

# Market Moves

## FMIC 2009 Annual Report

**158%**

Increase in Net  
Income in 2009

**P252B**

Total Volume of  
Lead Managed  
Deals

**Top 11**

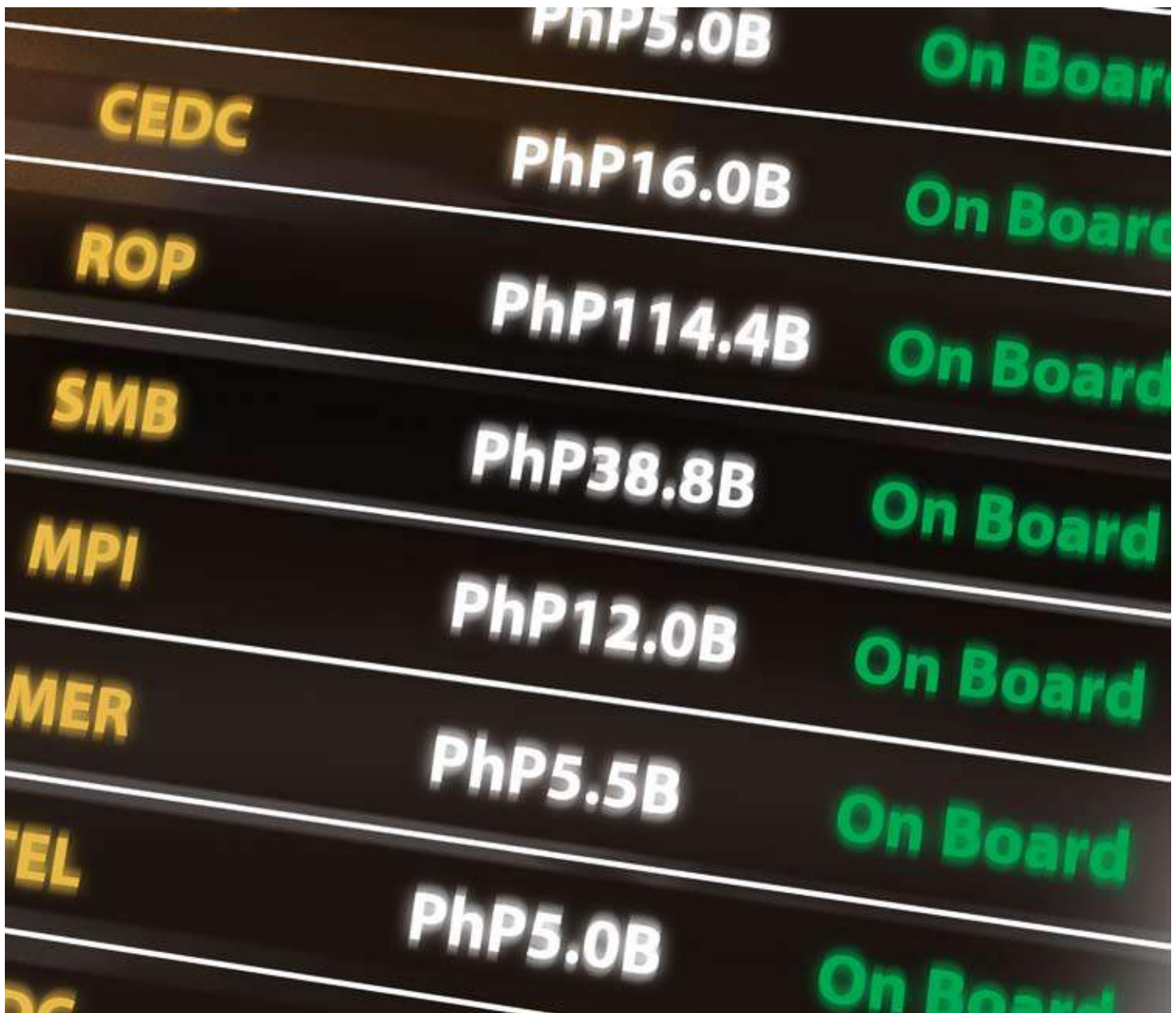
Filipino Company  
in the ASEAN 100  
Relative Wealth  
Added Index List by  
Stern Stewart & Co.

**No. 1**

Bond House in  
the Philippines



**FIRST METRO**  
INVESTMENT CORPORATION  
Metrobank Group



**Market Moves**  
FMIC 2009 Annual Report

158% Increase in net income  
P252D Top 11  
No. 1 in the Philippines  
First Metro Investment Corporation  
Bancor Bank

|      |           |          |
|------|-----------|----------|
| CEDC | PHP5.0B   | On Board |
| ROP  | PHP16.0B  | On Board |
| SMB  | PHP114.4B | On Board |
| MPI  | PHP38.8B  | On Board |
| MER  | PHP12.0B  | On Board |
| TEL  | PHP5.5B   | On Board |
| SC   | PHP5.0B   | On Board |

## Our Theme

In 2008, the sky fell, global markets collapsed, and a financial tsunami wiped out age-old institutions. The Philippine economy held its own and demonstrated its resilience in 2009.

However and whichever way the markets move, investors can turn to First Metro Investment Corporation as their guiding light. The wholly owned investment banking arm of the Metrobank Group has proven rock-steady in its role in developing the country's capital markets. It now ranks among the best private companies in the ASEAN region.

In its 2009 annual report, First Metro tells its story as a prime mover. The image of a flight announcement board was used to provide a snapshot of the outstanding deals First Metro managed in 2009 for firms that came "on board" by entrusting their funding needs with the leading Philippine investment bank.





# Market Moves

## FMIC 2009 Annual Report

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# Understanding Our Business



First Metro Investment Corporation is the investment banking arm of the Metrobank Group. It is a publicly listed investment bank and a member of the Investment Houses Association of the Philippines (IHAP).

## CORPORATE HISTORY

First Metro was incorporated on August 30, 1972 and started business operations as an investment house with quasi-banking functions in May 1974. In 2000, Metropolitan Bank & Trust Company bought a majority stake in Solidbank but subsequently decided to merge the bank with First Metro. The merger was approved by the Securities and Exchange Commission on September 22, 2000. The surviving entity was named First Metro Investment Corporation. The merged corporation retained its quasi-banking license but gave up its license to engage in commercial banking activities. The Bangko Sentral ng Pilipinas officially gave its nod on the merger on November 8, 2000.

## First Metro performs four strategic functions:

- **Investment Banking** helps build businesses through debt and equity underwriting, arranging, and syndicating large, long-term funding requirements, and financial advisory. Over the years, its client base has grown to include government institutions and the Philippines' top corporations in vital industries such as power and utilities, telecommunications, property, media, financial services, and even conglomerates.

**50%**

Market share  
peso private debt  
(public issue)

**60%**

Market share  
peso private debt  
(private placement)

**90%**

Market share  
peso government  
debt

## Consolidated Operational Highlights

| <i>In thousand PhP</i>          | <b>2009</b>       | <b>2008</b> | <b>2007</b> |
|---------------------------------|-------------------|-------------|-------------|
| Total Assets                    | <b>59,576,309</b> | 46,163,524  | 44,844,660  |
| Total Liabilities               | <b>50,962,386</b> | 38,852,530  | 36,569,077  |
| Stockholders' Equity            | <b>8,613,923</b>  | 7,310,994   | 8,275,583   |
| CAR (in %)                      | <b>24.3</b>       | 16.3        | 20.2        |
| Gross Revenues                  | <b>1,947,153</b>  | 1,097,678   | 2,318,431   |
| Net Income                      |                   |             |             |
| Consolidated                    | <b>1,029,771</b>  | 398,906     | 1,409,056   |
| Parent                          | <b>857,192</b>    | 967,114     | 1,176,505   |
| Return on Average Equity (in %) |                   |             |             |
| Consolidated                    | <b>12.8</b>       | 5.1         | 17.1        |
| Parent                          | <b>14.4</b>       | 20.5        | 20.9        |

- **Treasury** manages the liquidity and funding requirements of First Metro Investment and the distribution of financial instruments such as government securities and corporate papers. As a quasi bank licensed by the Bangko Sentral ng Pilipinas, it borrows money from the public and issues its own promissory notes (PNs). Moreover, it is an accredited government securities eligible dealer (GSED) authorized by the Bureau of the Treasury to trade government securities.



### Top 5

Fixed Income Dealing  
Participant on the Philippine  
Dealing and Exchange  
Corp. (PDEx) with  
P297.0 billion volume

- **Investment Advisory** develops and enhances the wealth of private clients, interpreting data gathered from first-hand research. It uncovers investment opportunities and seeks a thorough understanding of the market from every possible angle. It also provides meticulous and comprehensive professional portfolio advisory and research service to both individuals and firms.

- **Corporate Lending** provides short and long term loans to institutional clients to support liquidity or capital buildup, expansion, restructuring, and acquisitions or buyouts.

## 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 this 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.

## Values

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



# Message from the Chairman

A global economic recession that created the most difficult business environment since the Great Depression made 2009 a challenging year for many companies around the world in virtually every industry, and First Metro Investment Corp. was no exception.

But thanks to the resilience of the Philippine economy, which was among the few in Asia that posted positive growth in 2009, we were able to respond to the testy environment with success.

## POSITIVE GROWTH

Notwithstanding the economic havoc from super typhoons Ondoy and Pepeng, the Philippine economy still grew by 0.9% in GDP from 3.8% in 2008. The combined cost of damages brought about by the two super typhoons reached P38 billion.<sup>1</sup> The agriculture sector – which accounts for a third of the economy – was the hardest hit estimated at P27.2 billion.

On the other hand, the double-digit growth in retail trade, the financial sector, recreational services, and the mining sector, as well as the recovery of the manufacturing sector, contributed some relief to the economy, particularly in the fourth quarter of 2009.

On the demand side, increased consumer spending and the government's spending for relief and rehabilitation of areas affected by tropical storms, as well as continued release of funds for the automated 2010 elections, made up for diminished investments and continuous declines in export demand from our recession-stricken trading markets.

Amid concerns that the global crisis would hit our overseas Filipino workers (OFWs), remittance inflows from the country's estimated 8.7 million OFWs in 2009 in fact grew by 6.0% from US\$16.4 billion in 2008.<sup>2</sup> OFWs sent home US\$17.3 billion, averaging more than US\$1.0 billion a month thereby keeping domestic consumption at a healthy level.

<sup>1</sup> National Statistical Coordination Board

<sup>2</sup> Bangko Sentral ng Pilipinas

## LOCAL OPPORTUNITIES

The global financial crisis posed great funding constraints for many companies, limiting their ability to tap funds from the global financial markets. But this created significant opportunities for First Metro.

Focusing on its "Global Minds, Local Hands" thrust, the company fashioned a strategy that drew on its financial strength, its distribution capability, and on the wide network of the Metrobank Group, while taking advantage of these fundraising opportunities.

Given the excess liquidity in the domestic market and the relatively low and stable interest rate environment, First Metro offered financial instruments that enabled corporate and retail investors to pursue their growth plans and attain optimum gains. In 2009, it lead-managed P252.0 billion worth of issues, a 106.0% increase over P122.2 billion in 2008. This included the biggest of all bond issues in Philippine history, the P114.4-billion Retail Treasury Bonds (rTBs) of the National Government, for which First Metro earned distinction by distributing more than 20% of these bonds.

Aside from the rTBs, First Metro secured lead roles in almost all major corporate debt transactions. Notable deals were: the P38.8-billion retail bonds of San Miguel Brewery, Inc.; the P5-billion and 7-billion corporate notes of the Philippine Long Distance Telephone Co.; the P3-billion corporate notes of Metrobank Card Corp.; the P5-billion retail bonds and P5-billion corporate notes of Globe Telecom; and the P5-billion corporate notes and P3-billion retail bonds of the Aboitiz Power Corp.

2009 also bore witness to how First Metro demonstrated its ability to break new ground to deliver value to clients and shareholders. In the area of project finance, we were able to put together a P16-billion deal that paved the way for the Philippines' first-ever long-term, purely peso-funded power project after the 1997 East Asian financial crisis. This was the Cebu Energy Development Corp.'s (CEDC) 246-megawatt clean coal-fired power plant that will help ease the power shortage in the Visayas.

Income from Treasury operations grew as revenues of P704.0 million were generated from trading government securities, interest income, as well as distribution fees. The effect of the higher average volume of securities portfolio handled was instrumental in producing a 31.0% increase in our interest income.

The strategy proved successful, as First Metro Investment delivered dramatic financial results for the year. Revenues from investment banking activities soared to P214.0 million, a 40.0% jump year-on-year. The company generated a net income of P1.0 billion, representing a huge gain of 158.0% over the 2008 level. Return on average equity stood at 14.4%.

Total resources stood at P59.6 billion, 29.0% higher than P46.2 billion in 2008. Capital funds reached P8.6 billion, 18.0% higher than the 2008 yearend level of P7.3 billion due to mark-to-market gains, mainly from listed equity securities. Capital adequacy ratio (CAR) remained strong at 24.3%.

As our 2009 results had shown, First Metro is well positioned to leverage on its strength and create exciting opportunities no matter how the markets move and the tides change.

Although the economic climate is likely to remain challenging in 2010, particularly on an election year, we believe opportunities will be greater than ever as the global economy sustains its recovery.

First Metro is in a great position to lead the way. Trusting in the goodness of the Almighty God and the unwavering support of our shareholders, our people and our partners, we will continue to pursue these opportunities within and beyond our shores.



## STRAIGHT TALK





# Q & A with the President

For First Metro Investment President Francisco C. Sebastian, 2009 was a 'resilient year' while 2010 will be 'a year of recovery'. Regardless of economic direction, he says, "First Metro Investment will be steady in its all-weather vision to be leading, respected, and a prime mover investment bank, both locally and in the region."

Excerpts of the interview with the investment banking powerhouse thought leader follow:

## How would you describe 2009?

Despite fears of recession, the Philippine economy proved to be resilient. In fact, it's one of the three countries in the ASEAN that showed positive GDP growth in 2009. For global financial markets, it was like "cheating death". We were at the edge of a cliff, we expected everything to fall, but at the end of the day, markets recovered after hitting rock bottom in the early part of 2009.

Our stock market was one of the best performers in the region. The peso strengthened at the end of the year. Our local debt market was in fact vibrant. We did not have a credit crunch in the Philippines. Instead, we had so much liquidity. A lot of funds were available and because of this, we were able to sell a lot of fixed income instruments and there was a lot of capital raising for local corporations. It helped also that companies had no access to US dollars because of the US-instigated crisis. So there was a lot of peso financing. Our interest rates were also very low, which was very positive for the local economy.

## How come financial markets recovered so strongly and quickly? And what are the prospects of a real economic recovery?

Markets were expecting a financial Armageddon, which did not happen. The sentiment was brought so low that after a realization that it was not as bad as expected, financial markets bounced back pretty strongly. However, we still cannot pop the champagne bottle. Sure, we escaped death but major Western economies, the US and EEC particularly are still in the ICU.

As to the direction of the recovery, even that is subject to debate so 2010 will remain very testy.

People are looking at various scenarios. The recovery could be a U-shaped cycle or perhaps a V-shaped quick recovery or perhaps a "W" or double dip, or it could be a "L-shaped" cycle, a shade of the lost Japanese decade which is the worst case that could happen.

Against these concerns, Asia is showing continued economic expansion led by China and fueled by strong domestic consumer economies there. One thing for sure therefore, when everything is said and done and when the whole world fully recovers from the 2008 crisis, we will see Asia as the emerging growth region in the world. That is very positive. We can say this because of what's happening in China, India, and the three very strong economies in Asia – Vietnam, with a population of 85 million; Indonesia, with 220 million; and the Philippines, with 90 million.

## And what of the local banking and financial system?

The lessons of 1997 have all been learned. From 1997 to 2007, banks in the Philippines have been conservative. In fact, I may even fault them for being too conservative and being risk-averse. But as things turned out, that has become a benefit and an advantage.

When the problems in the US happened in 2008, Philippine banks were relatively stable and were holding on to very little toxic assets. So they ended 2009 on a high note, with very solid balance sheets and strong capitalization, very low NPLs and becoming even more profitable.

## How was First Metro Investment able to take advantage of these market opportunities?

2009 became the best domestic debt markets we have had in years. Good domestic liquidity combined with low peso interest rates – that was the mix we had in 2009. The crisis became an opportunity to push our drive to issue more bonds. In fact, we had more bonds issued last year than ever before. These were the bonds sold in retail. From the Retail Treasury Bonds to San Miguel, Ayala – a lot of names have been sold last year, which was good for capital markets.

## First Metro was also able to prove its mettle in the project finance business. What opportunities did you see in this area?

If you look at the Philippines, historically, infrastructure projects are funded mostly in US dollars. There was no long-term money available locally. Long-term domestic interest rates were also too high. Firms with infrastructure projects necessarily had to raise money offshore and borrow in currencies other than pesos. Because of this, when you have devaluations from time to time, the local infrastructure projects get into trouble. Suddenly your debt in peso terms balloons and your debt burden increases. So it's a very good advantage for project finance to be able to borrow in pesos which basically matches their currency flows in revenues and expenses.

This was one of the highlights in First Metro last year. We raised quite a bit of money for project finance locally, mostly for the power sector where we raised over US\$1.5 billion in equivalent Philippine pesos in the last 18 months – one of which was for Cebu Energy, another was for the Aboitiz Group. A lot of good work had been done by our people to convince domestic lenders to participate in these long-term projects. This is one strength we will pursue moving forward.

## How was First Metro able to show it is truly the country's prime mover?

Let's look first at how we did in 2009. Of all the private fixed income debt deals in the market, we handled 50% of them. Of all peso government issuances, we accounted for 90%. This shows First Metro's strength in capital raising. In Retail Treasury Bonds, we distributed around 22% of the total issue. In the San Miguel Brewery bonds, we distributed 18%.



These papers were mostly bought by retail investors, which also show the breadth and depth of our distribution capability. For this we must credit the Metrobank franchise, which remains to be very dominant in the local market with a wide branch network and a good client base. So we're able to distribute these papers through the Metrobank branches in addition to our own First Metro outlets where we sell mainly to institutional investors.

To further broaden the local capital markets, we'd like to push our mutual funds, especially as there are a lot of funds looking for investment instruments now.

There are new legislations close to our heart in relation to this: the PERA (Personal Equity and Retirement Account) Law and the REIT (Real Estate Investment Trust) Law.

The PERA Law creates the investment pool where you can invest long-term and give a boost to the development of a long-term capital market. The REIT Law enables you to create instruments that are profitable in order to sell to these investment pools. First Metro is one of the strongest advocates of these investment laws. We believe these are landmark regulations, an opportunity for us as an institution, to create products and services to further develop the capital markets.

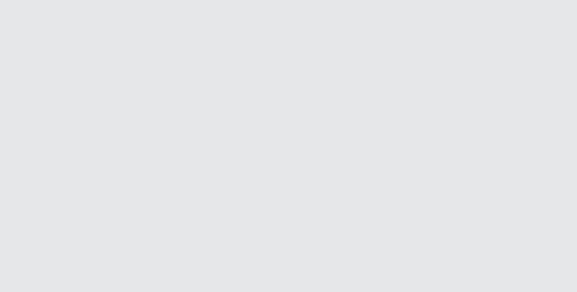
## How do you measure the success of First Metro?

We measure ourselves with our yardstick, which is our vision. We want to be – in four words – leading, respected, a prime mover.

In terms of being a leader, this can be shown in our financial results. Our net income went up from P400.0 million to P1.0 billion. Our return on average equity is at 14.4%.

In terms of industry, our Investment Banking Group garnered 50% of the fixed income market and about 90% of the peso government issuances. Our Treasury Group is able to distribute more than 20% of the rTBs, and 18% of the San Miguel Brewery bonds.

Our Investment Advisory Group has been advising our mutual funds. Our Save and Learn Equity Mutual Fund is the best performing mutual fund in the last three years. So in the leading part, we can say we've held our own.



The second part is being respected. This can be seen in how people recognize us. While we've garnered all kinds of awards through the years, these were all on the deals we booked. What we cherish most was the award we got from a company called Stern Stewart & Co., a well-known US-based consulting company. This, to me, is like graduation day. Stern Stewart studied 100 companies in the ASEAN, and looked at how well they performed in terms of the Relative Wealth Added Index. They looked at shareholder value, which is our key result area.

Out of 100 ASEAN companies, there were 11 Philippine companies and we came out No. 11. Normally we're classified as an investment bank or a financial institution, but this one compares us – not just the best in the Philippines – but the best in Asia.

We've also focused our resources on upgrading the technical competence and practices in our organization as well as hiring key people with global exposure.

We must also take full advantage of our new investment laws. Combined with a good distribution system, the REIT Law would enable us to create new products so we can have a broader reach. The PERA Law will help us identify the investment funds that can be mobilized to achieve our long-term vision.

We have to be strong in supporting Metrobank, which gives us the competitive advantage. This is after all our 'LOCAL HANDS' – our parent bank. This is a powerful franchise that not even money can build over time.

## **We must credit the Metrobank franchise, which gives us an edge in our distribution capability.**

We take pride in this because we now stand alongside companies like PLDT, Jollibee, SM, Ayala Land – a different league! We're with the best of ASEAN. When we got this award, it was after we changed our vision to become a respected name in the region. So it made us realize, maybe [to be a respected name in the region] is not such a hair-raising vision after all.

### **How do you plan to make First Metro a respected name in Asia?**

We have to be steadfast in our vision. This is an all-weather direction. Good times or bad, we must look at our vision as a guiding light. The more we pursue our vision, the stronger we will be.

However, we should translate that into very concrete strategies. One of which is the global mindset – a strategy where we can be very strong in terms of identifying how the markets will move in the future.

Last 2008, we established our Greater China Desk, cognizant of the vast business potential from closer China-Philippine relations, it aims to initiate and develop corporate finance related business opportunities in the People's Republic of China, Taiwan, and Hong Kong not just for First Metro, the Metrobank Group but for local companies, as well.

Last year, people began to appreciate Philippine banks as a safe bet. That is a strength we must constantly take advantage of. So when we go out to meet our clients, our mindset is not just on what First Metro Investment can offer our clients but how we can further the Metrobank Group's relationship with them.

Lastly, if we think Asia will be an emerging growth region then we must also strengthen our Asian roots, our Asian ties.

In 2010, as Metrobank strengthens its foothold in the China market with the approval of a new banking license for Metrobank China and the inauguration of its Nanjing headquarters, we want to work closely with our parent bank through our Greater China Desk in expanding the Metrobank Group by promoting two-way trade and investment between the two countries.

We envision this to be our springboard in establishing a regional presence. We want to be one of the first investment banks to weave our business into Asia and tell our Asian counterparts: "Maybe we can do things together, using our Philippine strength and pursuing common interests in trade, investment and even people." This means creating relationships with Asian players, rather than just being US- and Japan-centric as we were in the past.



# **POWER DEAL** **breaks new ground**

## **Cebu Energy's P23-B project**

A five-star hotel enticed its guests to gaze at the stars. A mall lined up fire dancers and singers to entertain the crowd while enveloped in pitch darkness. All seemed like fun until you realized you're in Cebu where rotational brownouts are rapidly emerging as part of a lifestyle.

The island province has been rivaling Manila as the country's most important economic center, but only started feeling the pangs of rapid development of late.

Based on estimates, Cebu faces a shortage of 155 MW, nearly half the total Cebu-Negros-Panay Grid shortage of 361 MW by 2010. This is based on a growth rate ranging from 4% to 5%, which is considered conservative against the region's roughly 6% annual GDP growth.

This is why Cebuanos and Visayans collectively heaved a sigh of relief on March 5, 2010 when Cebu Energy Development Corp. (CEDC) switched on the first of three

units of a 246-megawatt coal-fired power plant that will help abate the power crisis in the region.

### **FORESIGHT**

It might have taken just the flick of a switch to ease the precarious power situation in Cebu and parts of Visayas. But it took a lot of foresight, creativity, resources, financial engineering, local expertise, and patience before the CEDC project became reality.

Arsenio Kenneth M. Ona, Vice President and Investment Banking Division I Head of First Metro Investment, says the project was conceptualized as far back as 2005.





At the time, no new major power project had come on-stream since the 1997 Asian crisis.

“As early as 2004, Global Business Power Corporation already anticipated there will be power shortages in the region and true enough, it’s happening now,” says Mr. Ona, who led the deal team.

In response to the government’s call for private sector aid in expanding power generation capacity in the region, Global Business Power Corporation, Aboitiz Power Corporation, Vivant Corporation, and Formosa Heavy Industries, formed a joint venture company called Cebu Energy Development Corporation (CEDC). Its president, Jose Alcorido, is not only a Cebuano and thus has local familiarity, but was also president of National Power Corp. and was with the Energy Regulatory Commission.

Instead of acquiring one of the government’s power assets, which does not add generation capacity, the group decided to build a power plant from scratch – a so-called “greenfield” project, says Mr. Ona.

#### **LOCAL HANDS**

Despite its obvious viability and the positive interest it generated among investors and lenders, it took all of 16 months for the CEDC project to reach financial closing in 2009.

One of the biggest challenges faced by First Metro Investment, as lead manager, was the size of the P16-billion loan. “Before, the large power projects were funded by foreign financial institutions primarily in US dollars. For this project, however, the sponsors wanted to source the funding domestically and in Philippine pesos,” says Mr. Ona.

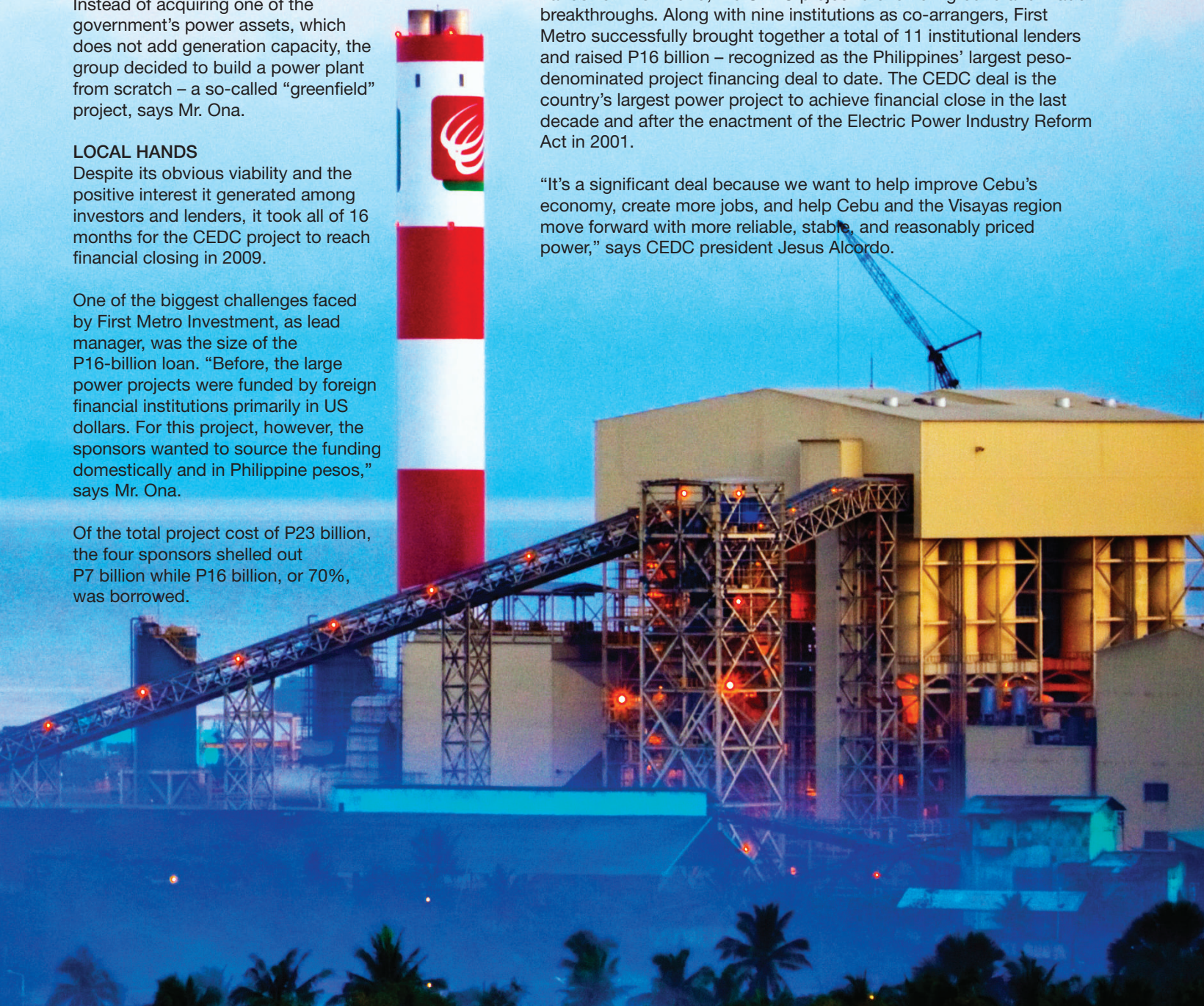
Of the total project cost of P23 billion, the four sponsors shelled out P7 billion while P16 billion, or 70%, was borrowed.



Where to source billions of “patient money” that will earn a fixed rate for 12 years at a time of uncertainty over a rapidly rising financial tsunami – this was the P16-billion question that the First Metro deal team had to address.

Backed by the solid track record of its sponsors and the “local hands” of First Metro, the CEDC project broke new ground and made breakthroughs. Along with nine institutions as co-arrangers, First Metro successfully brought together a total of 11 institutional lenders and raised P16 billion – recognized as the Philippines’ largest peso-denominated project financing deal to date. The CEDC deal is the country’s largest power project to achieve financial close in the last decade and after the enactment of the Electric Power Industry Reform Act in 2001.

“It’s a significant deal because we want to help improve Cebu’s economy, create more jobs, and help Cebu and the Visayas region move forward with more reliable, stable, and reasonably priced power,” says CEDC president Jesus Alcorido.





An aerial night photograph of a city, likely New York City, showing a multi-lane highway with long-exposure light trails from cars. The surrounding area is filled with illuminated skyscrapers and buildings, creating a vibrant urban scene.

**Deals of the Year**

# **RETAIL TREASURY BONDS**

**11 years and still going strong**



## 2009 is often described as the year the financial tsunami swept markets worldwide. Amid the credit crunch in major economies, the Philippine government raised a whopping P114.4 billion from the domestic market.

What's pretty hard to imagine was that investor appetite was still up despite the fact that it was already the 11<sup>th</sup> year the Bureau of the Treasury (BTr) issued Retail Treasury Bonds (rTBs), sold in three-, five-, and seven-year tenors.

The amount erased the record P77.6 billion from the sale of three- and five-year retail Treasury Bonds in 2007 and the P70 billion sold in 2008. Retail or small investors accounted for more than half of the buyers who swamped selling agents with orders for the rTBs, which had a minimum price tag of P5,000.

The staggering amount issued may be unimaginable, but more so the story of how it was packaged, pitched, and peddled.

### MUCH-AWAITED

First Metro Investment emerged as the top selling agent as it accounted for P25.6 billion or 22.2% of the bonds sold. The local investment bank has always landed on the BTr's top ten best sellers list but rTB 11 – the mother of all rTB deals – cemented First Metro's leadership as a bond house.

Months before the rTB auction, the investing public had already started parking their money in time deposits and promissory notes, waiting for the BTr announcement of the bond offer.

"This was already the 11<sup>th</sup> issuance so the investing public was very much aware of the rTBs. This is something they looked forward to because it was accessible to everybody with a minimum of P5,000," says First Metro's Reynaldo B. Montalbo, Jr., First Vice President for Treasury Group.

He adds that the issue was also well-priced as the BTr was able to set the price competitively within market expectation.

It also took a long time for the rTBs to be released "so the long anticipation among eager investors boosted the demand," says Lalaine Chung-De Guzman, Assistant Vice President for Treasury Group.

The BTr also made pronouncements that it was reluctant to issue more than the previous year's P70 billion so the perception of limited



*(L-R) Reynaldo B. Montalbo, Jr., FVP for Treasury Group; Lalaine Chung-De Guzman, AVP for Treasury Group; and Melissa T. Dimayuga, Senior Manager for Investment Banking Group*

supply all the more heightened investor interest. At one point, selling agents sold as much as P3 billion of the bonds in a single day.

### BEST SELLER

Apart from demand, Melissa T. Dimayuga, Senior Manager for Investment Banking Group, says another hurdle selling agents faced was the introduction of the seven-year tenor in the offering menu. "This made banks unsure about its acceptability. But we were all pleasantly surprised that it actually did fairly well," she adds.

Behind the bond's overwhelming success was a powerhouse cast. For First Metro, these were the Investment Banking Group that priced and packaged the offering well, and the Treasury Group that sold and distributed the bonds to both retail and institutional investors. It also leveraged on the wide branch network of its parent firm, Metrobank, in addition to its own distribution outlets.

"FMIC has been instrumental in widening retail investor participation in government bonds," says Executive Vice President and Treasury Group Head Roberto Juanchito T. Dispo, who was formerly Deputy Treasurer of the Philippines.

While the landmark deal served as a showroom for First Metro to demonstrate its distribution capability, the bigger winners were the capital markets and the investing public.

"First Metro was instrumental in conceptualizing and creating the rTB program. It was launched in 2001, as the progeny to the Progress Bonds for retail investors, which First Metro issue managed in 2000 for BTr and DoF. As a matter of fact, it was First Metro who coined the rTB acronym which is the reverse for BTr," added Mr. Dispo.

Issuing rTBs allows the government to manage the excess liquidity from the system, plug its budget gap and pay maturing obligations. Doing so also leads to the development of the Philippine capital markets, which remains in its nascent stage. Since 2001, the rTB Program has successfully raised P550 billion for the Republic of the Philippines.

The rTB issue thus teaches the public to graduate into longer-term investments and become more sophisticated in knowing the risk profile of the issue and the issuer.



*EVP and Treasury Group Head Roberto Juanchito T. Dispo*

Deals of the Year

# A TOAST TO SUCCESS

Behind the San Miguel Brewery deal





A brand that has been a household name for more than a century. A triple A-rated borrower. A highly attractive yield. A domestic market flushed with liquidity. And a horde of arrangers and underwriters such as First Metro Investment Corporation that has deep distribution

Combine all these ingredients and you get the recipe for a perfect brew: San Miguel Brewery Inc.'s P38.8-billion bond issue in March 2009.

If the Philippine debt markets proved their worth in 2009, many analysts say this was the deal that did most to create that impression. After all, it was the largest peso-denominated corporate bond issue in Philippine history to date.

#### HOUSEHOLD BRAND

The deal had all the makings of a landmark transaction right from the start, says Francisco Javier P. Bonoan, Vice President and Division III Head of Investment Banking at First Metro Investment.

Diversifying into non-traditional businesses such as power generation, telecoms and infrastructure, San Miguel Corp. (SMC) spun off its beer business, which became San Miguel Brewery Inc. (SMB) in October 2007. "SMC had still owned all of the real estate assets and trademarks of the brewery company – the land and the brands. The objective of the bond issue was really to finance San Miguel Brewery's acquisition of the land and brands from SMC as it still had been paying rental and royalties to SMC," explains Mr. Bonoan.

Despite the global popularity of the brand, the SMB bond issue came at a time when the global financial markets were heading for a tailspin. "When it started in January 2009, the outlook was not that great. We all expected 2009 to be a very difficult year so raising P20 billion – which was what SMC intended initially – would have been really a challenge under these circumstances," the investment banker says.

But First Metro Investment read the market well: even as funds overseas were fast drying up, the domestic market was still flushed with liquidity. "In the end, the global crisis even became an opportunity for the SMB issue. A lot of liquidity was coming back to the Philippines simply because we had not been hit as much by the crisis," Mr. Bonoan says.

#### GULPED DOWN

It also helped that SMB announced the offering early and boldly proclaimed this would be the mother of all bond deals.

"A lot of corporates wanted to tap the debt market at the time. It was perfect opportunity for SMB as it announced its intentions early and signaled the size and price it was willing to pay," Mr. Bonoan says. "So here was a triple A-rated issuer launching a bond issue at an attractive yield. Naturally, everyone wanted to get a piece of that issue."



*Francisco Javier P. Bonoan, VP and Division III Head of the Investment Banking Group*

Competing issuers were forced to clear the way for the SMB bond issue "to see how SMB would do," Mr. Bonoan adds.

The SMB issue thus became a catch basin for investible local funds. The total issue increased to P38.8 billion from P20 billion, priced at 250 basis points over comparable government securities for all three tenors. This amount was a fourfold increase from the previous record for the biggest Philippine peso corporate bond issue.

#### RETAIL DEPTH

Mr. Bonoan says what else made the SMB bond deal unique was the way it was sold. The fund-raising exercise was done through a Dutch auction that is usually employed in selling government securities. "This was the first time it was done for a corporate issue in the private sector," he adds.

The SMB bonds required a lot of selling agents, including government securities eligible dealers. For First Metro Investment, this served as another opportunity to show its proven track record in retail distribution. To get the bond to the buyers at an affordable P50,000 per lot size, he says First Metro Investment "employed a very wide distribution strategy – from institutional and high net worth clients to retail investors." In addition to its own network of corporate and institutional clients, First Metro Investment leveraged on the trust banking and retail branch networks of its parent firm, the Metrobank Group, for the deal.

The result: First Metro ended up selling P6.3 billion, which was more than its committed underwriting amount of P4.8 billion. This was the second-highest underwriting commitment among the 12 joint lead underwriters.

The success of the bond issue made international market analysts sit up and take notice of the Philippine debt markets. IFR Asia, a prestigious regional publication, says SMB "achieved an unimaginable feat" in a deal that "opened the floodgates to large issues that followed in its wake." The deal in fact became IFR Asia's "Domestic Bond" and "Philippines Capital Markets Deal of the Year."

To say that SMB added sparkle to a market that has always been regarded in the little league may even be an understatement. "The successful deal showed the depth of domestic liquidity and the enthusiasm of retail investors for a household brand like San Miguel. This deal set the bar high," says Mr. Bonoan.



## Awards & Recognitions



2009 was a milestone year as for the first time, First Metro Investment ranked among the 100 best-performing companies in Southeast Asia, along with 10 other major Philippine firms.



## 2009: A stellar year for First Metro

Even in a year fraught with challenges both in the global and local economies, First Metro Investment consistently hauled in awards from various international organizations. 2009 was particularly a milestone year as the investment banking arm of the Metrobank Group ranked among the **Top 11 Filipino companies in the Asean 100 Relative Wealth Added List** conferred by New-York based management consulting firm Stern Stewart & Co. The index lists the 100 best-performing companies in Southeast Asia in terms of creating wealth for shareholders.

