802**	377,056,150	377,500,850
c. Basic/Diluted EPS (a/b)	**₱8.7**	₱5.8	₱4.5

As of December 31, 2012, 2011 and 2010, there are no potential shares that have a dilutive effect on the basic EPS of the Parent Company.

32. Notes to Cash Flow Statements

The non-cash transaction of the Parent Company pertains to the application of creditable withholding taxes against income tax payable amounting to ₱12.9 million, ₱20.1 million and ₱1.2 million as of December 31, 2012, 2011 and 2010, respectively.

In July 2011, the Parent Company participated in the government-initiated domestic bond exchange covering its ₱3.0 billion eligible government bonds classified as HTM investments to extend the bond holdings maturity date and benefit from the higher yields (Note 7).

PBC participated in bond exchange transactions and received ₱95.1 million, 20-year Benchmark Bonds with coupon of 8.0% using its AFS investments in 2011 (Note 7).

On November 25, 2011, the Group and the Parent Company recognized the following upon issuance of bonds payable:

	Consolidated	Parent Company
Bonds payable	₱4,919,525,000	₱5,000,000,000
Deferred finance charges	45,556,975	45,556,975
Derivative asset	55,730,461	56,642,116

On August 10, 2012, the Group and the Parent Company recognized the following upon issuance of bonds payable:

	Consolidated	Parent Company
Bonds payable	₱6,969,530,000	₱7,000,000,000
Deferred finance charges	66,604,765	66,604,765

In 2010, the Group disposed its 30% ownership interest in TSI, a subsidiary. Net cash outflow arising on the disposal follows:

	Amounts
Cash consideration	₱9,900,000
Cash and cash equivalents disposed	(34,860,041)
	(₱24,960,041)

In 2010, the Group's additional capital infusion on investments in associates include the reclassification of the remaining investment in TSI which amounted to ₱9.9 million which represents the remaining 30.0% ownership of the Group.

In 2012, dividends declared by associates amounted to ₱2.2 billion of which ₱1.4 billion remains outstanding as of December 31, 2012 (Note 8). In 2011, dividends declared by associates of the Group amounted to ₱329.9 million of which ₱174.8 million remains outstanding as of December 31, 2011.

As of December 31, 2012, 2011 and 2010, the amount of outstanding dividends payable amounted to ₱26.6 million, ₱23.5 million and ₱20.2 million, respectively, for the Group and Parent Company.

In 2012, the Parent Company acquired its own shares for a total cost of ₱393.1 million. Out of the total cost, ₱2.7 million represents the trading gains recognized by a subsidiary from sale of the Parent Company's shares.

33. Approval for the Release of the Financial Statements

The accompanying financial statements were authorized for issue by the Parent Company's BOD on February 28, 2013.

34. Supplementary Information Under Revenue Regulations (RR) 19-2011 and 15-2010

Supplementary Information Under RR No. 19-2011

In addition to the required supplementary information under RR No. 15-2010, on December 9, 2011, the Bureau of Internal Revenue (BIR) issued RR No. 19-2011 which prescribes the new annual income tax forms that will be used for filing effective taxable year 2011. Specifically, companies are required to disclose certain tax information in their respective notes to financial statements.

For the taxable year December 31, 2012, the Parent Company reported the following revenues and expenses for income tax purposes:

Revenues

Services/operations	
Non-operating and taxable other income:	
Interest income	₱917,474,447
Service charges, fees and commissions	510,962,681
Trading and securities gain	230,330,389
Profit from assets sold	20,441,896
Others	32,009,717
	₱1,711,219,130

Expenses

Cost of services:	
Interest and finance charges	₱982,156,286
Compensation and fringe benefits	71,700,272
Others	11,617,087
	₱1,065,473,645
Itemized deductions:	
Taxes and licenses	₱109,296,373
Compensation and fringe benefits	93,235,221
Rent	8,189,500
Depreciation	7,710,268
EAR	5,019,311
Management and professional fees	6,225,027
Communication, light and water	5,859,321
Security, messengerial and janitorial	3,075,303
Transportation and travel	2,419,830
Information technology	1,174,718
Repairs and maintenance	327,274
Others	33,260,638
	₱275,792,784

Supplementary Information Under Revenue Regulations No. 15-2010

On November 25, 2010, the BIR issued RR 15-2010 to amend certain provisions of RR 21-2002. RR 15-2010 provides that starting 2010 the notes to financial statements shall include information on taxes and licenses paid or accrued during the taxable year.

