2010 Annual Report

First Metro Investment Corporation
Metrobank Group

Creating Opportunities
Executing Possibilities

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Creating Opportunities Executing Possibilities

First Metro Investment Corporation, the prime mover in the development of capital markets, is committed to create opportunities and execute every possibility. We take charge and take the lead in providing innovative financial solutions. We do not wait for a window of chance; rather we open that door of opportunity to serve our clients, our stakeholders, our partners and our community as a whole. We are always prepared and responsive to the challenges of the times.

We are steadfast in our vision of becoming the leading financial institution in the country with higher aspiration to become a serious player in the regional markets. We make things happen and we will continue to do the same; turning around seemingly impossible transactions into promising and successful deals; tapping untouched resources; and forging strategic partnerships. We will take advantage of limitless business opportunities, keep our dynamism and surpass our own achievements.

We celebrate our successes as we recognize all the hard work that resulted in a banner year. This year's annual report printed on special black paper and printed with silver ink, in its simple elegance, like the fabric in a tailor fit suit, makes First Metro truly a cut above the rest.

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About Us

First Metro Investment Corporation is the investment banking arm of the Metrobank Group and is a member of the Investment Houses Association of the Philippines (IHAP). It is the first and only publicly listed investment bank in the Philippine Stock Exchange. First Metro Investment is also a government securities eligible dealer (GSED) licensed by the Bureau of the Treasury. It is a leading member institution of the Philippine Dealing Exchange (PDEX); allowing it to trade and broker government securities in the secondary market. Likewise, First Metro is a member of the Fund Management Association of the Philippines (FMAP) with its award-winning mutual fund.

Through the years, First Metro Investment has built a strong financial franchise, has consistently nurtured an enviable role in the development of the Philippine capital markets and has become the biggest investment banking institution in the country.

History

First Invest Development Corporation was incorporated on August 30, 1972. In May 1974, it started its operations as an investment house with quasi-banking functions and was renamed First Metro Investment Corporation.

In 1999, the management of First Metro agreed on a vision of becoming a leading and respected financial institution specializing in investment banking services and being a prime mover in the development of capital markets.

In the year 2000, Metrobank acquired the majority shares in Solidbank Corporation, a publicly listed company, and decided to merge it with First Metro Investment Corporation. The merger was approved by the Securities and Exchange Commission on September 22, 2000 and the Bangko Sentral ng Pilipinas on November 8, 2000. The surviving entity was later renamed First Metro Investment Corporation and continued on with its business as an investment bank with quasi-banking license. It is the only investment house in the country publicly listed in the Philippine Stock Exchange and the biggest in terms of capital.

Our 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.

Our 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.

Our Values

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

First Metro Investment Corporation's Strategic Functions

Investment Banking helps the government and the private sector through debt and equity underwriting and arranging, syndicating large and long-term funding requirements, financial advisory, project finance and structured financial solutions. It holds 50% market share in origination and underwriting of debt equity.

Treasury manages the liquidity and funding requirements of First Metro Investment, the trading and 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 financial instruments such as Treasury Bills, Treasury Notes/Bonds, Commercial Papers and Promissory Notes. It is also a government securities eligible dealer (GSED) authorized by the Bureau of the Treasury to trade government securities.

Investment Advisory develops and enhances the wealth of private clients, uncovers investment opportunities and seeks a thorough understanding of the market through research. Likewise, it provides meticulous and comprehensive professional portfolio advisory and research services to individuals and firms.

Corporate Lending provides loans to institutional clients requiring funds for various growth initiatives such as capital buildup, expansion, restructuring and acquisitions or buyouts.

Message from the Chairman

The year 2010 was a result of our bold and persevering commitment to be the leading investment banking institution and the prime mover in the development of the Philippine capital markets. First Metro Investment Corporation made history in 2010, a banner year in achievements not only in record profitability but in many landmark deals and breakthrough accomplishments. To be sure, the Philippines' strongest surge of economic development in thirty-four years plus a positive perfect storm in domestic financial markets were contributory to our success. The challenge now asked of us is, what's next?

We look to the continuing growth momentum of our strategic business units which all had very good performances last year.

Our Treasury Group made P968.9 million net income, a rate that is 45.5% higher than last year. The Investment Banking Group made a historical net income of P252.8 million, a 25.7% improvement from the previous year. Our Investment Advisory Group also performed excellently with a net income of P269.3 million in trading gains and dividends from stocks. The Corporate Lending Department earned a net income of P185.1 million which is 160.6% more than the previous year.

Historic is one word that can be used to describe First Metro's 2010. We have generated the best income in all the years, all of our business engines were running well and business from all angles were performing well. Our cost of funds has gone down, yields have gone up and we have a very good strategic position in the domestic capital markets, both fixed income securities and equities.

We have constantly looked to our vision statement as a measure of success. This has two components: first, to lead our industry and to gain respect, and second, to be a prime mover in the development of Philippine capital markets.

In financial metrics, we lead the industry, in profitability and in size. In investment banking, our league standing is at a pole position, at least for all peso denominated deals, corporate and government. Our Treasury Group ranks tops alongside much bigger universal banks. In 2010, the Company was awarded 'Best Bond House' of the year by The Asset of Hong Kong while we are acknowledged by PDEx as one of the most active traders of fixed income securities.

We have endeavored to prime move the local capital markets in many ways. We have developed new investment banking products such as the multicurrency retail Treasury Bonds and US dollar long term corporate notes. We have also introduced new investment products under the FAMI (First Metro Asset Management) mutual funds that have all topped industry performance last year. Our securities brokerage subsidiary introduced an online securities trading platform which we hope will encourage more participation in the equity markets by retail investors. We also hope to grow this new electronic

distribution channel to enable the sale of investment products other than equities such as fixed income securities and mutual funds to retail investors in the Philippines as well as offshore. Finally, our Treasury Group continues to develop and widen its network of institutional and retail investor market by offering third party financial instruments to its growing institutional and retail investors base.

Our advocacy in capital market development has also been concretized by the FMIC and UA&P Capital Market Development initiative which now issues a monthly capital market report, "The Market Call," and conducts regular economic briefings to the media as well as Investors' Briefings in Manila and key cities like Cebu and Davao.

We believe that moving forward this new decade, our business success, or otherwise, will depend on our ability to strategically position our Company to take advantage of global trends and developments such as the emergence of China and the ASEAN countries as the growth region of the world. We will start our new Philippine desk in Metrobank China this year. Our units from Treasury, Investment Banking and Investment Advisory are well entrenched to take maximum advantage in the domestic economic growth. We will continue to look for ways for the Company to have wider and deeper regional relationships. We are creating links, developing business opportunities and joint undertakings with regional players.

We welcome the recognition of the Philippines, that is finally, together with Indonesia and Vietnam, as one of the high growth countries amongst the ASEAN countries given its strong domestic consumption prospects. This is driven both by demographics, a good population base that is growing, and the emergence of overseas Filipinos as its middle class providing huge remittance flows on a regular basis. The successful elections and smooth political transition in 2010 have also drawn some investors' interest in the country.

These are new opportunities and fresh possibilities which First Metro Investment shall take advantage of, not only in engaging in rewarding investment and profitable investment banking business but also in doing its part in nation building. We thank the Almighty for a successful decade we closed in 2010 and continue to entrust to Him the work of our hands. We count on the support of our shareholders, the assistance of our business partners and the dedication of our people in pursuing further our vision and mission.

ANTONIO S. ABACAN, JR.

Report of the President

The year 2010 was a very strong finish to a decade of growth for First Metro Investment.

- A historic, highest ever net income of P1.7 billion that translates to a very rewarding 18.0% return on equity.
- Solid capital base of P9.9 billion after total cash dividends for the decade of P7.97 billion, including P1.0 billion paid just for 2010.
- Total assets of P64.0 billion with a very safe and solid gearing of 19.8% in terms of capital adequacy ratio.

Just before the 21st century began, in 1999, First Metro Investment crafted the vision of becoming a leading and respected investment bank and a prime mover in the development of Philippine capital markets.

In pursuit of this vision, we adopted a three pronged strategy:

1. the development of core competencies in credit, investment and investment banking;
2. the strategic positioning of its balance sheet; and
3. organizational development.

Our financial results are but a realization, with a fair amount of success, of these strategies.

Our strategic business units have reached full maturity and are poised for growth. They have been our centers of competence in investment banking, credit and investments in general, but also in specific skills like project finance, securities distribution, equity research and proprietary trading. They have also been manned by competent people with solid track record, and in selected cases global experience.

Our 2010 results speak very well of this achievement that has been built over the past decade.

There were three major Treasury profit engines in 2010:

1. Net interest income from the Treasury portfolio of P511.0 million, much better than the previous year's P333.0 million, driven by higher level of securities portfolio and lower cost of funds (from 5.25% to 4.34% this year).
2. Gains from government securities trading of P268.0 million, 69.0% better than budget.
3. Fee income from securities distribution of P125.0 million (inclusive of other income) which is almost double their budget and 69.0% higher from last year.

The Corporate Lending Department, on a net basis, earned interest income of P187.0 million which is 7.0% above target. Loan portfolio has reached P5.24 billion, lower than budget. A higher average lending rate, from 8.7% to 9.4% made up for the shortfall this year.

The Investment Banking Group made history in 2010 with fee income of P270.0 million, 35.0% ahead of their P200.0 million budget. This is also P56.0 million or 26.0% better than last year's P214.0 million fees.

The Investment Advisory Group realized P316.0 million in trading gains and dividends from investment in stocks. After deducting finance charges of P57.0 million, the end result was a net income of P259.0 million. This is 81.0% or P 116.0 million higher than their P143.0 million budget and P200.0 million above their last year's income of only P59.0 million.

Other than an excellent stock trading performance in 2010, the Investment Advisory Group also garnered the Number One spot in the performance of our equity and balanced mutual funds. The Save & Learn Equity Fund in fact showed the best performance for one, three and five years. The 2010 return of 63.0% is much higher or double the rise in the Philippine stock index of 37.0% for the year.

The past decade also saw the strategic positioning of the Company's balance sheet. On the asset side, our experience and competence in credit and investment have enabled us to build up interest earning assets, both fixed income securities and corporate loans of good quality that give us a stream of regular and recurring income. We have also been successful in proprietary trading both in government securities and listed stocks. Finally, the Company has made direct investments in selected businesses that have begun to contribute significantly to our bottom line. This includes Global Power, Philippine AXA and Orix Metro Leasing. This is on top of strategic investments in stock brokerage (First Metro Securities Brokerage) and asset management (First Metro Asset Management). Both companies are showing good profitability and group synergies.

Finally, by the end of 2010, First Metro Investment has built a high functioning organization with a developed front line in the form of strategic business units and a strong and efficient backroom and support group that has grown from just accounting and controllership into new organizational disciplines such as risk management, compliance and corporate governance.

Major strides have been achieved in year round budget planning, training and human resource development and performance based review and compensation system.