Other awards First Metro reaped in 2009 are the following:

- Best Bond House in the Philippines from Finance Asia of Hong Kong;
- The Asset Triple A Country Awards' Best Domestic Bond House in the Philippines;
- Joint Lead Manager and Underwriter to International Financing Review (IFR) Asia's Domestic Bond Deal of the Year and Philippines Capital Markets Deal of the Year for San Miguel Brewery's P38.8-billion 3-tranche Bond;
- Joint Underwriter for the Asset Triple A Country Awards' Best Deal in the Philippines for San Miguel Brewery's P38.8-billion bond issue;
- Top 5 Fixed Income Dealing Participant in 2009 for having the most trading volume for the year (First Metro was the only investment bank to be included in the ranking) by PDEX;
- First Metro Securities Brokerage Corp. was cited by PDEX as among the Top 5 Depository Brokering Participants;
- First Metro Asset Management Inc. bagged the first place in the ICAP Award's Three-year Return Equity Fund Category; and
- One of the Top 20 Finalists in the Management Association of the Philippines' Best Annual Report Awards.

# Investing in a brighter future



Photos counterclockwise:

**Bigay Liwanag.** First Metro officials led by its President, Francisco C. Sebastian, with student beneficiaries of the Bigay Liwanag program at Jose Rizal Elementary School. Manila Mayor Alfredo Lim (in yellow) also graced the turnover ceremonies.

**Math wizards.** Math Wizard Challenge champions from Quezon City Science High School joined by First Metro Investment executive vice president Roberto Juanchito T. Dispo (3<sup>rd</sup> from left); Mathematics Teachers Association of the Philippines president Sr. Iluminada Coronel, F.M.M.; ASEAN Foundation executive director Dr. Filemon Uriarte Jr.; Metrobank Foundation president Aniceto M. Sobrepeña; Metrobank Foundation vice-chairman Dr. Placido Mapa, Jr.; and other winners from participating schools.

**Winners all.** Grade 6 Team Competition winners from Grace Christian College, St. Stephen's High School and Morning Star Montessori School, Inc.



First Metro Investment believes it is not enough to run a successful business nor bag the biggest deals. It also recognizes its corporate social responsibility (CSR) by giving back to society, particularly to the immediate communities where it operates.

First Metro embraces the responsibility for the impact of their activities on the environment, clients, employees, communities, stakeholders and all other members of the public sphere. It proactively promotes the public interest by encouraging community growth and development.

For 2009, First Metro Investment chose to continue the BIGAY LIWANAG project, a campaign that provides eyeglasses to indigent elementary school children with vision impairment so that they may be able to study better in school and have equal footing with other children in getting good jobs in the future.

In August, First Metro, together with Vista Prima Optical Clinic, went to Jose Rizal Elementary School in Tayuman, Tondo to conduct a vision test to its students. A total of 87 students received free eyeglasses.

"We greatly appreciate this project of First Metro Investment. We thank them that our students will become better pupils now that they can read their lessons more clearly," said Dra. Estrella Liwanag, school principal.

First Metro also mounted the annual nationwide Math Wizard Challenge for elementary and secondary students in both public and private schools in the country. It funded the rollout of the competition, in the amount of P10 million. The Math Wizard Challenge was organized by Metrobank Foundation, Inc., the CSR arm of the Metrobank Group, the Mathematics Teachers Association of the Philippines (MTAP), and the Department of Education.

It aims to sharpen mathematical skills and contribute to the improvement of mathematics education in the country. Thirteen new young math wizards emerged out of the National Finals for 2009, held at the Metrobank Plaza Auditorium in Makati City.

To make CSR projects a sustained endeavor, First Metro's senior management formed a CSR Committee in 2009 that will recommend programs the company will commit to in support of its vision, mission, and values, and which will encourage employee volunteerism.

First Metro Investment also provided group orientations and talks on business, finance and investments last October. These included holding the Strategic Marketing Talk for the graduating students of Santa Isabel College and an orientation on investment banking for the graduating students of Ateneo de Davao University.



# Challenges in a year of calm

2009 proved to be another challenging year for First Metro Investment's Risk Management Group (RMG). With less market volatility and the low interest rates that prevailed, we had to shift our focus from heavy trading to managing our spreads and funding costs. Our business units worked pro-actively with Risk Management in re-calibrating risk limits to keep risk management attuned to the changes in strategies and adjusted business plans.

RMG strengthened its scenario analysis and stress testing parameters as aligned with the parent bank to complement regular risk tools. Operational risk framework and guidelines were enhanced and institutionalized with Board approval. RMG regularly reviewed risk postures and provided appropriate recommendations to senior management, the Risk Management Committee, and the Board of Directors.

RMG also initiated the Value at Risk training and the VAR validation by Sycip Gorres & Velayo/Ernst & Young and the PricewaterhouseCoopers consultancy on Operational Risk framework, guidelines and assessment, in which our subsidiaries also participated.

First Metro Investment also pursued its enterprise-wide risk management system (ERM), which began in 2007. Pro-active, vigilant and integrative, the system focuses on risk management for the company's various business units: Investment Banking, Treasury, Investment Advisory, and Corporate Lending.

Three areas are emphasized in the ERM: 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.

### RESPONSIBILITY

The responsibility of risk management rests on every individual. It begins with the Board of Directors, which creates the charter, and cascades to the Risk Management Committee (RMC), RMG, and the various units. The first line of defense is the operating business unit, the second line is Risk, and the third line is Audit.

The RMC charter defines the duties and responsibilities of its members and reporting functions to the Board, including the conduct of regular meetings to assess the adequacy of the risk management programs.

The RMC, composed of three members of the Board, approves the overall risk management system, and recommends corporate policies and guidelines on risk measurement, management and reporting. It also monitors risk limits and the performance of the risk management team and control units, and the effectiveness of the risk management system during its monthly meetings.

The Risk Management Group and the Control Units are a pro-active team composed of the Controller, the Internal Auditor, the Compliance Officer and the Chief Risk Officer. They execute the risk management system, monitor compliance, oversee proper operational support for

risk management, and actively assist in planning, designing and testing risk management systems.

One of First Metro Investment's risk management goals is to institutionalize a culture of risk awareness within the organization, including its affiliates and subsidiaries. As such, the company constantly updates its Risk Management Manual as ready reference for the identification and recognition of risks, their quantitative measurement, reporting and monitoring. The current risk issues that affect First Metro Investment are: liquidity, market, credit, operational, compliance, and legal management.

### LIQUIDITY RISK

Liquidity risk is the risk that First Metro Investment will be 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 Investment 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;
- to have funds available for purposes of new business which meet credit and pricing standards;
- to cover differences in the maturity pattern of assets and liabilities;
- to cover shortfalls in projected cash flows; and
- to cover unplanned expenditures.

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

First Metro Investment has a monitoring system to support liquidity risk management policies. This includes the Maximum Cumulative Outflow (MCO) analysis, identification of large funds providers, and development of core investors. To further strengthen First Metro Investment's monitoring, it added two stressful scenarios in its analysis to comply with the Bangko Sentral ng Pilipinas' (BSP) requirements. The tests show the liquidity requirement in case the event will eventually materialize.

### 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. First Metro Investment's market risk originates from its holdings of debt securities and equities.

First Metro Investment 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 Group serves under the Risk Management Committee 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, take profit 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. This is expected to



be further enhanced with the full operation of a new treasury system which has a Risk Analytics engine (including VaR methodology). Guiding daily monitoring activities are limits structures that are based on annual targets set during budget hearings, approved by the RMC and the Board. Monitoring reports are discussed in the RMC monthly meetings.

### CREDIT RISK

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

Credit risk arises mainly from lending activities, committed underwritings, investments in equities and strategic finance. To assess the creditworthiness of counterparties, First Metro Investment 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 tied up to provisioning at the Bangko Sentral ng Pilipinas-classified levels. First Metro Investment obtains security or other credit enhancements and limits the duration of its exposures where warranted. The proposals are presented to the credit committee/s for approval.

The company regularly undertakes and reports credit monitoring of risk areas to the RMC. These include: ceiling to DOSRI loans, single borrower limits/group exposure, level of availed facility versus committed credits, portfolio profiles on security, risk rating, industry, non-performing loans and any other concentrations.

### OPERATIONAL RISK

First Metro Investment has an operational risk framework aligned with its parent bank. It thrives on the identification of key risk indicators and their regular monitoring and assessment. The Internal Audit conducts a regular examination of the operations of the company and its subsidiaries. First Metro Investment has also put in place a business continuity plan to successfully address possible contingencies. The establishment of the Credence Analytics backbone for Treasury in 2009 will improve First Metro Investment's automation and minimize manual intervention in transactions.

### COMPLIANCE RISK

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

First Metro Investment has an established compliance function and written compliance policy manual that defines the compliance system, its status, authorities and independence. A compliance management unit headed by a Compliance Officer ensures the performance of this compliance system. The Compliance Officer leads in identifying, assessing, testing and reporting compliance issues to ensure that the company complies with the laws, rules, regulations and standards.

### LEGAL RISK

First Metro Investment could face potential legal and regulatory risks arising from the 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 Legal unit of First Metro Investment advises the business units on:

- (1) legal constitution of enforceable commitments during the negotiations process;



- (2) appropriate governing law and jurisdiction for agreements;
- (3) development and documentation of terms for transactions involving collateral, guarantees, syndication, multi-office transactions, and any third party support; and
- (4) documentation of waivers and amendments to the original documents.

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

## Overall Risk Functional and Responsibility Structure

### Board of Directors

Approves the risk management strategies and the engagement of new products or activities; and establishes the broad risk tolerance level as guided by the Risk Management Committee Charter.

### Risk Management Committee Charter

Defines the duties and responsibilities of its members and reporting functions to the Board of Directors, including the committee's member composition and regularity of meetings.

The charter provides that the Committee is composed of three (3) members of the Board of Directors who possess a range of expertise, as well as adequate knowledge of the institution's risk exposures to develop strategies for preventing losses and minimizing the impact of losses when they occur.

### Risk Management Committee

- Recommends for Board approval on 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 and Control Units

- Perform the daily mark-to-market valuation and Value-at-Risk calculations for all of First Metro Investment's risk positions using independent data sources;
- Ensure compliance with internal limits and report limit excesses to appropriate Business Unit Heads and RMC;
- Ensure that proper accounting, operations 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

# Guideposts for governance

First Metro Investment continues to put the highest priority in its adherence to the hallowed principles of fairness in all its dealings to its stakeholders, accountability for its actions, and transparency.

Good governance is the ultimate driving force that propelled the business growth, profitability and long-term sustainability of First Metro Investment. This enables the company to maintain its leadership in the investment banking industry. First Metro Investment is committed to further building the strong foundation of its organization to enhance and protect its business franchise.

First Metro has pursued a strategy to provide consistent growth in shareholder value and continuous improvements in governance, risk management and compliance. This is embodied in a framework of rules, systems and processes that governs the performance by the Board of Directors and management of their respective duties and responsibilities to the stockholders and other stakeholders of the corporation.

First Metro believes in respecting its relationship with its various stakeholders in the company: its stockholders, board and management, employees, corporate partners, customers, third-party service providers and suppliers, regulators and the community. By doing so, it ensures that it has the right ethical culture from top to bottom, acting with fairness or without conflict of interest, being transparent in its dealings and fully disclosing material information, and holding itself accountable and responsible for all its actions.

### RECOGNITION AND MILESTONES IN 2009

During the year, the company's corporate governance efforts were recognized by the Management Association of the Philippines (MAP) in the top 20 Best Annual Reports Award for 2009. First Metro emerged as the only investment bank and one of two financial institutions which made the list.

In 2009, its Board of Directors approved a new table of organization to be aligned with its parent company and create working committees to assist the Board in its discharge of its duties and responsibilities.



*(Standing, L-R) Directors Romualdo A. Ong and Ismael G. Cruz, and Executive Director Carmelo Maria L. Bautista  
(Seated, L-R) Directors Martin Q. Dy Buncio, Roberto Juanchito T. Dispo, and Bienvenido E. Laguesma*

First Metro also initiated the continuing education of its Board and senior officers. In 2009, the Board of Directors and senior officers attended seminars, briefings and roundtable discussions on various subjects to make them effective in the discharge of their duties and responsibilities. These included the Risk-Based Audit Briefing conducted by KPMG and quarterly economic briefings.

First Metro also published a Corporate Governance Manual based on existing laws and international best practices. It regularly reviews and updates this Manual to reflect new issuances and trends in good corporate governance. First Metro has conformed to this Manual and religiously complied with the governing rules and regulations of the Securities and Exchange Commission and the disclosure requirements of the Philippine Stock Exchange. It likewise submitted its Compliance Officer's Certification of Compliance with the Manual of Corporate Governance on January 14, 2010, demonstrating First Metro's full compliance with the principles and standards of good corporate governance.

### BOARD OF DIRECTORS

The Board of Directors oversees the strategic goals and road map of First Metro to achieve its vision and mission. The Board is entrusted with setting the direction and overseeing the implementation of the overall strategic policy of the company, in addition to the exercise of its corporate powers.

The Board is committed to upholding the highest principles of good corporate governance. As an elected body, it is accountable to its shareholders for maximizing shareholder value.

As stewards of people's wealth, it is also primarily accountable to the investing public for safeguarding its investments and maintaining public trust.

#### BOARD COMPOSITION

The Board is composed of 11 directors, two of whom are independent, elected by the stockholders entitled to vote during the Annual Stockholders' Meeting. They are screened and nominated based on their qualifications, extensive experience, and expertise necessary to steer First Metro Investment. In 2009, only ten directors were nominated and elected.

Having fully met the fit and proper test, the Board believes that the quality of its directors, each of whom offers relevant experiences 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. Independent Directors safeguard 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.

The Board has two Independent Directors: Solomon S. Cua and (Ret.) Ambassador Romualdo Ong, who sit as Chairman and member, respectively, in the Audit Committee and as members of the Corporate Governance Committee. They do not participate in the day-to-day management and do not engage in any business dealing or other relationships 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 year ended, December 31, 2009, the Board met 11 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 2009 in line with guidelines set by the SEC and the Bangko Sentral ng Pilipinas.

#### BOARD COMMITTEES

Five Board-level committees were established to aid the Board in the practice of corporate governance and in the performance of its corporate functions 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 by the Board. All matters passed and acted upon are submitted to the Board for confirmation. It convenes at least once a month.

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 periodic evaluation of the Board and its committees.

For this purpose, First Metro's Good Governance Scorecard was further amended to align with the Governance Self-Rating System adopted by the SEC.

### Board Committee Attendance for 2009

| DIRECTORS                  | Board Meeting | Audit Committee | Corporate Governance Committee | Risk Management Committee | Executive Committee |
|----------------------------|---------------|-----------------|--------------------------------|---------------------------|---------------------|
| Antonio S. Abacan, Jr.     | 11 / 0        |                 | 4 / 0                          |                           | 12 / 0              |
| Solomon S. Cua             | 11 / 0        | 5 / 0           | 4 / 0                          |                           | 9 / 3               |
| Francisco C. Sebastian     | 11 / 0        |                 |                                |                           | 12 / 0              |
| Roberto Juanchito T. Dispo | 11 / 0        |                 | 4 / 0                          |                           | 12 / 0              |
| Carmelo Maria L. Bautista  | 10 / 1        | 5 / 0           |                                | 12 / 0                    |                     |
| Romualdo A. Ong            | 11 / 0        | 5 / 0           | 4 / 0                          |                           |                     |
| Bienvenido E. Laguesma     | 11 / 0        |                 |                                | 12 / 0                    |                     |
| Martin Q. Dy Buncio        | 11 / 0        |                 |                                | 12 / 0                    |                     |
| Mary V. Ty                 | 11 / 0        |                 |                                |                           |                     |
| Ismael G. Cruz             | 11 / 0        |                 |                                |                           |                     |

Legend: **Present / Absent**



# Corporate Governance



The thrust of our compliance function is to build the right culture and promote the ethical conduct of doing business.

The Committee decides whether or not a director has been adequately carrying out his/her 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. The Committee is composed of four directors, two of whom are independent, and convenes every quarter.

The **Audit Committee** is tasked to provide oversight over the senior management's activities in managing the risks of the corporation and checking the effectiveness and reliability of the financial reporting process and its systems of internal controls. It also coordinates and monitors the corporation's compliance with existing laws, rules and regulations. It is responsible for setting up the Internal Audit function and the appointment of an external auditor. It reviews the reports of Internal and External Auditors and ensures that management is taking appropriate actions in a timely manner in addressing issues. It is chaired by an independent director and two non-executive directors as members and meets every quarter.

The Board is also responsible for the formulation and maintenance of written policies and procedures relating to management of risks throughout the company. A **Risk Management Committee** was created to assist the Board.

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 RMC convenes on a monthly basis.

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".

## COMPENSATION OF DIRECTORS

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

- Per diem ranging from P35,000.00 to P75,000.00 and transportation allowance of P15,000.00 are granted to Directors on Annual Stockholders' and regular Board meetings. Bonuses ranging from P80,000.00 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 Investment'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 Investment'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 Investment are prepared and are compliant to the requirements of the Philippine Financial Reporting Standards/ Philippine Accounting Standards promulgated by the Philippine Accounting Standards Board, in line with International Accounting Standards.

The Board has overall responsibility for First Metro Investment'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.

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. has not been contracted and does not perform any non-audit work for First Metro Investment.

#### COMPLIANCE SYSTEM

It is the oversight responsibility of the Board of Directors 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 – and their responsibilities in complying with applicable laws, rules and regulations. The same is embodied in a Manual duly approved by the Board.

The Chief Compliance Officer is mandated to oversee the implementation of the compliance system. Among the duties and responsibilities of the Compliance Officer is to report to the Senior Management and to the Board of Directors compliance issues including corrective actions taken.

#### Board Committee Memberships (as of Dec. 31, 2009)

| DIRECTORS                                  | Executive Committee | Audit Committee | Corporate Governance Committee | Risk Management Committee | Nominations Committee |
|--|---------------------|-----------------|--------------------------------|---------------------------|-----------------------|
| Antonio S. Abacan, Jr.                     | Member              |                 | Chair                          |                           |                       |
| Solomon S. Cua*                            | Member              | Chair           | Member                         |                           |                       |
| Francisco C. Sebastian                     | Vice Chair          |                 |                                |                           | Chair                 |
| Roberto Juanchito T. Dispo                 | Member              |                 | Member                         |                           |                       |
| Carmelo Maria L. Bautista                  |                     | Member          |                                | Chair                     |                       |
| Romualdo A. Ong*                           |                     | Member          | Member                         |                           | Member                |
| Bienvenido E. Laguesma                     |                     |                 |                                | Member                    |                       |
| Martin Q. Dy Buncio                        |                     |                 |                                | Member                    | Member                |
| Mary V. Ty                                 | Chair               |                 |                                |                           |                       |
| Ismael G. Cruz                             |                     |                 |                                |                           |                       |
| Alesandra V. Ty                            |                     |                 |                                |                           |                       |
| Nimfa B. Pastrana                          |                     |                 |                                |                           |                       |
| Jose Pacifico E. Marcelo**<br>(Consultant) | Member              |                 |                                |                           |                       |

\* Independent Director

\*\* Retired effective February 1, 2010

Compliance entails immediate adherence with applicable laws, rules and regulations as the corporation develops and delivers products and services to customers.

The thrust of the compliance function is to build the right culture and promote the ethical conduct of doing business. This is among the objectives of the training program to disseminate and create awareness of the applicable laws, rules, regulations, circulars, as well as global standards and principles of good governance. The Chief Compliance Officer conducts quarterly compliance seminars, briefings and roundtable discussions and mentoring on compliance issues.

#### DISCLOSURE AND TRANSPARENCY

First Metro Investment discloses to BSP, SEC and PSE all 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 its stockholders and the investing public.

The Board is transparent and fair in the conduct of the annual stockholders' meeting of First Metro Investment. Stockholders are encouraged to personally attend this meeting. The Board also promotes the rights of stockholders and protects the interests of minority stockholders.

For this purpose, First Metro Investment created an Investor Relations Unit to assist and handle the queries of shareholders and investors.

# Audit Committee Report

## REPORT OF THE AUDIT COMMITTEE TO THE BOARD OF DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2009

As defined in First Metro Investment Corporation's (FMIC) Audit Committee Charter, the Committee is responsible for monitoring, overseeing and evaluating the duties and responsibilities of Management, Internal Auditors and the External Auditors. The Committee is also responsible for determining that all major issues reported by the internal and external audits and other advisors/consultants have been satisfactorily resolved. Finally, the Audit Committee is responsible for reporting to the Board of Directors (BOD) all important matters pertaining to the company's internal control processes.

The Committee consists of 3 Board members, two of whom are independent directors including its Chairman. It supports the BOD in performing its oversight responsibilities over the internal/external audit processes, financial reporting, internal controls and compliance with applicable laws and regulations.

In compliance with Board-approved Audit Committee Charter, which requires the Committee to convene on a quarterly basis, the Committee, in performing its oversight function, have met 5 times (January, February, April, July and October) in 2009 to review/discuss on and/or approve the following matters:

- Internal and external auditors' Audit Plan and Scope of Audit;
- Adequacy of Internal Audit Division's resources to carry out and fulfill its Audit Plan;
- Significant audit issues reported by internal and external auditors to ensure that Management is taking appropriate corrective actions in a timely manner in addressing governance, risk management and compliance issues;
- Proposed audit enhancement on audit tools and changes/revisions on Internal Audit Charter and Audit Committee Charter;
- Yearend financial statements with the External Auditors (SGV) who are responsible for rendering an independent opinion on FMIC's Audited Financial Statements (AFS). Among others, issues discussed include changes in accounting policies and practices, proposed audit adjustments and compliance with Philippines Accounting Standards(PAS)/Philippine Financial Reporting Standards (PFRS).

FMIC Management, however, has the responsibility on the fair presentation of company's financial statements and adequacy of disclosures in conformity with the PAS/PFRS.

Based on the reviews and discussions carried out, and subject to the limitation on the Committee's roles and responsibilities over FMIC's AFS, the Committee recommends to the BOD, the approval and filing of the AFS and inclusion in the Annual Report, for the year ended December 31, 2009. The FAS and AR are submitted to regulatory agencies i.e. SEC, BSP, BIR and PSE as required.

Solomon S. Cua  
Chairman, Audit Committee

Romualdo A. Ong  
Member

Ismael G. Cruz  
Member



# Board of Directors

Our Board of Directors are comprised of members with extensive experience and proven expertise necessary to steer First Metro Investment Corporation.



*(L-R) Chairman Antonio S. Abacan, Jr., Director Mary V. Ty, President Francisco C. Sebastian, and Vice Chairman Solomon S. Cua*

The following comprise our Board of Directors as of March 15, 2010 whose members held positions for the last five years:

**ANTONIO S. ABACAN, JR.**

Chairman of the Board  
67, Filipino

Mr. Abacan has been with the FMIC Board since 1996. He is also the current Chairman of the Board of Directors for Metropolitan Bank & Trust Co. since May 2006. He brings over 30 years of experience in banking and finance, having served in various key executive positions previously: President of Metrobank (1992 to 2006); President and Director at Philippine Savings Bank; and at Metrobank Card Corp. He was also the Chairman of Philippine Charter Insurance; President of Data Serv Corp.; and of the Savings Bankers Association of the Philippines.

# Board of Directors

Mr. Abacan currently holds these other positions: Chairman of the Board of Directors for Toyota Financial Services (Phils.) Inc., (2002 to present); Federal Homes, Inc. and Circa 2000 Homes, Inc. (1997 to present); Global Business Holdings, Inc. (2007 to present); and of Sumisho Motor Finance Corp.; Honorary Chairman of MBTC Technology, Inc. (2003 to present); Honorary Vice Chairman of First Metro Travelex, Inc. (1999 to present); Group Vice Chairman of the Metrobank Group of Companies (2000 to present); Director of Cebu Energy Development Corp.; Global Business Power Corp., (2007 to present); and of Cebu Holdings, Inc.; President of GT Capital Holdings, Inc.; and, Adviser of Philippine AXA Life Insurance Corp., Toyota Cubao, Inc., and of Toyota Manila Bay Corp.

Mr. Abacan earned a BSBA Major in Banking & Finance degree from the Mapua Institute of Technology, and an Accounting degree from Far Eastern University. He also took part in the Executive Program of Stanford University's Graduate School of Business.

## SOLOMON S. CUA

Vice Chairman and Independent Director  
54, Filipino

Mr. Cua currently serves as Vice Chairman of the Board of Directors for First Metro Investment, and has over 20 years of experience in general management, banking, and finance. Prior to First Metro Investment, he served as Undersecretary of the Department of Finance (1998-2000). He also held these key management positions: EVP/General Manager/Director at Pacific Oil Products, Inc.; President and Director at Westmont Investment Corp.; and Vice Chairman/Senior EVP/Director of the Manila Jockey Club, Inc.

Mr. Cua currently holds these other leadership positions: Independent Director for PBC Capital Investment Corp. (since 2005); Director of Omico Corp. (since 2006); and of Lepanto Consolidated Mining Corp. (since 2008); Vice Chairman and Chief Executive Officer for Arlec Inc. (since 2002); and President/Director of the Philippine Racing Club (since 2001); and of the Venasque Club (since 2002).

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

## FRANCISCO C. SEBASTIAN

President/Director  
55, Filipino

Mr. Sebastian joined FMIC as its President in October of 1997. His banking and finance experience spans over 30 years, covering financial advisory services, loan arrangement and syndication, investment and credit analysis, and corporate services.

Mr. Sebastian currently serves as Vice Chairman of Metropolitan Bank & Trust Co. (since 2006), and in the same capacity leads the Trust Committee as well as the Legal and Tax Committee. Concurrently, he leads other businesses as: Chairman of Cebu Energy Development Corp, Global Executive Solutions Group, Inc. (since 1995), Global Business Power Corp. (since 2007), First Metro Asset Management Inc. (since 2005), Resiliency (SPC) Inc. (since October 2009), and of Federal Land, Inc. (since 2007); Vice Chairman of Integrated Financial Services, Ltd.; and President of Global Business Holdings, Inc. (since 2003), and of IFS Philippines, Inc. He graduated as Magna Cum Laude from the Ateneo de Manila University, earning an AB degree in Economics.

## MARY V. TY

Director  
69, Filipino

Mrs. Ty has been serving as a member of the Board of Directors since September of 2005, as a professional with more than 30 years of general management experience. Previously, she served as Chairperson for Prima Ventures Development Corporation; Vice Chairperson for Federal Homes, Inc.; as well as Adviser for Metrobank Card Corporation.

Concurrently, she holds the following leadership positions: Assistant to the Group Chairman of Metropolitan Bank & Trust Co.; Chairperson of Philippine Securities Corp., Horizon Royale Holdings, Inc., Interpar Philippines Resources Corp., and of Ausan Resources Corp.; Vice Chair/Director of Federal Land Inc., Great Mark Resources Corp., and of Grand Estate Property Corp.; Director/Treasurer of Global Business Holdings, Inc.; Director of Global Treasure Holdings, Inc. (since Aug. 2006), and of Grand Titan Capital Holdings Inc. (since Aug. 2007); Treasurer of Manila Medical Services, Inc., and of GT Capital Holdings, Inc. (since July 2007); Adviser of Metropolitan Bank (Bahamas), MBTC Technology, Inc., and of Cathay International Resources Corp.; Board of Trustee/Treasurer of Metrobank Foundation, Inc., and of Manila Doctors College, Inc.; and Treasurer/Director of Global Business Power Corp., and of Circa 2000 Homes Inc. Mrs. Ty earned her collegiate degree from the University of Sto. Tomas.

## CARMELO MARIA L. BAUTISTA

Executive Director  
52, Filipino

Mr. Bautista assumed the position as Executive Director in April of 2008. He has more than 25 years of experience, spanning economics, banking operations, trade finance, and mergers and acquisitions. Prior to joining First Metro, he held several key positions in top tier financial institutions, among them being President of ABN AMRO Bank (Philippines), Inc. (2002-2005), as well as President and CEO of the Philippine Bank of Communications (2005-2006). He also served as a Director for Argosy Partners, Inc. (2007-2008). He currently also serve as Director for Home Funding Inc. (since 2007). Mr. Bautista graduated from Ateneo de Manila University with a BA degree in Economics. He earned a Master's degree in Business Management at the Asian Institute of Management for post-graduate studies and was in the Dean's Citation List.

**ISMAEL G. CRUZ**

Director  
65, Filipino

Mr. Cruz was elected as Director in April of 2008. He offers 30 years of extensive experience in economics, finance, and securities, and he previously served as Governor of the Philippine Stock Exchange (1996-1997). He is currently the Chairman and President of IGC Securities, Inc. (since 1994), and of Carmen Homes, Inc. (since 1992); as well as Director of Penta Capital Investment Corp. (since 2003), and of Penta Capital Finance Corp. (since 2003). Mr. Cruz is also the incumbent Governor of the Makati Commercial Estates Association (since 2007) and of the Makati Stock Exchange (since 1992). He has a BS Economics degree and is an MBM candidate, both from the Ateneo de Manila University.

**ROMUALDO A. ONG**

Independent Director  
70, Filipino

Ambassador Ong has been an Independent Director since September 2005. As a professional, he has over 40 years experience in foreign service and international management. Previously, he was Philippine Ambassador to Malaysia (2003), China (1994), Russia (1993), and to Australia (1986). Amb. Ong also held the positions as Assistant Secretary for the Office of ASEAN Affairs, and as Director of the Foreign Service Institute, both under the Department of Foreign Affairs.

Currently, he serves as an Independent Director of PBC Capital Investment Co. (since 2006), First Metro Securities Brokerage Corp. (since 2005) and of Resiliency (SPC) Inc. (since October 2009 to present).

He is a graduate of the University of the Philippines with a BS degree in Foreign Service. He also pursued further Diplomatic Studies at the Institut International D'Etudes et de Recherches Diplomatiques (Paris), and International Civil Service Training from O.F.I. (Paris).

**MARTIN Q. DY BUNCIO**

Director  
45, Filipino

Mr. Dy Buncio has served as a Director since 1995, and brings with him over 20 years of experience in interdisciplinary management. Currently, he is Chairman of the Board for Pro-Oil Corp. (since 2002), and for Pro-Auto Parts (since 2002); President of HJ Marketing (since 1993), Design Products Mfg. (since 1993), Proline II Mercantile (since 1984), and of Integra Dev't Corp. (since 1996); President/General Manager of Proline Sports Center; and Director of Omico Corp. He holds an AB GEN degree from De La Salle University-Manila.

**BIENVENIDO E. LAGUESMA**

Director  
60, Filipino

Atty. Laguesma was elected to the Board as Director in April of 2005, and holds over 30 years of professional experience in law, public service, and governance. He is a member of the Integrated Bar of the Philippines (IBP). He served as a Secretary of the Department of Labor and Employment (1998-2001). Atty. Laguesma is currently the Chairman of Philippine Charter Insurance Corporation (since November 2009 to present); a Senior Partner at Laguesma, Magsalin Consulta & Gastardo Law Offices (since 2002); and a Director of GROW Inc., and of the IBP-Quezon City Chapter. He took up AB Political Science studies from the Lyceum of the Philippines, and also earned a Bachelor of Laws degree from the Ateneo College of Law.

**ROBERTO JUANCHITO T. DISPO**

Director/Executive Vice President  
45, Filipino

Mr. Dispo, who is the incumbent Executive Vice President and Head of Treasury of First Metro Investment, joined the Board as Director in April of 2005. With over 20 years' experience in the field of banking and finance, he served as Deputy Treasurer of the Philippines, and was once Executive Director of the Board of Liquidators for the Central Bank of the Philippines. He was the past President, and currently sits as a Director, of the Money Market Association of the Philippines (since 2003), and also serves as Alternate Director for the Investment Association of the Philippines (since 2002).

Among his other current positions are: Member of the Advisory Board of Metrobank (since 2008); Chairman of First Metro Securities Brokerage Corp. (since 2004); Vice Chairman of PBC Capital Investment Corp. (since 2004), and of First Metro Asset Management Inc. (since 2006); President of Resiliency (SPC) Inc. (since October 2009); Director at First Metro Insurance Brokerage Corporation (since 2001), Prima Venture Development Inc. (since 2004), and of FMIC Equities, Inc. (since 2001); Treasurer of ORIX-METRO Leasing (since 2000); and Vice President of First Metro Insurance Agency Inc. (since 2001).

Mr. Dispo received his Economics and Business Management degrees from San Sebastian College and the Pamantasan ng Lungsod ng Maynila, respectively. He also completed Masteral degrees in Business Administration from the Pamantasan ng Lungsod ng Maynila (with Distinction), and in Business Economics from the University of Asia and the Pacific. Mr. Dispo also undertook diploma courses in International Banking and Finance from the Economic Institute of the University of Colorado, and in Management Development from the Asian Institute of Management.



# Senior Management



(L-R) Carmelo Maria L. Bautista, Roberto Juanchito T. Dispo, Francisco C. Sebastian, Jose Pacifico E. Marcelo, and Danilo G. Olondriz

## **Francisco C. Sebastian**

President

*(Please refer to Board of Directors page.)*

## **Roberto Juanchito T. Dispo**

Executive Vice President

Group Head - Treasury and Investment Advisory

*(Please refer to Board of Directors page.)*

## **Carmelo Maria L. Bautista \***

Executive Director

Group Head - Investment Banking Group and Corporate Lending

*(Please refer to Board of Directors page.)*

## **Jose Pacifico E. Marcelo \*\***

Executive Vice President

Group Head - Investment Banking Group and Corporate Lending  
49, Filipino

Mr. Marcelo has significant experience in financial restructuring, capital raising, mergers and acquisitions, credit analysis and rehabilitation/loan workouts. He held several positions as: Director of PBC Capital; First Metro Asset Management Inc.; First Metro Securities Brokerage Corporation; First Metro Insurance Brokers Corp.; SBC Properties, Inc.; Prima Ventures Development Corporation; and FMIC Equities Inc.

## **Danilo G. Olondriz**

Senior Vice President

Group Head - Controllershship

55, Filipino

Mr. Olondriz is a Certified Public Accountant who previously worked for the Bangko Sentral ng Pilipinas as Senior Bank Examiner for 10 years. He also serves as Chief Financial Officer of First Metro Save & Learn Equity Fund, Inc.; First Metro Save & Learn Fixed Income Fund, Inc.; First Metro Save & Learn Balanced Fund, Inc.; First Metro Save & Learn Money Market Fund, Inc.; and First Metro Save & Learn Global Currency Fund, Inc. He is also a Director of Skyland Realty Development Corporation; First Metro Asset Management Inc.; PBC Capital Investment Corporation; SBC Properties, Inc.; and First Metro Insurance Brokers Corporation. He also serves as Director/Controller of Saleage Insurance Agency, Inc., Controller of First Metro Insurance Agency, Inc., and Prima Ventures Development Corporation. He is also an Executive Committee Secretary/Adviser.

*\* Effective February 1, 2010*

*\*\* Retired February 1, 2010*

# Principal Officers



*(L-R) Justino Juan R. Ocampo, Reynaldo B. Montalbo, Jr., Eduardo R. Banaag, Jr., and Marie Arabella D. Veron*

## Investment Banking

Justino Juan R. Ocampo \*  
Senior Vice President  
Deputy Group Head

Erwein John M. Catoto  
First Vice President  
Division Head - Investment Banking II

Arsenio Kenneth M. Ona  
Vice President  
Division Head - Investment Banking I

Francisco Javier P. Bonoan  
Vice President  
Division Head - Investment Banking III

## Treasury

Reynaldo B. Montalbo, Jr.  
First Vice President  
Deputy Group Head

Augusto M. Cosio, Jr.  
Vice President  
Department Head - International Distribution

Lalaine C. De Guzman  
Assistant Vice President  
Division Head - Distribution

Peter Anthony D. Bautista  
Senior Manager  
Department Head - Institutional Distribution

David Ignacio C. Estacio  
Senior Manager  
Department Head - Securities Dealership

Carlota S. Reyes  
Senior Manager  
Department Head - Reserve and Liquidity

Ina B. Pacheco  
Manager  
Department Head - MBTC Distribution

*\* Effective January 4, 2010*



#### Investment Advisory

Eduardo R. Banaag, Jr.  
Vice President  
Deputy Group Head

Cristina S. Ulang  
Senior Manager  
Department Head - Research

#### Corporate Lending

Anthony Thomas C. Roxas  
Senior Manager  
Department Head

#### Business Development

Stella Maria Piedad I. Torres  
First Vice President  
Division Head

#### Controllership

Marie Arabella D. Veron  
Vice President  
Deputy Group Head

Ma. Elena Cresencia Antonia M. Alpuerto  
Senior Manager  
Department Head - Management  
Accounting

Nelson L. Caballar  
Senior Manager  
Department Head - Administration

Carmelita M. Inocentes  
Senior Manager  
Department Head - Operations

Mauro B. Placente  
Senior Manager  
Department Head - General Accounting

Reynaldo L. Bas \*  
Senior Manager  
Department Head - Information  
Technology

#### Legal

Atty. Nimfa B. Pastrana  
Vice President  
Division Head

#### Compliance

Jonathan T. Tabac  
Vice President  
Division Head

#### Risk Management

Maria Antonia N. Bacabac  
First Vice President  
Division Head

Sinfonio A. Alanano  
Manager  
Department Head - Market Risk

#### Strategic Services

Maria Teresa P. Perfecto  
Manager  
Department Head - Corporate Planning  
and Affairs

Ma. Cristina D. Tomas  
Manager  
Department Head - Human Resources

\* Effective September 1, 2010





# Statement of Management's Responsibility

The management of First Metro Investment Corporation (the Company) is responsible for all information and representations contained in the consolidated and parent company financial statements as of December 31, 2009 and 2008 and each of the three years in the period ended December 31, 2009. The consolidated and parent company financial statements have been prepared in conformity with Philippine Financial Reporting Standards and reflects amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the Company's Audit Committee and to its external editor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the consolidated and parent company financial statements before such statements are approved and submitted to the stockholders of the Company.

Sycip, Gorres, Velayo & Co., the independent auditors appointed by the stockholders, have examined the consolidated and parent company financial statements in accordance with Philippine Financial Reporting Standards and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the Board of Directors and stockholders.

ANTONIO ABACAN, JR.  
Chairman

FRANCISCO C. SEBASTIAN  
President

MARIE ARABELLA D. VERON  
Vice President/Deputy Controller

SUBSCRIBED AND SWORN TO BEFORE ME this 23rd day of March 2010 at Makati City, Philippines, affiant exhibit to me their Community Tax Certificate Nos.:

| Name                        | CTC/Passport No. | Date of Issue     | Place of Issue |
|-----------------------------|------------------|-------------------|----------------|
| Mr. Antonio Abacan, Jr.     | PP No. EA0009299 | December 11, 2009 | DFA, Manila    |
| Mr. Francisco C. Sebastian  | 01953822         | January 7, 2010   | Manila City    |
| Ms. Marie Arabella D. Veron | 28585441         | January 17, 2010  | Makati City    |

## NOTARY PUBLIC

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Book No. 14  
Series of 2010.