The Parent Company reported and/or paid the following types of taxes for the year:

GRT and DST

Under the Philippine tax laws, financial institutions are subject to percentage and other taxes as well as income taxes. Percentage and other taxes paid by the Parent Company consist principally of GRT and DST.

Taxes and Licenses

This includes all other taxes, DST, local tax, fringe benefit tax including licenses and permit fees lodged under 'Taxes and licenses' account in the Parent Company's statements of income:

GRT	₱207,215,777
Documentary stamps tax - promissory notes	223,796,518
Local taxes	24,125,836
Real estate tax	492,692
Capital gains tax	21,835
Fringe benefit tax	670,806
	₱456,323,464

Withholding Taxes

Details of total remittances and balance as of December 31, 2012 are as follows:

	Total Remittances	Balance as of December 31
Final withholding taxes on deposit substitute borrowings	₱400,832,157	₱31,591,166
Withholding taxes on compensation and benefits	65,950,237	4,444,389
Expanded withholding taxes	19,232,547	1,473,985
Final withholding value added tax	1,978,722	1,008,262
	₱487,993,663	₱38,517,802


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The mutual fund industry surged ahead in 2012 with Assets Under Management (AUM) growing by 31.3% on the back of the country's strong economic fundamentals and an environment of declining interest rates. With investors seeking investment alternatives other than the traditional bank products, First Metro Asset Management, Inc. (FAMI) aptly rode on the industry's crest, posting an above-industry AUM growth rate of 84.0%. As a result, FAMI's market share at the end of 2012 rose to 6.4% from 4.1% in 2011. Gross sales stood at P6.7 billion while net sales (net of redemptions) stood at P2.9 billion. This brought the company's AUM end-2012 level to P9.4 billion.

The company's First Metro Save and Learn Fixed Income Fund (SALFIF) once again led all bond funds, generating a net return of 11.3% based on Philippine Investment Funds Association data as of December 31, 2012. The First Metro Save and Learn Equity Fund (SALEF) ended 2012 with a net return of 27.3% while the First Metro Save and Learn Balanced Fund produced a net yield of 25.3%.

The strong growth in AUM in the first quarter of 2012 followed by a steady stream of new investors resulted in an increase of FAMI's account base by 7,374. This enabled FAMI to post a net profit of P50.4 million, a whopping 168.0% increase from 2011 income of P18.8 million. FAMI's account base now stands at 22,426, reflecting the strong growth of the base of its mutual fund investors.

FOR THE YEAR	2012	2011
Gross Revenues	156,204,769	74,534,518
Total Expenses	84,029,614	47,549,266
Net Income	50,402,729	18,802,206
AT YEAR END		
Total Assets	123,941,573	62,756,311
Total Liabilities	20,361,944	12,762,726
Stockholders' Equity	103,579,629	49,993,585

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The year 2012 was another banner year for First Metro Securities Brokerage Corporation (FirstMetroSec), as it recorded a consolidated net income of P76.6 million, 48.0% higher than the previous year. It also ranked 16th out of the 133 active trading participants in the Philippine Stock Exchange – the highest since the company started operations in 1994.

Another milestone in 2012 was the research collaboration agreement between FirstMetroSec and Singapore-based DBS Vickers Securities (Singapore) Pte. Ltd. (DBSVickers) signed in October 2012.

The collaboration aims to offer best-in-class equity research to local and foreign investors and provide clients with actionable investment ideas in the Philippines, through the consolidation of information coming from FirstMetroSec and DBSVickers researches.

To support the goal of its parent firm, First Metro Investment, to enable Filipinos all over the country to participate in the capital markets, FirstMetroSec deployed its best Equity Sales Officers to various economic centers around the country. It has now established a presence in Cebu and Binondo through the First Metro Investors Centers, and in Cagayan de Oro, through the Investment Desk.

In 2012, 22.0% of FirstMetroSec's new clients came from these three new investment locations. The company also geared up its online trading platform for its expanding client base of high net-worth online traders through features that are designed around their specific needs.