Moving forward, we have identified the challenges facing the Company which are precisely the opportunities that will bring us to the next level. These are:

- the emergence of China as second largest economy of the world,
- the resurgence in Philippine economic growth supported by successful elections and continuing deployment of Filipinos overseas and their remittances,
- the recognition of Asia as a high growth region, and in particular ASEAN countries like Indonesia, Vietnam and the Philippines.

These challenges lend support to the Company's recrafted vision which extends its ambition to be respected in the region. They also make our 'Global Minds, Local Hands' campaign more relevant than ever and creates some urgency if we are to step up to these challenges.

Finally, as the first decade of the third millennium closed, First Metro Investment undergoes a transition in its senior management. The Company since the late 90s has basically been run by the Senior Management Committee (SMC) which has five members, the most senior officers of the Company. Three of these officers have retired, namely, Francisco G. Co, Executive Director and Adviser, Jose Pacifico E. Marcelo, head of our Investment Banking Group and Danilo G. Olondriz, our Financial Controller.

Mr. Co served First Metro Investment for 13 years, after retiring from Metrobank where he worked for over 30 years. Other than bringing to the Company his commercial banking and branch banking experience, Mr. Co served as the vanguard of the Metrobank culture of hard work, personal integrity and professional competence.

In photo with Francisco C. Sebastian are (from left) Danilo G. Olondriz, Roberto Juanchito T. Dispo, Francisco G. Co and Jose Pacifico E. Marcelo.

Mr. Marcelo, being an experienced and competent investment banker, built for the Company the Investment Banking Group. In his over 11 years of service, he developed the strategic business unit that built a franchise in fixed income securities origination and underwriting. His technical competence and professional integrity enabled the Company to take a pole position in Philippine peso debt deal market, winning many awards for us as best investment bank and best domestic bond house.

Mr. Olondriz served First Metro Investment for 19 years. He is a first class accountant by profession and an experienced regulator with the Bangko Sentral ng Pilipinas prior to joining the Company in 1991. His contribution, through the Controllership Group, has been invaluable in supporting the dramatic growth of the company's business in the last decade. He was instrumental in improving our funding costs and maximizing yields and in ensuring the integrity of our business deals and financial transactions. Under his direction, the Company secured after many years the respect from our regulators; achieving the highest rating among domestic financial institutions.

These gentlemen have laid the foundations of the First Metro Investment that we see today and the Company owes them a debt of gratitude for their invaluable contribution. I would like to take this opportunity to express my appreciation to them and to encourage everyone to work very hard to carry on the brand of professionalism, integrity, competence and dedication with which they have served the Company through all these years.

In closing, let me acknowledge the Almighty as the author and enabler of all our achievements, recognize our clients and partners for their support, thank our stockholders for their trust and confidence, and compliment our officers and staff for their loyalty and dedication.

FRANCISCO C. SEBASTIAN

A Banner Year in Review

It was a banner year for First Metro Investment Corporation in 2010 as it posted a historic profit high of P1.7 billion, notwithstanding political and economic uncertainties. The year was indeed full of investment milestones, standout deals and valuable recognitions that have helped further strengthen First Metro's position in the development of the Philippine capital markets.

Operational Highlights

The Treasury Group generated a solid P968.9 million net income, 45.5% higher than last year. Net interest income from Treasury portfolio is P955.9 million, driven by a higher level of securities portfolio and lower cost of fund. Gain from trading of government securities amounted to P953.2 million, 149.1% higher than last year, while fee income from securities distribution was at P118.4 million, 48.2% higher than last year. Finally, non-interest expenses incurred by Treasury Group amounted to P708.0 million.

Consolidated Operational Highlights

In thousand PhP

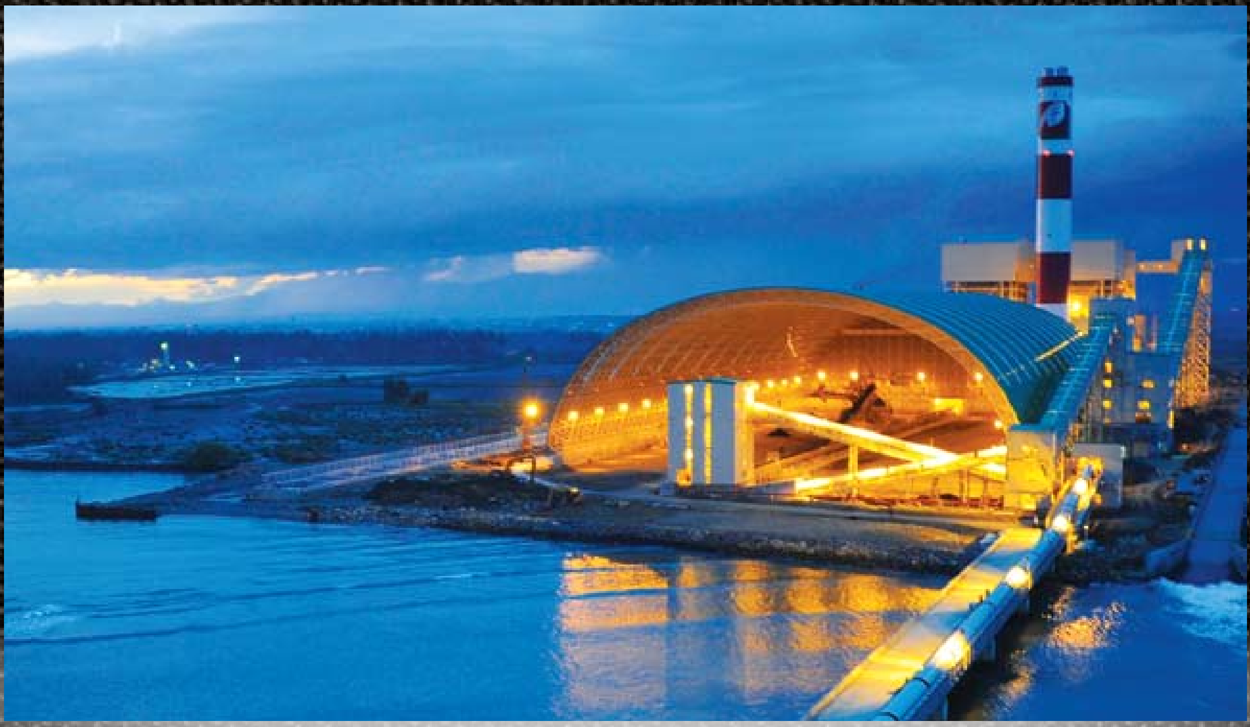
	2010	2009	2008
Total Assets	**63,969,135**	59,576,309	46,163,524
Total Liabilities	**54,048,569**	50,962,386	38,852,530
Stockholders' Equity	**9,920,566**	8,613,923	7,310,994
CAR (in %)	**19.8**	24.3	16.3
Gross Revenues	**3,103,396**	1,947,153	1,097,678
Net Income			
Consolidated	**1,727,718**	1,029,771	398,906
Parent	**921,261**	857,192	967,114
Return on Average Equity (in %)			
Consolidated	**18.6**	12.9	5.1
Parent	**13.4**	14.4	20.6

The Investment Banking Group made history in 2010 with a net income of P252.8 million which is P51.7 million or 25.7% better than previous year's fees. The bulk of this revenue was generated through various significant deals that included Power Sector Assets and Liabilities Management Corporation's (PSALM) P30.0 billion Retail Treasury Bond, Beacon Electric Assets Holdings Inc.'s P18.0 billion capital notes, Panay Energy Development Corp.'s P14.0 billion project loan facility, Home Development Mutual Fund's (PAG-IBIG) P12.0 billion bond issue, among others.

The Investment Advisory Group recorded an excellent performance with a net income of P269.3 million in trading gains and dividends from investment in stocks. This is 38.0% or P74.2 million above its 2009 net income of P195.1 million. Aside from an outstanding stock performance, the IAG also garnered the top spot in the performance of the equity and balanced mutual funds. The Save & Learn Equity Fund registered a 63.0% return, much higher than the rise in the Philippine Stock index of 37.0% for 2010.

The Corporate Lending Division earned a net income of P185.1 million which is 160.6% more than the previous year.

Landmark Deals



Panay Energy Development Corporation P14.0 billion Project Loan Facility

The P14.0 billion deal marked the Philippines' largest purely peso-denominated project finance for the year. The issue was oversubscribed by 50.0% with the longest tenor at 12 years.

Panay Energy Development Corporation is a subsidiary of Global Business Power Corporation. Its P20.0 billion expansion project is specific to the construction of an additional 164 megawatt coal-fired power plant which is expected to address the reliability and availability of electric power in the Panay Island. P14.0 billion or 70.0% of the project cost was raised through debt with First Metro as the sole arranger and participated by nine other financial institutions.

This project proves the effectiveness of the Electric Power Industry Reform Act of 2001: As a project finance deal that eliminates the Republic of the Philippines guarantee, it frees the government from any financial support undertaking.

Republic of the Philippines (Bureau of the Treasury) $400 million and €75million Multi-currency Retail Treasury Bonds (MRTB)

The MRTB was a breakthrough transaction as it was the very first onshore public offering of the Philippine government of debt securities denominated in currencies other than the Philippine peso. The transaction was conceptualized through the collaborative effort of First Metro and the Bureau of the Treasury (BTr).

The bonds were priced at yields of 2.875% and 4.125% for the 3- and 5-year Dollar tranches, respectively; and 3.25% and 4.125% for the 3- and 5-year Euro tranches, respectively. The BTr set the pricing via a Dutch auction to Government Securities Eligible Dealers. First Metro was one of the joint issue managers and selling agents.

The MRTB carries a "tax assumption" privilege for OFWs, migrant workers and their dependents. In recognition of their significant contribution to the Philippine economy, the Bureau of the Treasury will assume the withholding tax on interest on behalf of the investors.

The MRTB was envisioned to provide OFWs and their families a safe haven for their hard-earned foreign-currency savings; mobilize investment by encouraging small investors to purchase Treasury Bonds; and to maximize OFW contribution to the Philippine economy as a major source of foreign currency fund-raising for the National Government.

Republic of the Philippines (Bureau of the Treasury) P200.0 billion Domestic Debt Consolidation Program

The 2010 Debt Consolidation Program was initiated as part of the Republic's overall liability management efforts. This transaction targeted approximately P1.7 trillion of local currency fixed income government bond, consisting of bonds due in years 2011 to 2019 and bonds from 2020 to 2034 which were exchanged for P33.0 billion of 10-year Benchmark Bonds and P151.0 billion worth of 25-year Benchmark Bonds.

The program was the first debt consolidation initiative consisting of three transactions: exchange offer, tender offer and subscription offer. It was also the first issue of a 25-year tenor under a bond exchange transaction. It issued P184.0 billion of new benchmark bonds via the bond swap which is the largest bond swap transaction of the Republic, surpassing the P144.5 billion bonds issued in 2009.

The issuance of the 25-year benchmark bonds via exchange created a liquid benchmark for long term financing in line with the national government's initiative to support the Public-Private Partnerships in infrastructure projects. It created a new series of Benchmark Bonds that are more liquid and therefore trading more efficiently in the secondary market. It also reduced borrowing cost with the average coupon of the accepted Eligible Bonds down by 47 basis points.