ATTY. NOEL M. GALICIA, CPA  
NOTARY PUBLIC  
UNTIL DECEMBER 31/2010  
ROLL NO. 49340  
PTR 1567826 1/5/89 MAKATI CITY  
IBP 76532112/18/08 PASIG CITY  
APPOINEMTN NO. M-138

# Independent Auditors' Report

The Stockholders and the Board of Directors  
First Metro Investment Corporation  
45th Floor, GT Tower International  
Ayala Avenue corner H.V. dela Costa Street  
Makati City

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 the parent company statements of financial position as of December 31, 2009 and 2008, and the consolidated and the parent company statements of income, the consolidated and the parent company statements of comprehensive income, the consolidated and the parent company statements of changes in equity and the consolidated and the parent company statements of cash flows for each of the three years in the period ended December 31, 2009, and a summary of significant accounting policies and other explanatory notes.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## 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 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 the parent company financial statements present fairly, in all material respects, the financial position of the Group and of the Parent Company as of December 31, 2009 and 2008, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2009 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Vicky B. Lee-Salas  
Partner  
CPA Certificate No. 86838  
SEC Accreditation No. 0115-AR-1  
Tax Identification No. 129-434-735  
PTR No. 2087542, January 4, 2010, Makati City

February 18, 2010

# Statements of Financial Position

|  | Consolidated           |                        | Parent Company         |                        |
|--|------------------------|------------------------|------------------------|------------------------|
|  | December 31            |                        |                        |                        |
|  | 2009                   | 2008                   | 2009                   | 2008                   |
| <b>ASSETS</b>  |                        |                        |                        |                        |
| Cash and Other Cash Items (Notes 15 and 26)  | ₱8,156,812,303         | ₱5,597,441,874         | ₱7,711,939,172         | ₱5,096,354,904         |
| Due from Bangko Sentral ng Pilipinas (Note 15)                                       | 1,965,000,000          | 1,916,100,000          | 1,965,000,000          | 1,916,100,000          |
| Interbank Loans Receivable and Securities Purchased Under Resale Agreements (Note 7) | –                      | 1,430,000,000          | –                      | 1,430,000,000          |
| Financial Assets at Fair Value Through Profit or Loss (Note 8)                       | 1,889,958,997          | 421,728,810            | 1,803,850,184          | 286,886,922            |
| Available-for-Sale Investments (Note 8)  | 20,842,220,055         | 9,032,367,786          | 20,526,389,916         | 8,829,900,840          |
| Held-to-Maturity Investments (Note 8)  | 3,735,821,730          | 3,756,141,902          | 3,718,899,612          | 3,749,989,615          |
| Loans and Receivables (Notes 9 and 26)   | 12,616,335,623         | 15,912,428,702         | 12,317,636,388         | 15,508,918,150         |
| Property and Equipment (Note 10)   | 78,901,361             | 80,264,354             | 67,484,514             | 64,667,753             |
| Investments in Subsidiaries, Associates and Joint Venture (Notes 11 and 26)          | 9,233,251,366          | 6,927,109,107          | 8,329,942,154          | 6,339,882,477          |
| Investment Properties (Note 12)  | 806,135,061            | 865,671,587            | 806,135,061            | 805,671,587            |
| Deferred Tax Assets (Note 25)  | 8,526,242              | 3,702,731              | –                      | –                      |
| Other Assets (Note 13)   | 243,346,322            | 220,567,367            | 201,689,927            | 183,469,976            |
|  | <b>₱59,576,309,060</b> | <b>₱46,163,524,220</b> | <b>₱57,448,966,928</b> | <b>₱44,211,842,224</b> |
| <b>LIABILITIES AND EQUITY</b>  |                        |                        |                        |                        |
| <b>LIABILITIES</b>   |                        |                        |                        |                        |
| Bills Payable (Notes 15 and 26)  | ₱50,047,335,210        | ₱37,941,147,817        | ₱50,047,335,210        | ₱37,941,147,817        |
| Accrued Taxes, Interest and Other Expenses (Notes 16 and 26)                         | 219,075,831            | 268,370,384            | 208,939,337            | 250,241,863            |
| Accounts Payable (Note 26)   | 211,380,284            | 208,517,232            | 54,204,967             | 21,386,691             |
| Derivative Liability (Note 8)  | 138,729,241            | 116,511,055            | 138,729,241            | 116,511,055            |
| Income Taxes Payable (Note 25)   | 5,649,974              | 976,002                | –                      | –                      |
| Bonds Payable (Note 17)  | 55,200,000             | 61,200,000             | 150,000,000            | 150,000,000            |
| Deferred Tax Liability (Note 25)   | 7,003,924              | 1,728,326              | –                      | 420,447                |
| Other Liabilities (Notes 18 and 26)  | 278,011,257            | 254,078,934            | 208,523,263            | 133,909,652            |
|  | <b>50,962,385,721</b>  | <b>38,852,529,750</b>  | <b>50,807,732,018</b>  | <b>38,613,617,525</b>  |
| <b>EQUITY</b>  |                        |                        |                        |                        |
| <b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>                   |                        |                        |                        |                        |
| Common Stock (Note 20)   | 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  | 4,826,034,194          | 3,803,421,275          | 3,068,370,739          | 2,211,178,642          |
| Treasury Stock (Note 20)   | (2,256,151,891)        | (2,256,151,891)        | (2,256,151,891)        | (2,256,151,891)        |
| Net Unrealized Loss on Available-for-Sale Investments (Note 8)                       | (431,605,063)          | (631,686,077)          | (445,370,380)          | (631,188,494)          |
| Equity in Translation Adjustment (Note 11)   | (29,422,895)           | (20,593,286)           | –                      | –                      |
| Equity in Unrealized Gain on Available-for-Sale Investments of Associates (Note 11)  | 168,916,960            | 77,826,648             | –                      | –                      |
| Equity in Revaluation Increment (Note 11)  | 29,948,345             | 31,142,610             | –                      | –                      |
|  | <b>8,582,106,092</b>   | <b>7,278,345,721</b>   | <b>6,641,234,910</b>   | <b>5,598,224,699</b>   |
| Minority Interest  | 31,817,247             | 32,648,749             | –                      | –                      |
|  | <b>8,613,923,339</b>   | <b>7,310,994,470</b>   | <b>6,641,234,910</b>   | <b>5,598,224,699</b>   |
|  | <b>₱59,576,309,060</b> | <b>₱46,163,524,220</b> | <b>₱57,448,966,928</b> | <b>₱44,211,842,224</b> |

See accompanying Notes to Financial Statements.



# Statements of Income

|   | Consolidated           |                |                | Parent Company |                |                |
|---|------------------------|----------------|----------------|----------------|----------------|----------------|
|   | Year Ended December 31 |                |                |                |                |                |
|   | 2009                   | 2008           | 2007           | 2009           | 2008           | 2007           |
| INTEREST INCOME   |                        |                |                |                |                |                |
| (Notes 21 and 26)   | ₱2,787,506,033         | ₱2,130,060,760 | ₱2,102,829,674 | ₱2,732,242,341 | ₱2,077,587,491 | ₱2,029,636,732 |
| INTEREST EXPENSE  |                        |                |                |                |                |                |
| (Notes 15, 17, and 26)  | 2,042,325,695          | 1,688,730,363  | 1,100,128,132  | 2,047,175,162  | 1,688,716,101  | 1,100,622,944  |
| NET INTEREST INCOME   | 745,180,338            | 441,330,397    | 1,002,701,542  | 685,067,179    | 388,871,390    | 929,013,788    |
| OTHER OPERATING INCOME  |                        |                |                |                |                |                |
| Trading and securities gain (Note 8)                                | 645,040,886            | 148,267,244    | 830,873,655    | 573,002,306    | 223,830,541    | 713,737,068    |
| Service charges, fees and commissions                               | 391,882,908            | 286,337,762    | 297,213,688    | 310,698,068    | 196,747,455    | 155,628,913    |
| Dividends   | 114,326,314            | 86,542,534     | 95,948,674     | 501,512,169    | 734,641,585    | 240,381,683    |
| Gain on sale of assets  | 10,695,552             | 77,746,141     | 42,751,917     | 695,552        | 79,739,776     | 42,751,917     |
| Foreign exchange gains (losses)                                     | (5,148,881)            | 24,383,902     | (4,889,237)    | (5,148,881)    | 23,738,073     | (5,613,631)    |
| Miscellaneous (Note 12)   | 45,175,747             | 33,069,924     | 53,830,888     | 22,459,674     | 33,629,397     | 14,784,027     |
| TOTAL OPERATING INCOME  | 1,947,152,864          | 1,097,677,904  | 2,318,431,127  | 2,088,286,067  | 1,681,198,217  | 2,090,683,765  |
| OTHER EXPENSES  |                        |                |                |                |                |                |
| Taxes and licenses (Note 25)  | 353,281,327            | 298,937,644    | 318,741,886    | 343,983,003    | 293,204,396    | 304,366,413    |
| Compensation and fringe benefits                                    |                        |                |                |                |                |                |
| (Notes 22 and 26)   | 223,047,082            | 209,760,678    | 186,198,188    | 184,032,827    | 164,554,102    | 143,089,375    |
| Provision for (recovery from)                                       |                        |                |                |                |                |                |
| impairment and credit   |                        |                |                |                |                |                |
| losses (Note 14)  | 180,737,944            | (167,321,593)  | 67,084,558     | 171,742,298    | (106,501,800)  | –              |
| Rent, light and water (Note 23)                                     | 36,803,516             | 37,982,876     | 31,544,892     | 31,899,873     | 28,973,570     | 22,743,171     |
| Depreciation of investment properties                               |                        |                |                |                |                |                |
| (Notes 12)  | 4,221,139              | 5,229,695      | 20,120,167     | 4,221,139      | 5,229,695      | 19,931,673     |
| Depreciation and amortization of                                    |                        |                |                |                |                |                |
| property and equipment (Note 10)                                    | 26,451,403             | 23,785,221     | 16,110,518     | 21,729,773     | 15,755,529     | 12,070,249     |
| Entertainment, amusement and  |                        |                |                |                |                |                |
| recreation (Note 25)  | 15,360,013             | 13,775,692     | 11,314,303     | 13,675,421     | 11,787,416     | 10,096,310     |
| Miscellaneous (Notes 12 and 24)                                     | 164,759,310            | 187,476,197    | 169,094,737    | 137,313,760    | 148,758,723    | 119,471,971    |
|   | 1,004,661,734          | 609,626,410    | 820,209,249    | 908,598,094    | 561,761,631    | 631,769,162    |
| INCOME BEFORE SHARE IN NET<br>INCOME OF INVESTEEs AND<br>INCOME TAX | 942,491,130            | 488,051,494    | 1,498,221,878  | 1,179,687,973  | 1,119,436,586  | 1,458,914,603  |
| SHARE IN NET INCOME OF<br>INVESTEEs (Note 11)                       | 427,749,836            | 75,548,641     | 247,150,538    | –              | –              | –              |
| INCOME BEFORE INCOME TAX  | 1,370,240,966          | 563,600,135    | 1,745,372,416  | 1,179,687,973  | 1,119,436,586  | 1,458,914,603  |
| PROVISION FOR INCOME TAX  |                        |                |                |                |                |                |
| (Note 25)   | 340,469,653            | 164,693,618    | 336,316,026    | 322,495,876    | 152,322,945    | 282,409,922    |
| NET INCOME  | ₱1,029,771,313         | ₱398,906,517   | ₱1,409,056,390 | ₱857,192,097   | ₱967,113,641   | ₱1,176,504,681 |
| Attributable to:  |                        |                |                |                |                |                |
| Equity holders of the   |                        |                |                |                |                |                |
| Parent Company (Note 29)  | ₱1,022,612,919         | ₱399,707,120   | ₱1,407,383,719 |                |                |                |
| Minority interest   | 7,158,394              | (800,603)      | 1,672,671      |                |                |                |
|   | ₱1,029,771,313         | ₱398,906,517   | ₱1,409,056,390 |                |                |                |
| Basic/Diluted Earnings Per Share                                    |                        |                |                |                |                |                |
| Attributable to Equity Holders of<br>the Parent Company (Note 29)   | ₱2.71                  | ₱1.06          | ₱3.73          |                |                |                |

See accompanying Notes to Financial Statements.

# Statements of Comprehensive Income

|   | Consolidated   |                 |                | Parent Company |                 |                |
|---|----------------|-----------------|----------------|----------------|-----------------|----------------|
|   | 2009           | 2008            | 2007           | 2009           | 2008            | 2007           |
| NET INCOME FOR THE YEAR   | ₱1,029,771,313 | ₱398,906,517    | ₱1,409,056,390 | ₱857,192,097   | ₱967,113,641    | ₱1,176,504,681 |
| OTHER COMPREHENSIVE INCOME (LOSS)   |                |                 |                |                |                 |                |
| Changes in fair values of available-for-sale investments (Note 8)                               | 207,956,014    | (1,133,248,458) | (226,663,919)  | 185,818,114    | (1,123,990,073) | (232,597,962)  |
| Equity share on changes in fair values of available-for-sale investments of associates (Note 8) | 91,090,312     | (146,532,813)   | (28,025,297)   | –              | –               | –              |
| Equity share on change in translation adjustment  | (8,829,609)    | 33,670,536      | (190,071,319)  | –              | –               | –              |
| Equity share on changes in revaluation increment  | (1,194,265)    | (544,135)       | 26,085,747     | –              | –               | –              |
| Income tax effect (Note 25)   | (7,875,000)    | (2,975,697)     | (39,157,748)   | –              | (420,447)       | (27,693,429)   |
| TOTAL COMPREHENSIVE INCOME (LOSS), NET OF TAX   | ₱1,310,918,765 | (₱850,724,050)  | ₱951,223,854   | ₱1,043,010,211 | (₱157,296,879)  | ₱916,213,290   |
| ATTRIBUTABLE TO:  |                |                 |                |                |                 |                |
| Equity Holders of the Parent Company  | ₱1,303,760,371 | (₱849,923,447)  | ₱949,551,183   |                |                 |                |
| Minority Interest   | 7,158,394      | (800,603)       | 1,672,671      |                |                 |                |
|   | ₱1,310,918,765 | (₱850,724,050)  | ₱951,223,854   |                |                 |                |

See accompanying Notes to Financial Statements.



# Statements of Changes in Equity

Consolidated  
Equity Attributable to Equity Holders of the Parent Company

|                               | Common Stock<br>(Note 20) | Capital Paid<br>in Excess<br>of Par Value | Retained<br>Earnings<br>(Note 20) | Treasury<br>Stock<br>(Note 20) | Net Unrealized<br>Gain (Loss) on<br>Available-for-<br>Sale Investments<br>(Note 8) | Equity in<br>Translation<br>Adjustment<br>(Note 11) | Equity in<br>Available-for-<br>Sale Investments<br>of Associates<br>(Note 11) | Equity in<br>Revaluation<br>Increment<br>(Note 11) | Total          | Minority<br>Interest | Total<br>Equity |
|-------------------------------|---------------------------|---|-----------------------------------|--------------------------------|--|---|---|--|----------------|----------------------|-----------------|
| Balance at January 1, 2009    | £4,208,692,400            | £2,065,694,042                            | £3,803,421,275                    | £2,256,151,891                 | £631,686,077   | £20,593,286   | £77,826,648   | £31,142,610  | £7,278,345,721 | £32,648,749          | £7,310,994,470  |
| Total comprehensive income    | -                         | -   | 1,022,612,919                     | -                              | 200,081,014  | (8,829,609)   | 91,090,312  | (1,194,265)  | 1,303,760,371  | 7,158,394            | 1,310,918,765   |
| Decrease in minority interest | -                         | -   | -                                 | -                              | -  | -   | -   | -  | -              | (7,989,896)          | (7,989,896)     |
| Balance at December 31, 2009  | £4,208,692,400            | £2,065,694,042                            | £4,826,034,194                    | £2,256,151,891                 | £831,605,063   | £19,422,895   | £168,916,960  | £29,948,345  | £8,582,106,092 | £31,817,247          | £8,613,923,339  |
| Balance at January 1, 2008    | £4,208,692,400            | £2,065,694,042                            | £3,403,714,155                    | £2,256,151,891                 | £504,538,078   | £54,263,822   | £224,359,461  | £31,686,745  | £8,128,269,168 | £34,422,025          | £8,162,691,193  |
| Total comprehensive income    | -                         | -   | 399,707,120                       | -                              | (1,136,224,155)  | 33,670,536  | (146,532,813)   | (544,135)  | (849,923,447)  | (800,603)            | (850,724,050)   |
| Cash dividends                | -                         | -   | -                                 | -                              | -  | -   | -   | -  | -              | (972,673)            | (972,673)       |
| Balance at December 31, 2008  | £4,208,692,400            | £2,065,694,042                            | £3,803,421,275                    | £2,256,151,891                 | £631,686,077   | £20,593,286   | £77,826,648   | £31,142,610  | £7,278,345,721 | £32,648,749          | £7,310,994,470  |
| Balance at January 1, 2007    | £4,208,692,400            | £2,065,694,042                            | £2,984,217,549                    | £2,256,151,891                 | £770,359,745   | £135,807,497  | £252,384,758  | £5,600,998   | £8,166,605,098 | £30,942,233          | £8,197,547,331  |
| Total comprehensive income    | -                         | -   | 1,407,383,719                     | -                              | (265,821,667)  | (190,071,319)                                       | (28,025,297)  | 26,085,747   | 949,551,183    | 1,672,671            | 951,223,854     |
| Cash dividends                | -                         | -   | (987,887,113)                     | -                              | -  | -   | -   | -  | (987,887,113)  | 1,807,121            | (986,079,992)   |
| Balance at December 31, 2007  | £4,208,692,400            | £2,065,694,042                            | £3,403,714,155                    | £2,256,151,891                 | £504,538,078   | £54,263,822   | £224,359,461  | £31,686,745  | £8,128,269,168 | £34,422,025          | £8,162,691,193  |

|                              | Parent Company            |   |                                   |                                |   |                 |
|------------------------------|---------------------------|---|-----------------------------------|--------------------------------|---|-----------------|
|                              | Common Stock<br>(Note 20) | Capital Paid in<br>Excess of<br>Par Value | Retained<br>Earnings<br>(Note 20) | Treasury<br>Stock<br>(Note 20) | Net Unrealized<br>Gain (Loss) on<br>Available-For-Sale<br>Investments<br>(Note 8) | Total<br>Equity |
| Balance at January 1, 2009   | ₱4,208,692,400            | ₱2,065,694,042                            | ₱2,211,178,642                    | ₱2,256,151,891                 | ₱631,188,494  | ₱5,598,224,699  |
| Total comprehensive income   | -                         | -   | 857,192,097                       | -                              | 185,818,114   | 1,043,010,211   |
| Balance at December 31, 2009 | ₱4,208,692,400            | ₱2,065,694,042                            | ₱3,068,370,739                    | ₱2,256,151,891                 | ₱845,370,380  | ₱6,641,234,910  |
| Balance at January 1, 2008   | ₱4,208,692,400            | ₱2,065,694,042                            | ₱1,244,065,001                    | ₱2,256,151,891                 | ₱493,222,026  | ₱5,755,521,578  |
| Total comprehensive income   | -                         | -   | 967,113,641                       | -                              | (1,124,410,520)   | (157,296,879)   |
| Balance at December 31, 2008 | ₱4,208,692,400            | ₱2,065,694,042                            | ₱2,211,178,642                    | ₱2,256,151,891                 | ₱631,188,494  | ₱5,598,224,699  |
| Balance at January 1, 2007   | ₱4,208,692,400            | ₱2,065,694,042                            | ₱1,055,447,433                    | ₱2,256,151,891                 | ₱753,513,417  | ₱5,827,195,401  |
| Total comprehensive income   | -                         | -   | 1,176,504,681                     | -                              | (260,291,391)   | 916,213,290     |
| Cash dividends               | -                         | -   | (987,887,113)                     | -                              | -   | (987,887,113)   |
| Balance at December 31, 2007 | ₱4,208,692,400            | ₱2,065,694,042                            | ₱1,244,065,001                    | ₱2,256,151,891                 | ₱493,222,026  | ₱5,755,521,578  |

See accompanying Notes to Financial Statements.



# Statements of Cash Flows

|  | Consolidated            |                  |                  | Parent Company   |                  |                  |
|--|-------------------------|------------------|------------------|------------------|------------------|------------------|
|  | Years Ended December 31 |                  |                  |                  |                  |                  |
|  | 2009                    | 2008             | 2007             | 2009             | 2008             | 2007             |
| <b>CASH FLOWS FROM</b>   |                         |                  |                  |                  |                  |                  |
| <b>OPERATING ACTIVITIES</b>  |                         |                  |                  |                  |                  |                  |
| Income before income tax   | ₱1,370,240,966          | ₱563,600,135     | ₱1,745,372,416   | ₱1,179,687,973   | ₱1,119,436,586   | ₱1,458,914,603   |
| Adjustments for:   |                         |                  |                  |                  |                  |                  |
| Unrealized (gain) loss on financial assets at fair value through profit or loss (Note 8) | (14,518,371)            | 31,426,463       | (10,488,591)     | (4,947,899)      | 8,100,160        | 10,488,591       |
| Depreciation and amortization (Notes 10 and 12)  | 30,672,542              | 29,014,916       | 36,230,685       | 25,950,912       | 20,985,224       | 32,001,922       |
| Loss (gain) from sale of assets  | (661,290)               | (92,499)         | (854,827)        | (661,290)        | (92,499)         | (854,827)        |
| Gain on sale of investment properties (Note 12)  | (10,034,262)            | (22,677,451)     | –                | (34,262)         | (22,677,451)     | –                |
| Provision for (recovery from) impairment and credit losses (Note 14)                     | 180,737,944             | (167,321,593)    | 67,084,558       | 171,742,298      | (106,501,800)    | –                |
| Gain on sale of investments in associates (Notes 11 and 26)                              | –                       | (52,695,741)     | –                | –                | (52,695,741)     | –                |
| Dividend income  | (114,326,314)           | (86,542,534)     | (95,948,674)     | (501,512,169)    | (734,641,585)    | (240,381,683)    |
| Trading gain on available-for-sale investments (Note 8)                                  | (226,559,112)           | (474,151,016)    | (703,141,051)    | (220,816,457)    | (431,647,900)    | (583,845,435)    |
| Share in net income of associates (Note 11)  | (427,749,836)           | (75,548,641)     | (247,150,538)    | –                | –                | –                |
| Changes in fair value of derivative liability (Note 8)                                   | (53,136,214)            | 2,107,258        | (15,906,983)     | (53,136,214)     | 2,107,258        | (15,906,983)     |
| Amortization of premium on held-to-maturity investments                                  | 31,090,003              | 28,440,194       | 25,382,170       | 31,090,003       | 28,508,452       | 26,145,989       |
| Changes in operating assets and liabilities:   |                         |                  |                  |                  |                  |                  |
| Decrease (increase) in the amounts of:   |                         |                  |                  |                  |                  |                  |
| Financial assets at fair value through profit or loss                                    | (1,453,711,816)         | 373,999,791      | 852,911,222      | (1,512,015,363)  | 456,238,291      | 236,016,173      |
| Loans and receivables  | 3,503,853,366           | (2,332,147,556)  | (2,401,346,982)  | 3,356,281,236    | (2,436,029,055)  | (2,143,922,625)  |
| Other assets   | (29,492,236)            | (47,707,371)     | (132,041,012)    | (18,219,951)     | 40,726,388       | (127,503,647)    |
| Increase (decrease) in the amounts of:   |                         |                  |                  |                  |                  |                  |
| Accrued interests and other expenses   | (49,294,553)            | 27,746,687       | 68,774,833       | (41,302,526)     | 68,728,063       | 25,632,710       |
| Accounts payable   | 12,863,052              | –                | –                | 32,818,276       | –                | –                |
| Other liabilities  | 33,853,725              | (44,155,725)     | 26,081,934       | 81,176,111       | (16,580,421)     | (29,847,610)     |
| Net cash generated from (used in) operations   | 2,783,827,594           | (2,246,704,683)  | (785,040,840)    | 2,526,100,678    | (2,056,036,030)  | (1,353,062,822)  |
| Income taxes paid  | (335,419,386)           | (164,693,618)    | (336,316,026)    | (322,495,876)    | (152,322,945)    | (282,409,922)    |
| Net cash provided by (used in) operating activities                                      | 2,448,408,208           | (2,411,398,301)  | (1,121,356,866)  | 2,203,604,802    | (2,208,358,975)  | (1,635,472,744)  |
| <b>CASH FLOWS FROM</b>   |                         |                  |                  |                  |                  |                  |
| <b>INVESTING ACTIVITIES</b>  |                         |                  |                  |                  |                  |                  |
| Acquisitions of:   |                         |                  |                  |                  |                  |                  |
| Available-for-sale investments   | (34,885,871,474)        | (17,296,362,353) | (17,441,723,237) | (34,548,493,990) | (17,565,133,315) | (16,940,728,630) |
| Held-to-maturity investments   | (10,769,831)            | –                | –                | –                | –                | –                |
| Property and equipment (Note 10)   | (25,417,122)            | (57,266,387)     | (29,093,774)     | (24,875,246)     | (54,458,196)     | (13,876,761)     |
| Capital infusion on investments in subsidiaries and associates                           | (1,858,250,884)         | (1,508,870,038)  | (1,453,846,230)  | (1,990,059,677)  | (1,558,870,038)  | (1,485,492,007)  |
| Proceeds from sale of:   |                         |                  |                  |                  |                  |                  |
| Available-for-sale investments   | 23,110,525,748          | 20,025,090,756   | 15,596,703,672   | 22,811,476,740   | 19,507,226,505   | 15,220,299,717   |
| Property and equipment (Note 10)   | 990,002                 | 2,189,976        | 1,230,950        | 990,002          | 3,260,302        | 10,615,443       |
| Investment properties (Note 12)  | 60,056,762              | 31,329,482       | –                | 56,762           | 31,329,477       | –                |
| Investment in associates   | 2,046,188               | 173,678,594      | –                | 2,046,188        | 173,678,594      | –                |
| Dividends received   | 236,365,439             | 58,782,626       | 16,743,842       | 673,551,294      | 656,881,677      | 154,046,177      |
| Net cash provided by (used in) investing activities                                      | (13,370,325,172)        | 1,428,572,656    | (3,309,984,777)  | (13,075,307,927) | 1,193,915,006    | (3,055,136,061)  |

(Forward)

|   | Consolidated            |                   |                   | Parent Company    |                   |                   |
|---|-------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|   | Years Ended December 31 |                   |                   |                   |                   |                   |
|   | 2009                    | 2008              | 2007              | 2009              | 2008              | 2007              |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                 |                         |                   |                   |                   |                   |                   |
| Proceeds from bills payable   | ₱428,704,029,541        | ₱288,206,652,076  | ₱232,530,500,870  | ₱428,704,029,541  | ₱288,206,652,076  | ₱232,530,500,870  |
| Payments of bills payable   | (416,597,842,148)       | (286,026,132,134) | (227,100,417,241) | (416,597,842,148) | (286,026,132,134) | (227,100,417,241) |
| Redemption of bonds payable   | (6,000,000)             | —                 | —                 | —                 | —                 | —                 |
| Proceeds from bonds payable (Note 17)                                       | —                       | —                 | 93,600,000        | —                 | —                 | 150,000,000       |
| Dividends paid  | —                       | (2,371,728)       | (979,735,563)     | —                 | —                 | (985,042,621)     |
| Net cash provided by financing activities                                   | 12,100,187,393          | 2,178,148,214     | 4,543,948,066     | 12,106,187,393    | 2,180,519,942     | 4,595,041,008     |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                 |                         |                   |                   |                   |                   |                   |
|   | 1,178,270,429           | 1,195,322,569     | 112,606,423       | 1,234,484,268     | 1,166,075,973     | (95,567,797)      |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>                       |                         |                   |                   |                   |                   |                   |
| Cash and other cash items   | 5,597,441,874           | 6,039,819,305     | 2,973,062,882     | 5,096,354,904     | 5,567,978,931     | 2,709,396,728     |
| Due from Bangko Sentral ng Pilipinas  | 1,916,100,000           | 1,177,400,000     | 3,532,550,000     | 1,916,100,000     | 1,177,400,000     | 3,532,550,000     |
| Interbank loans receivable and securities purchased under resale agreements | 1,430,000,000           | 531,000,000       | 1,130,000,000     | 1,430,000,000     | 531,000,000       | 1,130,000,000     |
|   | 8,943,541,874           | 7,748,219,305     | 7,635,612,882     | 8,442,454,904     | 7,276,378,931     | 7,371,946,728     |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>                             |                         |                   |                   |                   |                   |                   |
| Cash and other cash items   | 8,156,812,303           | 5,597,441,874     | 6,039,819,305     | 7,711,939,172     | 5,096,354,904     | 5,567,978,931     |
| Due from Bangko Sentral ng Pilipinas  | 1,965,000,000           | 1,916,100,000     | 1,177,400,000     | 1,965,000,000     | 1,916,100,000     | 1,177,400,000     |
| Interbank loans receivable and securities purchased under resale agreements | —                       | 1,430,000,000     | 531,000,000       | —                 | 1,430,000,000     | 531,000,000       |
|   | ₱10,121,812,303         | ₱8,943,541,874    | ₱7,748,219,305    | ₱9,676,939,172    | ₱8,442,454,904    | ₱7,276,378,931    |

**OPERATIONAL CASH FLOWS FROM INTEREST**

|                   | Consolidated            |                |                | Parent Company |                |                |
|-------------------|-------------------------|----------------|----------------|----------------|----------------|----------------|
|                   | Years Ended December 31 |                |                |                |                |                |
|                   | 2009                    | 2008           | 2007           | 2009           | 2008           | 2007           |
| Interest paid     | ₱2,089,398,092          | ₱1,610,264,360 | ₱1,065,555,286 | ₱2,094,943,462 | ₱1,609,654,123 | ₱1,003,688,726 |
| Interest received | 2,518,781,683           | 2,110,157,427  | 2,063,684,181  | 2,474,805,072  | 2,048,428,599  | 1,999,517,867  |

See accompanying Notes to Financial Statements.



# Notes to Financial Statements

## 1. Corporate Information

First Metro Investment Corporation (the Parent Company) is an investment house incorporated in the Philippines. The Parent Company's shares of stock are listed at the Philippine Stock Exchange, Inc. (PSE). The Parent Company is a 98.06%-owned subsidiary of Metropolitan Bank & Trust Company (the Ultimate Parent Company).

The Parent Company is primarily engaged in investment banking and has a quasi-banking license. It provides services such as equity and debt underwriting and private placements, loan syndication and arrangements, financial advisory and securities dealership.

The Parent Company's principal place of business is at 45<sup>th</sup> 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 under the historical cost basis except for financial assets at fair value through profit or loss (FVPL), available-for-sale (AFS) investments and derivative liabilities that have been measured at fair value. The financial statements are presented in Philippine peso, the functional currency of the Parent Company and all values are rounded to the nearest pesos except when otherwise indicated.

### Statement of Compliance

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

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

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

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

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

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

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

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

#### **Minority Interests**

Minority interests represent the portion of profit or loss and the net assets not held by the Group and are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from the Parent Company's equity. Acquisitions of minority interest are accounted for using the entity concept method, whereby the difference between the consideration and the book value of the share of the net assets acquired is recognized as an equity transaction.

#### **Changes in Accounting Policies**

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

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

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

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

##### *PFRS 7 Amendments - Improving Disclosures about Financial Instruments*

The amendments to PFRS 7, *Financial Instruments: Disclosures*, require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and financial assets used for liquidity management. The liquidity risk disclosures and fair value measurement disclosures are presented in Notes 4 and 5, respectively.

##### *PFRS 8, Operating Segments*

PFRS 8 replaced PAS 14, *Segment Reporting*. The Group concluded that the operating segments determined in accordance with PFRS 8 are the same as the business segments previously identified under PAS 14. The Group presented the required disclosures for operating segments under PFRS 8 in Note 6.

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

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

#### Improvements to PFRS 2008

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

### Significant Accounting Policies

#### Foreign Currency Translation

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

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

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

#### Financial Instruments - Initial Recognition and Subsequent Measurement

##### *Date of recognition*

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

##### *Initial recognition of financial instruments*

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

##### *Determination of fair value*

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

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques that include the use of mathematical models. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates.



#### *'Day 1' difference*

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

#### *Derivatives recorded at FVPL*

The Group assesses whether embedded derivatives are required to be separated from the host contract. Embedded derivatives are separated from their host contracts and carried at fair value when the entire hybrid contracts (composed of both the host contract and the embedded derivative) are not accounted for as financial assets at FVPL, when their economic risks and characteristics are not closely related to those of their respective host contracts, and when a corporate instrument with the same terms as the embedded derivatives required to be separated from the host contracts when the Group first becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows.

The Parent Company has certain derivatives that are embedded in the debt financial instruments classified as loans and receivables. Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently 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 classified in this category are designated by management on initial recognition when the following criteria are met, determined on an instrument by instrument basis:

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

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

#### *HTM investments*

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

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

#### *Loans and receivables*

This accounting policy relates to the statement of financial position captions 'Due from Bangko Sentral ng Pilipinas (BSP)', 'Due from other banks', 'Interbank loans receivable (IBLR) and securities purchased under resale agreements (SPURA)', and 'Loans and receivables'. These are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'Other financial assets held for trading' or designated as 'AFS investments' or 'Financial assets designated at FVPL'.

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

#### *AFS investments*

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

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

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

#### *Bills payable and other borrowed funds*

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

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

#### *Treasury bonds*

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

### Derecognition of Financial Assets and Liabilities

#### *Financial assets*

A financial asset (where applicable, a part of a financial asset, or part of a group of financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired; or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risk and rewards of the asset but has transferred the control of the asset.

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

#### *Financial liabilities*

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

#### Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the statement of financial position. The corresponding cash received, including accrued interest, is recognized in the statement of financial position as a loan to the Group, reflecting the economic substance of such transaction.

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

#### Offsetting financial instruments

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

#### Impairment of Financial Assets

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

#### *Impairment of financial assets carried at amortized cost*

For financial assets carried at amortized cost, which includes loans and receivables, due from banks, IBLR, SPURA and HTM investments, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. For individually assessed financial assets, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Financial assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment. The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be recognized based on the original EIR of the asset. Loans, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to the 'Provision for impairment and credit losses' in the statement of income.

If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.



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

#### *Restructured loans*

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

#### *AFS investments*

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

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

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

#### Cash and cash equivalents

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

#### Investments in subsidiaries, associates and joint ventures

##### *Investment in subsidiaries*

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

##### *Investment in associates*

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

Under the equity method, an investment in an associate is carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the associate. Goodwill relating to an associate is included in the carrying value of the investment and is not amortized. The Group's share in an associate's post-acquisition profits or losses is recognized in the consolidated statement of income, and its share of post-acquisition movements in the associate's equity reserves is recognized directly in statement of comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying

amount of the investments. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. Profits and losses resulting from transactions between the Group and an associate are eliminated to the extent of the interest in the associate.

#### *Investment in joint venture*

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

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

#### Equity in translation adjustment

Accounts of First Metro International Investment Corporation Ltd. - Hongkong (FMIIIC) are maintained in the currency of the country in which it operates. Adjustments resulting from the translation of foreign currency financial statements into Philippine pesos are shown to statement of comprehensive income.

#### Property and equipment

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

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

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

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

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

#### Investment properties

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

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

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

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

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

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

#### Impairment of Nonfinancial Assets

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

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

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

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

#### Revenue recognition

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

##### *Interest income*

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

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

##### *Fee and commission income*

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

- (a) Fee income earned from services that are provided over a certain period of time.  
Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income, portfolio and other management fees, and advisory fees. However, loan commitment fees for loans that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the EIR on the loan.
- (b) Fee income from providing transaction services  
Fees arising from negotiating or participating in the negotiation of a transaction for a third party - such as underwriting fees, corporate finance fees, and brokerage fees for the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria. Loan syndication fees are recognized in the statement of income when the syndication has been completed and the Group retains no part of the loans for itself or retains part at the same EIR as for the other participants.



#### *Dividend income*

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

#### *Trading and securities gain*

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

#### *Rental income*

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

#### Leases

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

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

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

#### *Group as lessee*

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

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

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

#### *Group as lessor*

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

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

#### Retirement benefits

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

The retirement asset or retirement liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit

obligation is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability.

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

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

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

#### Provisions

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

#### Contingent liabilities and contingent assets

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

#### Income taxes

##### *Current taxes*

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

##### *Deferred taxes*

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

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

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

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

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

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

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

#### Treasury shares and contracts on own shares

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

#### Earnings per share

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

#### Dividends on common shares

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

#### Subsequent events

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

#### Segment reporting

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

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

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

##### *New Standards and Interpretations*

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

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

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

This Interpretation, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The



Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

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

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

#### *Amendments to Standards*

##### *PAS 39 Amendment - Eligible Hedged Items*

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

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

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

#### *Improvements to PFRS in 2009*

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

- PFRS 2, *Share-based Payment*, clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3, *Business Combinations* (Revised). The amendment is effective for financial years on or after July 1, 2009.
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRSs only apply if specifically required for such non-current assets or discontinued operations.
- PFRS 8, *Operating Segment Information*, clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- PAS 1, *Presentation of Financial Statements*, clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.
- PAS 7, *Statement of Cash Flows*, explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.
- PAS 17, *Leases*, removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either 'finance' or 'operating' in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.
- PAS 36, *Impairment of Assets*, clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.
- PAS 38, *Intangible Assets*, clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. It also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

- PAS 39, *Financial Instruments Recognition and Measurement*, clarifies the following:
  - that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.
  - that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken.
  - that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss
- Amendment to Philippine Interpretation IFRIC - 9, *Reassessment of Embedded Derivatives*, clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.
- Amendment to Philippine Interpretation IFRIC - 16, *Hedge of a Net Investment in a Foreign Operation*, states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

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### 3. Significant Accounting Judgments and Estimates

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

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

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

#### Judgments

##### a. *Operating leases*

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

##### b. *Fair value of financial instruments*

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, these are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated financial instruments (Note 5).

##### c. *HTM investments*

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

d. *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.

e. *Embedded derivatives*

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

f. *Contingencies*

The Group, specifically associates, are defendants in legal actions arising from normal business activities. Management believes that the ultimate liability, if any, resulting from these cases will not materially affect the Group's financial position and performance.