The company continues to enhance the site by constantly improving its existing powerful features and developing the system; increasing system redundancies, upgrading hardware and software, and updating firewalls and safety features to maintain its robust, responsive platform in order to give clients the best online trading experience.

FOR THE YEAR	2012	2011
Gross Revenues	195,604,327	129,368,887
Total Expenses	87,943,608	57,519,926
Net Income	76,642,396	51,923,184
AT YEAR END		
Total Assets	815,593,657	602,620,427
Total Liabilities	390,742,800	287,411,331
Stockholders' Equity	424,850,857	315,209,096

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AXA Philippines, a partnership between Metrobank and AXA, one of the world's leading life insurance and asset management groups serving 102 million clients in 57 countries, reinforced its position as one of the leaders in the Philippine life insurance industry.

In 2012, the company generated new sales of P2.8 billion, up from P2.2 billion in 2011. Its premium income exceeded P12.0 billion, up from P10.0 million the previous year.

AXA Philippines relaunched its Easy and Affordable eXentials product suite featuring life insurance products that are easy to understand, easy to buy, and easy on the pocket. Life eXentials delivers basic income protection at an affordable price. Savings eXentials makes saving for that big-ticket purchase a snap. Assure Health provides medical coverage far beyond that of typical company or HMO benefits.

AXA Philippines also responded to its customers' clamor and produced a convenient and comprehensive way to save for a child's future educational needs through its Academic eXentials offering.

AXA Philippines will continue to build on its accomplishments in 2012 to become the preferred life insurance provider of financial solutions that perfectly fit the Filipino customers' needs.

FOR THE YEAR	2012	2011
Gross Revenues	12,312,035,343	10,006,622,914
Total Expenses	3,532,703,737	3,198,168,962
Net Income	915,381,124	967,471,859
AT YEAR END		
Total Assets	44,850,867,951	38,942,856,332
Total Liabilities	40,890,570,031	35,275,081,285
Stockholders' Equity	3,960,297,920	3,667,775,047

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Philippine Charter Insurance Corporation changed its name to Charter Ping An Insurance Corporation in 2012. The move aims to strategically position the Company to seize opportunities from the implementation of the ASEAN Free Trade Area (AFTA) agreement by 2015 when the insurance market in this trading bloc will open to regional competitors.

Its name may have changed but not its sterling financial performance as Charter Ping An posted a 28.0% growth rate in gross premiums written to P2.894 billion and 25.0% in net premiums written in 2012 to P1.613 billion from year ago levels. Major product lines led by automobiles and fire insurance contributed most to the growth.

Charter Ping An has been steadily growing at 17.0% for the past four years, outpacing the Philippine nonlife industry growth which averages about 4.0%. The company ranks fifth in the industry in net premiums written, a notch higher than in 2011.

Charter Ping An aims to get a bigger share of the market through new product offerings, partnership programs with subsidiaries, additions to sales channels, and improved support services.

FOR THE YEAR	2012	2011
Gross Revenues	1,632,029,345	1,323,435,847
Total Expenses	1,418,482,799	1,173,139,837
Net Income	213,546,546	150,296,010
AT YEAR END		
Total Assets	6,342,922,070	4,960,223,384
Total Liabilities	5,121,851,200	3,987,319,131
Stockholders' Equity	1,221,070,870	972,904,253

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Global Business Power Corporation, one of the largest independent power generators in the Visayas region, achieved 39.42% increase in profits as it registered a consolidated net income of P2.20 billion for its operations in Cebu, Iloilo, Aklan and Mindoro.

The significant growth can be attributed from the full-year operations of its CFB coal-fired power plants in Cebu and Iloilo as the 3 by 82 MW of Cebu Energy and 2 by 82 MW of Panay Energy commenced commercial operations in February 2011 and March 2011, respectively.

Another contributing factor to the favorable performance of Global Power was its participation in the Wholesale Electricity Spot Market or WESM.

Given the full-year operations of its baseload plants, its participation in WESM and booming business developments in Cebu and Iloilo, Global Power has raised its net income to P2.20 billion in 2012 from P1.58 billion in 2011.