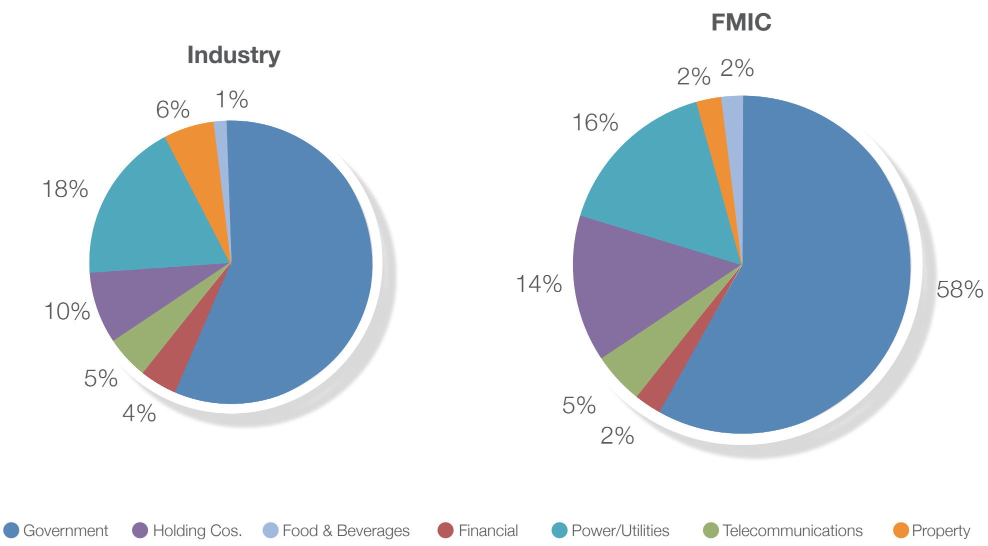
Awards and Citations: A Banner Year Recognized

It is not enough to generate income from all levels of the business. As the prime mover of capital markets, respect is both earned in due time and will always be evident in the trustworthiness and integrity of the way a firm transacts its business. Part of the tangible features of respect is recognition and over time, First Metro has reaped its own due.

Best Domestic Bond House

The Asset Magazine, a leading regional financial publication based in Hong Kong, once again recognized First Metro Investment Corporation as the Best Domestic Bond House in the Philippines. Known for its rigorous assessment and selection process, the award recognizes institutions and individuals who have made excellent service performance and have contributed significantly in the advancement of the financial services industry. Awarded during its Triple A Country Awards, this citation is considered among the most prestigious honors in the industry and in the region. First Metro was lauded for over 65% of all debt transactions in the country for 2010, completing 21 debt capital market transactions worth P240.45 billion and $800 million during the review period.

Industry Spread Based on Transaction Size
(for peso-denominated transactions)



Receiving the award are (in photo, from left) FMIC First Vice President Erwein John Catoto and FMIC Assistant Vice President Melissa Dimayuga during the Triple A Country Awards.

	Industry		First Metro Investment Corporation		
	No. of Deals	Size (in PhP Bn)	No. of Deals	Size (in PhP Bn)	% to Total
Government Debt					
Peso-denominated	9	200.86	4	140.00	70%
Foreign-denominated	4	USD 3.40	1	USD 0.50	15%
Corporate Debt					
Peso-denominated	32	168.28	15	100.45	60%
Foreign-denominated	14	USD 4.41	1	USD 0.30	7%
Equity					
Peso-denominated	14	43.77	-	-	-

In photo during the awarding ceremony are (from left) PDEx President & COO Cesar Crisol, FMIC First Vice President Reynaldo Montalbo, Jr., PDS Group President and CEO Vicente Castillo, FMIC Executive Vice President Roberto Juanchito Dispo, FMIC Trading Officer Bernice Joyce Nobleza, FMIC Assistant Vice President and Acting Division Head - Securities Dealership David Ignacio Estacio, and National Treasurer Roberto Tan.

PDS Top Dealing and Brokering Participants

The Philippine Dealing System Holdings Corp. and Subsidiaries also cited First Metro with two recognitions: as one of the Top 5 Fixed-Income Dealing Participants and as one of the Top 5 Fixed-Income Brokering Participants for the year 2010. These awards are given to brokers and dealers who have generated the highest trading volume for the year as measured by the total volume turnover of securities transacted by face amount. Philippine Dealing System Holdings Corp. operates the fixed-income exchange, an electronic platform for trading of government and corporate bonds, serving Philippine fixed-income securities transactions.

First Metro Asset Management, Inc.'s (FAMI) Save and Learn Equity Fund (SALEF) was awarded by the Investment Company Association of the Philippines (ICAP) as the Best Performing Equity Fund in the 3-year category while FAMI Save and Learn Balanced Fund (SALBAF) bagged the 2nd place in the 1-year return category.

CSR Initiatives:
Creating Opportunities for the Future

In photo are FMIC Executive Vice President Roberto Juanchito Dispo, FMIC First Vice President Marie Arabella Veron and Lankandula Elementary School Principal Florencia Marcoso during the turn over ceremony.

In photo is FMIC Vice President Atty. Nimfa Pastrana together with Manila District 1 Councilor Niño Dela Cruz, gracing the turnover ceremony at Magat Salamat Elementary School.

First Metro is not only committed to be the leading investment bank in the country; it also puts a premium on its mission to be a socially responsible corporate citizen. Thus, it seeks to integrate in its business the practice of giving back to the communities where it can make a difference.

Bigay Liwanag

Now on its third year, the Bigay Liwanag program is one of First Metro's socio-civic initiatives on education. The project is intended to help vision-impaired public school children to read and study better through a donation of eyeglasses. Last year's beneficiaries included students of Magat Salamat Elementary School and Lakan Dula Elementary School, both in Tondo, Manila. First Metro provided a total of 194 eyeglasses to students with vision impairment after giving free eye checkups to the students.

With a clearer vision, these children can now look at a brighter future.

Stock X Challenge

In 2010, First Metro launched its very first stock trading tournament dubbed Stock X Challenge. It is an intercollegiate stock trading competition organized by First Metro and its subsidiaries First Metro Asset Management, Inc. (FAMI) and First Metro Securities Brokerage Corp. (FMSBC) in cooperation with the Philippine Stock Exchange (PSE), and the Catholic Education Association of the Philippines (CEAP).

The tournament was conceived to support First Metro's advocacy on investment literacy and its mission to develop the Philippine capital markets. It is a vehicle by which a new generation of young Filipino investors can be developed by creating awareness, educating them and at the same time giving them real world trading experience.

The competition is open to teams of four college students who are enrolled in the school year 2010-2011, the group may be joined by one professor from the same school to act as their team adviser.

To prepare for the contest, Stock X Challenge participants attended a series of seminars on Portfolio Management conducted by First Metro. The seminar series is a unique and exclusive feature of the tournament, incorporating a mixture of lectures and case study exercises that will aid the students in strategizing for the competition. The whole exercise aims to develop skills and discipline in making investment and trading decisions. Last year's seminar was facilitated by Mr. Sandy Gilles, a business logic coach and the First Chartered Analyst in the Philippines.

The winning group was awarded with P50,000.00 in cash, P30,000.00 worth of shares in the FMSBC on-line trading facility and P20,000.00 worth of shares in First Metro Save and Learn Equity Fund.

The tournament which turned out to be a big success was participated by a total of 108 teams from various universities and colleges from NCR, Cavite, Tarlac, Quezon and Davao.

Photo taken during the Stock X Challenge Portfolio Management Seminar.

Investment Literacy Seminars

Furthering efforts in educating the public, several investment literacy seminars were held in the past year. Escaping the Debt Trap is a regular presentation in schools for their faculty and non-academic personnel. The presentation aims to help them take control of their finances and offers a monthly savings strategy as a viable alternative to attain financial goals.

The FAMI Save and Learn Mutual Funds presentation introduced FAMI and its partnership with CEAP and the Marist Brothers Foundation. It also gives a comprehensive discussion on the concept of mutual funds and a more detailed presentation of the Save and Learn Mutual funds being managed by FAMI. For institutions/corporate entities that are interested on how our funds can be applied to the employees of the institutions, FAMI offers the Monthly Investment Program, as a tool for gaining financial wellness.

Business enhancement modules like the Pera Mo Palaguin Mo and Money Talks review various theories and management practices that entrepreneurs can make use of. Pera Mo Palaguin Mo, in partnership with the Colayco Foundation for Education, discusses ways and means to make money grow. Money Talks is a two-part module that covers current economic fundamentals and forecasts on what to expect in the stock and bond markets. It also includes a presentation where attendees can look at investment alternatives, with the Save and Learn Mutual Funds, being the primary choice.

In photo is one of the tournament participants with FAMI President Augusto Cosio, Jr. and Stock X Challenge seminar facilitator and Chartered Financial Analyst Sandy Gilles.

In photo (from left) Mark Valino of PSE, FMSBC Senior Vice President and Chief Operating Officer Gonzalo Ordoñez, Chartered Financial Analyst Sandy Gilles, winning team UPD_Gurus members Reginald Siegfrid Li and Reyneil Go, FMIC Executive Vice President Roberto Juanchito Dispo, FAMI President Augusto Cosio, Jr., and PSE Officer-In-Charge Atty. Jay Banaag.

Prospects and Outlook

The year 2010 was a banner year for First Metro Investment Corporation, earning a net income of P1.7 billion, the highest in the history of the Company.

Positive economic factors augured well for the Philippine financial markets, anchored on stable foreign exchange market, record-high GDP growth and peaceful political transition to the new Aquino government, boosting investment confidence of both the issuer and investor markets. The debt capital market saw a spike in debt issuances by both the public and the private sectors which was in turn supported by a bullish investor market awash with high liquidity. And First Metro was in the forefront of majority of the debt issuances in 2010.

In terms of treasury fixed income dealership business, First Metro, from one of the top 5 in 2009, climbed a notch higher in 2010 to become one among 3 top financial institutions in terms of volume traded. We are the only investment bank included in the category dominated by local and foreign banks. First Metro was also recognized as among the top 5 in government securities brokering business. Our efforts did not pass unnoticed when The Asset Magazine, a Hong Kong-based regional financial publication, awarded First Metro as The Best Bond House in the Philippines for 2010.We attribute these feats to the tenacity of our resolve to be a meaningful player in the fixed income market and the lofty goals that we set upon ourselves.

Also in 2010, apart from the repeat businesses of arranging debt capital market issuances by top corporate clients, First Metro was instrumental in the first foray of GT Capital, the

P1.7 Billion
net income

holding company of the Metrobank Group, into the local debt capital market. Bringing new names to the capital markets is a responsibility that we take seriously as an industry leader.

We measure our success not by earnings alone. Our earning achievement was a collective effort of our human resources of 100 employees, translating to per capita income of P17.0 million, the highest in the industry.

The year that passed saw us reinforcing the skills and competencies of our people, further strengthening our internal control systems and retooling our information technology. We believe that success will follow if uncompromising quality of work and excellent service to our clients take the lead.