Estimates

a. *Credit losses of loans and receivables*

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

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

As of December 31, 2009 and 2008, the allowance for credit losses on loans and receivables amounted to ₱379.9 million and ₱376.9 million, respectively, for the Group and ₱363.7 million and ₱355.0 million, respectively, for the Parent Company. Loans and receivables as of December 31, 2009 and 2008 are carried at ₱12.6 billion and ₱15.9 billion, respectively, for the Group and ₱12.3 billion and ₱15.5 billion, respectively, for the Parent Company (see Note 9).

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. (Refer to Notes 5 and 8 for information on the carrying values of these instruments).

c. *Valuation of unquoted equity securities*

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

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

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. The Group calibrates the valuation techniques periodically and tests them for validity using either prices from observable current market transactions in the same instrument or from other available observable market data. Where observable market data is not available, unquoted equity securities are carried at cost less allowance for impairment losses. Refer to Note 8 for the information on the carrying amounts of these investments.



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. This determination of what is significant or prolonged requires judgment. The Group treats 'significant' generally as decrease by more than 20% of the original cost of investment, and 'prolonged' as greater than 12 months. In making this judgment, the Group evaluates among other factors, the normal volatility in share price.

In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. As of December 31, 2009 and 2008, allowance for impairment losses on AFS equity securities amounted to ₱285.6 million and ₱113.9 million, respectively, for the Group and ₱200.5 million and ₱28.7 million, respectively, for the Parent Company. As of December 31, 2009 and 2008, the carrying value of AFS equity securities (included under AFS investments) amounted to ₱1.8 billion and ₱1.6 billion, respectively, for the Group and ₱1.7 billion and ₱1.5 billion, respectively, for the Parent Company (see Note 8).

e. *Recognition of deferred income taxes*

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

The Parent Company and certain subsidiaries have been in a tax loss position over the past several years. However, estimates of future taxable income for the subsidiaries indicate that certain temporary differences will be realized in the future. As of December 31, 2009 and 2008, deferred tax assets recognized amounted to ₱8.5 million and ₱3.7 million, respectively, for the Group and nil for the Parent Company. Also, as of December 31, 2009 and 2008, recognized deferred tax liabilities amounted to ₱7.0 million and ₱1.7 million, respectively, for the Group and nil and ₱0.4 million, respectively, for the Parent Company. In addition, as of December 31, 2009 and 2008, no deferred tax assets have been set up on NOLCO and deductible temporary differences of ₱2.4 billion and ₱2.1 billion, respectively, for the Group and ₱2.4 billion and ₱2.0 billion, respectively, for the Parent Company (see Note 25).

In 2009 and 2008 RCIT computations, the Parent Company elected to claim itemized deductions instead of optional standard deduction (OSD).

g. *Present value of retirement obligation*

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

The expected rates of return on plan assets were based on the average historical premium of the fund assets. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of statement of financial position dates. Refer to Note 22 for the details of assumption used in the actuarial valuation.

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

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

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

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

As of December 31, 2009, the carrying value of property and equipment, investment properties and investments in subsidiaries, associates and joint venture amounted to ₱78.9 million, ₱806.1 million and ₱9.2 billion, respectively, for the Group and

₱67.5 million, ₱806.1 million and ₱8.3 billion, respectively, for the Parent Company. As of December 31, 2008, the carrying value of property and equipment, investment properties and investments in subsidiaries, associates and joint venture amounted to ₱80.3 million, ₱865.7 million and ₱6.9 billion, respectively, for the Group and ₱64.7 million and ₱805.7 million and ₱6.3 billion, respectively, for the Parent Company (see Notes 10, 11 and 12).

As of December 31, 2009 and 2008, allowance for impairment losses on investments in subsidiaries, associates and joint venture amounted to nil and ₱8.7 million, respectively, for the Group and ₱100.1 million and ₱108.8 million, respectively, for the Parent Company (see Note 11).

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#### 4. Financial Risk Management

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

- Credit risk
- Liquidity risk
- Market risk

##### *Risk Management Framework*

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

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

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

The Crecom, another senior management committee, is tasked with reviewing all credit proposals and approving loan applications and credit facilities up to set limits/criteria; when exceeded, the decision is elevated to the EXCOM.

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

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

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

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

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

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

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

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

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

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

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

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

The development of policies and procedures manual on almost all major operating units of the Parent Company are the main operations risk management measures in place. Also, the IAD conducts regular examination of the operations of the Parent Company and certain subsidiaries to ensure adherence to policies and procedures. Moving forward, the Parent Company is working towards an enterprise-wide operations risk management using reference materials and assistance of the Parent Company's risk management group.

#### *Credit Risk and Concentration*

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

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

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

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

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

#### *Management of Credit Risk*

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

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

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. | 40%                  |
| Industry Analysis   | Refers to the prospects of the industry as well as the company's performance and position in the industry.   | 30%                  |
| Management Quality  | Refers to the management's ability to run the company successfully.  | 30%                  |

- 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 loans

#### 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 balance sheet, 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 quality investment portfolio, the Parent Company uses the credit risk rating from published data providers like Moody's, Standard & Poor and other reputable rating agencies as well as its internal rating system.

In undertaking its investment transactions, the Parent Company is also guided by 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 re-appraisal for at least every two years as circumstances warrant.

- Monitoring of compliance by the RMD of the approved exposure limits.

*Maximum exposure to credit risk before collateral held or other credit enhancements*

An analysis of the maximum exposure to credit risk related to on-balance sheet assets without taking into account any collateral held or other credit enhancements is shown below:

|   | Consolidated          |                       | Parent Company        |                       |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
|   | 2009                  | 2008                  | 2009                  | 2008                  |
| <b>Credit risk exposures relating to on balance sheet assets are as follow:</b> | <b>₱1,965,000,000</b> | <b>₱1,916,100,000</b> | <b>₱1,965,000,000</b> | <b>₱1,916,100,000</b> |
| Due from BSP  | 8,156,745,303         | 5,596,525,305         | 7,711,899,172         | 5,096,331,560         |
| Cash and other cash items*  | –                     | 1,430,000,000         | –                     | 1,430,000,000         |
| Interbank loans receivable and SPURA  |                       |                       |                       |                       |
| Financial assets at FVPL (Note 8)   |                       |                       |                       |                       |
| Government debt securities  | 1,495,143,295         | 51,778,131            | 1,485,138,322         | 51,778,131            |
| Equity securities   | 394,815,702           | 369,950,679           | 318,711,862           | 235,108,791           |
|   | 1,889,958,997         | 421,728,810           | 1,803,850,184         | 286,886,922           |
| AFS investments (Note 8)  |                       |                       |                       |                       |
| Government debt securities  | 18,598,060,193        | 6,944,274,859         | 18,368,911,305        | 6,795,499,700         |
| Private debt securities   | 467,825,882           | 492,236,400           | 451,828,000           | 492,236,400           |
| Equity securities   |                       |                       |                       |                       |
| Quoted  | 1,533,137,184         | 1,078,143,759         | 1,491,867,184         | 1,053,884,096         |
| Unquoted  | 243,196,796           | 517,712,768           | 213,783,427           | 488,280,644           |
|   | 20,842,220,055        | 9,032,367,786         | 20,526,389,916        | 8,829,900,840         |
| HTM investments (Note 8)  |                       |                       |                       |                       |
| Government bonds  | 3,718,899,612         | 3,756,141,902         | 3,718,899,612         | 3,749,989,615         |
| Private   | 16,922,118            | –                     | –                     | –                     |
|   | 3,735,821,730         | 3,756,141,902         | 3,718,899,612         | 3,749,989,615         |
| Loans and receivables (Note 9)  |                       |                       |                       |                       |
| Loans and discounts   |                       |                       |                       |                       |
| Corporate lending   | 1,753,455,658         | 5,142,384,207         | 1,542,371,980         | 4,947,241,171         |
| Others  | 43,535,481            | 31,516,911            | 43,277,840            | 31,516,911            |
| Less unearned discounts   | 43,276                | 1,985,666             | 43,276                | 133,254               |
|   | 1,796,947,863         | 5,171,915,452         | 1,585,606,544         | 4,978,624,828         |
| Unquoted commercial papers  | 10,193,561,576        | 10,109,603,818        | 10,193,561,576        | 10,109,603,818        |
| Accrued interest receivable   | 785,110,929           | 487,238,966           | 769,928,453           | 481,491,159           |
| Accounts receivable   | 218,334,515           | 396,315,587           | 129,944,747           | 119,955,466           |
| Dividends receivable  | 2,251,062             | 124,290,187           | 2,251,062             | 174,290,187           |
|   | 12,996,205,945        | 16,289,364,010        | 12,681,292,382        | 15,863,965,458        |
| Less allowance for credit losses (Note 14)                                      | 379,870,322           | 376,935,308           | 363,655,994           | 355,047,308           |
|   | 12,616,335,623        | 15,912,428,702        | 12,317,636,388        | 15,508,918,150        |
|   | ₱49,206,081,708       | ₱38,065,292,505       | ₱48,043,675,272       | ₱36,818,127,087       |

\* Excludes petty cash fund.

*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             |                                    |                            |                 |
|--|--------------------------|------------------------------------|----------------------------|-----------------|
|  | 2009                     |                                    |                            |                 |
|  | Loans and<br>Receivables | Loans and<br>advances<br>to banks* | Investment<br>Securities** | Total           |
| Carrying amount                              |                          |                                    |                            |                 |
| Financial intermediaries                     | ₱3,113,515,658           | ₱8,156,745,303                     | ₱1,259,006,963             | ₱12,529,267,924 |
| Electricity, gas and water                   | 2,665,364,706            | –                                  | 93,551,960                 | 2,758,916,666   |
| Philippine government                        | 2,529,875,883            | 1,965,000,000                      | 23,812,103,100             | 28,306,978,983  |
| Transportation, Storage and<br>communication | 2,007,057,461            | –                                  | 547,139,997                | 2,554,197,458   |
| Real estate, renting and business activities | 1,601,739,655            | –                                  | 881,108,758                | 2,482,848,413   |
| Manufacturing (various industries)           | 512,830,243              | –                                  | 81,798,999                 | 594,629,242     |
| Wholesale and retail trade                   | 378,112,763              | –                                  | 41,157,272                 | 419,270,035     |
| Private households                           | 47,639,897               | –                                  | –                          | 47,639,897      |
| Construction                                 | 56,243                   | –                                  | 9,949,277                  | 10,005,520      |
| Mining and quarrying                         | –                        | –                                  | 27,777,070                 | 27,777,070      |
| Others                                       | 140,013,436              | –                                  | –                          | 140,013,436     |
|  | 12,996,205,945           | 10,121,745,303                     | 26,753,593,396             | 49,871,544,644  |
| Less allowance for credit losses             | 379,870,322              | –                                  | 285,592,614                | 665,462,936     |
|  | ₱12,616,335,623          | ₱10,121,745,303                    | ₱26,468,000,782            | ₱49,206,081,708 |

|  | Consolidated             |                                    |                            |                 |
|--|--------------------------|------------------------------------|----------------------------|-----------------|
|  | 2008                     |                                    |                            |                 |
|  | Loans and<br>Receivables | Loans and<br>advances<br>to banks* | Investment<br>Securities** | Total           |
| Carrying amount                              |                          |                                    |                            |                 |
| Electricity, gas and water                   | ₱4,309,853,912           | ₱–                                 | ₱112,417,389               | ₱4,422,271,301  |
| Financial intermediaries                     | 4,238,852,702            | 7,026,525,305                      | 1,069,829,034              | 12,335,207,043  |
| Real estate, renting and business activities | 3,721,085,985            | –                                  | 556,732,547                | 4,277,818,532   |
| Transportation, storage and<br>communication | 1,875,307,739            | –                                  | 751,535,723                | 2,626,843,462   |
| Manufacturing (various industries)           | 1,022,579,867            | –                                  | 27,816,162                 | 1,050,396,029   |
| Wholesale and retail trade                   | 687,065,414              | –                                  | 41,113,585                 | 728,178,999     |
| Philippine government                        | 254,002,568              | 1,916,100,000                      | 10,752,194,892             | 12,922,297,460  |
| Private households                           | 45,251,738               | –                                  | –                          | 45,251,738      |
| Construction                                 | 378,688                  | –                                  | 5,035,102                  | 5,413,790       |
| Mining and quarrying                         | –                        | –                                  | 7,282,380                  | 7,282,380       |
| Others                                       | 134,985,395              | –                                  | 132,000                    | 135,117,395     |
|  | 16,289,364,010           | 8,942,625,305                      | 13,324,088,814             | 38,556,078,129  |
| Less allowance for credit losses             | 376,935,308              | –                                  | 113,850,316                | 490,785,624     |
|  | ₱15,912,428,702          | ₱8,942,625,305                     | ₱13,210,238,498            | ₱38,065,292,505 |



| Parent Company                               |                          |                                    |                            |                 |
|--|--------------------------|------------------------------------|----------------------------|-----------------|
| 2009   |                          |                                    |                            |                 |
|  | Loans and<br>Receivables | Loans and<br>advances<br>to banks* | Investment<br>Securities** | Total           |
| <b>Carrying amount</b>                       |                          |                                    |                            |                 |
| Financial intermediaries                     | ₱3,140,417,887           | ₱7,711,899,172                     | ₱1,184,576,785             | ₱12,036,893,844 |
| Philippine government                        | 2,527,422,206            | 1,965,000,000                      | 23,572,949,239             | 28,065,371,445  |
| Electricity, gas and water                   | 2,514,034,354            | –                                  | 59,179,460                 | 2,573,213,814   |
| Transportation, storage and communication    | 2,007,057,461            | –                                  | 448,608,378                | 2,455,665,839   |
| Real estate, renting and business activities | 1,567,537,359            | –                                  | 880,118,758                | 2,447,656,117   |
| Manufacturing (various industries)           | 512,830,243              | –                                  | 51,580,317                 | 564,410,560     |
| Wholesale and retail trade                   | 322,670,469              | –                                  | 20,724,606                 | 343,395,075     |
| Private households                           | 47,382,256               | –                                  | –                          | 47,382,256      |
| Construction                                 | 56,243                   | –                                  | 7,992,397                  | 8,048,640       |
| Mining and quarrying                         | –                        | –                                  | 23,877,070                 | 23,877,070      |
| Others                                       | 41,883,904               | –                                  | –                          | 41,883,904      |
|  | 12,681,292,382           | 9,676,899,172                      | 26,249,607,010             | 48,607,798,564  |
| Less allowance for credit losses             | 363,655,994              | –                                  | 200,467,298                | 564,123,292     |
|  | ₱12,317,636,388          | ₱9,676,899,172                     | ₱26,049,139,712            | ₱48,043,675,272 |

| Parent Company                               |                          |                                    |                            |                 |
|--|--------------------------|------------------------------------|----------------------------|-----------------|
| 2008   |                          |                                    |                            |                 |
|  | Loans and<br>Receivables | Loans and<br>advances<br>to banks* | Investment<br>Securities** | Total           |
| <b>Carrying amount</b>                       |                          |                                    |                            |                 |
| Electricity, gas and water                   | ₱4,158,893,763           | ₱–                                 | ₱109,567,389               | ₱4,268,461,152  |
| Financial intermediaries                     | 4,130,559,298            | 6,526,331,560                      | 925,849,146                | 11,582,740,004  |
| Real estate, renting and business activities | 3,621,083,470            | –                                  | 556,336,547                | 4,177,420,017   |
| Transportation, storage and communication    | 1,875,307,739            | –                                  | 645,535,290                | 2,520,843,029   |
| Manufacturing (various industries)           | 1,022,579,867            | –                                  | 27,816,162                 | 1,050,396,029   |
| Wholesale and retail trade                   | 663,917,826              | –                                  | 20,680,915                 | 684,598,741     |
| Philippine government                        | 250,306,232              | 1,916,100,000                      | 10,597,267,446             | 12,763,673,678  |
| Private households                           | 39,885,559               | –                                  | –                          | 39,885,559      |
| Construction                                 | 378,688                  | –                                  | 5,035,102                  | 5,413,790       |
| Mining and quarrying                         | –                        | –                                  | 7,282,380                  | 7,282,380       |
| Others                                       | 101,053,016              | –                                  | 132,000                    | 101,185,016     |
|  | 15,863,965,458           | 8,442,431,560                      | 12,895,502,377             | 37,201,899,395  |
| Less allowance for credit losses             | 355,047,308              | –                                  | 28,725,000                 | 383,772,308     |
|  | ₱15,508,918,150          | ₱8,442,431,560                     | ₱12,866,777,377            | ₱36,818,127,087 |

\* Comprised of Cash and other cash items (excluding petty cash fund), Due from BSP, and Interbank loans receivables and SPURA

\*\* Comprised of Financial assets at FVPL, AFS investments and HTM investments.

The following table shows the credit quality of financial assets:

| Consolidated                     |                          |                                    |                            |                 |
|----------------------------------|--------------------------|------------------------------------|----------------------------|-----------------|
| December 31, 2009                |                          |                                    |                            |                 |
|                                  | Loans and<br>receivables | Loans and<br>advances<br>to banks* | Investment<br>Securities** | Total           |
| Neither past due nor impaired    | ₱11,454,356,637          | ₱10,121,745,303                    | ₱25,797,055,211            | ₱47,373,157,151 |
| Impaired                         | 1,541,849,308            | –                                  | 956,538,185                | 2,498,387,493   |
| Gross                            | 12,996,205,945           | 10,121,745,303                     | 26,753,593,396             | 49,871,544,644  |
| Less allowance for credit losses | 379,870,322              | –                                  | 285,592,614                | 665,462,936     |
| Net                              | ₱12,616,335,623          | ₱10,121,745,303                    | ₱26,468,000,782            | ₱49,206,081,708 |

| Consolidated<br>December 31, 2008 |                          |                                    |                            |                 |
|-----------------------------------|--------------------------|------------------------------------|----------------------------|-----------------|
|                                   | Loans and<br>receivables | Loans and<br>advances<br>to banks* | Investment<br>Securities** | Total           |
| Neither past due nor impaired     | ₱14,671,351,803          | ₱8,942,625,305                     | ₱13,079,095,085            | ₱36,693,072,193 |
| Past due but not impaired         | 4,749,769                | –                                  | –                          | 4,749,769       |
| Impaired                          | 1,613,262,438            | –                                  | 244,993,729                | 1,858,256,167   |
| Gross                             | 16,289,364,010           | 8,942,625,305                      | 13,324,088,814             | 38,556,078,129  |
| Less allowance for credit losses  | 376,935,308              | –                                  | 113,850,316                | 490,785,624     |
| Net                               | ₱15,912,428,702          | ₱8,942,625,305                     | ₱13,210,238,498            | ₱38,065,292,505 |

| Parent Company<br>December 31, 2009 |                          |                                    |                            |                 |
|-------------------------------------|--------------------------|------------------------------------|----------------------------|-----------------|
|                                     | Loans and<br>Receivables | Loans and<br>advances<br>to banks* | Investment<br>Securities** | Total           |
| Neither past due nor impaired       | ₱11,139,443,074          | ₱9,676,899,172                     | ₱25,406,917,406            | ₱46,223,259,652 |
| Impaired                            | 1,541,849,308            | –                                  | 842,689,604                | 2,384,538,912   |
| Gross                               | 12,681,292,382           | 9,676,899,172                      | 26,249,607,010             | 48,607,798,564  |
| Less allowance for credit losses    | 363,655,994              | –                                  | 200,467,298                | 564,123,292     |
| Net                                 | ₱12,317,636,388          | ₱9,676,899,172                     | ₱26,049,139,712            | ₱48,043,675,272 |

| Parent Company<br>December 31, 2008 |                          |                                    |                            |                 |
|-------------------------------------|--------------------------|------------------------------------|----------------------------|-----------------|
|                                     | Loans and<br>Receivables | Loans and<br>advances<br>to banks* | Investment<br>Securities** | Total           |
| Neither past due nor impaired       | ₱14,250,558,104          | ₱8,442,431,560                     | ₱12,764,375,980            | ₱35,457,365,644 |
| Past due but not impaired           | 4,749,769                | –                                  | –                          | 4,749,769       |
| Impaired                            | 1,608,657,585            | –                                  | 131,126,397                | 1,739,783,982   |
| Gross                               | 15,863,965,458           | 8,442,431,560                      | 12,895,502,377             | 37,201,899,395  |
| Less allowance for credit losses    | 355,047,308              | –                                  | 28,725,000                 | 383,772,308     |
| Net                                 | ₱15,508,918,150          | ₱8,442,431,560                     | ₱12,866,777,377            | ₱36,818,127,087 |

\* Comprised of Cash and other cash items (excluding petty cash fund), Due from BSP, and Interbank loans receivables and SPURA

\*\* Comprised of Financial assets at FVPL, AFS investments and HTM investments.

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, 2009             |                |                 |                   |                |                      |                 |
| Neither past due nor impaired |                |                 |                   |                |                      |                 |
|                               | High Grade     | Standard Grade  | Substandard Grade | Unrated        | Past Due or Impaired | Total           |
| Loans and advances to banks   |                |                 |                   |                |                      |                 |
| Due from BSP                  | P=             | P1,965,000,000  | P=                | P=             | P=                   | P1,965,000,000  |
| Cash and other cash items*    | -              | -               | -                 | 8,156,745,303  | -                    | 8,156,745,303   |
|                               | -              | 1,965,000,000   | -                 | 8,156,745,303  | -                    | 10,121,745,303  |
| Financial assets at FVPL      |                |                 |                   |                |                      |                 |
| Government debt securities    | -              | 1,495,143,295   | -                 | -              | -                    | 1,495,143,295   |
| Equity securities             | 121,680,340    | 174,772,881     | 66,172,343        | 32,190,138     | -                    | 394,815,702     |
|                               | 121,680,340    | 1,669,916,176   | 66,172,343        | 32,190,138     | -                    | 1,889,958,997   |
| AFS Investments               |                |                 |                   |                |                      |                 |
| Government debt securities    | -              | 18,598,060,193  | -                 | -              | -                    | 18,598,060,193  |
| Private debt securities       | 467,825,882    | -               | -                 | -              | -                    | 467,825,882     |
| Equity Securities             |                |                 |                   |                |                      |                 |
| Quoted                        | 428,034,132    | 524,028,143     | 10,004,000        | 31,250,000     | 711,563,207          | 1,704,879,482   |
| Unquoted                      | 1,230,915      | 82,214,306      | 20,140,104        | 8,486,809      | 244,974,978          | 357,047,112     |
|                               | 897,090,929    | 19,204,302,642  | 30,144,104        | 39,736,809     | 956,538,185          | 21,127,812,669  |
| HTM investments               |                |                 |                   |                |                      |                 |
| Government bonds              | -              | 3,718,899,612   | -                 | -              | -                    | 3,718,899,612   |
| Private                       | -              | 16,922,118      | -                 | -              | -                    | 16,922,118      |
|                               | -              | 3,735,821,730   | -                 | -              | -                    | 3,735,821,730   |
| Loans and receivables         |                |                 |                   |                |                      |                 |
| Loans and discounts           |                |                 |                   |                |                      |                 |
| Corporate lending             | 50,000,000     | 243,406,323     | 546,074,262       | 9,158,806      | 904,772,991          | 1,753,412,382   |
| Others                        | -              | -               | -                 | 43,535,481     | -                    | 43,535,481      |
|                               | 50,000,000     | 243,406,323     | 546,074,262       | 52,694,287     | 904,772,991          | 1,796,947,863   |
| Unquoted commercial papers    | 3,706,307,550  | 3,855,271,283   | 1,400,732,743     | 775,000,000    | 456,250,000          | 10,193,561,576  |
| Accrued interest receivable   | 45,233,992     | 584,476,827     | 40,694,593        | 17,407,994     | 97,297,523           | 785,110,929     |
| Accounts receivable           | -              | -               | 25,150,000        | 109,655,721    | 83,528,794           | 218,334,515     |
| Dividends receivable          | 2,078,468      | 116,351         | 56,243            | -              | -                    | 2,251,062       |
|                               | 3,803,620,010  | 4,683,270,784   | 2,012,707,841     | 954,758,002    | 1,541,849,308        | 12,996,205,945  |
|                               | P4,822,391,279 | P31,258,311,332 | P2,109,024,288    | P9,183,430,252 | P2,498,387,493       | P49,871,544,644 |

\* Excludes petty cash fund.

| Consolidated                         |                |                 |                   |                |                      |                 |
|--------------------------------------|----------------|-----------------|-------------------|----------------|----------------------|-----------------|
| December 31, 2008                    |                |                 |                   |                |                      |                 |
| Neither past due nor impaired        |                |                 |                   |                |                      |                 |
|                                      | High Grade     | Standard Grade  | Substandard Grade | Unrated        | Past Due or Impaired | Total           |
| Loans and advances to banks          |                |                 |                   |                |                      |                 |
| Due from BSP                         | P=             | P1,916,100,000  | P=                | P=             | P=                   | P1,916,100,000  |
| Cash and other cash items*           | –              | –               | –                 | 5,596,525,305  | –                    | 5,596,525,305   |
| Interbank loans receivable and SPURA | –              | 1,330,000,000   | –                 | 100,000,000    | –                    | 1,430,000,000   |
|                                      | –              | 3,246,100,000   | –                 | 5,696,525,305  | –                    | 8,942,625,305   |
| Financial assets at FVPL             |                |                 |                   |                |                      |                 |
| Government debt securities           | –              | 51,778,131      | –                 | –              | –                    | 51,778,131      |
| Equity securities                    | 101,575,603    | 62,053,178      | –                 | 206,321,898    | –                    | 369,950,679     |
|                                      | 101,575,603    | 113,831,309     | –                 | 206,321,898    | –                    | 421,728,810     |
| AFS Investments                      |                |                 |                   |                |                      |                 |
| Government debt securities           | –              | 6,944,274,859   | –                 | –              | –                    | 6,944,274,859   |
| Private debt securities              | 492,236,400    | –               | –                 | –              | –                    | 492,236,400     |
| Equity securities                    |                |                 |                   |                |                      |                 |
| Quoted                               | 629,505,412    | 45,811,450      | 37,820,162        | 365,006,735    |                      | 1,078,143,759   |
| Unquoted                             | 1,230,915      | –               | 306,830,335       | 78,508,105     | 244,993,729          | 631,563,084     |
|                                      | 1,122,972,727  | 6,990,086,309   | 344,650,497       | 443,514,840    | 244,993,729          | 9,146,218,102   |
| HTM investments                      |                |                 |                   |                |                      |                 |
| Government bonds                     | –              | 3,756,141,902   | –                 | –              | –                    | 3,756,141,902   |
| Loans and receivables                |                |                 |                   |                |                      |                 |
| Loans and discounts                  |                |                 |                   |                |                      |                 |
| Corporate lending                    | 365,000,000    | 1,704,069,008   | 2,095,636,967     | 32,469,575     | 943,222,991          | 5,140,398,541   |
| Others                               | –              | –               | –                 | 31,516,911     | –                    | 31,516,911      |
|                                      | 365,000,000    | 1,704,069,008   | 2,095,636,967     | 63,986,486     | 943,222,991          | 5,171,915,452   |
| Unquoted commercial papers           | 3,341,500,000  | 3,453,669,347   | 1,565,684,471     | 1,292,500,000  | 456,250,000          | 10,109,603,818  |
| Accrued interest receivable          | 63,986,461     | 240,070,096     | 36,827,766        | 41,060,034     | 105,294,609          | 487,238,966     |
| Accounts receivable                  | –              | –               | 181,000           | 287,639,749    | 108,494,838          | 396,315,587     |
| Dividends receivable                 | 117,970,288    | 3,158,825       | –                 | 3,161,074      | –                    | 124,290,187     |
|                                      | 3,888,456,749  | 5,400,967,276   | 3,698,330,204     | 1,688,347,343  | 1,613,262,438        | 16,289,364,010  |
|                                      | P5,113,005,079 | P19,507,126,796 | P4,042,980,701    | P8,034,709,386 | P1,858,256,167       | P38,556,078,129 |

\* Excludes petty cash fund.



| Parent Company                |                |                 |                   |                |                      |                 |
|-------------------------------|----------------|-----------------|-------------------|----------------|----------------------|-----------------|
| December 31, 2009             |                |                 |                   |                |                      |                 |
| Neither past due nor impaired |                |                 |                   |                |                      |                 |
|                               | High Grade     | Standard Grade  | Substandard Grade | Unrated        | Past Due or Impaired | Total           |
| Loans and advances to banks   |                |                 |                   |                |                      |                 |
| Due from BSP                  | P=             | P1,965,000,000  | P=                | P=             | P=                   | P1,965,000,000  |
| Cash and other cash items*    | –              | –               | –                 | 7,711,899,172  | –                    | 7,711,899,172   |
|                               | –              | 1,965,000,000   | –                 | 7,711,899,172  | –                    | 9,676,899,172   |
| Financial assets at FVPL      |                |                 |                   |                |                      |                 |
| Government debt securities    | –              | 1,485,138,322   | –                 | –              | –                    | 1,485,138,322   |
| Equity securities             | 104,346,540    | 142,962,901     | 55,524,233        | 15,878,188     |                      | 318,711,862     |
|                               | 104,346,540    | 1,628,101,223   | 55,524,233        | 15,878,188     |                      | 1,803,850,184   |
| AFS investments               |                |                 |                   |                |                      |                 |
| Government debt securities    | –              | 18,368,911,305  | –                 | –              | –                    | 18,368,911,305  |
| Private debt securities       | 451,828,000    | –               | –                 | –              | –                    | 451,828,000     |
| Equity Securities             |                |                 |                   |                |                      |                 |
| Quoted                        | 428,018,132    | 524,028,143     |                   |                | 711,563,207          | 1,663,609,482   |
| Unquoted                      | 1,230,915      | 82,214,306      | 19,450,000        | 8,486,809      | 131,126,397          | 242,508,427     |
|                               | 881,077,047    | 18,975,153,754  | 19,450,000        | 8,486,809      | 842,689,604          | 20,726,857,214  |
| HTM investments               |                |                 |                   |                |                      |                 |
| Government bonds              | –              | 3,718,899,612   | –                 | –              | –                    | 3,718,899,612   |
| Loans and receivables         |                |                 |                   |                |                      |                 |
| Loans and discounts           |                |                 |                   |                |                      |                 |
| Corporate lending             | –              | 243,406,323     | 391,074,262       | 3,075,128      | 904,772,991          | 1,542,328,704   |
| Others                        | –              | –               | –                 | 43,277,840     | –                    | 43,277,840      |
|                               | –              | 243,406,323     | 391,074,262       | 46,352,968     | 904,772,991          | 1,585,606,544   |
| Unquoted commercial papers    | 3,706,307,550  | 3,855,271,283   | 1,400,732,743     | 775,000,000    | 456,250,000          | 10,193,561,576  |
| Accrued interest receivable   | 44,278,535     | 579,474,993     | 39,031,181        | 9,846,221      | 97,297,523           | 769,928,453     |
| Accounts receivable           | –              | –               | –                 | 46,415,953     | 83,528,794           | 129,944,747     |
| Dividends receivable          | 2,078,468      | 116,351         | 56,243            | –              | –                    | 2,251,062       |
|                               | 3,752,664,553  | 4,678,268,950   | 1,830,894,429     | 877,615,142    | 1,541,849,308        | 12,681,292,382  |
|                               | P4,738,088,140 | P30,965,423,539 | P1,905,868,662    | P8,613,879,311 | P2,384,538,912       | P48,607,798,564 |

\* Excludes petty cash fund.

| Parent Company                       |                |                 |                   |                |                      |                 |
|--------------------------------------|----------------|-----------------|-------------------|----------------|----------------------|-----------------|
| December 31, 2008                    |                |                 |                   |                |                      |                 |
| Neither past due nor impaired        |                |                 |                   |                |                      |                 |
|                                      | High Grade     | Standard Grade  | Substandard Grade | Unrated        | Past Due or Impaired | Total           |
| Loans and advances to banks          |                |                 |                   |                |                      |                 |
| Due from BSP                         | P=             | P1,916,100,000  | P=                | P=             | P=                   | P1,916,100,000  |
| Cash and other cash items*           | –              | –               | –                 | 5,096,331,560  | –                    | 5,096,331,560   |
| Interbank loans receivable and SPURA | –              | 1,330,000,000   | –                 | 100,000,000    | –                    | 1,430,000,000   |
|                                      | –              | 3,246,100,000   | –                 | 5,196,331,560  | –                    | 8,442,431,560   |
| Financial assets at FVPL             |                |                 |                   |                |                      |                 |
| Government debt securities           | –              | 51,778,131      | –                 | –              | –                    | 51,778,131      |
| Equity securities                    | 99,750,303     | 58,857,428      | –                 | 76,501,060     | –                    | 235,108,791     |
|                                      | 99,750,303     | 110,635,559     | –                 | 76,501,060     | –                    | 286,886,922     |
| AFS investments                      |                |                 |                   |                |                      |                 |
| Government debt securities           | –              | 6,795,499,700   | –                 | –              | –                    | 6,795,499,700   |
| Private debt securities              | 492,236,400    | –               | –                 | –              | –                    | 492,236,400     |
| Equity securities                    |                |                 |                   |                |                      |                 |
| Quoted                               | 628,749,748    | 45,811,450      | 27,816,162        | 351,506,736    | –                    | 1,053,884,096   |
| Unquoted                             | 1,230,915      | –               | 306,830,335       | 77,817,997     | 131,126,397          | 517,005,644     |
|                                      | 1,122,217,063  | 6,841,311,150   | 334,646,497       | 429,324,733    | 131,126,397          | 8,858,625,840   |
| HTM investments                      |                |                 |                   |                |                      |                 |
| Government bonds                     | –              | 3,749,989,615   | –                 | –              | –                    | 3,749,989,615   |
| Loans and receivables                |                |                 |                   |                |                      |                 |
| Loans and discounts                  |                |                 |                   |                |                      |                 |
| Corporate lending                    | 300,000,000    | 1,704,069,008   | 1,967,346,344     | 32,469,574     | 943,222,991          | 4,947,107,917   |
| Others                               | –              | –               | –                 | 31,516,911     | –                    | 31,516,911      |
|                                      | 300,000,000    | 1,704,069,008   | 1,967,346,344     | 63,986,485     | 943,222,991          | 4,978,624,828   |
| Unquoted commercial papers           | 3,291,500,000  | 3,448,063,717   | 1,543,429,946     | 1,370,360,155  | 456,250,000          | 10,109,603,818  |
| Accrued interest receivable          | 62,843,505     | 240,070,095     | 36,827,767        | 41,060,034     | 100,689,758          | 481,491,159     |
| Accounts receivable                  | –              | –               | 181,000           | 11,279,630     | 108,494,836          | 119,955,466     |
| Dividends receivable                 | 167,970,287    | 3,158,825       | –                 | 3,161,075      | –                    | 174,290,187     |
|                                      | 3,822,313,792  | 5,395,361,645   | 3,547,785,057     | 1,489,847,379  | 1,608,657,585        | 15,863,965,458  |
|                                      | P5,044,281,158 | P19,343,397,969 | P3,882,431,554    | P7,192,004,732 | P1,739,783,982       | P37,201,899,395 |

\* Excludes petty cash fund.

*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 securities 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.

Past due but not impaired loans and receivables as of December 31, 2008 amounting to P4.7 million are over 180 days past due.

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 collateral assessed at the time of borrowing and these are updated every two years. 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, 2009 and 2008.

The following table shows the fair value of collateral held against Loans and receivables both for the Group and the Parent Company:

|                                       | 2009                  | 2008                  |
|---------------------------------------|-----------------------|-----------------------|
| Against individually impaired         |                       |                       |
| Equities                              | ₱25,000,000           | ₱25,000,000           |
| Chattel                               | 800,681,000           | 984,907,200           |
| Against past due but not impaired     |                       |                       |
| Property                              | –                     | 6,481,856             |
| Debt securities                       | –                     | 3,000,000             |
| Against neither past due nor impaired |                       |                       |
| Property                              | 419,647,400           | 1,750,373,144         |
| Chattel                               | 209,687,200           | 207,301,000           |
| Others                                | –                     | 370,236,200           |
|                                       | <b>₱1,455,015,600</b> | <b>₱3,347,299,400</b> |

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

#### *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.

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. The plans and strategies in the liquidity risk management are contained on the Board-approved Liquidity Risk Management and Contingency Funding Plan. The RMD prepares MCO report, which quantifies the Parent Company's liquidity mismatch risk twice-a-month starting January 2009.