Global Power owns nine power generation facilities in the Visayas and Mindoro Island, with a total installed capacity of 627 MW. Aside from Cebu Energy and Panay Energy, its other power generation facilities consist of the following: a 60-MW coal facility and a 40 MW fuel oil facility operated by Toledo Power Company; a 72-MW fuel oil facility, a 20-MW fuel oil facility; a 12.5-MW fuel oil facility and a 5-MW fuel oil facility operated by Panay Power Corporation; and a 7.5-MW fuel oil facility operated by GBH Power Resources Inc.

FOR THE YEAR	2012	2011
Gross Revenues	19,180,488,228	16,786,078,857
Total Expenses	16,977,575,098	15,206,089,294
Net Income	2,202,913,130	1,579,989,563
AT YEAR END		
Total Assets	58,217,597,792	56,845,318,065
Total Liabilities	36,517,468,895	34,998,123,248
Stockholders' Equity	21,700,128,897	21,847,194,817

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Metrobank Card Corporation (MCC), a joint venture of Metrobank and Australia and New Zealand Bank (ANZ), continues to be the leading payment solutions provider in the Philippines.

MCC posted P1.7 billion in net profit after tax in 2012, 23.0% higher than in 2011. It also reached a milestone when it successfully grew its base to over one million cards-in-force, which yielded 19.0% growth in billings and 15.0% growth in receivables. MCC remains among the top three players both in card base and receivables.

It continued to dominate in the premium card segment with lavish perks for the Metrobank Platinum Master Card and Metrobank World Master Card in partnership with premier restaurant and entertainment partners. MCC also relaunched the Metrobank Femme Visa, which features a new pink color and exclusive perks and privileges for women.

MCC's promotions continue to be enhanced through strategic rewards tie-ups with key merchant partners, and rolling out its 0% installment promo, as well the Cash2Go and Balance Transfer services.

Even with its growth in card billings and receivables, MCC maintained its asset quality. Its past due rate was at 5.2%, one of the lowest in the industry.

FOR THE YEAR	2012	2011
Gross Revenues	9,074.27	7,767.40
Total Expenses	6,635.55	5,776.75
Net Income	1,706.86	1,392.12
AT YEAR END		
Total Assets	33,620.63	29,100.70
Total Liabilities	28,105.15	24,437.87
Stockholders' Equity	5,515.48	4,662.83

In million pesos

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www.metrobankcard.com

ORIX Metro Leasing and Finance Corporation, a joint venture between Metrobank and ORIX Corporation of Japan, celebrated 35 years of success in the leasing and finance industry in 2012.

Fiscal year October 2011 to September 2012 yielded P15.3 billion total assets, an increase of 37.0% compared to its 2011 level. Gross revenue also showed significant growth of 19.0% rising to P2.3 billion. Return on equity remained steady at 20.6%. Its receivables portfolio grew by 34.88% year-on-year to P12.1 billion, while maintaining its good asset quality with a low past due ratio of 1.33%.

ORIX Metro offers financial leasing and mortgage loans for all kinds of vehicles such as cars, trucks, and buses; industrial machinery such as printing and packaging equipment; office equipment which includes computers, servers, copiers, and facsimile machines; medical equipment including CT scans, MRIs, optical and dental equipment; and other types of personal property. In 2007, the company was given a quasi-banking license.

The company's wholly owned subsidiaries ORIX Auto Leasing Philippines Corporation and ORIX Rental Corporation are engaged in short term car rental and long term operating leases of vehicles with maintenance and fleet management.

ORIX Metro plans to create more opportunities by opening more branch offices in the countryside and aggressively marketing its full-service operating lease, targeting multinationals and big local corporations.

FOR THE YEAR	2012	2011
Gross Revenues	2,358,221,856	1,969,797,969
Total Expenses	1,707,793,034	1,416,476,050
Net Income	460,773,675	400,430,858
AT YEAR END		
Total Assets	15,335,111,355	11,209,427,229
Total Liabilities	12,912,878,524	9,163,568,995
Stockholders' Equity	2,422,232,831	2,045,858,234

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Amidst the backdrop of an improving Philippine economy, 2012 proved to be another successful year for SMBC Metro Investment Corporation (SMBC Metro). The Company exceeded its overall forecasts by nearly 50.0% registering a net income of P67.6 million for the year.

Total revenues grew to P116.9 million from the previous year's P79.1 million, representing an increase of 48.0%. Fee-based revenues rose by 47.0%, from P40.9 million in the previous year to P60.1 million. Loan portfolio increased to P417.6 million or 59.0% more than the year-end 2011 level. Money market placements, challenged by a low interest rate environment, yielded revenues of P17.4 million.