Moving Forward to 2011

The heightened competition from local and foreign investment banks poses a challenge to us to keep a more focused attention to the discriminating needs of our issuer-client base. The growing sophistication of our institutional and retail investor-clients has motivated us to be all the more sensitive of their investment and wealth management requirements. We will continue to serve our existing clients by providing financial engineering solutions tailor-fit to their needs and by offering new products that will expand their investment options.

The government sector remains to be an untapped resource for us. We will continue to be a major partner of the government in its continued effort to best manage its liabilities. As in the past, First Metro will pioneer in offering innovative products as a tool for the government to raise funds from the public. Assisting the government in its funding-raising activities is First Metro's contribution, albeit indirectly, in uplifting the lives of the Filipino people.

For the year 2011, First Metro will initiate forging strategic partnerships with foreign financial institutions with the aim of establishing a foothold in the regional financial markets. Through these partnerships, we expect to achieve global coverage, expand product offerings and client base, and acquire new skills and capabilities for its people – a step closer to our goal of becoming a respected name in the Asian region and within reach to our tenet of "global minds, local hands".

The global financial crisis has brought about a tighter regulatory environment that requires more prudence in conducting our business. As a good corporate citizen, we will continue to adhere to the ethical principles and regulations that govern us, ever mindful of meeting the high standards of the Philippine Stock Exchange, the Bangko Sentral ng Pilipinas and the Bureau of the Treasury.

As an organization, we will continue to live by our corporate values of integrity and prudence, passion for excellence, teamwork, innovation and respect for individuals. Guided by these values, we will work as one united organization towards replicating, even surpassing the past year's gains as we move forward to 2011.

Risk Management in Action

2010 was marked by new challenges where the previous models of business growth were abandoned. The very volatile market amidst rising interest rates prevented us from churning trading gains as easily as we used to during the previous years. New strategies had to come into play to build a new and stable source of recurring income. Risk management worked pro-actively with the business units in recalibrating risk limits to keep risk management attuned to the changes in strategies and adjusted business plans.

Risk Management Group (RMG) strengthened its scenario analysis and stress testing parameters as aligned with the parent bank to complement regular risk tools to anticipate, assess and quantify possibilities. We expanded our operational risk coverage to establish a framework, guidelines and policies. RMG regularly reviewed risk postures and provided appropriate recommendations to senior management, the Risk Management Committee, and the Board of Directors. RMG hired Sycip Gorres & Velayo/Ernst and Young for the company's third party validation of its Value at Risk model and Isla Lipana/Price Water House Coopers consultancy on the IT- Risk Control Self Assessment framework. In 2010, Risk Management sponsored its third consecutive year of Risk seminars for the Board as SGV-EY gave a Metrobank group wide lecture on BSP Circular 639 on the Internal Capital Adequacy Assessment Process (ICAAP).

RMG implemented the Internal Capital Adequacy Assessment Process (ICAAP) across eight risks: market, credit, operational, liquidity, interest rate risk in the banking books, compliance, reputational and business/strategic. BSP requires that an ICAAP document be submitted by the parent bank and the Group on January 2011 and every January thereafter. The parent bank imparted to its subsidiaries frameworks for the calculation of the ICAAP numbers and stress testing, which incorporates macro and internal assumptions to construct various scenarios. Final consolidation of the Group's numbers and ICAAP write-ups was done by the parent bank.

First Metro Investment also passionately 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, Corporate Lending and Strategic Finance and Investment.

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 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.

The ERM framework is guided by the following functional structure:

Overall Risk Functional and Responsibility Structure

BOARD OF DIRECTORS	Establishes risk management strategies and is ultimately accountable for risks taken within FMIC Group; understands major risks faced by the company and approves broad risk tolerance levels/limits and other recommendations of the Risk Management Committee (RMC); and leads in disseminating FMIC's risk philosophy and control culture throughout the organization.			
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, 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.

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, additional stressful scenarios in its analysis are implemented 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, profit alert and start sell limits, nominal position limits, as well as Value-at-Risk (VaR) and Earnings-at-Risk (EaR) limits. Monitoring also includes sensitivity analysis/stress testing and backtesting of the VaR as well. The VaR and backtesting risk management tools will be further enhanced starting January 2011 with the full operation of RiskMark. Riskmark's VaR methodology was independently validated by SGV.

Guiding daily monitoring activities are limits structures that are based on annual targets set during budget hearings, approved by the 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 risk taking units present their proposals to a deal committee. The proposals are then presented to the credit committee/s for final 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, tenor, risk rating, industry, non-performing loans and any other concentrations.

Operational Risk

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

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

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

The conduct of Information Technology – Risk Control Self Assessment (IT-RCSA), that is aimed to identify the strengths and address weaknesses of the company's growing IT environment was, likewise, implemented. Regular review, enhancement and testing of First Metro Investment's business continuity processes to address possible contingencies has been performed as well. On the other hand, Metrobank and Trust Company (First Metro Investment's parent company), thru its Internal Audit Group, reviews operational risk management processes, and provides an independent assurance as to the adequacy and effectiveness of the same.

Compliance Risk

Risks arising from violations or non-conformity with laws, rules and regulations, circulars, and prescribed practices or ethical standards that 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 Division headed by a Compliance Officer ensures the implementation of this compliance system. The Compliance Officer leads in identifying, assessing and reporting compliance issues to ensure that the company complies with the laws, rules, regulations and standards.

Legal Risk

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 Division of First Metro Investment advises the business units on the:

(1) legal constitution of enforceable commitments during 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 Division 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.

Corporate Governance

First Metro Investment Corporation has continuously strived to adhere and commit itself to the highest principles of corporate governance. Governance in First Metro is rooted and guided in the ethical and faithful compliance with principles of *Fairness, Accountability and Transparency.*

Milestones in 2010

Determined to take the company beyond the regulatory requirement, First Metro Investment adopted in 2010 various courses of actions aimed at improving further the governance policies and guidelines of the company. The Manual on Corporate Governance that was first adopted in 2002 embodying the governance framework of First Metro has been revised and updated to incorporate new trends and recent regulatory improvements. Commitment to these principles is embodied and enshrined in the Revised Manual of Corporate Governance (Manual). This Manual, revised pursuant to Securities and Exchange Commission (SEC) Memorandum Circular No. 6 series of 2009, was approved by its Board of Directors on March 25, 2010.

The following are the changes adopted in the Manual: creation of Compensation and Remuneration Committee, lower limit of 2% in equity ownership of independent directors (from 10%), 60 business days to correct temporary disqualification of directors, appointment and reporting responsibilities of a compliance officer and the mandatory accomplishment of SEC Governance Scorecard. Likewise, First Metro Investment included governance principles on the following sections in its manual:

- Role of Corporate Secretary, External Auditor and Internal Auditor
- Communication process
- Training process
- Reportorial or disclosure system
- Shareholder's benefit
- Monitoring and assessment

First Metro Investment likewise submitted the Compliance Officer's Certification of Compliance with the Manual of Corporate Governance on January 12, 2011 demonstrating the company's adherence and compliance with the principles and standards of good corporate governance.

First Metro Investment also participated in the On-Line Submission of Corporate Governance Scorecards initiated jointly by the SEC and Institute of Corporate Directors (ICD) and submitted the fully accomplished questionnaire last November 2010.

In keeping with the principle of transparency, it also accomplished and submitted the Corporate Governance Guidelines Disclosure Survey for Listed Companies to the Philippine Stock Exchange (PSE) this March 2011.

In 2010, the Board approved the new table of organization to be aligned with the parent company and to create working committees to assist the board in the discharge of its duties and responsibilities.

During the same year, the compliance system framework was further enhanced placing the compliance function directly under the oversight of the Corporate Governance Committee and the Compliance Officer reporting directly to the Chairman of the Board.

Board of Directors

Compliance with the principles of good corporate governance starts with the Board of Directors.

As a captain plots the voyage of its ship towards a safe arrival at its destination, the same goes with the Board of Directors setting the strategic goals and roadmap of the corporation to achieve its vision and mission. The Board of Directors is entrusted with setting the direction and overseeing the implementation of the over-all strategic policy of the company in addition to its exercise of its corporate powers.

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

It is the Board's responsibility to foster the long-term success of the Corporation and secure its sustained competitiveness in a manner consistent with its fiduciary responsibility, which

Directors	Board Meeting	Executive Committee	Corporate Governance Committee	Audit Committee	Risk Management Committee	Nominations Committee	Compensation Committee
Antonio S. Abacan, Jr.	11/0		7/0				1/0
Solomon S. Cua	11/0			5/0			
Francisco C. Sebastian	11/0						1/0
Carmelo Maria L. Bautista	11/0		4/0				
Mary V. Ty	11/0						1/0
Roberto Juanchito T. Dispo	11/0		7/0			2/0	
Martin Q. Dy Buncio	11/0				12/0	1/0*	
Romualdo A. Ong (Ind)	11/0		7/0	5/0		1/0	
Robin A. King (Ind)	8/0*		4/0*	3/0*	8/0*		
Atty. Bienvenido E. Laguesma	11/0						
Ismael G. Cruz	11/0				12/0		

Legend: Present/Absent

*term of office started April 2010

it shall exercise in the best interest of the Corporation, its shareholders and other stakeholders. The Board shall conduct itself with utmost honesty and integrity in the discharge of its duties, functions and responsibilities, under the provisions of the relevant regulatory agency rules and regulations.

Board Composition

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

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

Role of Independent Directors

Although all Directors have equal responsibilities, the role of Independent Directors is especially significant. 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 Independent Directors are Mr. Robin A. King and Ambassador Romualdo A. Ong. The two Independent Directors do not participate in the day-to-day management and do not engage in any business dealing or other relationship with the Group so that they are capable of exercising independent judgment and act in the best interest of the company and its shareholders.

Board Meetings

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

During the year ended, December 31, 2010, the Board met eleven (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 2010 in line with guidelines set by the SEC and the Bangko Sentral ng Pilipinas (BSP).

Board Committees

Board-level committees were established to aid the Board in corporate governance and in the performance of its corporate functions and responsibilities. The memberships of these committees are distributed to ensure balanced and effective working committees.

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

Members: Mary Vy Ty (Chairman), Francisco C. Sebastian (Vice Chairman), Antonio S. Abacan, Jr., Solomon S. Cua, Roberto Juanchito T. Dispo and Carmelo Maria L. Bautista

The Corporate Governance Committee is an important and desired tool to aid the Board of Directors 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. It decides whether or not a director has been adequately carrying out his duties and makes recommendations to the Board regarding the continuing education of directors, assignment to board committees and succession plan for the board members and senior officers. It is composed of five directors, two of whom are independent. It convenes every quarter or as often as necessary.

Members: Antonio S. Abacan Jr. (Chairman), Carmelo Maria L. Bautista, Amb. Romualdo A. Ong, Robin A. King and Roberto Juanchito T. Dispo

The Audit Committee is tasked to provide oversight over the senior management's activities in managing risks of the corporation and effectiveness and reliability of the financial reporting process and its systems of internal controls, and coordinating and monitoring of compliance with existing laws, rules and regulations. It is responsible for setting up the Internal Audit Division and appointment of External Auditor. It reviews reports of Internal and External Auditors and ensures that management is taking appropriate actions in a timely manner in addressing the issues. It is chaired by an independent director and is composed of two other directors and meets every quarter.