Liquidity is monitored by the Group 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      |                  |                  |                   |                  | Total           |
|------------------------------|-------------------|------------------|------------------|-------------------|------------------|-----------------|
|                              | December 31, 2009 |                  |                  |                   |                  |                 |
|                              | Up to<br>1 month  | 1 to 3<br>months | 3 to 6<br>months | 6 to 12<br>months | Beyond 1<br>Year |                 |
| <b>Financial Assets</b>      |                   |                  |                  |                   |                  |                 |
| Loans and advances           |                   |                  |                  |                   |                  |                 |
| Cash and other cash items    | ₱8,156,812,303    | ₱–               | ₱–               | ₱–                | ₱–               | ₱8,156,812,303  |
| Due from BSP                 | 1,965,000,000     | –                | –                | –                 | –                | 1,965,000,000   |
|                              | 10,121,812,303    | –                | –                | –                 | –                | 10,121,812,303  |
| Loans and receivables        |                   |                  |                  |                   |                  |                 |
| Loans and discounts          |                   |                  |                  |                   |                  |                 |
| Corporate lending            | 118,259,697       | 167,196,855      | 68,686,498       | 64,036,947        | 1,757,901,072    | 2,176,081,069   |
| Others                       | 741,004           | 1,471,377        | 2,191,487        | 4,294,416         | 56,953,372       | 65,651,656      |
|                              | 119,000,701       | 168,668,232      | 70,877,985       | 68,331,363        | 1,814,854,444    | 2,241,732,725   |
| Unquoted commercial papers   | 90,048,823        | 145,696,089      | 248,897,418      | 376,566,996       | 12,243,826,337   | 13,105,035,663  |
| Accrued interest receivable  | 214,561,650       | 436,347,982      | 52,169,779       | 9,458,633         | 72,572,885       | 785,110,929     |
| Accounts receivable          | 42,868,187        | 1,642,751        | 316,856          | 196,192           | 84,920,761       | 129,944,747     |
| Dividends receivable         | 2,251,062         | –                | –                | –                 | –                | 2,251,062       |
|                              | 468,730,423       | 752,355,054      | 372,262,038      | 454,553,184       | 14,216,174,427   | 16,264,075,126  |
| Held for trading             |                   |                  |                  |                   |                  |                 |
| Government debt securities   | 1,495,143,295     | –                | –                | –                 | –                | 1,495,143,295   |
| Equity securities            | 394,815,702       | –                | –                | –                 | –                | 394,815,702     |
| AFS Investments              |                   |                  |                  |                   |                  |                 |
| Government debt securities   | 27,666,364        | 149,857,475      | 154,385,317      | 747,441,719       | 28,642,385,703   | 29,721,736,578  |
| Private debt securities      | –                 | 4,640,026        | 12,752,461       | 19,960,866        | 529,207,304      | 566,560,657     |
| Quoted equity investments    | –                 | –                | –                | –                 | 1,511,544,348    | 1,511,544,348   |
| Unquoted equity investments  | –                 | –                | –                | –                 | 264,789,632      | 264,789,632     |
| HTM investments              |                   |                  |                  |                   |                  |                 |
| Government debt securities   | –                 | 33,873,568       | 2,513,769,687    | 66,267,407        | 1,495,544,975    | 4,109,455,637   |
| Private debt securities      | –                 | –                | –                | 16,922,118        | –                | 16,922,118      |
|                              | 1,917,625,361     | 188,371,069      | 2,680,907,465    | 850,592,110       | 32,443,471,962   | 38,080,967,967  |
|                              | ₱12,508,168,087   | ₱940,726,123     | ₱3,054,169,503   | ₱1,305,145,294    | ₱46,659,646,389  | ₱64,466,855,396 |
| <b>Financial Liabilities</b> |                   |                  |                  |                   |                  |                 |
| Non-derivative liabilities   |                   |                  |                  |                   |                  |                 |
| Bills payable                | ₱1,553,726,720    | ₱40,207,991,548  | ₱7,542,992,683   | ₱381,068,058      | ₱606,378,344     | ₱50,292,157,353 |
| Bonds payable                | 505,307           | –                | 1,704,338        | 3,654,720         | 155,856,723      | 161,721,088     |
| Accrued other expenses       | 33,895,716        | 105,894,454      | 38,285,963       | 2,819,813         | –                | 180,895,946     |
| Accounts payable             | –                 | 211,380,284      | –                | –                 | –                | 211,380,284     |
| Other liabilities            | –                 | 62,029,827       | –                | –                 | 19,156,365       | 81,186,192      |
|                              | 1,588,127,743     | 40,587,296,113   | 7,582,982,984    | 387,542,591       | 781,391,432      | 50,927,340,863  |
| Derivative liabilities       | –                 | –                | –                | –                 | 138,729,241      | 138,729,241     |
|                              | ₱1,588,127,743    | ₱40,587,296,113  | ₱7,582,982,984   | ₱387,542,591      | ₱920,120,673     | ₱51,066,070,104 |
|                              |                   |                  |                  |                   |                  |                 |
|                              | Consolidated      |                  |                  |                   |                  | Total           |
|                              | December 31, 2008 |                  |                  |                   |                  |                 |
|                              | Up to<br>1 month  | 1 to 3<br>months | 3 to 6<br>months | 6 to 12<br>months | Beyond 1<br>Year |                 |
| Non-derivative liabilities   |                   |                  |                  |                   |                  |                 |
| Bills payable                | ₱22,316,569,988   | ₱10,427,732,853  | ₱4,394,101,002   | ₱790,117,670      | ₱635,478,086     | ₱38,563,999,599 |
| Bonds payable                | 1,510,507         | –                | 1,461,781        | 2,972,288         | 73,056,670       | 79,001,246      |
| Accrued other expenses       | –                 | 60,842,513       | –                | –                 | –                | 60,842,513      |
| Other liabilities            | –                 | 296,295,902      | –                | 35,443,514        | 17,684,826       | 349,424,242     |
|                              | 22,318,080,495    | 10,784,871,268   | 4,395,562,783    | 828,533,472       | 726,219,582      | 39,053,267,600  |
| Derivative liabilities       | –                 | –                | –                | –                 | 116,511,055      | 116,511,055     |
|                              | ₱22,318,080,495   | ₱10,784,871,268  | ₱4,395,562,783   | ₱828,533,472      | ₱842,730,637     | ₱39,169,778,655 |



|                              | Parent Company    |                  |                  |                   |                  | Total           |
|------------------------------|-------------------|------------------|------------------|-------------------|------------------|-----------------|
|                              | December 31, 2009 |                  |                  |                   |                  |                 |
|                              | Up to<br>1 month  | 1 to 3<br>months | 3 to 6<br>months | 6 to 12<br>months | Beyond 1<br>Year |                 |
| <b>Financial Assets</b>      |                   |                  |                  |                   |                  |                 |
| Loans and advances           |                   |                  |                  |                   |                  |                 |
| Cash and other cash items    | ₱7,711,899,172    | ₱–               | ₱–               | ₱–                | ₱–               | ₱7,711,899,172  |
| Due from BSP                 | 1,965,000,000     | –                | –                | –                 | –                | 1,965,000,000   |
|                              | 9,676,899,172     | –                | –                | –                 | –                | 9,676,899,172   |
| Loans and receivables        |                   |                  |                  |                   |                  |                 |
| Loans and discounts          |                   |                  |                  |                   |                  |                 |
| Corporate lending            | 116,127,246       | 165,010,369      | 64,367,560       | 55,838,257        | 1,524,566,707    | 1,925,910,139   |
| Others                       | 724,513           | 1,438,395        | 2,142,015        | 4,209,763         | 56,599,344       | 65,114,030      |
|                              | 116,851,759       | 166,448,764      | 66,509,575       | 60,048,020        | 1,581,166,051    | 1,991,024,169   |
| Unquoted commercial papers   | 90,048,823        | 145,696,089      | 248,897,418      | 376,566,996       | 12,243,826,337   | 13,105,035,663  |
| Accrued interest receivable  | 199,703,175       | 436,023,982      | 52,169,779       | 9,458,633         | 72,572,885       | 769,928,454     |
| Accounts receivable          | 42,868,187        | 1,642,751        | 316,856          | 196,192           | 135,939,559      | 180,963,545     |
| Dividends receivable         | 2,251,062         | –                | –                | –                 | –                | 2,251,062       |
|                              | 451,723,006       | 749,811,586      | 367,893,628      | 446,269,841       | 14,033,504,832   | 16,049,202,893  |
| Held for trading             |                   |                  |                  |                   |                  |                 |
| Government debt securities   | 1,485,138,322     | –                | –                | –                 | –                | 1,485,138,322   |
| Equity securities            | 318,711,862       | –                | –                | –                 | –                | 318,711,862     |
| AFS Investments              |                   |                  |                  |                   |                  |                 |
| Government debt securities   | 27,666,364        | 149,857,475      | 154,385,317      | 747,441,719       | 28,642,385,703   | 29,721,736,578  |
| Private debt securities      | –                 | 4,640,026        | 12,752,461       | 19,960,866        | 529,207,304      | 566,560,657     |
| Quoted equity investments    | –                 | –                | –                | –                 | 1,470,274,348    | 1,470,274,348   |
| Unquoted equity investments  | –                 | –                | –                | –                 | 235,376,263      | 235,376,263     |
| HTM investments              |                   |                  |                  |                   |                  |                 |
| Government debt securities   | –                 | 33,873,568       | 2,513,769,687    | 66,267,407        | 1,495,544,975    | 4,109,455,637   |
|                              | 1,831,516,548     | 188,371,069      | 2,680,907,465    | 833,669,992       | 32,372,788,593   | 37,907,253,667  |
|                              | ₱11,960,138,726   | ₱938,182,655     | ₱3,048,801,093   | ₱1,279,939,833    | ₱46,406,293,425  | ₱63,633,355,732 |
| <b>Financial Liabilities</b> |                   |                  |                  |                   |                  |                 |
| Non-derivative liabilities   |                   |                  |                  |                   |                  |                 |
| Bills payable                | ₱1,553,726,720    | ₱40,207,991,548  | ₱7,542,992,683   | ₱381,068,058      | ₱606,378,344     | ₱50,292,157,353 |
| Bonds payable                | 505,307           | –                | 1,704,338        | 3,654,720         | 155,856,723      | 161,721,088     |
| Accrued other expenses       | 26,695,485        | 105,894,454      | 38,285,963       | 2,819,813         | –                | 173,695,715     |
| Accounts payable             | –                 | 54,204,967       | –                | –                 | –                | 54,204,967      |
| Other liabilities            | –                 | 106,614,656      | –                | –                 | 18,562,500       | 125,177,156     |
|                              | 1,580,927,512     | 40,474,705,625   | 7,582,982,984    | 387,542,591       | 780,797,567      | 50,806,956,279  |
| Derivative liabilities       | –                 | –                | –                | –                 | 138,729,241      | 138,729,241     |
|                              | ₱1,580,927,512    | ₱40,474,705,625  | ₱7,582,982,984   | ₱387,542,591      | ₱919,526,808     | ₱50,945,685,520 |

|                            | Parent Company    |                  |                  |                   |                  |                 |
|----------------------------|-------------------|------------------|------------------|-------------------|------------------|-----------------|
|                            | December 31, 2008 |                  |                  |                   |                  |                 |
|                            | Up to<br>1 month  | 1 to 3<br>months | 3 to 6<br>months | 6 to 12<br>months | Beyond 1<br>Year | Total           |
| Non-derivative liabilities |                   |                  |                  |                   |                  |                 |
| Bills payable              | ₱22,316,569,988   | ₱10,427,732,853  | ₱4,394,101,002   | ₱790,117,670      | ₱635,478,086     | ₱38,563,999,599 |
| Bonds payable              | 2,551,533         | –                | 2,469,225        | 5,020,758         | 170,028,158      | 180,069,674     |
| Accrued other expenses     | –                 | 40,711,495       | –                | –                 | –                | 40,711,495      |
| Other liabilities          | –                 | 94,484,279       | –                | 35,443,514        | 25,751,947       | 155,679,740     |
|                            | 22,319,121,521    | 10,562,928,627   | 4,396,570,227    | 830,581,942       | 831,258,191      | 38,940,460,508  |
| Derivative liabilities     | –                 | –                | –                | –                 | 116,511,055      | 116,511,055     |
|                            | ₱22,319,121,521   | ₱10,562,928,627  | ₱4,396,570,227   | ₱830,581,942      | ₱947,769,246     | ₱39,056,971,563 |

#### *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 market variables such as interest rates, foreign currency exchange rates, commodity prices, equity prices and other market factors. The Parent Company's market risk originates from holding of trading and investment portfolios as market conditions changes.

The Parent Company manages market risk by segregating its statement of financial position into trading book and banking book. The SMC, chaired by the Parent Company's president, is the senior reviewer and decision-making body for the management of all related market risks. The risk limits are approved by the RMC and confirmed by the BOD.

The RMD serves under RMC and performs daily market risk analyses to ensure compliance with the Parent Company's policies and procedures and makes recommendations based on such analyses.

The Treasury Group of the Parent Company manages asset/liability risks arising from both normal quasi-banking operations and from trading operations in financial markets. Risk limit is assigned to the Treasury Group by the RMC.

The Parent Company is implementing its Value-at-Risk (VaR) methodology in certain trading activities particularly in the fixed-rate treasury notes issued by the Bureau of Treasury. The 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%. The coverage of the analysis will be enhanced/widened once the Credence Ideal System is finally accepted and put in business use.

#### *Interest Rate Risk*

The Group follows a prudent policy on 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 repricing rate arrangements. The determination of the applicable rates is sourced from the Company's approved lending rates. Lending rates are determined based on funding cost plus certain spreads. As of December 31, 2009 and 2008, 94.1% and 91.9%, respectively, of the total loan portfolio are subject to repricing, while unquoted commercial papers have fixed interest rates. Substantial portion of the Parent Company's total loan portfolio has term of less than one year while the corresponding funding is also on a less than one-year term.

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 rates 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 into 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).

The impact on the Company's equity already excludes the impact on transactions affecting the statement of income.

| Consolidated<br>December 31, 2009 |                             |   |                       |                       |                      |                      |                |
|-----------------------------------|-----------------------------|---|-----------------------|-----------------------|----------------------|----------------------|----------------|
|                                   | Increase in<br>basis points | Sensitivity<br>of net interest<br>income and<br>trading gains | Sensitivity of equity |                       |                      |                      | Total          |
|                                   |                             |   | 0 up to 6<br>months   | 6 months<br>to 1 year | 1 year to 5<br>years | More than<br>5 years |                |
| Currency<br>PhP                   | +50                         | (P28,609,008)   | (P4,413)              | (P10,199)             | (P948,116)           | (P549,367,408)       | (P550,330,136) |
| Currency<br>PhP                   | -50                         | 29,781,962  | 4,420                 | 10,247                | 966,481              | 570,322,289          | 571,303,437    |

| Consolidated<br>December 31, 2008 |                             |   |                       |                       |                      |                      |                |
|-----------------------------------|-----------------------------|---|-----------------------|-----------------------|----------------------|----------------------|----------------|
|                                   | Increase in<br>basis points | Sensitivity<br>of net interest<br>income and<br>trading gains | Sensitivity of equity |                       |                      |                      | Total          |
|                                   |                             |   | 0 up to 6<br>months   | 6 months<br>to 1 year | 1 year to 5<br>years | More than<br>5 years |                |
| Currency<br>PhP                   | +50                         | P24,285,993   | P-                    | P-                    | (P25,658,456)        | (P142,913,259)       | (P168,571,715) |
| Currency<br>PhP                   | -50                         | (24,262,907)  | -                     | -                     | 26,138,925           | 148,232,807          | 174,371,732    |

| Parent Company<br>December 31, 2009 |                             |   |                       |                       |                      |                      |                |
|-------------------------------------|-----------------------------|---|-----------------------|-----------------------|----------------------|----------------------|----------------|
|                                     | Increase in<br>basis points | Sensitivity<br>of net interest<br>income and<br>trading gains | Sensitivity of equity |                       |                      |                      | Total          |
|                                     |                             |   | 0 up to 6<br>months   | 6 months<br>to 1 year | 1 year to 5<br>years | More than<br>5 years |                |
| Currency<br>PhP                     | +50                         | (P29,734,296)   | P-                    | P-                    | P-                   | (P547,722,521)       | (P547,722,521) |
| Currency<br>PhP                     | -50                         | 30,907,250  | -                     | -                     | -                    | 568,627,600          | 568,627,600    |

| Parent Company<br>December 31, 2009 |                             |   |                       |                       |                      |                      |                |
|-------------------------------------|-----------------------------|---|-----------------------|-----------------------|----------------------|----------------------|----------------|
|                                     | Increase in<br>basis points | Sensitivity<br>of net interest<br>income and<br>trading gains | Sensitivity of equity |                       |                      |                      | Total          |
|                                     |                             |   | 0 up to 6<br>months   | 6 months<br>to 1 year | 1 year to 5<br>years | More than<br>5 years |                |
| Currency<br>PhP                     | +50                         | P23,336,026   | P-                    | P-                    | (P25,516,077)        | (P142,913,259)       | (P168,429,336) |
| Currency<br>PhP                     | -50                         | (23,310,480)  | -                     | -                     | 25,994,592           | 148,232,807          | 174,227,399    |

#### Foreign Currency 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.

As of December 31, 2009 and 2008, the Group has no significant exposure to foreign currency risk.

#### Equity Price Risk

Equity price risk is the risk that the fair values of equities 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 golf shares.

The Parent Company's policies and procedures as well as risk limit structures on its equity investment portfolio are approved by the RMC and BOD. Management 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, to the Group and the Parent Company's unrealized gain or loss on held for trading securities:

|  | Consolidated       |                      |                    |                      |
|--|--------------------|----------------------|--------------------|----------------------|
|  | 2009               |                      | 2008               |                      |
| Changes in PSEi  | 21.2%              | (21.2%)              | 8.0%               | (8.0%)               |
| Change on trading income under:  |                    |                      |                    |                      |
| Financial industry   | ₱18,964,737        | (₱18,964,737)        | ₱3,282,984         | (₱3,282,984)         |
| Industrial industry  | 13,214,523         | (13,214,523)         | 3,569,140          | (3,569,140)          |
| Services industry  | 10,111,644         | (10,111,644)         | 1,892,074          | (1,892,074)          |
| Holding firm industry  | 7,700,742          | (7,700,742)          | 476,056            | (476,056)            |
| Property industry  | 6,420,251          | (6,420,251)          | 3,419,480          | (3,419,480)          |
| Mining and oil industry  | 5,649,537          | (5,649,537)          | 950,873            | (950,873)            |
| <b>Total</b>   | <b>₱62,061,434</b> | <b>(₱62,061,434)</b> | <b>₱13,590,607</b> | <b>(₱13,590,607)</b> |
| <b>As a percentage of the Group's net trading gain/loss for the year</b> | <b>17.0%</b>       | <b>(17.0%)</b>       | <b>(3.8%)</b>      | <b>3.8%</b>          |

|   | Parent Company     |                      |                    |                      |
|---|--------------------|----------------------|--------------------|----------------------|
|   | 2009               |                      | 2008               |                      |
| Changes in PSEi   | 21.2%              | (21.2%)              | 8.0%               | (8.0%)               |
| Change on trading income under:   |                    |                      |                    |                      |
| Financial industry  | ₱15,683,026        | (₱15,683,026)        | ₱3,282,984         | (₱3,282,984)         |
| Industrial industry   | 10,999,525         | (10,999,525)         | 3,510,772          | (3,510,772)          |
| Services industry   | 9,145,326          | (9,145,326)          | 1,875,373          | (1,875,373)          |
| Property industry   | 6,154,921          | (6,154,921)          | 3,373,956          | (3,373,956)          |
| Holding firm industry   | 5,642,218          | (5,642,218)          | 476,056            | (476,056)            |
| Mining and oil industry   | 4,352,589          | (4,352,589)          | 950,873            | (950,873)            |
| <b>Total</b>  | <b>₱51,977,605</b> | <b>(₱51,977,605)</b> | <b>₱13,470,014</b> | <b>(₱13,470,014)</b> |
| <b>As a percentage of the Parent Company's net trading gain/loss for the year</b> | <b>17.4%</b>       | <b>(17.4%)</b>       | <b>(4.1%)</b>      | <b>4.1%</b>          |

Given the repricing position of the investment securities of the Group and the Parent Company as of December 31, 2009 and 2008, if PSEi increased by 21.2% and 8.0%, respectively, unrealized gain or loss on securities at FVPL would increase by ₱62.1 million and ₱13.6 million, respectively, for the Group and ₱52.0 million and ₱13.5 million, respectively, for the Parent Company. If PSEi decreased by 21.2% and 8.0% as of December 31, 2009 and 2008, respectively, the unrealized gain or loss on securities at FVPL would decrease by ₱62.1 million and ₱13.6 million, respectively, for the Group and ₱52.0 million and ₱13.5 million, respectively, for the Parent Company. The increase or decrease in PSEi will directly impact the statement of income of both the Group and Parent Company.



The following table sets forth, for the period indicated, the impact of changes in PSE index (PSEi) the Group and the Parent Company's unrealized gain or loss on AFS investments:

|  | Consolidated        |                       |                    |                      |
|--|---------------------|-----------------------|--------------------|----------------------|
|  | 2009                |                       | 2008               |                      |
| <b>Changes in PSEi</b>   | <b>21.2%</b>        | <b>(21.2%)</b>        | <b>8.0%</b>        | <b>(8.0%)</b>        |
| Change on equity under:  |                     |                       |                    |                      |
| Services industry  | ₱75,363,096         | (₱75,363,096)         | ₱25,447,938        | (₱25,447,938)        |
| Property industry  | 75,140,543          | (75,140,543)          | 14,166,146         | (14,166,146)         |
| Financial industry   | 50,319,247          | (50,319,247)          | 13,784,541         | (13,784,541)         |
| Industrial industry  | 7,689,253           | (7,689,253)           | 3,765,626          | (3,765,626)          |
| Mining and oil industry  | –                   | –                     | 19,498,806         | (19,498,806)         |
| <b>Total</b>   | <b>₱208,512,139</b> | <b>(₱208,512,139)</b> | <b>₱76,663,057</b> | <b>(₱76,663,057)</b> |
| <b>As a percentage of the Group's net unrealized gain for the year</b> | <b>(48.3%)</b>      | <b>48.3%</b>          | <b>(10.8%)</b>     | <b>10.8</b>          |

|   | Parent Company      |                       |                    |                      |
|---|---------------------|-----------------------|--------------------|----------------------|
|   | 2009                |                       | 2008               |                      |
| <b>Changes in PSEi</b>  | <b>21.2%</b>        | <b>(21.2%)</b>        | <b>8.0%</b>        | <b>(8.0%)</b>        |
| Change on equity under:   |                     |                       |                    |                      |
| Services industry   | ₱75,359,917         | (₱75,359,917)         | ₱25,391,368        | (₱25,391,368)        |
| Property industry   | 75,140,543          | (75,140,543)          | 14,166,146         | (14,166,146)         |
| Financial industry  | 45,850,219          | (45,850,219)          | 12,894,621         | (12,894,621)         |
| Industrial industry   | 7,689,253           | (7,689,253)           | 3,765,626          | (3,765,626)          |
| Mining and oil industry   | –                   | –                     | 19,498,806         | (19,498,806)         |
| <b>Total</b>  | <b>₱204,039,932</b> | <b>(₱204,039,932)</b> | <b>₱75,716,567</b> | <b>(₱75,716,567)</b> |
| <b>As a percentage of the Parent Company's net unrealized gain for the year</b> | <b>(45.8%)</b>      | <b>45.8%</b>          | <b>(10.9%)</b>     | <b>10.9%</b>         |

Given the repricing position of the investment securities of the Group and the Parent Company as of December 31, 2009 and 2008, if PSEi increased by 21.2% and 8.0%, respectively, the unrealized gain on AFS investments would increase by ₱208.5 million and ₱76.7 million, respectively, for the Group and ₱204.0 million and ₱75.7 million, respectively, for the Parent Company. If PSEi decreased by 21.2% and 8.0%, respectively, the unrealized gain on AFS investments securities would decrease by ₱208.5 million and ₱76.7 million, respectively, for the Group and ₱204.0 million and ₱75.7 million, respectively, for the Parent Company. The increase or decrease in PSEi will directly impact the equity of both the Group and Parent Company.

#### 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 payment 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 differ from PFRS in some respects.

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 10.00% for 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.

Under BSP Circular No. 360, effective July 1, 2003, the capital-to-risk assets ratio (CAR) is to be inclusive of a market risk charge. As of December 31, 2009 and 2008, the Group was in compliance with the capital adequacy ratio. The capital-to-risk assets ratio of the Group as reported to the BSP as of December 31, 2009 and December 31, 2008 are shown in the table below:

|                                 | Consolidated           |                        | Parent Company         |                        |
|---------------------------------|------------------------|------------------------|------------------------|------------------------|
|                                 | December 31,<br>2009   | December 31,<br>2008   | December 31,<br>2009   | December 31,<br>2008   |
| Tier 1 capital                  | ₱7,804,978,957         | ₱4,898,651,638         | ₱7,774,447,097         | ₱4,879,033,075         |
| Tier 2 capital                  | 24,940,840             | 24,940,840             | 24,940,840             | 24,940,840             |
| Gross qualifying capital        | 7,829,919,797          | 4,923,592,478          | 7,799,387,937          | 4,903,973,915          |
| Less: Required deductions       | 44,650,242             | 34,592,017             | 688,753,763            | 830,031,101            |
| <b>Total qualifying capital</b> | <b>₱7,785,269,555</b>  | <b>₱4,889,000,461</b>  | <b>₱7,110,634,174</b>  | <b>₱4,073,942,814</b>  |
| <b>Risk weighted assets</b>     | <b>₱32,015,451,460</b> | <b>₱30,054,176,209</b> | <b>₱30,912,109,820</b> | <b>₱28,712,427,516</b> |
| Tier 1 capital ratio            | 24.38%                 | 16.30%                 | 25.15%                 | 16.99%                 |
| Total capital ratio             | 24.32%                 | 16.27%                 | 23.00%                 | 14.19%                 |

The regulatory qualifying capital of the Parent Company consists of Tier 1 (core) capital, which comprises paid-up common stock, hybrid tier 1 capital securities, surplus including current year profit, surplus reserves and minority interest less required deductions such as net unrealized loss on AFS investments, deferred income tax, and goodwill. 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 unsecured subordinated debt and general loan loss provision.

The Group and its individual regulated operations have complied with all externally imposed capital requirements throughout the period.

The BSP, under BSP Circular No. 538 dated August 4, 2006, has issued the prescribed guidelines implementing the revised risk-based capital adequacy framework for the Philippine banking system to conform to Basel II recommendations. The new BSP guidelines took effect on July 1, 2007.

In 2009, the BSP issued Circular No. 639 covering the Internal Capital Adequacy Assessment Process (ICAAP) which supplements the BSP's risk-based capital adequacy framework under the BSP Circular No. 538. As required by the BSP, the Group is currently in the process of developing its ICAAP.

## 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, due from BSP, interbank loan receivable and SPURA, financial liabilities at cost except 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 quoted market prices. Where the debt securities are not quoted or the market prices are not readily available, the Group obtained valuations from independent parties offering pricing services, used adjusted quoted market prices of comparable investments, or applied 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 quoted market prices, prices provided by independent parties, or 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 amounts approximated fair values (see Note 9).

Bills payable - Carrying value approximates fair value due to its short-term nature, except for certain borrowings which is 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 - Carrying value approximates fair value due to its quarterly repricing feature.

Set out below is a comparison by category of carrying amounts and fair values of financial instruments that are carried in the financial statements:

|   | Consolidated   |                |                |                |
|---|----------------|----------------|----------------|----------------|
|   | 2009           |                | 2008           |                |
|   | Carrying Value | Fair Value     | Carrying Value | Fair Value     |
| <b>Financial Assets</b>                     |                |                |                |                |
| Loans and advances                          |                |                |                |                |
| Cash and other cash items                   | ₱8,156,812,303 | ₱8,156,812,303 | ₱5,597,441,874 | ₱5,597,441,874 |
| Due from BSP                                | 1,965,000,000  | 1,965,000,000  | 1,916,100,000  | 1,916,100,000  |
| Interbank loans receivable and SPURA        | –              | –              | 1,430,000,000  | 1,430,000,000  |
| Loans and receivables                       |                |                |                |                |
| Loans and discounts                         |                |                |                |                |
| Corporate lending                           | 1,704,356,514  | 1,756,260,297  | 5,088,826,001  | 5,283,547,259  |
| Others                                      | 43,535,481     | 45,486,392     | 31,516,911     | 35,774,641     |
| Other receivables                           |                |                |                |                |
| Unquoted commercial papers                  | 10,018,762,106 | 10,498,738,010 | 9,943,413,034  | 10,029,833,220 |
| Accrued interest receivable                 | 712,538,043    | 712,538,043    | 412,431,480    | 412,431,480    |
| Accounts receivable                         | 134,892,417    | 134,892,417    | 311,951,089    | 311,951,089    |
| Dividends receivables                       | 2,251,062      | 2,251,062      | 124,290,187    | 124,290,187    |
| Financial assets at FVPL                    |                |                |                |                |
| Held-for-trading                            |                |                |                |                |
| Government debt securities                  | 1,495,143,295  | 1,495,143,295  | 51,778,131     | 51,778,131     |
| Equity securities                           | 394,815,702    | 394,815,702    | 369,950,679    | 369,950,679    |
| AFS investments                             |                |                |                |                |
| Government debt securities                  | 18,598,060,193 | 18,598,060,193 | 6,944,274,859  | 6,944,274,859  |
| Private debt securities                     | 467,825,882    | 467,825,882    | 492,236,400    | 492,236,400    |
| Quoted equity investments                   | 1,533,137,184  | 1,533,137,184  | 1,078,143,759  | 1,078,143,759  |
| Unquoted equity investments                 | 243,196,796    | 243,196,796    | 517,712,768    | 517,712,768    |
| HTM investments                             |                |                |                |                |
| Government bonds                            | 3,718,899,612  | 3,869,883,832  | 3,756,141,902  | 3,855,960,947  |
| Private                                     | 16,922,118     | 16,922,118     | –              | –              |
| <b>Financial Liabilities</b>                |                |                |                |                |
| Financial liabilities at FVPL               |                |                |                |                |
| Derivative liability                        | 138,729,241    | 138,729,241    | 116,511,055    | 116,511,055    |
| Other liabilities at cost                   |                |                |                |                |
| Bills payable                               | 50,047,335,210 | 50,157,881,571 | 37,941,147,817 | 37,739,310,250 |
| Accrued interest and other expenses payable | 180,565,354    | 180,565,354    | 208,517,232    | 208,517,232    |
| Bonds payable                               | 55,200,000     | 55,200,000     | 61,200,000     | 61,200,000     |
| Accounts payable                            | 211,380,284    | 211,380,284    | 208,517,232    | 208,517,232    |
| Premiums payable                            | 39,957,593     | 39,957,593     | 8,358,278      | 8,358,278      |
| Dividends payable                           | 20,287,932     | 20,287,932     | 20,332,765     | 20,332,765     |
| Subscription payable                        | 9,187,500      | 9,187,500      | 15,750,000     | 15,750,000     |
| Payable for securities purchased            | 1,784,302      | 1,784,302      | –              | –              |

|   | Parent Company |                |                |                |
|---|----------------|----------------|----------------|----------------|
|   | 2009           |                | 2008           |                |
|   | Carrying Value | Fair Value     | Carrying Value | Fair Value     |
| <b>Financial Assets</b>                     |                |                |                |                |
| Loans and advances                          |                |                |                |                |
| Cash and other cash items                   | ₱7,711,939,172 | ₱7,711,939,172 | ₱5,096,354,904 | ₱5,096,354,904 |
| Due from BSP                                | 1,965,000,000  | 1,965,000,000  | 1,916,100,000  | 1,916,100,000  |
| Interbank loans receivable and SPURA        | –              | –              | 1,430,000,000  | 1,430,000,000  |
| Loans and Receivables                       |                |                |                |                |
| Loans and discounts                         |                |                |                |                |
| Corporate lending                           | 1,509,487,163  | 1,545,176,619  | 4,914,266,376  | 5,090,256,635  |
| Others                                      | 43,277,840     | 45,228,751     | 31,516,911     | 35,774,641     |
| Other receivables                           |                |                |                |                |
| Unquoted commercial papers                  | 10,018,762,106 | 10,498,738,010 | 9,943,413,034  | 10,029,833,220 |
| Accrued interest receivable                 | 697,355,568    | 697,355,568    | 408,918,274    | 408,908,274    |
| Accounts receivable                         | 46,502,649     | 46,502,649     | 36,513,368     | 36,513,368     |
| Dividends receivables                       | 2,251,062      | 2,251,062      | 174,290,187    | 174,290,187    |
| Financial assets at FVPL                    |                |                |                |                |
| Held for trading                            |                |                |                |                |
| Government debt securities                  | 1,485,138,322  | 1,485,138,322  | 51,778,131     | 51,778,131     |
| Equity Securities                           | 318,711,862    | 318,711,862    | 235,108,791    | 235,108,791    |
| AFS investments                             |                |                |                |                |
| Government debt securities                  | 18,368,911,305 | 18,368,911,305 | 6,795,499,700  | 6,795,499,700  |
| Private debt securities                     | 451,828,000    | 451,828,000    | 492,236,400    | 492,236,400    |
| Quoted equity investments                   | 1,491,867,184  | 1,491,867,184  | 1,053,884,096  | 1,053,884,096  |
| Unquoted equity investments                 | 213,783,427    | 213,783,427    | 488,280,644    | 488,280,644    |
| HTM investments                             |                |                |                |                |
| Government bonds                            | 3,718,899,612  | 3,869,883,832  | 3,749,989,615  | 3,855,960,947  |
| <b>Financial Liabilities</b>                |                |                |                |                |
| Financial liabilities at FVPL               |                |                |                |                |
| Derivative liability                        | 138,729,241    | 138,729,241    | 116,511,055    | 116,511,055    |
| Other liabilities at cost                   |                |                |                |                |
| Bills payable                               | 50,047,335,210 | 50,157,881,571 | 37,941,147,817 | 37,739,310,250 |
| Accrued interest and other expenses payable | 173,695,715    | 173,695,715    | 233,647,370    | 233,647,370    |
| Bonds payable                               | 150,000,000    | 15,000,000     | 150,000,000    | 150,000,000    |
| Payable for securities purchased            | 86,025,766     | 86,025,766     | –              | –              |
| Accounts payable                            | 54,204,967     | 54,204,967     | 21,386,691     | 21,386,691     |
| Premiums payable                            | 300,958        | 300,958        | 276,868        | 276,868        |
| Dividends payable                           | 20,287,932     | 20,287,932     | 20,332,765     | 20,332,765     |
| Subscription payable                        | 18,562,500     | 18,562,500     | 25,125,000     | 25,125,000     |

The following table shows financial instruments recognized at fair value, analyzed based on inputs to fair value is as follow:

- Quoted market prices in active markets for identical assets or liabilities (Level 1);
- 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) (Level 2); and
- Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).



| Consolidated                 |                |             |         |                |
|------------------------------|----------------|-------------|---------|----------------|
| 2009                         |                |             |         |                |
|                              | Level 1        | Level 2     | Level 3 | Total          |
| <b>Financial Assets</b>      |                |             |         |                |
| Financial assets at FVPL     |                |             |         |                |
| Government securities        | P1,495,143,295 | P-          | P-      | P1,495,143,295 |
| Equity securities            | 394,815,702    | -           | -       | 394,815,702    |
| AFS investments              |                |             |         |                |
| Debt securities              |                |             |         |                |
| Government                   | 18,598,060,193 | -           | -       | 18,598,060,193 |
| Private                      | 467,825,882    | -           | -       | 467,825,882    |
| Equity securities            | 1,704,879,482  | -           | -       | 1,704,879,482  |
| <b>Financial Liabilities</b> |                |             |         |                |
| Derivative liabilities       | -              | 138,729,241 | -       | 138,729,241    |
|                              |                |             |         |                |
| Parent Company               |                |             |         |                |
| 2009                         |                |             |         |                |
|                              | Level 1        | Level 2     | Level 3 | Total          |
| <b>Financial Assets</b>      |                |             |         |                |
| Financial assets at FVPL     |                |             |         |                |
| Government securities        | P1,485,138,322 | P-          | P-      | P1,485,138,322 |
| Equity securities            | 318,711,862    | -           | -       | 318,711,862    |
| AFS investments              |                |             |         |                |
| Debt securities              |                |             |         |                |
| Government                   | 18,368,911,305 | -           | -       | 18,368,911,305 |
| Private                      | 451,828,000    | -           | -       | 451,828,000    |
| Equity securities            | 1,663,609,482  | -           | -       | 1,663,609,482  |
| <b>Financial Liabilities</b> |                |             |         |                |
| Derivative liabilities       | -              | 138,729,241 | -       | 138,729,241    |

When fair values of listed equity and debt securities, as well as publicly traded derivatives at the reporting date are based on quoted market prices or binding dealer price quotations, without any deduction for transaction costs, the instruments are included within Level 1 of the hierarchy.

For all other financial instruments, fair value is determined through valuation techniques using observable data. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other revaluation models.

Instruments included in Level 3 include those for which there is currently no active market and valued using unobservable inputs, or using observable inputs that require significant adjustment based on unobservable inputs. As of December 31, 2009 and 2008, the Group and Parent Company has no financial instruments that are reported within Level 3 and no transfers were made between 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 business segments are as follows:

- Corporate Lending - principally handling loans and other credit facilities for individual, corporate and institutional customers;
- Investment Advisory - providing access to fixed income, equity and dollar investments, as well as research and trading capabilities;

- Investment Banking - principally providing comprehensive financial advisory and capital raising services to corporations and the government, both local and national;
- Treasury - principally providing money market, trading and treasury services, as well as the management of the Group's funding operations by use of government securities and placements and acceptances with banks; and
- Others - principally consisting of institutions with significant presence in each of its respective markets which include stock brokerage, foreign exchange, life and non-life insurance, auto sales and real estate.

These segments are the bases on which the Group reports its primary segment information.

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

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

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

For the years ended December 31, 2009, 2008 and 2007, the Group has a significant customer, in its Treasury segment, which contributes ₱1.63 billion, ₱0.93 billion and ₱1.03 billion, respectively, of the consolidated revenue.