SMBC Metro's financial condition remained sound and strong, with total stockholders' equity and total assets of P800.6 million and P883.0 million, respectively.

In 2013, SMBC Metro will continue to be focused, balancing an aggressive pursuit of business opportunities with prudent assessment of attendant risks.

FOR THE YEAR	2012	2011
Gross Revenues	116,901,844	79,076,101
Total Expenses	49,278,015	15,801,067
Net Income	67,623,829	63,275,034
AT YEAR END		
Total Assets	882,973,550	836,262,438
Total Liabilities	82,372,148	36,538,692
Stockholders' Equity	800,601,402	799,723,746

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TOYOTA

Toyota Motor Philippines Corporation (TMP) fortified its position as the automotive industry leader in 2012 by attaining its 11th consecutive Triple Crown, topping the industry in overall, passenger car and commercial vehicles sales.

TMP set a new record of 65,396 units sold, capturing 36.0% of the market. Its locally manufactured vehicles, Vios and Innova, continue to be the country's best-selling vehicles. In the luxury segment, Lexus sales shot up 40.0% from 2011.

TMP also showed sound financial performance with a 37.0% growth in net income to reach P2.99 billion in 2012.

The company received several awards recognizing its excellence in various areas of its business. Singapore Acting Minister for Manpower, Tan Chua-Jin, presented the Asian Human Capital Award Special Commendation Prize to TMP for its Human Resources Team Relations Program. This made TMP the first automotive, as well as the first Japanese-affiliated company in the Philippines, to be given the distinction.

In safety and health, TMP was conferred the Department of Labor and Employment Secretary's Award of Distinction at the 8th Gawad Kaligtasan at Kalusugan. It also earned the ECOSWITCH Award from Green Philippines Islands of Sustainability for the second straight year for successfully implementing environment friendly measures.

In the area of Corporate Social Responsibility, TMP started landmark projects such as the Toyota Motor Philippines School of Technology, Inc. (TMP Tech) which is envisioned to produce globally-competent, highly-skilled automotive technicians for the Toyota Family in the Philippines and abroad.

With its strong resolve to further develop the Santa Rosa community, TMP also started the Toyota-City of Sta. Rosa-Gawad Kalinga Village Project which aims to construct around 160 houses for deserving families in Santa Rosa City, Laguna.

FOR THE YEAR	2012	2011
Gross Revenues	71,009,759,576	55,005,199,583
Total Expenses	3,716,225,781	2,897,218,474
Net Income	2,994,111,042	2,178,170,498
AT YEAR END		
Total Assets	18,935,458,938	16,072,556,624
Total Liabilities	11,312,494,263	9,294,702,493
Stockholders' Equity	7,622,964,675	6,777,854,131

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SHAREHOLDER INFORMATION

ANNUAL STOCKHOLDERS MEETING
Thursday, 18 April 2013, 4:00 p.m.
Penthouse, Metrobank Plaza
Sen. Gil Puyat Ave.
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STOCK LISTING
First Metro Investment Corporation common shares of stock (originally Solidbank) were listed on the Philippine Stock Exchange, Inc. on October 25, 1963 and were subsequently delisted effective December 21, 2012.

SHAREHOLDERS
First Metro Investment Corporation has 372,627,525 issued and outstanding shares as of March 15, 2013.

MARKET INFORMATION
Following are the high and low closing prices of FMIC Common shares in Philippine peso in 2011 up to its delisting date:

YEAR		Q1	Q2	Q3	Q4
2011	High	**45.0**	**64.0**	**80.0**	**65.0**
	Low	**35.9**	**42.8**	**61.5**	**50.0**
2012	High	**67.0**	**85.0**	**89.0**	**89.0**
	Low	**57.0**	**63.0**	**68.0**	**73.0**

ANNUAL REPORT IN SEC FORM 17-A
The financial report included in this report follows the information contained in the SEC Form 17-A as required by and submitted to the Securities and Exchange Commission. Copies of this report may be obtained free of charge from:

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Or

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SHAREHOLDERS SERVICES
For inquiries regarding dividend payments, change of address and account status, please contact:

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Metrobank Group

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