Members: Robin A. King (Chairman), Amb. Romualdo A. Ong and Solomon S. Cua

The Board is responsible for the formulation and maintenance of written policies and procedures relating to management of risks throughout the company. The Risk Management Committee (RMC) is created for this purpose. 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.

Members: Ismael G. Cruz (Chairman), Martin Q. Dy Buncio, and Robin A. King*

**Ismael G. Cruz replaced Carmelo Maria L. Bautista effective January 21, 2010*

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

Members: Robin A. King (Chairman), Roberto Juanchito T. Dispo and Martin Q. Dy Buncio*

**Term of office started in April 2010*

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

Members: Mary Vy Ty (Chairman), Antonio S. Abacan Jr. and Francisco C. Sebastian

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

As part of good corporate governance, most of the directors, particularly the Independent Directors, are required to chair certain committees created to enhance First Metro 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 of financial statements to ensure the reports present a fair and accurate view of First Metro Investment'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, which are 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. As allowed under BSP regulations, First Metro Investment has outsourced its Internal Audit function to its parent company, Metrobank.

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

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 including their responsibilities in complying with applicable laws, rules and regulations. The same is embodied in an updated Compliance System Manual duly approved by the Board in October 2010.

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

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

Disclosure and Transparency

First Metro Investment discloses to BSP, SEC and PSE all the material information such as earnings results, acquisition or disposal of assets, board changes, related party transactions or changes in ownership, corporate strategy and other information which may have a direct or indirect impact to the decision-making of 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 such meeting. The Board also promotes the rights of the stockholders and protects the interests of the minority stockholders. For this purpose, First Metro Investment created an Investor Relations Unit to assist and handle queries of shareholders and investors.

Moving Forward…Beyond Regulatory Compliance

First Metro commits to improve further the Manual of Corporate Governance to keep abreast with the continuing developments and adhere with the principles, highest standards and best practices of good corporate governance.

First Metro not only aims to comply with the minimum requirements of good corporate governance, but work harder to attain the global principles and standards to uphold its vision as a respected name in the Asian region.

Audit Committee Report

Report of the Audit Committee to the Board of Directors for the year ended December 31, 2010

Responsibility Statement

As an extension of the Board of Directors (BOD), the Audit Committee assists the BOD in fulfilling its statutory and fiduciary responsibilities to enhance stakeholers' value and protect their interest by providing effective oversight on the Company's financial reporting; internal and external audit functions; and monitor and evaluate risk management activities and adequacy of effectiveness of the internal control system to ensure transparency and proper reporting and compliance with Company policies, lays rules and regulations and Code of Conduct.

Composition

The Committee is composed of three (3) Board members, two of whom are independent directors including the Chairman.

2010 Activities

In performing its statutory responsibilities, a prudent process is observed by the Audit Committee. The Audit Committee convened 5 times during the year and evaluated the following significant matters:

- *Outsourcing of Internal Audit Services to Metrobank Internal Audit Group (MBTC-IAG)*
  The Monetary Board approves BOD's request, upon recommendation of the Audit Committee, to outsource internal audit function to MBTC – IAG to streamline audit processes, improve efficiency in the conduct of audit activities and promote consistent audit practices.

- *Audit Plans*
  The Audit Committee reviewed and evaluated the respective audit plans of internal and external auditors for overall audit scope, based on risk assessment, and ensured that appropriate resources are available to enable to achieve audit objectives.

- *Results of Internal and External Audits*
  The Audit Committee reviewed the external auditors' reported assessments of the Company's Internal controls and overall quality of the financial reporting process, which included monitoring of audit issues and evaluating whether management is taking appropriate corrective actions in a timely manner in addressing risk management, control and compliance issues.

  The Audit Committee also assessed audit activities' access to relevant record, properties and personnel, competence of staff and effectiveness of activities; and accomplishments versus business plan.

- *Risk Management Activities*
  The Audit Committee has a regular discussion with the Risk Management Committee, Corporate Governance Committee and other relevant services to monitor industry conditions and seek assurance that there are appropriate controls in place to mitigate the impact of emerging risk. The Audit Committee also receives information on significant developments in the industry and continuously verifies that controls are in place to address possible risk scenarios.

Robin A. King
Chairman, Audit Committee

Board of Directors

The Board of Directors as of March 14, 2011 with positions held for the last Five (5) years.

ANTONIO S. ABACAN, JR.

68, Filipino
Chairman of the Board

Mr. Abacan has been with the FMIC Board as director since 1996 and Chairman since 2000. He has also been the Chairman of the Board of Directors of 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: President of Metrobank from 1992 to 2006; Chairman, Global Business Holdings, Inc. from 2007 to 2010, Chairman of Metro Remittance Center (USA) from 2008 to 2009, Metro Remittance Center (California), Inc. from 2006 to 2009, Metro Remittance (Italia) from 2006 to 2009, Metro Remittance (UK) Ltd. from 2007 to 2009, Metro Remittance Singapore Pte. Ltd. from 2004 to 2009; Vice Chairman, Advisory Board, First Metro International Investment Corporation from 2000-2009, Metropolitan Bank (Bahamas) Limited from 2001 to 2002; Adviser of Metropolitan Bank (Bahamas) Limited from 2002 to 2008; Director of Metro Remittance Center, SA from 2006 to 2009, MBTC Remittance GmbH from 2006 to 2009.

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

He currently holds other positions in different companies. He is Chairman of the Board of Directors of Data Serve (since 1992), Circa 2000 Homes, Inc. (since 1997), Toyota Financial Services (since 2002), Federal Homes, Inc., Sumisho Motor Finance Corp. (since 2009), and Honorary Chairman of MBTC Technology, Inc. (since 2003); Group Vice Chairman of the Metrobank Group of Companies (since 2000); Director of Global Business Power Corp. (since 2007), Cebu Energy Development Corporation (since 2008), Panay Energy Development Corporation (since 2009), Manila Medical Services, Inc. (since 2010); Director of Grand Titan Capital Holdings, Inc. (since 2007); and Director and Treasurer of LGU Guarantee Corporation (since 2007).

SOLOMON S. CUA

55, Filipino
Vice Chairman

Mr. Cua currently serves as Vice Chairman of the FMIC Board of Directors and has been a director since 2001. He has over 20 years of experience in general management, banking and finance. Prior to FMIC, he served as Undersecretary of the Department of Finance (1998-2000). He was also elected as Director of Global Business Power, Inc. (2005-2007), Global Business Power Corporation (2005-2008), Lepanto Mining Corporation (2008-2010) and PBC Capital Investment Corporation (2005-2010).

Mr. Cua graduated from the University of Melbourne and the University of Queensland with degrees in BA Economics & Mathematical Sciences and Bachelor of Laws, respectively. He obtained his Masters in Law from the London School of Economics and Political Sciences. Mr. Cua presently holds other management positions. He is the Chairman of Philippine Axa Life Insurance Corp. (since April 2010), Director of Omico Corp. (since 2006); Vice Chairman and Chief Executive Officer for Arlec Inc. (since 2002); President/Director of the Philippine Racing Club (since 2001), Venasque Club (since 2002); and Trustee for GT Metro Foundation, Inc. (since May 2010).

FRANCISCO C. SEBASTIAN

56, Filipino
Director/President

Mr. Sebastian assumed his post as President of First Metro Investment 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.

He graduated Magna Cum Laude with a degree in AB Economics at the Ateneo de Manila University.

Mr. Sebastian also serves as Vice Chairman of Metropolitan Bank & Trust Co. (since 2006). Concurrently, he is the Chairman of Global Business Power Corp. (since 2007), Cebu Energy Development Corp. (since 2008), First Metro Asset Management Inc. (since 2005), Federal Land, Inc. (since 2007) and Resiliency (SPC) Inc. (since October 2009), and the President of Global Business Holdings, Inc. (from June 2003-December 2010).

MARY V. TY
70, Filipino
Director

Mrs. Ty has been a member of the Board of Directors of First Metro Investment since 1993. She was elected Vice Chairman from 1993 to 2005 and currently heads the Executive Committee. Mrs. Ty has more than 30 years of banking experience. Previously, she held the position of Chairman of Prima Ventures Development Corporation, Vice Chairman of Federal Homes, Inc. and Adviser of Metrobank Card Corporation.

At present, she holds the following positions: Assistant to the Group Chairman, Metropolitan Bank & Trust Company; Director/Adviser, Metropolitan Bank (Bahamas); Board of Trustee/Treasurer, Metrobank Foundation, Inc.; Adviser & Treasurer, MBTC Technology, Inc.; Vice-Chairman, Manila Medical Services, Inc.; Board of Trustee, Manila Doctors College, Inc.; Treasurer/Director, Global Business Power Corporation; Director/Vice Chairman, Federal Land Inc.; Treasurer, GT Capital Holdings, Inc.; Director, Global Treasure Holdings, Inc.; Director, Grand Titan Capital Holdings, Inc.; Vice-Chairman, Great Mark Resources Corp.; Chairman, Philippine Securities Corp.; Adviser, Cathay International Resources Corp.; Chairman, Horizon Royale Holdings, Inc.; Chairman, Grand Estate Property Corporation; Chairman, Interpar Philippines Resources Corp.; Chairman, Ausan Resources Corporation; Director/Treasurer, Circa 2000 Homes, Inc.

Mrs. Ty earned her college degree from the University of Sto. Tomas.

CARMELO MARIA L. BAUTISTA
53, Filipino
Executive Director

Mr. Bautista, Head of the Investment Banking Group of First Metro Investment, joined the Board as Executive Director in April of 2008.

Mr. Bautista has been in the banking and financial services industry for more than 30 years. His experience has been primarily in the areas of Debt Capital Markets, Project Finance and Investment Banking. The highlights of his previous scope of responsibilities over this period include: Program Director at the Citibank Asia Pacific Banking Institute; Vice President and Head of the Local Corporate and Public Sector Groups, Citibank Manila; Vice President of Real Estate Finance Group, Citibank N.A. Singapore branch; Director for Structured Finance, Citibank N.A. Singapore Regional Office; Country Manager of ABN AMRO Offshore Bank Philippines; President and CEO of ABN AMRO Bank Philippines, Inc. (2002-2005); President and CEO of Philippine Bank of Communications (2005-2006) and Director of Resiliency (SPC) Inc. (December 2010 to present). He was also a member of the Advisory Board of Metrobank responsible for the Business Development of Metrobank China.

Mr. Bautista has a Master's degree in Business Management from the Asian Institute of Management where he graduated in the Dean's Citation List. He also has a BA degree in Economics from the Ateneo de Manila University.

ISMAEL G. CRUZ
65, Filipino
Director

Mr. Cruz was elected as Director of FMIC in April of 2008. He brings more than 30 years of investment banking experience in the Philippines and the Asia Region, of which 17 years were spent in Hongkong.