Interest is charged/credited to business segments based on a pool rate which approximates the cost of funds. The following table presents revenue and income information of operating segments presented in accordance with PFRS as of and for the year ended December 31, 2009, 2008 and 2007:

|  | 2009               |                     |                     |                     |                       |                       |
|--|--------------------|---------------------|---------------------|---------------------|-----------------------|-----------------------|
|  | Corporate Lending  | Investment Banking  | Investment Advisory | Treasury            | Others                | Total                 |
| <b>Results of Operations</b>                                 |                    |                     |                     |                     |                       |                       |
| Net interest income  | ₱104,719,766       | ₱-                  | (₱25,775,535)       | ₱798,171,471        | (₱131,935,364)        | ₱745,180,338          |
| Noninterest income   | 1,018,059          | 230,274,527         | 255,615,992         | 462,559,277         | 252,504,671           | 1,201,972,526         |
| Revenue - net of interest expense                            | 105,737,825        | 230,274,527         | 229,840,457         | 1,260,730,748       | 120,569,307           | 1,947,152,864         |
| Noninterest expense  | 30,912,997         | 29,172,001          | 27,804,209          | 290,703,904         | 626,068,623           | 1,004,661,734         |
| Income (loss) before share in net income of investees        | 74,824,828         | 201,102,526         | 202,036,248         | 970,026,844         | (505,499,316)         | 942,491,130           |
| Share in net income of investees                             | -                  | -                   | -                   | -                   | 427,749,836           | 427,749,836           |
| Income tax provision   | (3,810,249)        | -                   | (6,928,630)         | (303,991,593)       | (25,739,181)          | (340,469,653)         |
| Minority interest in net income of consolidated subsidiaries | -                  | -                   | -                   | -                   | (7,158,394)           | (7,158,394)           |
| <b>Net income attributable to the Parent Company</b>         | <b>₱71,014,579</b> | <b>₱201,102,526</b> | <b>₱195,107,618</b> | <b>₱666,035,251</b> | <b>(₱110,647,055)</b> | <b>₱1,022,612,919</b> |
| <b>Statement of Financial Position</b>                       |                    |                     |                     |                     |                       |                       |
| Total assets   | ₱1,929,899,420     | ₱-                  | ₱877,959,790        | ₱42,868,854,991     | ₱13,899,594,859       | ₱59,576,309,060       |
| Total liabilities  | 1,902,396,039      | -                   | 610,615,975         | 42,589,491,773      | 5,859,881,934         | 50,962,385,721        |
| <b>Other Segment Information</b>                             |                    |                     |                     |                     |                       |                       |
| Capital expenditures   | -                  | -                   | -                   | -                   | 25,417,122            | 25,417,122            |
| Deferred tax assets  | -                  | -                   | -                   | -                   | 8,526,242             | 8,526,242             |
| Depreciation and amortization                                | -                  | -                   | -                   | -                   | 30,672,542            | 30,672,542            |
| Provision for impairment and credit losses                   | -                  | -                   | -                   | -                   | 180,737,944           | 180,737,944           |
| Non-current assets   | -                  | -                   | -                   | -                   | 885,036,422           | 885,036,422           |

| 2008   |                      |                       |                        |                     |                       |                       |
|--|----------------------|-----------------------|------------------------|---------------------|-----------------------|-----------------------|
|  | Corporate<br>Lending | Investment<br>Banking | Investment<br>Advisory | Treasury            | Others                | Total                 |
| <b>Results of Operations</b>                                 |                      |                       |                        |                     |                       |                       |
| Net interest income  | ₱195,682,930         | ₱–                    | (₱21,774,409)          | ₱353,693,258        | (₱86,271,382)         | ₱441,330,397          |
| Noninterest income   | –                    | 167,432,279           | (249,222,190)          | 631,613,164         | 106,524,254           | 656,347,507           |
| Revenue - net of interest expense                            | 195,682,930          | 167,432,279           | (270,996,599)          | 985,306,422         | 20,252,872            | 1,097,677,904         |
| Noninterest expense  | 53,217,122           | 26,797,676            | (1,259,949)            | 227,967,526         | 302,904,035           | 609,626,410           |
| Income (loss) before share in net income of investees        | 142,465,808          | 140,634,603           | (269,736,650)          | 757,338,896         | (282,651,163)         | 488,051,494           |
| Share in net income of investees                             |                      |                       |                        |                     | 75,548,641            | 75,548,641            |
| Income tax provision   | (7,186,804)          | –                     | (6,739,753)            |                     | (17,478,427)          | (164,693,618)         |
| Minority interest in net loss of consolidated subsidiaries   | –                    | –                     | –                      | (133,288,634)       |                       |                       |
|  |                      |                       |                        | –                   | 800,603               | 800,603               |
| <b>Net income attributable to the Parent Company</b>         | <b>₱135,279,004</b>  | <b>₱140,634,603</b>   | <b>(₱276,476,403)</b>  | <b>₱624,050,262</b> | <b>(₱223,780,346)</b> | <b>₱399,707,120</b>   |
| <b>Statement of Financial Position</b>                       |                      |                       |                        |                     |                       |                       |
| Total assets   | ₱6,329,920,830       | ₱–                    | ₱734,435,051           | ₱27,696,956,907     | ₱11,402,211,432       | ₱46,163,524,220       |
| Total liabilities  | 6,142,328,807        | –                     | 619,027,420            | 27,653,979,227      | 4,437,194,296         | 38,852,529,750        |
| <b>Other Segment Information</b>                             |                      |                       |                        |                     |                       |                       |
| Capital expenditures   | –                    | –                     | –                      | –                   | 57,266,387            | 57,266,387            |
| Deferred tax assets  | –                    | –                     | –                      | –                   | 3,702,731             | 3,702,731             |
| Depreciation and amortization                                | –                    | –                     | –                      | –                   | 29,014,916            | 29,014,916            |
| Provision for (recovery from) impairment and credit losses   | (136,779,104)        | –                     | –                      | –                   | (30,542,489)          | (167,321,593)         |
| Non-current assets   | –                    | –                     | –                      | –                   | 945,935,941           | 945,935,941           |
| 2007   |                      |                       |                        |                     |                       |                       |
|  | Corporate<br>Lending | Investment<br>Banking | Investment<br>Advisory | Treasury            | Others                | Total                 |
| <b>Results of Operations</b>                                 |                      |                       |                        |                     |                       |                       |
| Net interest income  | ₱263,500,293         | ₱–                    | ₱–                     | ₱654,352,134        | ₱84,849,115           | ₱1,002,701,542        |
| Noninterest income   | –                    | 139,966,347           | 174,468,036            | 617,030,184         | 384,265,018           | 1,315,729,585         |
| Revenue - net of interest expense                            | 263,500,293          | 139,966,347           | 174,468,036            | 1,271,382,318       | 469,114,133           | 2,318,431,127         |
| Noninterest expense  | 47,971,123           | 22,450,314            | 10,240,483             | 222,245,875         | 517,301,454           | 820,209,249           |
| Income (loss) before share in net income of investees        | 215,529,170          | 117,516,033           | 164,227,553            | 1,049,136,443       | (48,187,321)          | 1,498,221,878         |
| Share in net income of investees                             | –                    | –                     | –                      | –                   | 247,150,538           | 247,150,538           |
| Income tax provision   | (8,979,398)          | –                     | (17,925,751)           | (252,984,527)       | (56,426,350)          | (336,316,026)         |
| Minority interest in net income of consolidated subsidiaries | –                    | –                     | –                      | –                   | (1,672,671)           | (1,672,671)           |
| <b>Net income attributable to the Parent Company</b>         | <b>₱206,549,772</b>  | <b>₱117,516,033</b>   | <b>₱146,301,802</b>    | <b>₱796,151,916</b> | <b>₱140,864,196</b>   | <b>₱1,407,383,719</b> |
| <b>Statement of Financial Position</b>                       |                      |                       |                        |                     |                       |                       |
| Total assets   | ₱7,210,461,367       | ₱–                    | ₱700,962,419           | ₱29,889,511,541     | ₱7,043,724,675        | ₱44,844,660,002       |
| Total liabilities  | 7,155,591,405        | –                     | 514,522                | 28,845,499,729      | 680,363,153           | 36,681,968,809        |
| <b>Other Segment Information</b>                             |                      |                       |                        |                     |                       |                       |
| Capital expenditures   | –                    | –                     | –                      | –                   | 29,093,774            | 29,093,774            |
| Deferred tax assets  | –                    | –                     | –                      | –                   | 4,417,711             | 4,417,711             |
| Depreciation and amortization                                | –                    | –                     | –                      | –                   | 36,230,685            | 36,230,685            |
| Provision for impairment and credit losses                   | –                    | –                     | –                      | –                   | 67,084,558            | 67,084,558            |
| Non-current assets   | –                    | –                     | –                      | –                   | 917,685,775           | 917,685,775           |

Noninterest income consists of service charges, fees and commissions, profit from assets sold, trading and securities gain (loss) - net, foreign exchange gain (loss) - net, dividends and miscellaneous income. Noninterest expense consists of compensation and fringe benefits, taxes and licenses, provision for credit and impairment losses, depreciation, and miscellaneous expense.

Capital expenditure consists of additions of property, plant and equipment and investment properties.

Non-current assets consist of investment properties, chattel properties acquired in foreclosure, and property and equipment.

The Group operates in the Philippines but operations outside of the Philippines are handled by FMIIC wherein the Parent Company has 20.0% equity interest.

## 7. Interbank Loans Receivable and Securities Purchased Under Resale Agreements

As of December 31, 2008, the Group and the Parent Company's interbank loans receivable and SPURA amounted to ₱0.1 billion and ₱1.3 billion, respectively.

Outstanding balance of SPURA represents the Parent Company's overnight placements with the BSP where the underlying securities cannot be sold or repurchased.

## 8. Trading and Investment Securities

This account consists of:

|                           | Consolidated           |                        | Parent Company         |                        |
|---------------------------|------------------------|------------------------|------------------------|------------------------|
|                           | 2009                   | 2008                   | 2009                   | 2008                   |
| Financial assets at FVPL  | ₱1,889,958,997         | ₱421,728,810           | ₱1,803,850,184         | ₱286,886,922           |
| AFS investments (Note 15) | 20,842,220,055         | 9,032,367,786          | 20,526,389,916         | 8,829,900,840          |
| HTM investments           | 3,735,821,730          | 3,756,141,902          | 3,718,899,612          | 3,749,989,615          |
|                           | <b>₱26,468,000,782</b> | <b>₱13,210,238,498</b> | <b>₱26,049,139,712</b> | <b>₱12,866,777,377</b> |

### Financial Assets at FVPL

Financial assets at FVPL consist of the following held for trading (HFT) securities:

|                            | Consolidated          |                     | Parent Company        |                     |
|----------------------------|-----------------------|---------------------|-----------------------|---------------------|
|                            | 2009                  | 2008                | 2009                  | 2008                |
| Government debt securities | ₱1,495,143,295        | ₱51,778,131         | ₱1,485,138,322        | ₱51,778,131         |
| Equity securities          | 394,815,702           | 369,950,679         | 318,711,862           | 235,108,791         |
|                            | <b>₱1,889,958,997</b> | <b>₱421,728,810</b> | <b>₱1,803,850,184</b> | <b>₱286,886,922</b> |

As of December 31, 2009 and 2008, held-for-trading securities include unrealized gain of ₱14.5 million and unrealized loss of ₱31.4 million, respectively, for the Group and unrealized gain of ₱4.9 million and unrealized loss of ₱8.1 million, respectively, for the Parent Company.



|   | Consolidated           |                | Parent Company         |                |
|---|------------------------|----------------|------------------------|----------------|
|   | 2009                   | 2008           | 2009                   | 2008           |
| Debt securities (Notes 15 and 17):                |                        |                |                        |                |
| Government  | <b>₱18,598,060,193</b> | ₱6,944,274,859 | <b>₱18,368,911,305</b> | ₱6,795,499,700 |
| Private   | <b>467,825,882</b>     | 492,236,400    | <b>451,828,000</b>     | 492,236,400    |
|   | <b>19,065,886,075</b>  | 7,436,511,259  | <b>18,820,739,305</b>  | 7,287,736,100  |
| Equity securities:                                |                        |                |                        |                |
| Quoted  | <b>1,704,879,482</b>   | 1,078,143,759  | <b>1,663,609,482</b>   | 1,053,884,096  |
| Unquoted  | <b>357,047,112</b>     | 631,563,084    | <b>242,508,427</b>     | 517,005,644    |
|   | <b>2,061,926,594</b>   | 1,709,706,843  | <b>1,906,117,909</b>   | 1,570,889,740  |
| Less allowance for impairment losses<br>(Note 14) | <b>285,592,614</b>     | 113,850,316    | <b>200,467,298</b>     | 28,725,000     |
|   | <b>1,776,333,980</b>   | 1,595,856,527  | <b>1,705,650,611</b>   | 1,542,164,740  |
|   | <b>₱20,842,220,055</b> | ₱9,032,367,786 | <b>₱20,526,389,916</b> | ₱8,829,900,840 |

AFS investments as of December 31, 2009 and 2008 include net unrealized loss of ₱431.6 million and ₱631.7 million, respectively, for the Group and net unrealized loss of ₱445.4 million and ₱631.2 million, respectively, for the Parent Company.

Unquoted equity securities are investments where the Group and the Parent Company generally have less than 20% 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/modest returns. The Group and the Parent Company will dispose these investments depending on the liquidity requirements but the primary consideration would be the profit out of the sale/disposal.

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

|   | Consolidated   |                 |               |
|---|----------------|-----------------|---------------|
|   | 2009           | 2008            | 2007          |
| Balance at January 1  | (₱631,686,077) | ₱504,538,078    | ₱770,359,745  |
| Unrealized gain (loss) recognized<br>directly in equity, net of tax | 426,640,126    | (662,073,139)   | 437,319,384   |
| Amounts realized in profit or loss                                  | (226,559,112)  | (474,151,016)   | (703,141,051) |
| Net change during the year  | 200,081,014    | (1,136,224,155) | (265,821,667) |
| Balance at December 31  | (₱431,605,063) | (₱631,686,077)  | ₱504,538,078  |

|   | Parent Company |                 |               |
|---|----------------|-----------------|---------------|
|   | 2009           | 2008            | 2007          |
| Balance at January 1  | (₱631,188,494) | ₱493,222,026    | ₱753,513,417  |
| Unrealized gain (loss) recognized<br>directly in equity, net of tax | 406,634,571    | (692,762,620)   | 323,554,044   |
| Amounts realized in profit or loss                                  | (220,816,457)  | (431,647,900)   | (583,845,435) |
| Net change during the year  | 185,818,114    | (1,124,410,520) | (260,291,391) |
| Balance at December 31  | (₱445,370,380) | (₱631,188,494)  | ₱493,222,026  |

#### HTM Investments

As of December 31, 2009 and 2008, HTM investments consist of government bonds amounting to ₱3.7 billion and ₱3.8 billion, respectively, for the Group and Parent Company and private securities amounting to ₱16.9 million and nil, respectively, for the Group and nil for the Parent Company.

#### Trading and Securities Gain

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

|   | Consolidated |                |              |
|---|--------------|----------------|--------------|
|   | 2009         | 2008           | 2007         |
| Realized from sale of:  |              |                |              |
| HFT   | ₱350,819,143 | (₱288,102,413) | ₱111,571,098 |
| AFS   | 226,559,112  | 469,876,931    | 703,141,051  |
| Unquoted commercial papers  | 8,046        | 26,447         | (10,234,068) |
|   | 577,386,301  | 181,800,965    | 804,478,081  |
| Changes in fair value of financial instruments at FVPL:             |              |                |              |
| HFT   | ₱14,518,371  | (₱31,426,463)  | ₱10,488,591  |
| Derivative liability  | 47,319,971   | (2,107,258)    | 15,906,983   |
|   | 61,838,342   | (33,533,721)   | 26,395,574   |
| Reversal of derivative liability from redemption of host instrument | 5,816,243    | —              | —            |
|   | ₱645,040,886 | ₱148,267,244   | ₱830,873,655 |

|   | Parent Company |                |              |
|---|----------------|----------------|--------------|
|   | 2009           | 2008           | 2007         |
| Realized from sale of:  |                |                |              |
| HFT   | ₱294,093,690   | (₱193,362,303) | ₱113,428,828 |
| AFS   | 220,816,457    | 427,373,815    | 583,845,435  |
| Unquoted commercial papers  | 8,046          | 26,447         | (9,932,769)  |
|   | 514,918,193    | 234,037,959    | 687,341,494  |
| Changes in fair value of financial instruments at FVPL:             |                |                |              |
| HFT   | 4,947,899      | (8,100,160)    | 10,488,591   |
| Derivative liability  | 47,319,971     | (2,107,258)    | 15,906,983   |
|   | 52,267,870     | (10,207,418)   | 26,395,574   |
| Reversal of derivative liability from redemption of host instrument | 5,816,243      | —              | —            |
|   | ₱573,002,306   | ₱223,830,541   | ₱713,737,068 |

Trading and investment securities in 2009, 2008 and 2007 bear nominal annual interest rates ranging from 3.1% to 13.2%, 4.3% to 11.7% and 4.6% to 12.5%, respectively, for the Group and 3.1% to 13.2%, 4.3% to 11.7% and 4.6% to 9.5%, respectively, for the Parent Company.

#### Derivative Financial Instruments

As of December 31, 2009 and 2008, the Group and the Parent Company have outstanding investments in private commercial papers amounting to ₱2.8 billion and ₱1.2 billion, 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%.

At the date of inception, the derivative liability on these embedded call options amounted to ₱75.4 million and ₱106.7 million in 2009 and 2008, respectively. As of December 31, 2009 and 2008, the fair value of the embedded derivative liability amounted to ₱138.7 million and ₱116.5 million, respectively.

Details of the Group and the Parent Company's derivative liability follow:

|                              | 2009         | 2008         |
|------------------------------|--------------|--------------|
| Balance at beginning of year | ₱116,511,055 | ₱7,707,323   |
| Effect of bifurcation        | 75,354,400   | 106,696,474  |
| Fair value changes           | (47,319,971) | 2,107,258    |
|                              | 28,034,429   | 108,803,732  |
| Settlement                   | (5,816,243)  | –            |
|                              | ₱138,729,241 | ₱116,511,055 |

## 9. Loans and Receivables

This account consists of:

|  | Consolidated    |                 | Parent Company  |                 |
|--|-----------------|-----------------|-----------------|-----------------|
|  | 2009            | 2008            | 2009            | 2008            |
| Loans and discounts:                       |                 |                 |                 |                 |
| Corporate lending                          | ₱1,753,455,658  | ₱5,142,384,207  | ₱1,542,371,980  | ₱4,947,241,171  |
| Others                                     | 43,535,481      | 31,516,911      | 43,277,840      | 31,516,911      |
| Less unearned discounts                    | 43,276          | 1,985,666       | 43,276          | 133,254         |
|  | 1,796,947,863   | 5,171,915,452   | 1,585,606,544   | 4,978,624,828   |
| Unquoted commercial papers (Note 15)       | 10,193,561,576  | 10,109,603,818  | 10,193,561,576  | 10,109,603,818  |
| Accrued interest receivable                | 785,110,929     | 487,238,966     | 769,928,453     | 481,491,159     |
| Accounts receivable                        | 218,334,515     | 396,315,587     | 129,944,747     | 119,955,466     |
| Dividends receivable                       | 2,251,062       | 124,290,187     | 2,251,062       | 174,290,187     |
|  | 12,996,205,945  | 16,289,364,010  | 12,681,292,382  | 15,863,965,458  |
| Less allowance for credit losses (Note 14) | 379,870,322     | 376,935,308     | 363,655,994     | 355,047,308     |
|  | ₱12,616,335,623 | ₱15,912,428,702 | ₱12,317,636,388 | ₱15,508,918,150 |

As of December 31, 2009 and 2008, 94.3% and 92.2% of the total loans were subject to periodic interest repricing, respectively, for the Group and 94.1% and 91.9%, respectively, for the Parent Company. The remaining loans earned fixed annual interest rates ranging from 7.2% to 10.0%, 5.9% to 15.25% and 10.0% to 14.0% in 2009, 2008 and 2007, respectively, for the Group and the Parent Company.

|           | Consolidated |            | Parent Company |            |
|-----------|--------------|------------|----------------|------------|
|           | 2009         | 2008       | 2009           | 2008       |
| Secured   | ₱–           | ₱4,749,469 | ₱–             | ₱4,749,469 |
| Unsecured | 2,456,814    | 2,456,814  | 2,456,814      | 2,456,814  |
|           | ₱2,456,814   | ₱7,206,283 | ₱2,456,814     | ₱7,206,283 |

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 nonperforming.

In the case of receivables that are payable in monthly installments, the total outstanding balance thereof shall be considered nonperforming when three (3) 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 nonperforming 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 ten percent (10%) of the total receivable balance.

Receivables are classified as nonperforming 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 future payments appear assured.

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

The following table shows the breakdown of loans and discounts, gross of unearned discounts, of the Group and of Parent Company as to secured and unsecured and the breakdown of secured loans as to type of security as of December 31, 2009 and 2008 (amounts in thousands):

|                           | Consolidated |        |            |        | Parent Company |        |            |        |
|---------------------------|--------------|--------|------------|--------|----------------|--------|------------|--------|
|                           | 2009         |        | 2008       |        | 2009           |        | 2008       |        |
|                           | Amount       |        | %          |        | Amount         |        | %          |        |
| <b>Secured loans:</b>     |              |        |            |        |                |        |            |        |
| Chattel                   | ₱992,037     | 55.21  | ₱1,066,336 | 20.61  | ₱992,037       | 62.56  | ₱1,066,336 | 21.42  |
| Real estate               | 216,734      | 12.06  | 1,546,272  | 29.89  | 216,734        | 13.67  | 1,546,272  | 31.06  |
| Shares of stock           | 96,929       | 5.39   | 102,429    | 1.98   | 96,929         | 6.11   | 102,429    | 2.06   |
| Deposit holdout           | –            | –      | 8,000      | 0.15   | –              | –      | 8,000      | 0.16   |
| Assignment of receivables | –            | –      | 1,700      | 0.03   | –              | –      | 1,700      | 0.03   |
|                           | 1,305,700    | 72.66  | 2,724,737  | 52.66  | 1,305,700      | 82.34  | 2,724,737  | 54.73  |
| Unsecured loans           | 491,291      | 27.34  | 2,449,164  | 47.34  | 279,950        | 17.66  | 2,254,021  | 45.27  |
|                           | ₱1,796,991   | 100.00 | ₱5,173,901 | 100.00 | ₱1,585,650     | 100.00 | ₱4,978,758 | 100.00 |

As of December 31, 2009 and 2008, the Group and the Parent Company has no outstanding restructured loans.

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 nonperforming 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, 2009 and 2008, NPLs of the Group and the Parent Company are fully covered by allowance for credit losses.

As of December 31, 2009 and 2008, information on the concentration of credit as to industry of the Group and the Parent Company follows (amounts in thousands, gross of unearned discounts):

|  | Consolidated |        |            |        | Parent Company |        |            |        |
|--|--------------|--------|------------|--------|----------------|--------|------------|--------|
|  | 2009         |        | 2008       |        | 2009           |        | 2008       |        |
|  | Amount       | %      | Amount     | %      | Amount         | %      | Amount     | %      |
| Electricity, gas and water                   | ₱1,238,966   | 68.95  | ₱2,498,766 | 48.30  | ₱1,088,966     | 68.68  | ₱2,368,766 | 47.58  |
| Wholesale and retail trade                   | 236,373      | 13.15  | 572,375    | 11.06  | 206,373        | 13.02  | 542,375    | 10.89  |
| Real estate, renting and business activities | 205,920      | 11.46  | 1,218,231  | 23.55  | 205,920        | 12.99  | 1,218,231  | 24.47  |
| Financial intermediaries                     | 65,250       | 3.63   | 282,700    | 5.46   | 34,167         | 2.15   | 282,700    | 5.68   |
| Manufacturing (various industries)           | 3,000        | 0.17   | 503,000    | 9.72   | 3,000          | 0.19   | 503,000    | 10.10  |
| Private households                           | 1,407        | 0.08   | 8,101      | 0.16   | 1,407          | 0.09   | 8,101      | 0.16   |
| Others                                       | 46,075       | 2.56   | 90,728     | 1.75   | 45,817         | 2.89   | 55,585     | 1.12   |
|  | ₱1,796,991   | 100.00 | ₱5,193,901 | 100.00 | ₱1,585,650     | 100.00 | ₱4,978,758 | 100.00 |

The BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio.

#### Unquoted Commercial Papers

This account consists of various financial instruments issued by private corporations.

## 10. Property and Equipment

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

|  | Consolidated          |                                    |                    |                       |                                    |                    |
|--|-----------------------|------------------------------------|--------------------|-----------------------|------------------------------------|--------------------|
|  | 2009                  |                                    |                    | 2008                  |                                    |                    |
|  | Building Improvements | Furnitures, Fixtures and Equipment | Total              | Building Improvements | Furnitures, Fixtures and Equipment | Total              |
| <b>Cost</b>                                      |                       |                                    |                    |                       |                                    |                    |
| Balance at beginning of year                     | ₱45,667,034           | ₱117,260,831                       | ₱162,927,865       | ₱16,310,561           | ₱94,660,227                        | ₱110,970,788       |
| Acquisition                                      | 10,742,148            | 14,674,974                         | 25,417,122         | 29,636,132            | 27,630,255                         | 57,266,387         |
| Disposals/write-offs                             | (1,451,977)           | (3,663,437)                        | (5,115,414)        | (279,659)             | (5,029,651)                        | (5,309,310)        |
| Balance at end of year                           | 54,957,205            | 128,272,368                        | 183,229,573        | 45,667,034            | 117,260,831                        | 162,927,865        |
| <b>Accumulated depreciation and amortization</b> |                       |                                    |                    |                       |                                    |                    |
| Balance at beginning of year                     | 11,018,820            | 71,644,691                         | 82,663,511         | 7,280,962             | 54,809,161                         | 62,090,123         |
| Depreciation and amortization                    | 8,745,890             | 17,705,513                         | 26,451,403         | 4,006,728             | 19,778,493                         | 23,785,221         |
| Disposals/write-offs                             | (1,451,977)           | (3,334,725)                        | (4,786,702)        | (268,870)             | (2,942,963)                        | (3,211,833)        |
| Balance at end of year                           | 18,312,733            | 86,015,479                         | 104,328,212        | 11,018,820            | 71,644,691                         | 82,663,511         |
| <b>Net book value at end of year</b>             | <b>₱36,644,472</b>    | <b>₱42,256,889</b>                 | <b>₱78,901,361</b> | <b>₱34,648,214</b>    | <b>₱45,616,140</b>                 | <b>₱80,264,354</b> |

|  | Parent Company        |                                    |                    |                       |                                    |                    |
|--|-----------------------|------------------------------------|--------------------|-----------------------|------------------------------------|--------------------|
|  | 2009                  |                                    |                    | 2008                  |                                    |                    |
|  | Building Improvements | Furnitures, Fixtures and Equipment | Total              | Building Improvements | Furnitures, Fixtures and Equipment | Total              |
| <b>Cost</b>                                      |                       |                                    |                    |                       |                                    |                    |
| Balance at beginning of year                     | ₱36,411,069           | ₱87,158,951                        | ₱123,570,020       | ₱7,500,938            | ₱66,578,437                        | ₱74,079,375        |
| Acquisition                                      | 10,690,914            | 14,184,332                         | 24,875,246         | 29,232,232            | 25,225,964                         | 54,458,196         |
| Disposals/write-offs                             | (1,451,977)           | (3,663,437)                        | (5,115,414)        | (322,101)             | (4,645,450)                        | (4,967,551)        |
| Balance at end of year                           | 45,650,006            | 97,679,846                         | 143,329,852        | 36,411,069            | 87,158,951                         | 123,570,020        |
| <b>Accumulated depreciation and amortization</b> |                       |                                    |                    |                       |                                    |                    |
| Balance at beginning of year                     | 6,475,569             | 52,426,698                         | 58,902,267         | 3,654,649             | 41,291,837                         | 44,946,486         |
| Depreciation and amortization                    | 7,918,785             | 13,810,988                         | 21,729,773         | 3,088,944             | 12,666,585                         | 15,755,529         |
| Disposals/write-offs                             | (1,451,977)           | (3,334,725)                        | (4,786,702)        | (268,024)             | (1,531,724)                        | (1,799,748)        |
| Balance at end of year                           | 12,942,377            | 62,902,961                         | 75,845,338         | 6,475,569             | 52,426,698                         | 58,902,267         |
| <b>Net book value at end of year</b>             | <b>₱32,707,629</b>    | <b>₱34,776,885</b>                 | <b>₱67,484,514</b> | <b>₱29,935,500</b>    | <b>₱34,732,253</b>                 | <b>₱64,667,753</b> |

As of December 31, 2009 and 2008, the gross carrying value of fully depreciated property and equipment that are still in use amounted to ₱39.5 million and ₱30.2 million, respectively, for the Group and ₱35.4 million and ₱29.8 million, respectively, for the Parent Company.



## 11. Investments in Subsidiaries, Associates and Joint Venture

This account consists of investments in:

|  | Ownership<br>(%) | Consolidated   |                | Parent Company |                |
|--|------------------|----------------|----------------|----------------|----------------|
|  |                  | 2009           | 2008           | 2009           | 2008           |
| Acquisition cost:                                  |                  |                |                |                |                |
| Subsidiaries (Note 2):                             |                  |                |                |                |                |
| PBC  | 100.00           | ₱–             | ₱–             | ₱324,798,000   | ₱324,798,000   |
| FMSBC  | 100.00           | –              | –              | 130,000,000    | 130,000,000    |
| SPI  | 100.00           | –              | –              | 130,000,000    | 130,000,000    |
| FEI  | 100.00           | –              | –              | 12,500,000     | 12,500,000     |
| FMIBC  | 100.00           | –              | –              | 10,250,000     | 10,250,000     |
| PVDC   | 100.00           | –              | –              | 4,200,000      | 4,200,000      |
| FAMI   | 70.00            | –              | –              | 8,235,000      | 8,235,000      |
| FMSLFIF  | 69.61            | –              | –              | 181,645,777    | 181,645,777    |
| FMSLMMF  | 74.45            | –              | –              | 50,000,000     | 50,000,000     |
| FMSLGCF  | 100.00           | –              | –              | 50,000,000     | –              |
| Resiliency (SPC), Inc.                             | 100.00           | –              | –              | 5,000,000      | –              |
| Associates:  |                  |                |                |                |                |
| Cathay International Resources, Inc. (CIRC)        | 35.00            | 488,950,000    | 439,500,000    | 488,950,000    | 439,500,000    |
| Diamond Air, Inc.                                  | 35.00            | –              | 8,750,000      | –              | 8,750,000      |
| Philippine Charter Insurance Corporation (PCIC)    | 33.33            | 59,977,343     | 59,977,343     | 59,977,343     | 59,977,343     |
| First Metro Save & Learn Equity Fund (FMSALEF)     | 31.60            | 247,234,492    | 245,244,343    | 235,244,345    | 235,244,345    |
| Global Business Power Corporation (GBPC)           | 30.00            | 4,498,979,440  | 2,613,369,763  | 4,498,979,440  | 2,613,369,763  |
| Philippine AXA Life Insurance Corporation (PALIC)  | 28.15            | 278,118,238    | 278,118,238    | 278,118,238    | 278,118,238    |
| First Metro Save & Learn Balanced Fund (FMSALBF)   | 27.57            | 27,779,090     | 25,202,510     | 25,202,510     | 25,202,510     |
| FMIIC  | 20.00            | 363,567,634    | 363,567,634    | 363,567,634    | 363,567,634    |
| Skyland Realty Development Corporation (SRDC)      | 20.00            | 318,333        | 318,333        | 318,333        | 318,333        |
| Dahon Realty Corporation                           | 20.00            | 2,853,580      | 2,853,580      | 2,853,580      | 2,853,580      |
| Orix Metro Leasing and Finance Corp (OMLFC)        | 20.00            | 183,157,361    | 183,157,361    | 183,157,361    | 183,157,361    |
| Lepanto Consolidated Mining Company (LCMC)         | 11.08            | 1,368,635,113  | 1,368,635,113  | 1,368,635,113  | 1,368,635,113  |
| Joint Venture:                                     |                  |                |                |                |                |
| Aurora Towers, Inc.                                | 50.00            | 18,408,000     | 18,408,000     | 18,408,000     | 18,408,000     |
|  |                  | 7,537,978,624  | 5,607,102,218  | 8,430,040,674  | 6,448,730,997  |
| Accumulated equity in net earnings:                |                  |                |                |                |                |
| Balance at beginning of year                       |                  | 1,240,372,916  | 1,360,476,163  | –              | –              |
| Equity in net earnings                             |                  | 427,749,836    | 75,548,641     | –              | –              |
| Cash dividends                                     |                  | (139,783,750)  | (192,968,148)  | –              | –              |
| Divestment and reclassification to AFS investments |                  | –              | (2,683,740)    | –              | –              |
| Others   |                  | (2,508,670)    | –              | –              | –              |
| Balance at end of year                             |                  | 1,525,830,332  | 1,240,372,916  | –              | –              |
| Equity in unrealized gain on AFS investments       |                  |                |                |                |                |
| of associates                                      |                  | 168,916,960    | 77,826,648     | –              | –              |
| Equity in revaluation increment                    |                  | 29,948,345     | 31,142,610     | –              | –              |
| Equity in translation adjustment                   |                  | (29,422,895)   | (20,593,286)   | –              | –              |
|  |                  | 9,233,251,366  | 6,935,851,106  | 8,430,040,674  | 6,448,730,997  |
| Less allowance for impairment losses (Note 14)     |                  | –              | 8,741,999      | 100,098,520    | 108,848,520    |
|  |                  | ₱9,233,251,366 | ₱6,927,109,107 | ₱8,329,942,154 | ₱6,339,882,477 |

The Parent Company has 11.1% ownership interest in LCMC. It also holds 19.5% voting rights in LCMC after it has considered the assigned 8.4% voting rights of its Ultimate Parent Company to the Parent Company.

As of December 31, 2009 and 2008, investment in GBPC includes deposit for future subscription amounting to ₱3.4 billion and ₱1.5 billion, respectively.

As of December 31, 2009 and 2008, investment in CIRC includes deposit for future subscription amounting to ₱314.0 million and ₱264.5 million, respectively.

As of December 31, 2009, the Group did not take up losses in excess of PBC's investments in its subsidiary amounting to ₱36.0 million.

In February 2008, the Parent Company sold its investment in TCI for ₱22.8 million representing 26.0% of the total 35.0% ownership, resulting in a gain of ₱2.0 million. The remaining 9.0% was reclassified to AFS investments.

The fair value of investment in LCMC and net assets value of investments in mutual funds amounted to ₱881.7 million and ₱574.9 million as of December 31 2009, respectively, and ₱226.4 million and ₱423.9 million as of December 31, 2008, respectively.

The following table presents the financial information of significant associates as of and for the years ended December 31, 2009 and 2008 (amounts in thousands):

| Name of Company | 2009                            |                   |              |                         |                   |
|-----------------|---------------------------------|-------------------|--------------|-------------------------|-------------------|
|                 | Statement of Financial Position |                   | Gross Income | Statement of Income     |                   |
|                 | Total Assets                    | Total Liabilities |              | Operating Income (Loss) | Net Income (Loss) |
| PALIC           | ₱32,810,963                     | ₱30,291,560       | ₱10,011,093  | ₱1,060,564              | ₱848,493          |
| GBPC            | 21,722,516                      | 8,129,876         | 3,905,082    | 372,243                 | 264,635           |
| OMLFC           | 8,384,258                       | 6,926,912         | 406,724      | 81,213                  | 81,162            |
| LCMC            | 8,135,281                       | 3,762,049         | 1,272,302    | (327,664)               | (305,435)         |
| PCIC            | 4,471,247                       | 3,861,039         | 53,019       | 17,407                  | 6,361             |
| CIRC            | 2,060,129                       | 1,561,212         | 121,847      | 30,946                  | (1,082)           |
| FMIIC           | 985,386                         | 32,482            | 10,734       | (30,512)                | (30,512)          |
| FMSALEF         | 881,221                         | 139,258           | 286,387      | 272,773                 | 260,779           |
| FMSALBF         | 118,998                         | 6,558             | 36,045       | 33,560                  | 32,165            |

| Name of Company | 2008                            |                   |                     |                         |                   |
|-----------------|---------------------------------|-------------------|---------------------|-------------------------|-------------------|
|                 | Statement of Financial Position |                   | Gross Income (Loss) | Statement of Income     |                   |
|                 | Total Assets                    | Total Liabilities |                     | Operating Income (Loss) | Net Income (Loss) |
| PALIC           | ₱30,722,328                     | ₱28,977,400       | ₱5,356,322          | ₱2,852,765              | ₱152,286          |
| GBPC            | 16,503,094                      | 6,811,244         | 2,941,385           | 560,541                 | 171,929           |
| LCMC            | 8,191,238                       | 3,210,753         | 1,820,250           | (454,509)               | (504,177)         |
| OMLFC           | 7,187,029                       | 5,892,566         | 1,376,023           | 349,023                 | 252,289           |
| PCIC            | 3,295,591                       | 2,664,408         | 853,937             | 79,216                  | 70,2456           |
| CIRC            | 1,844,990                       | 1,374,675         | 111,247             | 13,647                  | 13,647            |
| FMIIC           | 1,090,048                       | 62,481            | 281,895             | 37,251                  | 31,121            |
| FMSALEF         | 516,899                         | 42,614            | (207,366)           | (221,078)               | (228,512)         |
| FMSALBF         | 67,412                          | 259               | (1,835)             | (4,028)                 | (4,776)           |

## 12. Investment Properties

The composition of and movements in this account follow:

|   | Consolidated        |  |                     |                     |  |                     |
|---|---------------------|--|---------------------|---------------------|--|---------------------|
|   | 2009                |  |                     | 2008                |  |                     |
|   | Land                | Building/<br>condominium<br>for sale/lease | Total               | Land                | Building/<br>condominium<br>for sale/lease | Total               |
| <b>Cost</b>                               |                     |  |                     |                     |  |                     |
| Balance at beginning of year              | ₹791,807,202        | ₹138,227,457                               | ₹930,034,659        | ₹800,927,705        | ₹131,577,172                               | ₹932,504,877        |
| Additions                                 | 4,707,113           | –  | 4,707,113           | 10,748,198          | –  | 10,748,198          |
| Disposals                                 | (60,022,500)        | –  | (60,022,500)        | (1,717,500)         | (11,500,916)                               | (13,218,416)        |
| Reclassification                          | –                   | –  | –                   | (18,151,201)        | 18,151,201                                 | –                   |
| Balance at end of year                    | 736,491,815         | 138,227,457                                | 874,719,272         | 791,807,202         | 138,227,457                                | 930,034,659         |
| <b>Accumulated depreciation</b>           |                     |  |                     |                     |  |                     |
| Balance at beginning of year              | –                   | 63,133,572                                 | 63,133,572          | –                   | 62,470,267                                 | 62,470,267          |
| Depreciation                              | –                   | 4,221,139                                  | 4,221,139           | –                   | 5,229,695                                  | 5,229,695           |
| Disposals/others                          | –                   | –  | –                   | –                   | (4,566,390)                                | (4,566,390)         |
| Balance at end of year                    | –                   | 67,354,711                                 | 67,354,711          | –                   | 63,133,572                                 | 63,133,572          |
| Allowance for impairment losses (Note 14) | –                   | 1,229,500                                  | 1,229,500           | –                   | 1,229,500                                  | 1,229,500           |
| <b>Net book value at end of year</b>      | <b>₹736,491,815</b> | <b>₹69,643,246</b>                         | <b>₹806,135,061</b> | <b>₹791,807,202</b> | <b>₹73,864,385</b>                         | <b>₹865,671,587</b> |

|   | Parent Company      |  |                     |                     |  |                     |
|---|---------------------|--|---------------------|---------------------|--|---------------------|
|   | 2009                |  |                     | 2008                |  |                     |
|   | Land                | Building/<br>condominium<br>for sale/lease | Total               | Land                | Building/<br>condominium<br>for sale/lease | Total               |
| <b>Cost</b>                               |                     |  |                     |                     |  |                     |
| Balance at beginning of year              | ₹731,807,202        | ₹138,227,457                               | ₹870,034,659        | ₹740,927,705        | ₹131,577,172                               | ₹872,504,877        |
| Additions                                 | –                   | –  | –                   | 10,748,198          | –  | 10,748,198          |
| Disposals                                 | (22,500)            | –  | (22,500)            | (1,717,500)         | (11,500,916)                               | (13,218,416)        |
| Reclassification                          | 4,707,113           | –  | 4,707,113           | (18,151,201)        | 18,151,201                                 | –                   |
| Balance at end of year                    | 736,491,815         | 138,227,457                                | 874,719,272         | 731,807,202         | 138,227,457                                | 870,034,659         |
| <b>Accumulated depreciation</b>           |                     |  |                     |                     |  |                     |
| Balance at beginning of year              | –                   | 63,133,572                                 | 63,133,572          | –                   | 62,470,267                                 | 62,470,267          |
| Depreciation                              | –                   | 4,221,139                                  | 4,221,139           | –                   | 5,229,695                                  | 5,229,695           |
| Disposals/others                          | –                   | –  | –                   | –                   | (4,566,390)                                | (4,566,390)         |
| Balance at end of year                    | –                   | 67,354,711                                 | 67,354,711          | –                   | 63,133,572                                 | 63,133,572          |
| Allowance for impairment losses (Note 14) | –                   | 1,229,500                                  | 1,229,500           | –                   | 1,229,500                                  | 1,229,500           |
| <b>Net book value at end of year</b>      | <b>₹736,491,815</b> | <b>₹69,643,246</b>                         | <b>₹806,135,061</b> | <b>₹731,807,202</b> | <b>₹73,864,385</b>                         | <b>₹805,671,587</b> |

The aggregate market value of investment properties as of December 31, 2009 and 2008 amounted to ₹1.5 billion and ₹1.6 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 2009, the legal title to the investment property of the Group has been transferred to a third party through a legally executed deed of sale. The Group recognized a gain amounting to ₹10.0 million from the sale of the investment property.

In 2009, 2008 and 2007, rental income from leased properties (included under 'Miscellaneous income') amounted to ₹4.8 million, ₹4.7 million and ₹8.6 million, respectively, for the Group and the Parent Company.

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 ₹1.5 million, ₹1.6 million and ₹1.1 million in 2009, 2008 and 2007, respectively. While 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 ₹2.8 million, ₹4.7 million and ₹10.3 million in 2009, 2008 and 2007, respectively (see Note 24).

### 13. Other Assets

This account consists of:

|                                  | Consolidated        |                     | Parent Company      |                     |
|----------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                  | 2009                | 2008                | 2009                | 2008                |
| Creditable withholding tax - net | ₱184,222,570        | ₱142,941,686        | ₱174,122,165        | ₱139,432,859        |
| Prepaid expenses                 | 30,276,866          | 49,883,528          | 16,766,020          | 32,665,332          |
| Miscellaneous - net              | 28,846,886          | 27,742,153          | 10,801,742          | 11,371,785          |
|                                  | <b>₱243,346,322</b> | <b>₱220,567,367</b> | <b>₱201,689,927</b> | <b>₱183,469,976</b> |

### 14. Allowance for Impairment and Credit Losses

Changes in the allowance for impairment and credit losses follow:

|  | Consolidated        |                      | Parent Company      |                      |
|--|---------------------|----------------------|---------------------|----------------------|
|  | 2009                | 2008                 | 2009                | 2008                 |
| Balance at beginning of year                               |                     |                      |                     |                      |
| Loans and receivables (Note 9)                             | ₱376,935,308        | ₱569,352,171         | ₱355,047,308        | ₱548,968,155         |
| AFS investments (Note 8)                                   | 113,850,316         | 95,520,573           | 28,725,000          | 28,725,000           |
| Investment in associates (Note 11)                         | 8,741,999           | 1,229,500            | 108,848,520         | 1,229,500            |
| Investment properties (Note 12)                            | 1,229,500           | 4,045,999            | 1,229,500           | 22,776,998           |
| Other assets   | –                   | –                    | –                   | –                    |
|  | <b>500,757,123</b>  | <b>670,148,243</b>   | <b>493,850,328</b>  | <b>601,699,653</b>   |
| Provision for (recovery from) impairment and credit losses | 180,737,944         | (167,321,593)        | 171,742,298         | (106,501,800)        |
| Write-offs and others                                      | (9,711,863)         | (2,069,527)          | (141,314)           | (1,347,525)          |
|  | <b>171,026,081</b>  | <b>(169,391,120)</b> | <b>171,600,984</b>  | <b>(107,849,325)</b> |
| Balance at end of year                                     |                     |                      |                     |                      |
| Loans and receivables (Note 9)                             | 379,870,322         | 376,935,308          | 363,655,994         | 355,047,308          |
| AFS investments (Note 8)                                   | 285,592,614         | 113,850,316          | 200,467,298         | 28,725,000           |
| Investment in associate (Note 11)                          | –                   | 8,741,999            | 100,098,520         | 108,848,520          |
| Investment properties (Note 12)                            | 1,229,500           | 1,229,500            | 1,229,500           | 1,229,500            |
| Other assets   | 5,090,768           | –                    | –                   | –                    |
|  | <b>₱671,783,204</b> | <b>₱500,757,123</b>  | <b>₱665,451,312</b> | <b>₱493,850,328</b>  |

Below is the breakdown of provision for (reversal from) impairment and credit losses in 2009, 2008 and 2007.

|                         | Consolidated        |                       |                    | Parent Company      |                       |           |
|-------------------------|---------------------|-----------------------|--------------------|---------------------|-----------------------|-----------|
|                         | 2009                | 2008                  | 2007               | 2009                | 2008                  | 2007      |
| Loans and receivables   | ₱3,904,878          | (₱187,834,021)        | ₱–                 | ₱–                  | (₱187,877,322)        | ₱–        |
| Investment in associate | –                   | 2,234,601             | –                  | –                   | 81,375,522            | –         |
| AFS equity investments  | 171,742,298         | 18,277,827            | 67,084,558         | 171,742,298         | –                     | –         |
| Other assets            | 5,090,768           | –                     | –                  | –                   | –                     | –         |
|                         | <b>₱180,737,944</b> | <b>(₱167,321,593)</b> | <b>₱67,084,558</b> | <b>₱171,742,298</b> | <b>(₱106,501,800)</b> | <b>₱–</b> |

With the foregoing level of allowance for impairment and credit losses, management believes that the Group and the Parent Company have sufficient allowance to take care of 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         |                                  |                                 |                         |                |
|---|----------------------|----------------------------------|---------------------------------|-------------------------|----------------|
|   | 2009                 |                                  |                                 |                         |                |
|   | Corporate<br>lending | Unquoted<br>commercial<br>papers | Accrued interest<br>receivables | Accounts<br>receivables | Total          |
| At January 1, 2009  | P51,572,540          | P166,190,784                     | P74,807,486                     | P84,364,498             | P376,935,308   |
| Provisions  | –                    | –                                | –                               | 3,904,878               | 3,904,878      |
| Transfers/others  | (2,516,672)          | 8,608,686                        | (2,234,600)                     | (4,827,278)             | (969,864)      |
| At December 31, 2009 (Note 9)   | P49,055,868          | P174,799,470                     | P72,572,886                     | P83,442,098             | P379,870,322   |
| Individual impairment   | P40,356,798          | P174,799,470                     | P70,234,741                     | P82,094,041             | P367,485,050   |
| Collective impairment   | 8,699,070            | –                                | 2,338,145                       | 1,348,057               | 12,385,272     |
|   | P49,055,868          | P174,799,470                     | P72,572,886                     | P83,442,098             | P379,870,322   |
| Gross amount of loans and receivables<br>individually determined to be<br>impaired, before deducting any<br>individually assessed credit losses | P904,772,991         | P456,250,000                     | P97,297,523                     | P113,178,648            | P1,571,499,162 |

|   | Consolidated         |                                  |                                 |                         |                |
|---|----------------------|----------------------------------|---------------------------------|-------------------------|----------------|
|   | 2008                 |                                  |                                 |                         |                |
|   | Corporate<br>Lending | Unquoted<br>commercial<br>papers | Accrued interest<br>receivables | Accounts<br>receivables | Total          |
| At January 1, 2008  | P169,083,863         | P293,550,104                     | P20,275,564                     | P86,442,640             | P569,352,171   |
| Provisions (recoveries)   | (117,511,323)        | (70,365,999)                     | –                               | 43,301                  | (187,834,021)  |
| Accounts written off  | –                    | –                                | –                               | (2,069,527)             | (2,069,527)    |
| Transfers/others  | –                    | (56,993,321)                     | 54,531,922                      | (51,916)                | (2,513,315)    |
| At December 31, 2008 (Note 9)   | P51,572,540          | P166,190,784                     | P74,807,486                     | P84,364,498             | P376,935,308   |
| Individual impairment   | P51,572,540          | P166,190,784                     | P74,807,486                     | P84,364,498             | P376,935,308   |
| Collective impairment   | –                    | –                                | –                               | –                       | –              |
|   | P51,572,540          | P166,190,784                     | P74,807,486                     | P84,364,498             | P376,935,308   |
| Gross amount of loans and receivables<br>individually determined to be<br>impaired, before deducting any<br>individually assessed credit losses | P943,222,991         | P456,250,000                     | P105,294,609                    | P108,494,838            | P1,613,262,438 |

|   | Parent Company       |                                  |                                 |                        |                |
|---|----------------------|----------------------------------|---------------------------------|------------------------|----------------|
|   | 2009                 |                                  |                                 |                        |                |
|   | Corporate<br>Lending | Unquoted<br>commercial<br>papers | Accrued interest<br>receivables | Account<br>Receivables | Total          |
| At January 1, 2009  | P32,841,541          | P166,190,784                     | P72,572,885                     | P83,442,098            | P355,047,308   |
| Transfers/others  | –                    | 8,608,686                        | –                               | –                      | 8,608,686      |
| At December 31, 2009 (Note 9)   | P32,841,541          | P174,799,470                     | P72,572,885                     | P83,442,098            | P363,655,994   |
| Individual impairment   | P31,161,697          | P174,799,470                     | P70,857,164                     | P83,323,702            | P360,142,033   |
| Collective impairment   | 1,679,844            | –                                | 1,715,721                       | 118,396                | 3,513,961      |
|   | P32,841,541          | P174,799,470                     | P72,572,885                     | P83,442,098            | P363,655,994   |
| Gross amount of loans and receivables<br>individually determined to be<br>impaired, before deducting any<br>individually assessed credit losses | P904,772,991         | P456,250,000                     | P97,297,523                     | P83,528,794            | P1,541,849,308 |



|   | Parent Company       |                                  |                                 |                         |                |
|---|----------------------|----------------------------------|---------------------------------|-------------------------|----------------|
|   | 2008                 |                                  |                                 |                         |                |
|   | Corporate<br>Lending | Unquoted<br>Commercial<br>papers | Accrued interest<br>receivables | Accounts<br>receivables | Total          |
| At January 1, 2008  | ₱150,084,378         | ₱293,550,105                     | ₱20,275,564                     | ₱85,058,108             | ₱548,968,155   |
| Recoveries  | (117,516,136)        | (70,361,186)                     | –                               | –                       | (187,877,322)  |
| Accounts written-off  | –                    | –                                | –                               | (1,347,525)             | (1,347,525)    |
| Transfers/others  | 273,299              | (56,998,135)                     | 52,297,321                      | (268,485)               | (4,696,000)    |
| At December 31, 2008 (Note 9)   | ₱32,841,541          | ₱166,190,784                     | ₱72,572,885                     | ₱83,442,098             | ₱355,047,308   |
| Individual impairment   | ₱32,841,541          | ₱166,190,784                     | ₱72,572,885                     | ₱83,442,098             | ₱355,047,308   |
| Collective impairment   | –                    | –                                | –                               | –                       | –              |
|   | ₱32,841,541          | ₱166,190,784                     | ₱72,572,885                     | ₱83,442,098             | ₱355,047,308   |
| Gross amount of loans and receivables<br>individually determined to be<br>impaired, before deducting any<br>individually assessed credit losses | ₱943,222,991         | ₱456,250,000                     | ₱100,689,758                    | ₱83,494,835             | ₱1,583,657,584 |

In 2009, the Group and the Parent Company recognized ₱171.7 million of provision for impairment losses on quoted equity securities classified under AFS investments (see Note 8).

## 15. Bills Payable

This account consists of:

|                             | 2009            | 2008            |
|-----------------------------|-----------------|-----------------|
| Deposit substitutes         |                 |                 |
| Promissory notes issued     | ₱38,946,458,315 | ₱35,026,748,961 |
| Repurchase agreements       | 10,310,876,895  | 414,398,856     |
| Borrowing with a local bank | 500,000,000     | 500,000,000     |
| Interbank call loans        | 290,000,000     | 2,000,000,000   |
|                             | ₱50,047,335,210 | ₱37,941,147,817 |

Deposit substitutes have maturities of 15-364 days and bear annual interest rates ranging from 2.3% to 8.0%, 2.0% to 8.0% and 1.5% to 8.0% in 2009, 2008 and 2007, respectively.

The carrying values of financial assets pledged as collateral to securities sold under agreement to repurchase and classified under AFS debt securities and unquoted commercial papers amounted to ₱7.7 billion and ₱2.6 billion, respectively, as of December 31, 2009 and nil and ₱414.4 million, respectively, as of December 31, 2008 (see Notes 8 and 9). The repurchase agreements are not negotiable and are not automatically renewed at maturity.

Borrowing with a local bank is a long-term borrowing that has a term of 7 years and bears an annual interest of 6.2%.

Interbank call loans are short-term borrowings that have terms of 1-5 days and bear annual interests ranging from 4.1% to 6.3%, 5.0% to 6.3% and 5.0% to 7.0% in 2009, 2008 and 2007, respectively.

Interest expense on bills payable of the Group and the Parent Company follow:

|   | 2009                  | 2008                  | 2007                  |
|---|-----------------------|-----------------------|-----------------------|
| Deposit substitutes                           |                       |                       |                       |
| Promissory notes issued                       | ₱1,782,967,227        | ₱1,562,453,327        | ₱971,803,762          |
| Repurchase agreements                         |                       |                       |                       |
| Interbank call loan                           | 169,634,283           | 37,983,139            | 50,401,739            |
| Borrowing with a local bank                   | 54,003,194            | 29,679,170            | 5,548,524             |
| Securities sold under agreement to repurchase | 33,040,572            | 32,209,723            | 62,132,981            |
|   | –                     | 18,053,267            | 7,532,414             |
|   | <b>₱2,039,645,276</b> | <b>₱1,680,378,626</b> | <b>₱1,097,419,420</b> |

Under BSP Circular No. 632, deposit substitutes are subject to liquidity and statutory reserves of 11.0% and 8%, respectively, starting November 6, 2008. As of December 31, 2009 and 2008, available reserves as reported to the BSP follow:

|                           | 2009                  | 2008                  |
|---------------------------|-----------------------|-----------------------|
| Cash and other cash items | ₱7,343,021,749        | ₱4,798,182,516        |
| Due from BSP              | 1,965,000,000         | 1,916,100,000         |
|                           | <b>₱9,308,021,749</b> | <b>₱6,714,282,516</b> |

As of December 31, 2009 and 2008, the Parent Company was in compliance with the regulations on reserve requirements.

## 16. Accrued Taxes, Interest and Other Expenses

This account consists of:

|                                    | Consolidated        |                     | Parent Company      |                     |
|------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                    | 2009                | 2008                | 2009                | 2008                |
| Financial liabilities (Note 19)    |                     |                     |                     |                     |
| Accrued interest payable           | ₱161,431,476        | ₱208,503,873        | ₱161,762,068        | ₱209,530,368        |
| Accrued other expenses payable     | 19,133,878          | 41,458,120          | 11,933,647          | 24,117,002          |
|                                    | <b>180,565,354</b>  | <b>249,961,993</b>  | <b>173,695,715</b>  | <b>233,647,370</b>  |
| Nonfinancial liabilities (Note 19) |                     |                     |                     |                     |
| Accrued taxes and licenses         | 28,336,996          | 13,731,574          | 26,818,782          | 13,590,564          |
| Retirement liability (Note 22)     | 10,173,481          | 4,676,817           | 8,424,840           | 3,003,929           |
|                                    | <b>38,510,477</b>   | <b>18,408,391</b>   | <b>35,243,622</b>   | <b>16,594,493</b>   |
|                                    | <b>₱219,075,831</b> | <b>₱268,370,384</b> | <b>₱208,939,337</b> | <b>₱250,241,863</b> |

## 17. Bonds Payable

Details of this account follow:

|                                 | 2009               | 2008               |
|---------------------------------|--------------------|--------------------|
| Bonds payable                   | ₱150,000,000       | ₱150,000,000       |
| Less bonds held by a subsidiary | 94,800,000         | 88,800,000         |
|                                 | <b>₱55,200,000</b> | <b>₱61,200,000</b> |

On July 12, 2007, the Parent Company issued Floating Rate Bonds (FRB) amounting to ₱150.0 million which will mature on July 12, 2011. These were issued at face value with an initial coupon rate of 4.5% per annum. The FRBs are 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 0.25% margin. The interest is to be paid every quarter starting October 12, 2007.

FRBs are offered pursuant to Section 92 of the Securities Regulation Code (SRC) and Rule 9.2 of the SRC Rules as confirmed by a "Certification of Exemption" dated February 21, 2007, issued by the Philippine Securities and Exchange Commission (SEC). Under this rule, the SEC certificate of exemption may substitute for the SEC Approval required under Subsection 4217Q of the Manual of Regulations for Non-Bank Financial Institutions.

The FRBs are in scripless form, offered and sold in principal amounts of ₱500,000 and in integral amounts of ₱100,000 in excess of the first ₱500,000. The total principal amount of FRBs offered and sold to the bondholders are up to ₱2.0 billion.

The Parent Company, as issuer, is required to maintain at all times a required collateral value of at least 100% of the face value of the bond liability. As of December 31, 2009 and 2008, the Parent Company's investment in government bonds (included under 'AFS investments') amounting to ₱172.2 million and ₱178.0 million, respectively, are used as collateral for the FRBs issued by the Parent Company (Note 8).

In 2009, 2008 and 2007, interest expense on bonds payable for the Group and the Parent Company amounted to ₱2.6 million, ₱8.3 million and ₱2.6 million, respectively, for the Group and ₱7.2 million, ₱8.3 million and ₱3.2 million, respectively, for the Parent Company.

## 18. Other Liabilities

This account consists of:

|                                     | Consolidated |              | Parent Company |              |
|-------------------------------------|--------------|--------------|----------------|--------------|
|                                     | 2009         | 2008         | 2009           | 2008         |
| Financial liabilities (Note 19)     |              |              |                |              |
| Premiums payable                    | ₱39,957,593  | ₱8,358,278   | ₱300,958       | ₱276,868     |
| Dividends payable                   | 20,287,932   | 20,332,765   | 20,287,932     | 20,332,765   |
| Subscriptions payable (Notes 26)    | 9,187,500    | 15,750,000   | 18,562,500     | 25,125,000   |
| Payables for securities purchased   | 1,784,302    | –            | 86,025,766     | –            |
|                                     | 71,217,327   | 44,441,043   | 125,177,156    | 45,734,633   |
| Nonfinancial liabilities (Note 19)  |              |              |                |              |
| Non-equity minority interest        | 110,800,553  | 114,159,455  | –              | –            |
| Deferred income (Note 26)           | 44,597,514   | 44,597,514   | 44,597,514     | 44,597,514   |
| Withholding taxes payable (Note 19) | 38,943,210   | 43,369,718   | 38,192,549     | 42,403,068   |
| Miscellaneous                       | 12,452,653   | 7,511,204    | 556,044        | 1,174,437    |
|                                     | 206,793,930  | 209,637,891  | 83,346,107     | 88,175,019   |
|                                     | ₱278,011,257 | ₱254,078,934 | ₱208,523,263   | ₱133,909,652 |

Non-equity minority interests arise when funds are consolidated and where the Group holds less than 100% of the investment in those funds. When this occurs, the Group acquires a liability in respect of minority interests in the funds of which the Group has control. Such minority interests are distinguished from equity minority interests in that the Group does not hold an equity stake in such funds.

## 19. 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, 2009 and 2008:

|   | Consolidated           |                        |                 |                        |                        |                 |
|---|------------------------|------------------------|-----------------|------------------------|------------------------|-----------------|
|   | 2009                   |                        |                 | 2008                   |                        |                 |
|   | Due Within<br>One Year | Due Beyond<br>One Year | Total           | Due Within<br>One Year | Due Beyond<br>One Year | Total           |
| <b>Financial Assets</b>   |                        |                        |                 |                        |                        |                 |
| Cash and other cash items   | ₱8,156,812,303         | ₱–                     | ₱8,156,812,303  | ₱5,597,441,874         | ₱–                     | ₱5,597,441,874  |
| Due from BSP  | 1,965,000,000          | –                      | 1,965,000,000   | 1,916,100,000          | –                      | 1,916,100,000   |
| IBLR and SPURA  | –                      | –                      | –               | 1,430,000,000          | –                      | 1,430,000,000   |
| Financial assets FVPL (Note 8)  | 503,827,997            | 1,386,131,000          | 1,889,958,997   | 376,451,348            | 45,277,462             | 421,728,810     |
| AFS - at market (Note 8)  | –                      | 21,127,812,669         | 21,127,812,669  | 387,105,990            | 8,759,112,112          | 9,146,218,102   |
| HTM - at amortized cost (Note 8)  | 2,437,278,231          | 1,298,543,499          | 3,735,821,730   | –                      | 3,756,141,902          | 3,756,141,902   |
| Loans and receivables - at gross<br>(Note 9)                              | 1,672,161,480          | 11,324,087,741         | 12,996,249,221  | 6,462,005,205          | 9,829,344,471          | 16,291,349,676  |
|   | 14,735,080,011         | 35,136,574,909         | 49,871,654,920  | 16,169,104,417         | 22,389,875,947         | 38,558,980,364  |
| <b>Nonfinancial Assets</b>  |                        |                        |                 |                        |                        |                 |
| Investments in subsidiaries,<br>associates and joint<br>venture (Note 11) | –                      | 9,233,251,366          | 9,233,251,366   | –                      | 6,935,851,106          | 6,935,851,106   |
| Investment properties (Note 12)   | –                      | 807,364,561            | 807,364,561     | –                      | 866,901,087            | 866,901,087     |
| Property and equipment (Note 10)  | –                      | 78,901,361             | 78,901,361      | –                      | 80,264,354             | 80,264,354      |
| Deferred tax assets (Note 25)   | –                      | 8,526,242              | 8,526,242       | –                      | 3,702,731              | 3,702,731       |
| Other assets (Note 13)  | –                      | 248,437,090            | 248,437,090     | –                      | 220,567,367            | 220,567,367     |
|   | –                      | 10,376,480,620         | 10,376,480,620  | –                      | 8,107,286,645          | 8,107,286,645   |
| Allowance for impairment<br>and credit losses (Note 14)                   | –                      | (671,783,204)          | (671,783,204)   | –                      | (500,757,123)          | (500,757,123)   |
| Unearned interest and<br>discounts (Note 9)                               | –                      | (43,276)               | (43,276)        | –                      | (1,985,666)            | (1,985,666)     |
|   | –                      | (671,826,480)          | (671,826,480)   | –                      | (502,742,789)          | (502,742,789)   |
|   | ₱14,735,080,011        | ₱44,841,229,049        | ₱59,576,309,060 | ₱16,169,104,417        | ₱29,994,419,803        | ₱46,163,524,220 |
| <b>Financial Liabilities</b>  |                        |                        |                 |                        |                        |                 |
| Bills payable (Note 15)   | ₱49,547,335,210        | ₱500,000,000           | ₱50,047,335,210 | ₱37,441,147,817        | ₱500,000,000           | ₱37,941,147,817 |
| Accrued interest and other<br>expenses payable (Note 16)                  | 180,565,354            | –                      | 180,565,354     | 249,961,993            | –                      | 249,961,993     |
| Accounts payable  | 211,380,284            | –                      | 211,380,284     | 208,517,232            | –                      | 208,517,232     |
| Bonds payable   | –                      | 55,200,000             | 55,200,000      | –                      | 61,200,000             | 61,200,000      |
| Derivative Liability (Note 8)   | –                      | 138,729,241            | 138,729,241     | 5,816,243              | 110,694,812            | 116,511,055     |
| Other liabilities (Note 18)   | 71,217,327             | –                      | 71,217,327      | 44,441,043             | –                      | 44,441,043      |
|   | 50,010,498,175         | 693,929,241            | 50,704,427,416  | 37,949,884,328         | 671,894,812            | 38,621,779,140  |
| <b>Nonfinancial Liabilities</b>   |                        |                        |                 |                        |                        |                 |
| Accrued taxes and other expenses<br>payable (Note 16)                     | 28,336,996             | 10,173,481             | 38,510,477      | 13,731,574             | 4,676,817              | 18,408,391      |
| Income taxes payable  | 5,649,974              | –                      | 5,649,974       | 976,002                | –                      | 976,002         |
| Deferred tax liability (Note 25)  | –                      | 7,003,924              | 7,003,924       | –                      | 1,728,326              | 1,728,326       |
| Other liabilities (Note 18)   | 206,793,930            | –                      | 206,793,930     | 254,078,934            | –                      | 254,078,934     |
|   | 240,780,900            | 17,177,405             | 257,958,305     | 224,345,467            | 6,405,143              | 230,750,610     |
|   | ₱50,251,279,075        | ₱711,106,646           | ₱50,962,385,721 | ₱38,174,229,795        | ₱678,299,955           | ₱38,852,529,750 |

|   | Parent Company         |                        |                 |                        |                        |                 |
|---|------------------------|------------------------|-----------------|------------------------|------------------------|-----------------|
|   | 2009                   |                        |                 | 2008                   |                        |                 |
|   | Due Within<br>One Year | Due Beyond<br>One Year | Total           | Due Within<br>One Year | Due Beyond<br>One Year | Total           |
| <b>Financial Assets</b>   |                        |                        |                 |                        |                        |                 |
| Cash and other cash items   | ₱7,711,939,172         | ₱-                     | ₱7,711,939,172  | ₱5,096,354,904         | ₱-                     | ₱5,096,354,904  |
| Due from BSP  | 1,965,000,000          | -                      | 1,965,000,000   | 1,916,100,000          | -                      | 1,916,100,000   |
| IBLR and SPURA (Note 7)   | -                      | -                      | -               | 1,430,000,000          | -                      | 1,430,000,000   |
| Financial assets at FVPL (Note 8)   | 964,530                | 1,802,885,654          | 1,803,850,184   | 241,609,460            | 45,277,462             | 286,886,922     |
| AFS investments (Note 8)  | -                      | 20,726,857,214         | 20,726,857,214  | 385,652,347            | 8,472,973,493          | 8,858,625,840   |
| HTM investments (Note 8)  | 2,420,356,113          | 1,298,543,499          | 3,718,899,612   | -                      | 3,749,989,615          | 3,749,989,615   |
| Loans and receivables - at gross<br>(Note 9)                              | 1,256,914,818          | 11,424,420,840         | 12,681,335,658  | 6,145,235,799          | 9,718,862,913          | 15,864,098,712  |
|   | 13,355,174,633         | 35,252,707,207         | 48,607,881,840  | 15,214,952,510         | 21,987,103,483         | 37,202,055,993  |
| <b>Nonfinancial Assets</b>  |                        |                        |                 |                        |                        |                 |
| Investments in subsidiaries,<br>associates and joint venture<br>(Note 11) | -                      | 8,430,040,674          | 8,430,040,674   | -                      | 6,448,730,997          | 6,448,730,997   |
| Investment properties (Note 12)   | -                      | 807,364,561            | 807,364,561     | -                      | 806,901,087            | 806,901,087     |
| Property and equipment (Note 10)  | -                      | 67,484,514             | 67,484,514      | -                      | 64,667,753             | 64,667,753      |
| Other assets (Note 13)  | -                      | 201,689,927            | 201,689,927     | -                      | 183,469,976            | 183,469,976     |
|   | -                      | 9,506,579,676          | 9,506,579,676   | -                      | 7,503,769,813          | 7,503,769,813   |
| Allowance for impairment<br>and credit losses (Note 14)                   | -                      | (665,451,312)          | (665,451,312)   | -                      | (493,850,328)          | (493,850,328)   |
| Unearned interest and<br>discounts (Note 9)                               | -                      | (43,276)               | (43,276)        | -                      | (133,254)              | (133,254)       |
|   | -                      | (665,494,588)          | (665,494,588)   | -                      | (493,983,582)          | (493,983,582)   |
|   | ₱13,355,174,633        | ₱44,093,792,295        | ₱57,448,966,928 | ₱15,214,952,510        | ₱28,996,889,714        | ₱44,211,842,224 |
| <b>Financial Liabilities</b>  |                        |                        |                 |                        |                        |                 |
| Bills payable (Note 15)   | ₱49,547,335,210        | ₱500,000,000           | ₱50,047,335,210 | ₱37,441,147,817        | ₱500,000,000           | ₱37,941,147,817 |
| Accrued interest and other<br>expenses payable (Note 16)                  | 173,695,715            | -                      | 173,695,715     | 233,647,370            | -                      | 233,647,370     |
| Accounts payable  | 54,204,967             | -                      | 54,204,967      | 21,386,691             | -                      | 21,386,691      |
| Bonds payable (Note 17)   | -                      | 150,000,000            | 150,000,000     | -                      | 150,000,000            | 150,000,000     |
| Derivative liability (Note 8)   | -                      | 138,729,241            | 138,729,241     | 5,816,243              | 110,694,812            | 116,511,055     |
| Other liabilities (Note 18)   | 125,177,156            | -                      | 125,177,156     | 45,734,633             | -                      | 45,734,633      |
|   | 49,900,413,048         | 788,729,241            | 50,689,142,289  | 37,747,732,754         | 760,694,812            | 38,508,427,566  |
| <b>Nonfinancial Liabilities</b>   |                        |                        |                 |                        |                        |                 |
| Accrued taxes and other expenses<br>payable (Note 16)                     | 26,818,782             | 8,424,840              | 35,243,622      | 13,590,564             | 3,003,929              | 16,594,493      |
| Deferred tax liability (Note 25)  | -                      | -                      | -               | -                      | 420,447                | 420,447         |
| Other liabilities (Note 18)   | 83,346,107             | -                      | 83,346,107      | 88,175,019             | -                      | 88,175,019      |
|   | 110,164,889            | 8,424,840              | 118,589,729     | 101,765,583            | 3,424,376              | 105,189,959     |
|   | ₱50,010,577,937        | ₱797,154,081           | ₱50,807,732,018 | ₱37,849,498,337        | ₱764,119,188           | ₱38,613,617,525 |

## 20. Equity

Details of the Parent Company's capital stock as of December 31, 2009 and 2008 follow:

|   | 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 |
| Less treasury shares                        | 43,813,090  | 2,256,151,891  |
| Total issued and outstanding at end of year | 377,056,150 | ₱1,952,540,509 |



Details of the Parent Company's dividend distribution follow:

| Date of Declaration | Dividend  |              | Date of BSP Approval | Record Date      | Payment Date     |
|---------------------|-----------|--------------|----------------------|------------------|------------------|
|                     | Per Share | Total Amount |                      |                  |                  |
| March 22, 2007      | 1.32      | 497,714,118  | April 13, 2007       | April 30, 2007   | May 18, 2007     |
| July 31, 2007       | 1.30      | 490,172,995  | September 23, 2007   | October 22, 2007 | November 8, 2007 |

## 21. Interest Income

This account consists of interest income on:

|                       | Consolidated   |                |               | Parent Company |                |                |
|-----------------------|----------------|----------------|---------------|----------------|----------------|----------------|
|                       | 2009           | 2008           | 2007          | 2009           | 2008           | 2007           |
| AFS investments       | ₱1,108,571,005 | ₱433,815,400   | ₱496,200,006  | ₱1,101,168,608 | ₱408,857,800   | ₱453,043,133   |
| Loans and receivables | 969,264,641    | 1,000,733,178  | 731,463,379   | 939,893,602    | 984,669,699    | 707,518,750    |
| HTM investments       | 325,543,036    | 319,102,545    | 324,173,206   | 316,520,995    | 319,102,545    | 324,173,206    |
| Deposits with banks   | 283,443,001    | 138,855,938    | 111,490,524   | 274,103,074    | 127,564,617    | 105,399,084    |
| Due from BSP          | 56,431,744     | 69,311,079     | 123,021,612   | 56,431,744     | 69,311,079     | 123,021,612    |
| IBLR and SPURA        | 44,244,521     | 161,677,541    | 281,394,742   | 44,124,318     | 161,677,541    | 281,394,742    |
| Others                | 8,085          | 6,565,079      | 35,086,205    | –              | 6,404,210      | 35,086,205     |
|                       | ₱2,787,506,033 | ₱2,130,060,760 | ₱2,102,829,74 | ₱2,732,242,341 | ₱2,077,587,491 | ₱2,029,636,732 |

Interest income on loans and receivables include interest income accrued on impaired loans and receivables amounting to ₱24.7 million, ₱32.1 million and ₱20.2 million in 2009, 2008 and 2007, respectively.

## 22. Retirement Plans

The Parent Company and FMSBC 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 and FMSBC'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:

|                | Date of Actuarial Valuation Report | January 1, 2009 Actuarial Assumptions |                                |                           |                      |               |
|----------------|------------------------------------|---------------------------------------|--------------------------------|---------------------------|----------------------|---------------|
|                |                                    | Retirement Age                        | Average Remaining Working Life | Expected Return on Assets | Salary Rate Increase | Discount Rate |
|                |                                    |                                       |                                |                           |                      |               |
| Parent Company | January 1, 2008                    | 55                                    | 11                             | 6.0%                      | 10.0%                | 8.3%          |
| FMSBC          | January 1, 2009                    | 55                                    | 9                              | 5.0%                      | 10.0%                | 14.0%         |

|                | Date of Actuarial Valuation Report | January 1, 2008<br>Actuarial Assumptions |                                |                           |                      |               |
|----------------|------------------------------------|--|--------------------------------|---------------------------|----------------------|---------------|
|                |                                    | Retirement Age                           | Average Remaining Working Life | Expected Return on Assets | Salary Rate Increase | Discount Rate |
|                |                                    |  |                                |                           |                      |               |
| Parent Company | January 1, 2008                    | 55                                       | 11                             | 6.0%                      | 10.0%                | 8.3%          |
| FMSBC          | January 1, 2008                    | 55                                       | 9                              | 5.0%                      | 8.8%                 | 14.0%         |

Discount rates used to arrive at the present value of the obligation of the Parent Company and FMSBC as of December 31, 2009 and 2008 follow:

|                | 2009 | 2008  |
|----------------|------|-------|
| Parent Company | 9.1% | 8.3%  |
| FMSBC          | 9.4% | 14.0% |

The net retirement liability recognized and shown under 'accrued taxes, interest and other expenses payable' in the Group and the Parent Company's statements of financial position follows:

|   | FMSBC       |             | Parent Company |              |
|---|-------------|-------------|----------------|--------------|
|   | 2009        | 2008        | 2009           | 2008         |
| Present value of funded obligation                  | ₱7,495,300  | ₱1,464,166  | ₱89,364,700    | ₱124,797,342 |
| Fair value of plan assets                           | (2,507,841) | (2,172,189) | (65,493,526)   | (83,678,134) |
|   | 4,987,459   | (708,023)   | 23,871,174     | 41,119,208   |
| Unrecognized actuarial gains (losses)               | (3,238,818) | 2,380,911   | (14,237,635)   | (36,416,514) |
| Unrecognized past service cost - nonvested benefits | –           | –           | (1,208,699)    | (1,698,765)  |
| Net retirement liability (Note 16)                  | ₱1,748,641  | ₱1,672,888  | ₱8,424,840     | ₱3,003,929   |

The movements in the net retirement liability recognized in FMSBC and the Parent Company's statements of financial position are as follows:

|                              | FMSBC      |            | Parent Company |              |
|------------------------------|------------|------------|----------------|--------------|
|                              | 2009       | 2008       | 2009           | 2008         |
| Balance at beginning of year | ₱1,672,888 | ₱763,686   | ₱3,003,929     | (₱604,562)   |
| Retirement expense           | 332,462    | 909,202    | 21,420,911     | 20,457,787   |
| Contribution paid            | (256,709)  | –          | (16,000,000)   | (16,849,296) |
| Balance at end of year       | ₱1,748,641 | ₱1,672,888 | ₱8,424,840     | ₱3,003,929   |

Changes in the present value of the defined benefit obligation are as follows:

|                              | FMSBC      |             | Parent Company |              |
|------------------------------|------------|-------------|----------------|--------------|
|                              | 2009       | 2008        | 2009           | 2008         |
| Balance at beginning of year | ₱1,464,166 | ₱5,183,630  | ₱124,797,342   | ₱102,141,300 |
| Current service cost         | 476,500    | 678,958     | 13,404,800     | 14,168,100   |
| Interest cost                | 204,983    | 453,568     | 10,370,659     | 8,487,942    |
| Benefits paid                | (256,709)  | –           | (50,004,293)   | –            |
| Actuarial loss (gain)        | 5,606,360  | (4,851,990) | (9,203,808)    | –            |
| Balance at end of year       | ₱7,495,300 | ₱1,464,166  | ₱89,364,700    | ₱124,797,342 |

The movements in the fair value of plan assets recognized are as follows:

|                                | FMSBC             |                   | Parent Company      |                    |
|--------------------------------|-------------------|-------------------|---------------------|--------------------|
|                                | 2009              | 2008              | 2009                | 2008               |
| Balance at beginning of year   | <b>₱2,172,189</b> | <b>₱2,363,999</b> | <b>₱83,678,134</b>  | <b>₱71,280,345</b> |
| Expected return on plan assets | <b>108,609</b>    | <b>280,868</b>    | <b>5,020,688</b>    | <b>4,276,821</b>   |
| Contribution paid              | <b>256,709</b>    | <b>–</b>          | <b>16,000,000</b>   | <b>16,849,296</b>  |
| Benefits paid                  | <b>(256,709)</b>  | <b>–</b>          | <b>(50,004,293)</b> | <b>–</b>           |
| Actuarial gains (loss)         | <b>227,043</b>    | <b>(472,678)</b>  | <b>10,798,997</b>   | <b>(8,728,328)</b> |
| Balance at end of year         | <b>₱2,507,841</b> | <b>₱2,172,189</b> | <b>₱65,493,526</b>  | <b>₱83,678,134</b> |

The Parent Company expects to contribute ₱26.8 million to its defined benefit pension plan in 2010.

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

|                         | FMSBC          |             | Parent Company |                |
|-------------------------|----------------|-------------|----------------|----------------|
|                         | 2009           | 2008        | 2009           | 2008           |
| Fixed-income securities | <b>64.13%</b>  | <b>–</b>    | <b>34.97%</b>  | <b>68.84%</b>  |
| Cash                    | <b>9.11%</b>   | <b>100%</b> | <b>2.35%</b>   | <b>6.74%</b>   |
| Equities                | <b>26.76%</b>  | <b>–</b>    | <b>53.10%</b>  | <b>22.87%</b>  |
| Others                  | <b>–</b>       | <b>–</b>    | <b>9.58%</b>   | <b>1.55%</b>   |
|                         | <b>100.00%</b> | <b>100%</b> | <b>100.00%</b> | <b>100.00%</b> |

Equity securities included in the plan assets do not include shares of the Parent Company.