His education spans a BS Economics degree and an MBA candidate from the Ateneo de Manila University. He is presently the Chairman and President of IGC Securities, Inc. (since 1994), and Carmen Homes, Inc. (since 1992); as well as Independent Director of Penta Capital Investment Corp. (since 2003), and Penta Capital Finance Corp. (since 2003). Mr. Cruz has served as Governor of the Makati Stock Exchange and is presently a Director of the Philippine Stock Exchange. He is also an incumbent Governor of the Makati Commercial Estates Association (MACEA, since 2007) and a Trustee of the Securities Investors Protection Fund. He is the President of the Philippine Association of Securities Brokers and Dealers, Inc.

He was voted one of the Ten Outstanding Young Men of the Philippines in the field of International Finance in 1981.

Board of Directors

ROMUALDO A. ONG
71, Filipino
Independent Director

Ambassador Ong has been part of the FMIC Board as an Independent Director since September 2005. As a professional, he has extensive experience in foreign service and international affairs management. He was posted as Philippine Ambassador to Malaysia (2003), China (1994), Russia (1993) and Australia (1986). Ambassador Ong was also appointed as Assistant Secretary of the Office of ASEAN Affairs and as Director of the Foreign Service Institute under the Department of Foreign Affairs (DFA).

He is a graduate of the University of the Philippines with a degree in BS Foreign Service. He 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).

Presently, he sits as an Independent Director of PBC Capital Investment Corp. (since 2006) and Resiliency (SPC) Inc. (since 2009), and Independent Director of First Metro Save and Learn Fixed Income Fund, Inc. (since 2009).

ROBIN A. KING
63, Filipino
Independent Director

Mr. Robin A. King was elected as an Independent Director in April 2010. He also sits as Independent Director of PBC Capital Investment Corporation. Mr. King served as Independent Director of Toyota Financial Services Philippines Corporation (August 16, 2007 to April 2010) and Director of Maxima Equipment Co., Inc. (June 2004 to December 2010). He previously worked as President of Global Business Bank (1997 to 2002) and as President and CEO of International Bank of CA- Los Angeles (1994 to 1997).

MARTIN Q. DY BUNCIO
46, Filipino
Director

Mr. Dy Buncio has been a member of the FMIC Board since 1995. He brings with him over 20 years of experience in interdisciplinary management. He is a graduate of De La Salle University with a Bachelor of Arts degree.

Currently, he is the Chairman of the Board of Pro-Oil Corp. (since 2002), and Pro-Auto Parts (since 2002); President of HJ Marketing (since 1993), Design Products Mfg. (since 1993), Proline II Mercantile (since 1984), and Integra Development Corp. (since 1996); President and General Manager of Proline Sports Center; and Director of Omico Corp.

BIENVENIDO E. LAGUESMA

60, Filipino
Director

Atty. Laguesma was elected to the Board as Director in April of 2005. He has a broad professional experience in law, public service and governance. He is a member of the Integrated Bar of the Philippines (IBP) and the Philippine Bar Association. He joined the Department of Labor and Employment (DOLE) in 1976 where he held various positions and served as Secretary from 1998-2001. He is a graduate of AB Political Science from the Lyceum of the Philippines and earned his Bachelor of Laws degree from the Ateneo College of Law.

Atty. Laguesma took the Career Executive Service Development Program in 1984 at the Development Academy of the Philippines and completed the Public Sector Administration Course at the Royal Institute of Public Administration in London in 1985.

At present, he is the Chairman of Philippine Charter Insurance Corporation (since 2009) and a Senior Partner at Laguesma Magsalin Consulta & Gastardo Law Offices (since 2002).

ROBERTO JUANCHITO T. DISPO

46, Filipino
Director/Executive Vice President

Mr. Dispo is the Executive Vice President and Treasury Group Head of First Metro Investment. He has been a member of the Board since April of 2005.

Mr. Dispo has an extensive experience in banking and finance. He served as Deputy Treasurer of the Philippines and became Executive Director of the Board of Liquidators of the Central Bank of the Philippines. He was President and currently sits as Director of the Money Market Association of the Philippines (since 2003), and Alternate Director of the Investment Houses Association of the Philippines (since 2002).

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

Mr. Dispo received his Economics and Business Management degrees from San Sebastian College and the Pamantasan ng Lungsod ng Maynila, respectively. He completed a Master's degree in Business Administration from the Pamantasan ng Lungsod ng Maynila (with Distinction), and a Master's degree in Business Economics from the University of Asia and the Pacific. In addition, Mr. Dispo took a diploma course in International Banking and Finance from the Economic Institute of the University of Colorado and another diploma course in Management Development from the Asian Institute of Management.

Board of Directors

Menardo R. Jimenez
Consultant

Florencio T. Mallare
Consultant

Alesandra V. Ty
Corporate Secretary

Nimfa B. Pastrana
Assistant Corporate Secretary

Senior Management

Francisco C. Sebastian
President

Roberto Juanchito T. Dispo
Executive Vice President
Group Head - Treasury/Strategic Support Services

Carmelo Maria L. Bautista
Executive Director
Group Head - Investment Banking and Corporate Lending

Justino Juan R. Ocampo
Senior Vice President
Deputy Group Head - Investment Banking Group

Principal Officers

Stella Maria Piedad I. Torres
First Vice President
Group Head
Regional Business Development

Maria Antonia N. Bacabac
First Vice President
Group Head
Risk Management

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

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

Marie Arabella D. Veron*
First Vice President
Group Head
Controllership

Nimfa B. Pastrana
Vice President
Division Head
Legal

Eduardo R. Banaag, Jr.
Vice President
Division Head
Investment Advisory

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

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

Lalaine C. De Guzman
Vice President
Division Head
Distribution

Jonathan T. Tabac
Vice President
Division Head
Compliance

Joel H. Suarez
Vice President
Division Head
Credit

Investment Banking Group

Carmelo Maria L. Bautista
Executive Director
Group Head

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

Maria Teresa V. De Vera
Assistant Vice President
Senior Deal Officer

Melissa T. Dimayuga
Assistant Vice President
Senior Deal Officer

Abigail B. Magpayo
Assistant Vice President
Team Head – Equity

Treasury Group

Roberto Juanchito T. Dispo
Executive Vice President
Group Head

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

Lalaine C. De Guzman
Vice President
Division Head – Distribution

Peter Anthony D. Bautista
Assistant Vice President
Department Head – Institutional

David Ignacio C. Estacio*
Assistant Vice President
Acting Division Head – Securities Dealership

Carlota S. Reyes*
Assistant Vice President
Division Head – Fund Management

Ina B. Pacheco
Senior Manager
Department Head – Open Market

Investment Advisory Group

Eduardo R. Banaag, Jr.
Vice President
Division Head

Cristina I. Ulang
Senior Manager
Department Head – Research

Corporate Lending Division

Anthony Thomas C. Roxas*
Assistant Vice President
Division Head

Regional Business Development Group

Stella Maria Piedad I. Torres
First Vice President
Group Head

Controllership Group

Marie Arabella D. Veron*
First Vice President
Group Head

Mauro B. Placente*
Assistant Vice President
Division Head – Financial Accounting

Maria Elena Cresencia Antonia M. Alpuerto
Senior Manager
Department Head – Management Accounting

Carmelita I. Inocentes
Senior Manager
Department Head – Operations

Nelson L. Caballar
Senior Manager
Department Head – Administration

Risk Management Group

Maria Antonia N. Bacabac
First Vice President
Group Head

Sinfronio A. Alanano
Senior Manager
Acting Deputy Group Head

George B. Arenas
Senior Manager
Acting Division Head – Operational Risk

Compliance Division

Jonathan T. Tabac
Vice President
Division Head

Legal Division

Nimfa B. Pastrana
Vice President
Division Head

Credit Division

Joel H. Suarez
Vice President
Division Head

Information Technology Department

Reynaldo L. Bas
Senior Manager
Department Head

Human Resources Department

Ma. Cristina D. Tomas
Senior Manager
Department Head

** Effective March 16, 2011*

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, 2010 and 2009 and for each of the three years in the period ended December 31, 2010. The consolidated and parent company financial statements have been prepared in conformity with Philippine Financial Reporting Standards in the Philippines and reflect 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 auditor: (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 Director reviews the consolidated and parent company financial statements before such statements are approved and submitted to the stockholders of the Company.

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

ANTONIO S. ABACAN, JR.
Chairman

FRANCISCO C. SEBASTIAN
President

MARIE ARABELLA D. VERON
Vice President/Deputy Controller

SUBSCRIBED AND SWORN TO BEFORE ME this 17th day of March 2011 at Makati City, Philippines, affiant exhibit to me their Community Tax Certificate Nos.:

Name	CTC/Passport No.	Place/Date of Issue
Antonio S. Abacan, Jr.	PP No. EA0009299	DFA, Manila/Dec 11, 2009
Francisco C. Sebastian	01135176	Makati City/January 4, 2011
Marie Arabella D. Veron	05979773	Makati City/January 29, 2011

NOTARY PUBLIC

Doc. No. 87
Page No. 19
Book No. 19
Series of 2011.

ATTY. NOEL M. GALICIA, CPA
NOTARY PUBLIC FOR MAKATI CITY UNTIL 12/31/12
ROLL NO. 49340 / APPOINTMENT NO. M-82
IBP NO. 837285/ PTR NO. 2642498
G/F SKYLAND PLAZA, SEN. GIL PUYAT AVE.
COR. TINDALO ST., MAKATI CITY

Independent Auditors' Report

The Stockholders and the Board of Directors
First Metro Investment Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of First Metro Investment Corporation and Subsidiaries (the Group) and of First Metro Investment Corporation (the Parent Company), which comprise the consolidated and parent company statements of financial position as of December 31, 2010 and 2009, the consolidated and the parent company statements of income, the consolidated and parent company statements of comprehensive income, the consolidated and parent company statements of changes in equity and the consolidated and parent company statements of cash flows for each of the three years in the period ended December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated and parent company financial statements present fairly, in all material respects, the financial position of the Group and of the Parent Company as of December 31, 2010 and 2009, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2010 in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulation 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes, duties and licenses in Note 25 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of First Metro Investment Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Vicky B. Lee-Salas
Partner
CPA Certificate No. 86838
SEC Accreditation No. 0115-AR-2
Tax Identification No. 129-434-735
BIR Accreditation No. 08-001998-53-2009,
June 1, 2009, Valid until May 31, 2012
PTR No. 2641532, January 3, 2011, Makati City