The amounts included in 'Compensation and fringe benefits' in the statements of income are as follows:

|  | FMSBC            |                  | Parent Company     |                     |
|--|------------------|------------------|--------------------|---------------------|
|  | 2009             | 2008             | 2009               | 2008                |
| Current service cost                                 | <b>₱476,500</b>  | <b>₱678,958</b>  | <b>₱13,404,800</b> | <b>₱14,168,100</b>  |
| Interest cost  | <b>204,983</b>   | <b>453,568</b>   | <b>10,370,659</b>  | <b>8,487,942</b>    |
| Expected return on plan assets                       | <b>(108,609)</b> | <b>(280,868)</b> | <b>(5,020,688)</b> | <b>(4,276,821)</b>  |
| Net actuarial loss (gain) recognized during the year | <b>(240,412)</b> | <b>57,544</b>    | <b>2,176,074</b>   | <b>1,588,500</b>    |
| Amortization of past service cost                    | <b>–</b>         | <b>–</b>         | <b>490,066</b>     | <b>490,066</b>      |
|  | <b>₱332,462</b>  | <b>₱909,202</b>  | <b>₱21,420,911</b> | <b>₱20,457,787</b>  |
| Actual return (loss) on plan assets                  | <b>₱335,652</b>  | <b>₱191,810</b>  | <b>₱15,819,685</b> | <b>(₱4,451,507)</b> |

Amounts for the current and previous years are as follows:

|   | FMSBC              |                    |                    |                   | Parent Company      |                     |                     |                     |
|---|--------------------|--------------------|--------------------|-------------------|---------------------|---------------------|---------------------|---------------------|
|   | 2009               | 2008               | 2007               | 2006              | 2009                | 2008                | 2007                | 2006                |
| Present value of funded obligation        | <b>₱7,495,300</b>  | <b>₱1,464,166</b>  | <b>₱5,183,630</b>  | <b>₱4,242,012</b> | <b>₱89,364,700</b>  | <b>₱124,797,342</b> | <b>₱102,141,300</b> | <b>₱60,251,148</b>  |
| Fair value of plan assets                 | <b>(2,507,841)</b> | <b>(2,172,189)</b> | <b>(2,363,999)</b> | <b>–</b>          | <b>(65,493,526)</b> | <b>(83,678,134)</b> | <b>(71,280,345)</b> | <b>(62,544,775)</b> |
| Funded status                             | <b>4,987,459</b>   | <b>(708,023)</b>   | <b>2,819,631</b>   | <b>4,242,012</b>  | <b>26,208,263</b>   | <b>41,119,208</b>   | <b>30,860,955</b>   | <b>(2,293,627)</b>  |
| Experience adjustment on plan assets      | <b>227,043</b>     | <b>(472,678)</b>   | <b>–</b>           | <b>–</b>          | <b>10,798,997</b>   | <b>(8,728,328)</b>  | <b>2,922,679</b>    | <b>(11,031,570)</b> |
| Experience adjustment on plan liabilities | <b>5,606,360</b>   | <b>(4,851,990)</b> | <b>146,804</b>     | <b>1,652,066</b>  | <b>(9,203,808)</b>  | <b>–</b>            | <b>22,860,652</b>   | <b>17,013,165</b>   |

## 23. 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 2009, 2008 and 2007, rent expense recognized under 'Rent, light and water expenses' in the statements of income amounted to ₱33.1 million, ₱33.0 million and ₱27.5 million, respectively, for the Group, and ₱28.9 million, ₱25.6 million and ₱18.7 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, 2009 and 2008 are as follows:

|   | 2009               | 2008               |
|---|--------------------|--------------------|
| Within one year                             | ₱15,555,078        | ₱15,837,898        |
| After one year but not more than five years | 45,791,187         | 68,707,817         |
|   | <b>₱61,346,265</b> | <b>₱84,545,715</b> |

## 24. Miscellaneous Expenses

This account consists of:

|  | Consolidated        |                     |                     | Parent Company      |                     |                     |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
|  | 2009                | 2008                | 2007                | 2009                | 2008                | 2007                |
| Professional fees                            | ₱32,426,870         | ₱28,757,308         | ₱19,220,885         | ₱24,920,464         | ₱16,879,815         | ₱13,877,996         |
| Broker's commission                          | 19,694,227          | 1,658,505           | –                   | 19,694,227          | 1,658,505           | –                   |
| Communication                                | 15,583,004          | 15,468,971          | 13,294,650          | 13,265,428          | 12,426,110          | 9,723,488           |
| Security, messengerial and janitorial        | 11,363,711          | 11,952,014          | 10,977,173          | 9,879,497           | 8,839,064           | 7,502,587           |
| Supervision fees                             | 10,627,490          | 11,914,288          | 10,653,739          | 10,627,490          | 11,914,288          | 10,653,739          |
| Donations                                    | 10,229,750          | 25,589,700          | 10,157,500          | 10,209,750          | 25,589,700          | 10,157,500          |
| Insurance                                    | 8,407,627           | 5,853,191           | 2,897,654           | 7,556,320           | 5,285,481           | 2,602,616           |
| Litigation/asset acquired expenses (Note 12) | 7,794,525           | 4,068,521           | 9,679,995           | 7,794,525           | 4,068,521           | 9,679,995           |
| Membership dues                              | 6,988,239           | 6,963,027           | 4,838,313           | 6,472,163           | 6,866,975           | 4,814,313           |
| Transportation and travel                    | 5,896,127           | 9,664,262           | 13,290,764          | 4,527,827           | 8,329,051           | 9,221,168           |
| Stationery and supplies used                 | 4,278,673           | 5,021,051           | 6,275,724           | 3,120,603           | 3,645,772           | 3,600,042           |
| Advertising                                  | 3,734,368           | 6,424,860           | 10,630,580          | 2,926,993           | 5,340,693           | 8,094,136           |
| Repairs and maintenance                      | 1,173,665           | 1,929,721           | 1,903,335           | 725,003             | 1,427,341           | 1,307,778           |
| Commission                                   | –                   | 3,250,633           | 9,664,379           | –                   | –                   | –                   |
| Others                                       | 26,561,034          | 48,960,145          | 45,610,046          | 15,593,470          | 36,487,407          | 28,236,613          |
|  | <b>₱164,759,310</b> | <b>₱187,476,197</b> | <b>₱169,094,737</b> | <b>₱137,313,760</b> | <b>₱148,758,723</b> | <b>₱119,471,971</b> |

Miscellaneous expenses - others consists of transfer and exchange fees, fuel and lubricants, fines, penalties and other charges, periodicals and magazines and information technology expenses.

## 25. Income and Other Taxes

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 and documentary stamp taxes.

Income taxes include corporate income tax, as discussed below, and final taxes paid at the rate of 20%, which is a final withholding tax on gross interest income from government securities and other deposit substitutes.

Republic Act (RA) No. 9337, an Act Amending National Internal Revenue Code, provides that effective November 1, 2005, the Regular Corporate Income Tax (RCIT) rate shall be 35% until December 31, 2008. Starting January 1, 2009, the RCIT rate shall be 30%. Interest allowed as a deductible expense is reduced by amount equivalent to 42%, starting November 1, 2005 to December 31, 2008, and 33%, starting January 1, 2009, of interest income subject to final tax.

Starting July 1, 2008, the OSD equivalent to 40% of gross income maybe claimed as an alternative deduction in computing for the RCIT. The Parent Company has elected to claim itemized deductions instead of OSD for its 2009 and 2008 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 MCIT of 2% on modified gross income and allow a NOLCO. The MCIT and NOLCO may be applied against the Group and Parent Company's income tax liability and taxable income, respectively, over a three-year period from the year of inception.

The provision for income tax consists of:

|           | Consolidated |              |              | Parent Company |              |              |
|-----------|--------------|--------------|--------------|----------------|--------------|--------------|
|           | 2009         | 2008         | 2007         | 2009           | 2008         | 2007         |
| Current   |              |              |              |                |              |              |
| Final tax | ₱328,803,664 | ₱161,917,853 | ₱300,220,739 | ₱322,495,876   | ₱152,322,945 | ₱282,409,922 |
| Corporate | 11,289,694   | 1,474,155    | 24,965,254   | —              | —            | —            |
|           | 340,093,358  | 163,392,008  | 325,185,993  | 322,495,876    | 152,322,945  | 282,409,922  |
| Deferred  | 376,295      | 1,301,610    | 11,130,033   | —              | —            | —            |
|           | ₱340,469,653 | ₱164,693,618 | ₱336,316,026 | ₱322,495,876   | ₱152,322,945 | ₱282,409,922 |

As of December 31, 2009 and 2008, deferred tax assets of the Group represents the tax effect of the allowance for impairment and credit losses and NOLCO of subsidiaries amounting to ₱8.5 million and ₱3.7 million, respectively.

The components of deferred tax liabilities - net follows:

|  | Consolidated |            | Parent Company |          |
|--|--------------|------------|----------------|----------|
|  | 2009         | 2008       | 2009           | 2008     |
| Deferred tax liability on:   |              |            |                |          |
| Unrealized gain on AFS investments   | ₱7,875,000   | ₱2,975,697 | ₱—             | ₱420,447 |
| Unrealized gain on HFT investments   | 149,956      | —          | —              | —        |
|  | 8,024,956    | 2,975,697  | —              | 420,447  |
| Less deferred tax asset on accrued retirement expense and trading loss on FVPL | 1,021,032    | 1,247,371  | —              | —        |
|  | ₱7,003,924   | ₱1,728,326 | ₱—             | ₱420,447 |

As of December 31, 2009 and 2008, the Group and the Parent Company recognized deferred tax liability directly against equity (as a reduction of other comprehensive income) amounting to ₱7.9 million and ₱3.0 million, respectively, for the Group and nil and ₱0.4 million, respectively, for the Parent Company.

The Parent Company and certain subsidiaries did not set up deferred tax assets on the following:

|   | Consolidated   |                | Parent Company |                |
|---|----------------|----------------|----------------|----------------|
|   | 2009           | 2008           | 2009           | 2008           |
| Temporary differences on:                         |                |                |                |                |
| NOLCO   | ₱1,941,212,084 | ₱1,589,081,915 | ₱1,938,290,559 | ₱1,576,925,544 |
| Allowance for impairment losses                   | 381,099,822    | 378,164,808    | 364,885,494    | 356,276,808    |
| Accumulated depreciation on investment properties | 105,378,191    | 101,157,052    | 105,378,191    | 101,157,052    |
| Unrealized loss on AFS investments                | 4,953          | 544,819        | —              | 501,247        |
| Carryforward benefits of MCIT                     | 966,497        | 14,132         | —              | —              |
| Unamortized past service cost                     | 4,163,587      | 4,653,653      | 5,734,872      | 6,224,938      |
|   | ₱2,432,825,134 | ₱2,073,616,379 | ₱2,414,289,116 | ₱2,041,085,589 |

The Group believes that it is not reasonably probable that these temporary differences will be realized in the future.



As of December 31, 2009 and 2008, 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 |
|----------------|-----------------------|---------------------|-----------------------|-------------|
| 2006           | ₱615,402,015          | ₱615,402,015        | ₱–                    | 2009        |
| 2007           | 278,139,865           | –                   | 278,139,865           | 2010        |
| 2008           | 683,383,664           | –                   | 683,383,664           | 2011        |
| 2009           | 976,767,030           | –                   | 976,767,030           | 2012        |
|                | <b>₱2,553,692,574</b> | <b>₱615,402,015</b> | <b>₱1,938,290,559</b> |             |

A reconciliation between the statutory income tax and effective income tax follows:

|                                  | Consolidated  |               |               | Parent Company |               |               |
|----------------------------------|---------------|---------------|---------------|----------------|---------------|---------------|
|                                  | 2009          | 2008          | 2007          | 2009           | 2008          | 2007          |
| Statutory income tax rate        | 30.00%        | 35.00%        | 35.00%        | 30.00%         | 35.00%        | 35.00%        |
| Tax effects of:                  |               |               |               |                |               |               |
| Tax-exempt and tax-paid income   | (29.79)       | (79.01)       | (44.03)       | (44.69)        | (50.88)       | (50.07)       |
| Equity in earnings of investees  | (9.36)        | (9.75)        | (2.19)        | –              | –             | –             |
| Nondeductible expenses           | 15.03         | 16.22         | 6.81          | 17.07          | 7.88          | 8.40          |
| Unrecognized deferred tax assets | 21.49         | 69.54         | 21.96         | 24.96          | 21.61         | 26.03         |
| Others                           | (2.52)        | (2.78)        | 1.72          | –              | –             | –             |
| Effective income tax rate        | <b>24.85%</b> | <b>29.22%</b> | <b>19.27%</b> | <b>27.34%</b>  | <b>13.61%</b> | <b>19.36%</b> |

## 26. Related Party Transactions

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 the Parent Company's total regulatory capital or 15.0% of the Parent Company's total loan portfolio, whichever is lower.

The following table shows information on loans to DOSRI as of December 31, 2009 and 2008:

|   | 2009        | 2008        | 2007        |
|---|-------------|-------------|-------------|
| Total outstanding DOSRI loans                   | ₱41,637,429 | ₱30,748,000 | ₱29,549,435 |
| Percent of DOSRI loans to total loans           | 2.6%        | 0.6%        | 0.5%        |
| Percent of unsecured DOSRI loans to total DOSRI | 17.9%       | 9.7%        | 7.9%        |

Total interest income on DOSRI loans amounted to ₱3.2 million, ₱2.6 million and ₱2.3 million in 2009, 2008 and 2007, respectively.

On January 31, 2007, BSP Circular No. 560 was issued providing the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said circular, the total outstanding exposures to each of the bank's subsidiaries and affiliates shall not exceed 10.0% of the Parent Company's net worth, the unsecured portion of which shall not exceed 5.0% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20.0% of the net worth of the Parent Company. BSP Circular No. 560 is effective February 15, 2007.

In addition to the related party information disclosed elsewhere in the financial statements, these were the following significant related party transactions which were carried out in the normal course of business on terms that prevail in arm's length transactions during the financial year (amounts in thousands):

| Related Party                              | Relationship   |                             | Elements of Transactions        |           |                     |         |        |
|--|----------------|-----------------------------|---------------------------------|-----------|---------------------|---------|--------|
|  |                |                             | Statement of Financial Position |           | Statement of Income |         |        |
|  |                |                             | 2009                            | 2008      | 2009                | 2008    | 2007   |
| Metrobank                                  | Parent Company | Cash and other cash items   | ₱806,635                        | ₱718,955  |                     |         |        |
|  |                | Bills payable               | 290,000                         | 2,000,000 |                     |         |        |
|  |                | Accrued interest payable    | 103                             | 2,500     |                     |         |        |
|  |                | Interest income             |                                 |           | ₱5,811              | ₱14,429 | ₱1,514 |
|  |                | Interest expense            |                                 |           | 49,751              | 16,886  | –      |
| Global Business Holdings, Inc.             | Affiliate      | Interest income             |                                 |           | –                   | –       | 1,662  |
| Toledo Power Corporation                   | Affiliate      | Loans and receivables       | 186,650                         | 363,500   |                     |         |        |
|  |                | Accrued interest receivable | 1,901                           | 3,833     |                     |         |        |
|  |                | Interest income             |                                 |           | 19,328              | 18,126  | 20,196 |
| Panay Power Corporation                    | Affiliate      | Loans and receivables       | 805,387                         | 838,337   |                     |         |        |
|  |                | Accrued interest receivable | 22,772                          | 30,075    |                     |         |        |
|  |                | Interest income             |                                 |           | 69,083              | 74,283  | 70,123 |
| Philippine Savings Bank                    | Affiliate      | Cash and other cash items   | 2,931,146                       | 2,195,005 |                     |         |        |
|  |                | Interest income             |                                 |           | 89,805              | –       | –      |
| Toyota Cubao, Inc. (TCI)                   | Affiliate      | Loans and receivables       | 200,000                         | 533,200   |                     |         |        |
|  |                | Accrued interest receivable | 1,160                           | 3,372     |                     |         |        |
|  |                | Interest income             |                                 |           | 36,454              | 72,764  | 73,386 |
| Toyota Manila Bay Corporation              | Affiliate      | Subscription payable        | 9,187                           | 9,187     |                     |         |        |
|  |                | Interest income             |                                 |           | –                   | 20,059  | 47,236 |
| Aurora Towers, Incorporated                | Associate      | Accounts receivable         | 44,066                          | 44,032    |                     |         |        |
|  |                | Management fees             |                                 |           | 5                   | 5       | 5      |
| PALIC                                      | Affiliate      | Accounts payable            | 1,968                           | 1,967     |                     |         |        |
| Claredon Tower Holdings Corporation (CTHC) | Affiliate      | Loans and receivable        | 96,929                          | 102,429   |                     |         |        |
|  |                | Accrued interest receivable | 1,953                           | 2,646     |                     |         |        |
|  |                | Interest Income             |                                 |           | 8,654               | 9,024   | –      |

As of December 31, 2009 and 2008, deferred income of the Group and the Parent Company includes gain on sale of its interest in Avon River Holdings to CTHC in 2003 amounting to ₱17.8 million. CTHC is a 100% owned subsidiary of GBPC, a 30% 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 2008, deferred income amounting to ₱50.7 million was reversed due to disposal of 26% ownership in TCI (see Note 11).

The loans granted are secured by properties of the respective borrowers. Other balances are not secured and no guarantees have been obtained.

No impairment losses have been recorded against outstanding balances with related party during the period.

As of December 31, 2009, investment securities transactions with subsidiaries, affiliates and other related parties of the Group and Parent Company follow:

|                        | Consolidated    | Parent Company |
|------------------------|-----------------|----------------|
| Purchase of securities | ₱10,537,160,934 | ₱9,516,413,263 |
| Sale of securities     | 14,502,139,540  | 13,828,780,915 |

*Compensation of key management personnel*

The compensation of key management personnel are as follows:

|                              | Consolidated |             |             | Parent Company |             |             |
|------------------------------|--------------|-------------|-------------|----------------|-------------|-------------|
|                              | 2009         | 2008        | 2007        | 2009           | 2008        | 2007        |
| Short-term employee benefits | ₱80,514,521  | ₱73,687,889 | ₱57,224,146 | ₱77,811,715    | ₱68,249,640 | ₱54,708,844 |
| Post employment benefits     | 11,031,599   | 11,445,002  | 7,424,622   | 10,884,866     | 11,431,400  | 7,412,260   |
|                              | ₱91,546,120  | ₱85,132,891 | ₱64,648,768 | ₱88,696,581    | ₱79,681,040 | ₱62,121,104 |

## 27. Commitments and Contingent Accounts

The Group, specifically the associates, is defendant 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.

## 28. Financial Performance

The following basic ratios measure the financial performance of the Parent Company:

|   | 2009   | 2008   | 2007   |
|---|--------|--------|--------|
| Return on average equity                        | 14.38% | 20.55% | 20.93% |
| Return on average assets                        | 1.63   | 2.47   | 3.33   |
| Net interest margin over average earning assets | 1.67   | 1.42   | 4.15   |

## 29. Earnings Per Share

EPS were computed as follows:

|   | Consolidated   |              |                |
|---|----------------|--------------|----------------|
|   | 2009           | 2008         | 2007           |
| a. Net income attributable to equity holdings of the Parent Company | ₱1,022,612,919 | ₱399,707,120 | ₱1,407,383,719 |
| b. Weighted average number of common shares (Note 20)               | 377,056,150    | 377,056,150  | 377,056,150    |
| c. Basic/Diluted EPS (a/b)  | ₱2.71          | ₱1.06        | ₱3.73          |

As of December 31, 2009, 2008 and 2007, there are no shares that have a dilutive effect on the basic EPS of the Parent Company.

## 30. Approval for the Release of the Financial Statements

The accompanying financial statements were authorized for issue by the Parent Company's BOD on February 18, 2010.

# Metrobank Domestic Subsidiaries and Affiliates

## AXA Philippines

AXA is a joint venture between two financial giants: the global AXA group and the Metrobank Group. Despite a very challenging business environment in 2009, AXA Philippines was able to maintain New Business Index at P1.0 billion, with significant gains starting in the second half through improved market access and broader product range such as endowment products for retirement, education, and other expenses, as well as unique variable products. AXA launched a new brand positioning and signature anchored on a vision to redefine insurance "by doing what they say, and saying what they do, and giving customers 'proof' instead of mere 'promises.'" The unveiling of AXA's new brand signature carries with it a commitment to be available, reliable, and attentive to customers' needs to really differentiate from the competition and establish credibility and trust for AXA products and services.

Philippine AXA Life Insurance Center  
Sen. Gil Puyat Avenue corner Tindalo Street, Makati City  
T: (632) 885-0101  
Rien Hermans, President

| <i>In Philippine pesos</i> | <b>2009</b>    | <b>2008</b>    |
|----------------------------|----------------|----------------|
| <i>For the year</i>        |                |                |
| Gross Revenues             | 10,017,722,615 | 7,645,257,546  |
| Total Expenses             | 9,169,229,675  | 7,493,088,364  |
| Net Income                 | 848,492,941    | 152,169,182    |
| <i>At yearend</i>          |                |                |
| Total Assets               | 32,724,901,589 | 30,746,153,671 |
| Total Liabilities          | 30,205,498,722 | 29,001,342,221 |
| Stockholders' Equity       | 2,519,402,867  | 1,744,811,450  |

## First Metro Asset Management, Inc.

FAMI posted a net income of P2 million in 2009, 46% lower than P3.7 million in 2008. This translated to a return on equity of 12.2%. Total sales generated from the four Save and Learn mutual funds managed by the company amounted to P163.7 million (unaudited as of this writing) while the total redemptions were lower at P119.0 million. FAMI provided its investors in the equity mutual fund a net yield of 53.1%. The balanced fund generated a net yield of 45.5%, the fixed-income fund 5.3%, and the money market fund 1.0%. Its total asset under management at end-2009 was P1.2 billion. In a drive to expand its client base, FAMI launched a money market mutual fund in June 2009. FAMI's monthly investment program was promoted to many institutions, including corporations and Catholic education institutions. MIP is a program that aims to educate teachers and employees to save and invest on a regular basis. It provides a facility for regular investing through monthly salary deduction. FAMI looks forward to the incorporation and the launching of its Global Currency by the second quarter of 2010.

18/F PSBank Center  
777 Paseo de Roxas, corner Sedeño St., Makati City  
T: (632) 891-2860 to 65  
Hector C. De Leon, Executive Vice President

| <i>In Philippine pesos</i> | <b>2009</b> | <b>2008</b> |
|----------------------------|-------------|-------------|
| <i>For the year</i>        |             |             |
| Total Operating Income     | 18,958,543  | 18,473,185  |
| Total Expenses             | 16,043,423  | 13,671,384  |
| Net Income                 | 2,000,470   | 3,748,206   |
| <i>At yearend</i>          |             |             |
| Total Assets               | 20,035,696  | 16,302,120  |
| Total Liabilities          | 3,576,671   | 1,508,816   |
| Stockholders' Equity       | 16,459,025  | 14,793,304  |

## First Metro Securities Brokerage Corporation

2009 was a year of recovery for the local stock market. After shedding more than 48% of its value in 2008, the PSEi surged 63% as economies emerged from the global financial crisis. This boosted investor confidence and resulted in the resurgence of trading activity in the market.

For the year, First Metro Securities recorded a consolidated net income of P19.31 million, a jump of more than five-fold over the net income in 2008. This was buoyed by a 68.0% increase in value turnover of P19.6 billion as the company ranked 20th among 134 trading participants in the Philippine Stock Exchange. Online stock trading remained an integral part of the business. It contributed P4.7 billion in value traded, more than double the 2008 figure.

18/F PSBank Center  
777 Paseo de Roxas, corner Sedeño St., Makati City  
T: (632) 859-0600 to 02  
Robert T. Yu/ Francisco G. Co, President \*  
Gonzalo G. Ordoñez, Senior Vice President

| <i>In Philippine pesos</i> | <b>2009</b> | <b>2008</b> |
|----------------------------|-------------|-------------|
| <i>For the year</i>        |             |             |
| Gross Revenues             | 64,164,745  | 37,986,818  |
| Total Expenses             | 44,855,028  | 34,468,824  |
| Net Income                 | 19,309,717  | 3,517,994   |
| <i>At yearend</i>          |             |             |
| Total Assets               | 366,369,645 | 282,581,492 |
| Total Liabilities          | 166,139,786 | 113,998,926 |
| Stockholders' Equity       | 200,229,859 | 168,582,566 |

\* Official turnover May 2009

## Global Business Power Corporation

Global Business Power Corporation (GBPC) serves existing power plants in the southern Philippines, with substantial investments to upgrade and improve facilities for better reliability and efficiency. It currently owns 223MW of coal and diesel-fired power plants in the Visayas. With its partners, GBPC is building a 246 MW coal-fired plant in Cebu and another 164 MW coal-fired plant in Iloilo, making it the largest IPP in the Visayas. Both plants will bring a total of almost US\$900.0 million of new capital investments in the Visayas. Both plants are expected to be fully operational in early 2011 to help alleviate the critical power situation in the Visayas. Meanwhile, Toledo Power succeeded in shifting to a fuel pass-through tariff structure, mitigating the risk of the volatility of fuel cost. Panay Power Corporation obtained a contract with the National Grid Corp. of the Philippines to provide ancillary power to the Panay grid. This move serves to utilize PPC's unutilized capacity, while addressing the lack of back-up and spinning power on the island of Panay. All its existing plants continue their intensive maintenance schedules in preparation for the increasing demands for reliable power in 2010 through 2011.

10/F GT Tower International  
6813 Ayala Avenue, corner H.V. dela Costa Street  
Salcedo Village, Makati City 1227  
T: (632) 818-5931 to 35  
Jesus N. Alcorido, President

| <i>In Philippine pesos</i> | <b>2009</b>    | <b>2008</b>    |
|----------------------------|----------------|----------------|
| <i>For the year</i>        |                |                |
| Gross Revenues             | 3,916,705,798  | 2,929,138,221  |
| Total Expenses             | 3,660,250,533  | 2,746,114,982  |
| Net Income                 | 256,455,264    | 183,023,239    |
| <i>At yearend</i>          |                |                |
| Total Assets               | 21,536,399,181 | 16,467,662,311 |
| Total Liabilities          | 7,730,483,887  | 6,834,387,199  |
| Stockholders' Equity       | 13,805,915,294 | 9,633,275,112  |

## Metrobank Card Corporation

Metrobank Card Corporation (A Finance Company), a joint venture of Metrobank and Australia and New Zealand Bank, offers a range of credit card products with distinct product advantages to suit every life stage and lifestyle. In 2009, MCC's growth in receivables and billings doubled compared with industry. Its cards-in-force of 848,000 represents a 13% market share. Customers' purchasing power was enhanced with strategic reward tie-ups with key merchant partners, zero percent installment promotions as well as the availability of Cash2Go and Balance Transfer. Likewise, the sustained popularity of Metrobank Femme Visa, Go! MasterCard, and the support of the Metrobank branch network continue to boost strategic growth. MCC posted a 22% increase in net profit after tax in 2009 at P829.3 million, compared to 2008 figures (excluding the net profit after tax effect of the VISA shares sale in 2008). Even with robust growth in card billings, MCC's asset quality improved further to 5.9% in 2009. As the newest entrant in the merchant acquiring business, MCC continued its considerable growth of 127% versus the same period last year, with full year billings of P13.9 billion and with almost 6,000 terminals already deployed in Metro Manila and key provincial cities.

Metrobank Card Corporation Center  
6778 Ayala Avenue, Makati City  
T: (632) 870-0900  
Peaches Cuenco, Senior Vice President (Officer-in-Charge)

| <i>In Philippine pesos</i> | <b>2009</b>    | <b>2008*</b>   |
|----------------------------|----------------|----------------|
| <i>For the year</i>        |                |                |
| Gross Revenues             | 5,954,995,288  | 5,625,395,157  |
| Total Expenses             | 4,774,442,956  | 4,341,346,179  |
| Net Income                 | 829,320,264    | 821,888,474    |
| <i>At yearend</i>          |                |                |
| Total Assets               | 21,207,193,485 | 19,995,747,428 |
| Total Liabilities          | 17,752,634,892 | 17,412,702,972 |
| Stockholders' Equity       | 3,454,558,593  | 2,583,044,456  |

\* As restated

## ORIX METRO Leasing and Finance Corporation

ORIX METRO Leasing and Finance Corporation (ORIX METRO), a joint venture with ORIX Corporation of Japan, posted 11.3% growth in total resources to P8.0 billion in 2009. Business volumes continued to rise by double digits, buoyed in part by the growth in the portfolio of operating lease subsidiaries; sustained marketing efforts aimed at top tier corporates; and intensified presence in the high-margin consumer markets, particularly in the countryside. Four new branches were opened during the fiscal year, bringing its nationwide network to 32. This has helped expand ORIX METRO's market coverage and enable it to reach out to more customers. Portfolio quality remained strong as NPLs were kept at 2.4% and substantially provisioned. Capital adequacy ratio was at 14.9%, well above the 10% required by regulations. After-tax profits rose 12.2% to P283.0 million, revenues continued to increase while margins remained robust. Return on Average Equity was at 20.1%, well above those of peers.

21/F GT Tower International  
6813 Ayala Avenue, corner H.V. dela Costa Street  
Salcedo Village, Makati City  
T: (632) 858-8888  
Protacio Bantayan, President

| <i>In Philippine pesos</i>  | <b>2009</b>   | <b>2008</b>   |
|-----------------------------|---------------|---------------|
| <i>For the fiscal year*</i> |               |               |
| Gross Income                | 1,504,572,977 | 1,376,022,952 |
| Net Income After Tax        | 283,014,415   | 252,289,227   |
| <i>At yearend</i>           |               |               |
| Total Assets                | 8,000,668,534 | 7,187,029,107 |
| Net Investment in Leases    | 2,007,796,560 | 2,176,306,205 |
| Net Investment in Loans     | 3,870,269,393 | 3,109,689,672 |
| Stockholders' Equity        | 1,516,370,507 | 1,294,463,092 |

\*Fiscal year ending September 30



# Metrobank Domestic Subsidiaries and Affiliates

## Philippine Charter Insurance Corporation

Philippine Charter Insurance Corporation (PhilCharter) is a leading provider of non-life insurance in the Philippines. It remains to be a major player in the industry, moving up to a ranking of 9<sup>th</sup> in terms of gross premiums written among over 100 non-life insurance companies. In 2009, PhilCharter posted a 3.53% increase in net worth to P629.4 million, with new premiums written for the year led by its key products: Motor Car which grew 15.4%, Personal Accident Insurance at 13.90%, and Engineering at 11.0%. Contributing to this growth is its Affiliate Sales at 10.2% and provincial branches at 9.85%. PhilCharter's Information Technology developed and implemented the Asset Information Management System (AIMS) and Personnel Information Management System (PIMS). PhilCharter's claims settling record remains above industry practice. Last year, the company settled and paid P602.6 million in claims. It also extended its services to the victims of Typhoon Ondoy, allocating P740.7 million claims fund for its policyholders. Last year, PhilCharter's application for bancassurance through Metrobank was approved by the Bangko Sentral ng Pilipinas, enabling the company to reach more customers.

Ground & 2nd Floors, Skyland Plaza  
Sen. Gil J. Puyat Avenue, corner Tindalo Street, Makati City  
T: (632) 580-6800/ 580-6841  
Milencio Malinlin, President

| <i>In Philippine pesos</i> | <b>2009</b>   | <b>2008</b>   |
|----------------------------|---------------|---------------|
| <i>For the year</i>        |               |               |
| Gross Revenues             | 1,018,575,027 | 935,130,193   |
| Total Expenses             | 994,707,466   | 918,274,031   |
| Net Income                 | 23,867,561    | 16,856,162    |
| <i>At yearend</i>          |               |               |
| Total Assets               | 5,013,178,606 | 3,100,960,596 |
| Total Liabilities          | 4,383,769,942 | 2,510,894,091 |
| Stockholders' Equity       | 629,408,664   | 590,066,505   |

\*2009 figures still unaudited as of press time

## SMBC Metro Investment Corporation

SMBC Metro Investment Corporation's operating results in the year 2009 remained favorable. SMBC Metro ended the year with a net income after tax of P35.9 million. The fee-based business continued to be the main thrust of SMBC Metro. In 2009, the Company successfully closed major term loans for selected prime companies in the Philippines totalling USD67.5 million. It also paved the way for the Establishment of a Memorandum of Understanding on Clean Development Mechanism between Metrobank and Sumitomo Mitsui Banking Corporation, and the referral of Sumitomo Corporation to Metrobank for motorcycle finance business. This undertaking generated an overall fee income of P23 million. Its loan business and money market placements contributed a substantial bulk to the Company's total revenues, with its combined interest income of P43.5 million. At year-end, SMBC Metro's resources rose to P853.6 million, while its equity remained generally strong at P820 million. The Company declared a 5% cash dividend equivalent to P30 million, marking the ninth year of continued cash dividend payments by the company.

20/F Rufino Pacific Tower  
6784 Ayala Avenue, corner V. Rufino Street  
Salcedo Village, Makati City  
T: (632) 811-0845 to 52  
Yasuhiro Oashi, President

| <i>In thousand Philippine pesos</i> | <b>2009</b> | <b>2008</b> |
|-------------------------------------|-------------|-------------|
| <i>For the year</i>                 |             |             |
| Revenues                            | 73,450      | 85,032      |
| Expenses                            | 37,568      | 41,121      |
| Net Income                          | 35,882      | 43,911      |
| <i>At yearend</i>                   |             |             |
| Assets                              | 853,584     | 846,549     |
| Liabilities                         | 33,521      | 46,589      |
| Stockholders' Equity                | 820,063     | 799,960     |

## Toyota Motor Philippines Corporation

Toyota Motor Philippines Corporation (TMP), primarily engaged in the manufacture of Toyota passenger cars and commercial vehicles, and the wholesale of Toyota parts and accessories, remains to be the country's biggest automotive company. In 2009, TMP breached the 600,000-unit cumulative sales mark and set new record sales of 46,193 units with its eighth consecutive triple crown. TMP's locally manufactured models – Vios and Innova – remained the country's bestsellers for the year. The Company's full-year net income was at P1.6 billion. In 2009, Toyota's luxury line, the Lexus, made its debut and a state-of-the-art facility was set up in Fort Bonifacio. A full vehicle lineup, Lexus made a mark in the luxury segment as it captured 13% market share in its first year of operations. The trust and confidence of its customers and business partners drive Toyota to produce only the highest quality vehicles. In 2009, its Santa Rosa plant was recognized by Toyota Motor Corporation (TMC) as one of the five best-performing Toyota manufacturing plants worldwide in terms of quality. 2009 saw the inauguration of the GT-Toyota Asian Cultural Center in UP Diliman with facilities built to further promote the rich legacy of Asia and the advancement of Asian cultural studies in the Philippines.

31/F GT Tower International  
6813 Ayala Avenue, corner H.V. dela Costa Street  
Salcedo Village, Makati City  
T: (632) 858-8200  
Michinobu Sugata, President

| <i>In thousand Philippine pesos</i> | <b>2009</b> | <b>2008</b> |
|-------------------------------------|-------------|-------------|
| <i>For the year</i>                 |             |             |
| Net Sales                           | 46,058,888  | 44,689,490  |
| Total Expenses                      | 1,849,566   | 2,132,836   |
| Net Income                          | 1,588,480   | 2,644,421   |
| <i>At yearend</i>                   |             |             |
| Total Assets                        | 13,896,615  | 13,790,518  |
| Total Liabilities                   | 7,718,826   | 6,557,923   |
| Stockholders' Equity                | 6,177,789   | 7,232,594   |

# Shareholder Information

## Annual Shareholders' Meeting

Thursday, 29 April 2010, 3:00 p.m.

The Auditorium, Metrobank Plaza

Sen. Gil Puyat Avenue, Makati City 1200, Philippines

## Stock Listing

First Metro Investment Corporation common shares are listed and traded on the Philippine Stock Exchange under the ticker symbol "FMIC."

## Shareholders

The number of common shareholders of record as of March 15, 2010 was 1,492.

## Market Information

Following are the high and low closing prices for FMIC common shares in Philippine peso in 2008 and 2009:

|                | Highest | Lowest |
|----------------|---------|--------|
| 2009:          |         |        |
| First Quarter  | 36.00   | 28.00  |
| Second Quarter | 34.00   | 29.00  |
| Third Quarter  | 33.00   | 30.00  |
| Fourth Quarter | 32.00   | 28.00  |
| 2008:          |         |        |
| First Quarter  | 42.00   | 38.00  |
| Second Quarter | 40.00   | 36.00  |
| Third Quarter  | 37.50   | 35.00  |
| Fourth Quarter | 37.00   | 28.50  |

## 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 upon written request from the:

The Controller  
First Metro Investment Corp.  
2<sup>nd</sup> Floor Wellington Building  
Plaza Lorenzo Ruiz, Binondo  
Manila 1006, Philippines

Corporate Planning & Affairs  
45<sup>th</sup> Floor G. T. Tower International  
Ayala Avenue corner H. V. dela Costa St.  
Makati City 1200, Philippines  
Tel. No. (632) 858 79 00  
Fax No. (632) 840 37 06  
Email: [corpplan@firstmetro.com.ph](mailto:corpplan@firstmetro.com.ph)

## Stockholder Services

For inquiries regarding dividend payments, change of address or account status:

The Controller  
First Metro Investment Corp.  
2<sup>nd</sup> Floor Wellington Building  
Plaza Lorenzo Ruiz  
Binondo, Manila 1006, Philippines  
Tel. No. (632) 241 43 01  
Fax No. (632) 241 07 50

## Annual Report Publication

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# FMIC 2009 Annual Report

[www.firstmetro.com.ph](http://www.firstmetro.com.ph)

|     |         |          |
|-----|---------|----------|
| MER | PhP5.0B | On Board |
| TEL | PhP7.0B | On Board |
| GLO | PhP5.0B | On Board |
| MCC | PhP3.0B | On Board |
| MPI | PhP4.5B | On Board |
| AC  | PhP3.0B | On Board |
| JGS | PhP9.0B | On Board |
| AP  | PhP5.0B | On Board |
| FLI | PhP5.0B | On Board |



**FIRST METRO**  
INVESTMENT CORPORATION  
Metrobank Group

**Makati Office**  
45<sup>th</sup> Floor G.T. Tower International  
Ayala Avenue cor. H.V. dela Costa St.  
Makati City, Philippines 1200  
Tel. No. (63 2) 858-7900  
Fax No. (63 2) 840-3706

**Binondo Office**  
2<sup>nd</sup> Floor Wellington Building  
Plaza Lorenzo Ruiz, Binondo  
Manila, Philippines 1006  
Tel. No. (63 2) 241-4301 to 07  
Fax No. (63 2) 241-0750