February 25, 2011

FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES

STATEMENTS OF FINANCIAL POSITION

	Consolidated		Parent Company	
	December 31			
	2010	2009	2010	2009
ASSETS				
Cash and Other Cash Items (Notes 14 and 26)	₱9,648,394,094	₱8,156,812,303	₱8,362,534,562	₱7,711,939,172
Due from Bangko Sentral ng Pilipinas (Note 14)	880,000,000	1,965,000,000	880,000,000	1,965,000,000
Financial Assets at Fair Value Through Profit or Loss (Notes 7 and 26)	2,540,828,551	1,889,958,997	2,418,075,040	1,803,850,184
Available-for-Sale Investments (Notes 7 and 26)	12,664,495,825	20,842,220,055	12,441,490,617	20,526,389,916
Held-to-Maturity Investments (Note 7)	9,443,954,636	3,735,821,730	9,443,954,636	3,718,899,612
Loans and Receivables (Notes 8 and 26)	15,547,416,298	12,616,335,623	15,077,887,585	12,317,636,388
Property and Equipment (Note 9)	74,380,885	78,901,361	66,176,547	67,484,514
Investments in Subsidiaries, Associates and Joint Venture (Notes 10 and 26)	12,147,810,215	9,233,251,366	10,854,338,174	8,329,942,154
Investment Properties (Note 11)	753,075,375	806,135,061	753,075,375	806,135,061
Deferred Tax Assets (Note 24)	627,814	8,526,242	–	–
Other Assets (Note 12)	268,151,804	243,346,322	238,871,779	201,689,927
	₱63,969,135,497	₱59,576,309,060	₱60,536,404,315	₱57,448,966,928
LIABILITIES AND EQUITY				
LIABILITIES				
Bills Payable (Notes 14 and 26)	₱52,833,492,965	₱50,047,335,210	₱52,833,492,965	₱50,047,335,210
Accounts Payable (Note 26)	230,322,975	211,380,284	46,709,945	54,204,967
Accrued Taxes, Interests and Other Expenses (Notes 15 and 26)	221,877,378	219,075,831	208,418,667	208,939,337
Derivative Liability (Note 7)	123,420,765	138,729,241	118,368,358	138,729,241
Bonds Payable (Note 16)	55,200,000	55,200,000	150,000,000	150,000,000
Income Taxes Payable (Note 24)	24,658,317	5,649,974	–	–
Deferred Tax Liability (Note 24)	10,274,257	7,003,924	–	–
Other Liabilities (Note 17)	549,322,918	278,011,257	81,565,456	208,523,263
	54,048,569,575	50,962,385,721	53,438,555,391	50,807,732,018
EQUITY				
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY				
Common Stock (Note 19)	4,208,692,400	4,208,692,400	4,208,692,400	4,208,692,400
Capital Paid in Excess of Par Value	2,065,694,042	2,065,694,042	2,065,694,042	2,065,694,042
Retained Earnings	5,527,034,737	4,826,034,194	2,990,433,392	3,068,370,739
Treasury Stock (Note 19)	(2,268,825,841)	(2,256,151,891)	(2,256,151,891)	(2,256,151,891)
Net Unrealized Gain (Loss) on Available-for-Sale Investments (Note 7)	115,591,042	(431,605,063)	89,180,981	(445,370,380)
Equity in Translation Adjustment (Note 10)	(39,379,598)	(29,422,895)	–	–
Equity in Unrealized Gain on Available-for-Sale Investments of Associates (Note 10)	266,419,151	168,916,960	–	–
Equity in Revaluation Increment (Note 10)	35,934,252	29,948,345	–	–
	9,911,160,185	8,582,106,092	7,097,848,924	6,641,234,910
Non-controlling Interest	9,405,737	31,817,247	–	–
	9,920,565,922	8,613,923,339	7,097,848,924	6,641,234,910
	₱63,969,135,497	₱59,576,309,060	₱60,536,404,315	₱57,448,966,928

See accompanying Notes to Financial Statements.

FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES

STATEMENTS OF INCOME

	Consolidated			Parent Company		
	Years Ended December 31					
	2010	2009	2008	2010	2009	2008
INTEREST INCOME (Notes 20 and 26)	₱3,038,048,201	₱2,787,506,033	₱2,130,060,760	₱2,991,798,996	₱2,732,242,341	₱2,077,587,491
INTEREST EXPENSE (Notes 14 and 16)	1,972,840,435	2,042,325,695	1,688,730,363	1,977,020,603	2,047,175,162	1,688,716,101
NET INTEREST INCOME	1,065,207,766	745,180,338	441,330,397	1,014,778,393	685,067,179	388,871,390
OTHER OPERATING INCOME						
Trading and securities gain (Note 7)	1,307,436,514	645,040,886	148,267,244	1,218,254,750	573,002,306	223,830,541
Service charges, fees and commissions	545,568,777	391,882,908	286,337,762	430,041,907	310,698,068	196,747,455
Dividends	102,669,421	114,326,314	86,542,534	97,458,386	501,512,169	734,641,585
Gain on sale of assets (Notes 9, 10 and 11)	70,141,040	10,695,552	77,746,141	90,883,671	695,552	79,739,776
Foreign exchange gains (losses)	(11,574,603)	(5,148,881)	24,383,902	(11,631,190)	(5,148,881)	23,738,073
Miscellaneous (Note 11)	23,947,454	45,175,747	33,069,924	15,360,145	22,459,674	33,629,397
TOTAL OPERATING INCOME	3,103,396,369	1,947,152,864	1,097,677,904	2,855,146,062	2,088,286,067	1,681,198,217
OTHER EXPENSES						
Provision for (recovery from) impairment and credit losses (Note 13)	511,028,882	180,737,944	(167,321,593)	664,741,381	171,742,298	(106,501,800)
Taxes and licenses (Notes 24 and 25)	394,544,608	353,281,327	298,937,644	386,309,984	343,983,003	293,204,396
Compensation and fringe benefits (Notes 21 and 26)	244,984,965	223,047,082	209,760,678	204,418,944	184,032,827	164,554,102
Rent, light and water (Note 22)	37,759,644	36,803,516	37,982,876	32,137,792	31,899,873	28,973,570
Depreciation and amortization of property and equipment (Note 9)	27,894,269	26,451,403	23,785,221	23,501,098	21,729,773	15,755,529
Entertainment, amusement and recreation (Note 24)	17,747,499	15,360,013	13,775,692	15,762,577	13,675,421	11,787,416
Depreciation of investment properties (Note 11)	3,864,803	4,221,139	5,229,695	3,864,803	4,221,139	5,229,695
Miscellaneous (Notes 11 and 23)	263,617,439	164,759,310	187,476,197	216,039,854	137,313,760	148,758,723
	1,501,442,109	1,004,661,734	609,626,410	1,546,776,433	908,598,094	561,761,631
INCOME BEFORE SHARE IN NET INCOME OF ASSOCIATES AND INCOME TAX	1,601,954,260	942,491,130	488,051,494	1,308,369,629	1,179,687,973	1,119,436,586
SHARE IN NET INCOME OF ASSOCIATES (Note 10)	554,226,398	427,749,836	75,548,641	–	–	–
INCOME BEFORE INCOME TAX	2,156,180,658	1,370,240,966	563,600,135	1,308,369,629	1,179,687,973	1,119,436,586
PROVISION FOR INCOME TAX (Note 24)	428,462,160	340,469,653	164,693,618	387,108,178	322,495,876	152,322,945
NET INCOME	₱1,727,718,498	₱1,029,771,313	₱398,906,517	₱921,261,451	₱857,192,097	₱967,113,641
Attributable to:						
Equity holders of the Parent Company (Note 29)	₱1,700,199,341	₱1,022,612,919	₱399,707,120			
Non-controlling interest	27,519,157	7,158,394	(800,603)			
	₱1,727,718,498	₱1,029,771,313	₱398,906,517			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 29)	₱4.51	₱2.71	₱1.06			

See accompanying Notes to Financial Statements.

FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES

STATEMENTS OF COMPREHENSIVE INCOME

	Consolidated			Parent Company		
	2010	2009	2008	2010	2009	2008
NET INCOME FOR THE YEAR	₱1,727,718,498	₱1,029,771,313	₱398,906,517	₱921,261,451	₱857,192,097	₱967,113,641
OTHER COMPREHENSIVE INCOME (LOSS)						
Net changes in fair values of available-for-sale investments (Note 7)	548,747,740	207,956,014	(1,133,248,458)	534,551,361	185,818,114	(1,123,990,073)
Equity share on changes in fair values of available-for-sale investments of associates (Note 10)	97,502,191	91,090,312	(146,532,813)	–	–	–
Equity share on change in translation adjustment (Note 10)	(9,956,703)	(8,829,609)	33,670,536	–	–	–
Equity share on changes in revaluation increment (Note 10)	5,985,907	(1,194,265)	(544,135)	–	–	–
Income tax effect (Note 7 and 24)	(1,551,635)	(7,875,000)	(2,975,697)	–	–	(420,447)
TOTAL COMPREHENSIVE INCOME (LOSS), NET OF TAX	₱2,368,445,998	₱1,310,918,765	(₱850,724,050)	₱1,455,812,812	₱1,043,010,211	(₱157,296,879)

ATTRIBUTABLE TO:	2010	2009	2008
Equity Holders of the Parent Company	₱2,340,926,841	₱1,303,760,371	(₱849,923,447)
Non-Controlling Interest	27,519,157	7,158,394	(800,603)
	₱2,368,445,998	₱1,310,918,765	(₱850,724,050)

See accompanying Notes to Financial Statements.

FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY

	Consolidated										
	Equity Attributable to Equity Holders of the Parent Company										
	Common Stock (Note 19)	Capital Paid in Excess of Par Value	Retained Earnings	Treasury Stock (Note 19)	Net Unrealized Gain (Loss) on Available-for-Sale Investments (Note 7)	Equity in Translation Adjustment (Note 10)	Equity in Unrealized Gain (Loss) on Available-for-Sale Investments of Associates (Note 10)	Equity in Revaluation Increment (Note 10)	Total	Non-Controlling Interest	Total Equity
Balance at January 1, 2010	₱4,208,692,400	₱2,065,694,042	₱4,826,034,194	(₱2,256,151,891)	(₱431,605,063)	(₱29,422,895)	₱168,916,960	₱29,948,345	₱8,582,106,092	₱31,817,247	₱8,613,923,339
Total comprehensive income	–	–	1,700,199,341	–	547,196,105	(9,956,703)	97,502,191	5,985,907	2,340,926,841	27,519,157	2,368,445,998
Decrease in non-controlling interest	–	–	–	–	–	–	–	–	–	(49,930,667)	(49,930,667)
Cash dividends (Note 19)	–	–	(999,198,798)	–	–	–	–	–	(999,198,798)	–	(999,198,798)
Acquisition of treasury shares	–	–	–	(12,673,950)	–	–	–	–	(12,673,950)	–	(12,673,950)
Balance at December 31, 2010	₱4,208,692,400	₱2,065,694,042	₱5,527,034,737	(₱2,268,825,841)	₱115,591,042	(₱39,379,598)	₱266,419,151	₱35,934,252	₱9,911,160,185	₱9,405,737	₱9,920,565,922
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 non-controlling 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)	(₱431,605,063)	(₱29,422,895)	₱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

	Parent Company					
	Common Stock (Note 19)	Capital Paid in Excess of Par Value	Retained Earnings	Treasury Stock (Note 19)	Net Unrealized Gain (Loss) on Available-for-Sale Investments (Note 7)	Total Equity
Balance at January 1, 2010	₱4,208,692,400	₱2,065,694,042	₱3,068,370,739	(₱2,256,151,891)	(₱445,370,380)	₱6,641,234,910
Total comprehensive income	–	–	921,261,451	–	534,551,361	1,455,812,812
Cash dividends (Note 19)	–	–	(999,198,798)	–	–	(999,198,798)
Balance at December 31, 2010	₱4,208,692,400	₱2,065,694,042	₱2,990,433,392	(₱2,256,151,891)	₱89,180,981	₱7,097,848,924
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)	(₱445,370,380)	₱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

See accompanying Notes to Financial Statements.

FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS

	Consolidated			Parent Company		
	Years Ended December 31					
	2010	2009	2008	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	₱2,156,180,658	₱1,370,240,966	₱563,600,135	₱1,308,369,629	₱1,179,687,973	₱1,119,436,586
Adjustments for:						
Unrealized (gain) loss on financial assets at fair value through profit or loss (Note 7)	(17,182,883)	(14,518,371)	31,426,463	(7,256,003)	(4,947,899)	8,100,160
Depreciation and amortization (Notes 9 and 11)	31,759,072	30,672,542	29,014,916	27,365,901	25,950,912	20,985,224
Gain on sale of investment properties (Note 11)	(45,453,295)	(10,034,262)	(22,677,451)	(45,453,295)	(34,262)	(22,677,451)
Gain from sale of assets	(45,430,376)	(661,290)	(92,499)	(45,430,376)	(661,290)	(92,499)
Provision for (recovery from) impairment and credit losses (Note 13)	511,028,882	180,737,944	(167,321,593)	664,741,381	171,742,298	(106,501,800)
Loss (gain) on sale of investments in subsidiaries and associates (Note 10)	20,742,631	–	(54,976,191)	–	–	(56,969,826)
Dividend income	(102,669,421)	(114,326,314)	(86,542,534)	(97,458,386)	(501,512,169)	(734,641,585)
Trading gain on sale of available-for-sale investments (Note 7)	(793,916,060)	(226,559,112)	(469,876,931)	(746,854,755)	(220,816,457)	(427,373,815)
Share in net income of associates (Note 10)	(554,226,398)	(427,749,836)	(75,548,641)	–	–	–
Unrealized (gain) loss on derivative liabilities (Note 7)	(20,360,883)	(53,136,214)	2,107,258	(20,360,883)	(53,136,214)	2,107,258
Amortization of premium on held to maturity investments	(19,325,024)	31,090,003	28,440,194	(19,325,024)	31,090,003	28,508,452
Changes in operating assets and liabilities:						
Decrease (increase) in the amounts of:						
Financial assets at fair value through profit or loss	(633,686,671)	(1,453,711,816)	373,999,791	(606,968,853)	(1,512,015,363)	456,238,291
Loans and receivables	(3,229,354,844)	3,503,853,366	(2,332,147,556)	(3,045,404,384)	3,356,281,236	(2,436,029,055)
Other assets	(33,231,596)	(29,492,236)	(47,707,371)	(37,181,852)	(18,219,951)	40,726,388
Increase (decrease) in the amounts of:						
Accrued taxes, interests and other expenses	2,801,547	(49,294,553)	27,746,687	(520,670)	(41,302,526)	68,728,063
Accounts payable	18,942,691	12,863,052	–	(7,495,022)	32,818,276	–
Other liabilities	333,917,247	33,853,725	(44,155,725)	(82,307,456)	81,176,111	(16,580,421)
Net cash generated from (used in) operations	(2,419,464,723)	2,783,827,594	(2,244,711,048)	(2,761,540,048)	2,526,100,678	(2,056,036,030)
Income taxes paid	(406,177,101)	(335,419,386)	(164,693,618)	(387,108,178)	(322,495,876)	(152,322,945)
Net cash provided by (used in) operating activities	(2,825,641,824)	2,448,408,208	(2,409,404,666)	(3,148,648,226)	2,203,604,802	(2,208,358,975)
CASH FLOWS FROM INVESTING ACTIVITIES						
Acquisitions of:						
Available-for-sale investments	(57,871,868,614)	(34,885,871,474)	(17,298,355,988)	(39,976,816,740)	(34,548,493,990)	(17,565,133,315)
Held-to-maturity investments	(8,129,967,715)	(10,769,831)	–	(8,121,200,000)	–	–
Property and equipment (Note 9)	(26,901,372)	(25,417,122)	(57,266,387)	(23,116,799)	(24,875,246)	(54,458,196)
Capital infusion on investments in subsidiaries and associates	(2,139,903,378)	(1,858,250,884)	(1,508,870,038)	(2,848,966,346)	(1,990,059,677)	(1,558,870,038)
Proceeds from sale/redemption of:						
Available-for-sale investments	67,310,828,336	23,110,525,748	20,025,090,756	49,308,812,047	22,811,476,740	19,507,226,505
Property and equipment (Note 9)	4,360,441	990,002	2,189,976	1,756,529	990,002	3,260,302
Investment properties (Note 11)	73,566,509	60,056,762	31,329,482	73,566,509	56,762	31,329,477
Investment in subsidiaries and associates (Note 10)	(166,599,991)	2,046,188	173,678,594	–	2,046,188	173,678,594
Return of investment from associate (Note 10)	(105,998,179)	–	–	–	–	–
Net cash outflow from sale of a subsidiary (Note 10)	(24,960,041)	–	–	–	–	–
Proceeds from redemption of held-to maturity investments	2,432,392,118	–	–	2,415,470,000	–	–
Dividends received	103,043,330	236,365,439	58,782,626	97,832,295	673,551,294	656,881,677
Net cash provided by (used in) investing activities	1,457,991,444	(13,370,325,172)	1,426,579,021	927,337,495	(13,075,307,927)	1,193,915,006

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2010	2009	2008	2010	2009	2008
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from issuance of bills payable	₱484,771,372,509	₱428,704,029,541	₱288,206,652,076	₱484,771,372,509	₱428,704,029,541	₱288,206,652,076
Payments of bills payable	(481,985,214,754)	(416,597,842,148)	(286,026,132,134)	(481,985,214,754)	(416,597,842,148)	(286,026,132,134)
Redemption of bonds payable	–	(6,000,000)	–	–	–	–
Dividends paid (Notes 17 and 19)	(999,251,634)	–	(2,371,728)	(999,251,634)	–	–
Acquisition of treasury shares (Note 19)	(12,673,950)	–	–	–	–	–
Net cash provided by financing activities	1,774,232,171	12,100,187,393	2,178,148,214	1,786,906,121	12,106,187,393	2,180,519,942
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	406,581,791	1,178,270,429	1,195,322,569	(434,404,610)	1,234,484,268	1,166,075,973
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
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
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	9,648,394,094	8,156,812,303	5,597,441,874	8,362,534,562	7,711,939,172	5,096,354,904
Due from Bangko Sentral ng Pilipinas	880,000,000	1,965,000,000	1,916,100,000	880,000,000	1,965,000,000	1,916,100,000
Interbank loans receivable and securities purchased under resale agreements	–	–	1,430,000,000	–	–	1,430,000,000
	₱10,528,394,094	₱10,121,812,303	₱8,943,541,874	₱9,242,534,562	₱9,676,939,172	₱8,442,454,904

OPERATIONAL CASH FLOWS FROM INTEREST

	Consolidated			Parent Company		
	Years Ended December 31					
	2010	2009	2008	2010	2009	2008
Interest paid	₱1,979,685,993	₱2,089,398,092	₱1,610,264,360	₱1,983,477,571	₱2,094,943,462	₱1,609,654,123
Interest received	3,257,255,705	2,518,781,683	2,110,157,427	3,199,953,353	2,474,805,072	2,048,428,599

See accompanying Notes to Financial Statements.

FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

First Metro Investment Corporation (the Parent Company) is an investment house incorporated in the Philippines on August 30, 1972. The Parent Company's shares of stock were listed in the Philippine Stock Exchange, Inc. (PSE) on July 19, 1963. The Parent Company is a 98.06%-owned subsidiary of Metropolitan Bank & Trust Company (Metrobank or Ultimate Parent Company).

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

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

2. Accounting Policies

Basis of Preparation

The accompanying financial statements are prepared on a historical cost basis except for financial assets at fair value through profit or loss (FVPL), available-for-sale (AFS) investments and derivative instruments that have been measured at fair value. The financial statements are presented in Philippine peso, the functional currency of the Parent Company and all values are rounded to the nearest peso except when otherwise indicated.

Statement of Compliance

The financial statements of 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:

	Effective Percentage of Ownership	
Subsidiary	2010	2009
Securities Brokerage:		
First Metro Securities Brokerage Corporation (FMSBC) and Subsidiary	100.00	100.00
Financial Market:		
PBC Capital Investment Corporation (PBC) and Subsidiary	100.00	100.00
Insurance Brokerage:		
First Metro Insurance Brokers Corporation (FMIBC)	100.00	100.00
Mutual Funds:		
First Metro Save and Learn – Global Currency Fund (FMSLGCF)	100.00	100.00
First Metro Save and Learn – Money Market Fund (FMSLMMF)	100.00	74.45
First Metro Save and Learn – Fixed Income Fund (FMSLFIF)*	30.42	69.61
Others:		
Prima Ventures Development Corporation (PVDC) and Subsidiary**	100.00	100.00
FMIC Equities, Inc. (FEI)	100.00	100.00
SBC Properties, Inc. (SPI)	100.00	100.00
Resiliency (SPC), Inc.	100.00	100.00
First Metro Asset Management, Inc. (FAMI)	70.00	70.00

* The Group's percentage of ownership over FMSLFIF will increase to 54.53% after considering the deposit for future subscription amounting ₱415.0 million to subscribe to 281,546,811 number of shares.

** On November 3, 2010, the Group disposed its 50% investment in First Metro Travel, Inc. (FMTI), a 60%- owned subsidiary of PVDC, and treated the remaining interest over FMTI as investment in associate after determining that the Group retained significant influence over FMTI (Note 10).

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

The consolidated financial statements are prepared for the same reporting year as the Parent Company's financial statements, using consistent accounting policies except for FMSBC and mutual funds which apply the trade date accounting instead of settlement date accounting in recognizing purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. Such policy is in accordance with the rules set out in the Securities Regulations Code Rules 68.

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

Subsidiaries are consolidated from the date on which control is transferred to the Parent Company. Control is achieved when the Parent Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. 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 up to the date of disposal, as appropriate.

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

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

The Group has seed capital investments in a number of funds where it is in a position to be able to control those funds. These funds are consolidated with the puttable non-controlling interest recorded under 'Other liabilities' account in the statement of financial position.

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

Non-controlling interests are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from the Parent Company's shareholders' equity. Any losses applicable to the non-controlling interests in excess of the non-controlling interest are allocated against the interests of the non-controlling interest even if this results in the non-controlling interest having a deficit balance. Acquisitions of non-controlling interests that does not result in a loss of control are accounted for as equity transaction, whereby the difference between the consideration and the fair value of the share of the net assets acquired is recognized as an equity transaction and attributed to the owners of the Parent Company.

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended PFRS and Philippine Interpretations which were adopted as of January 1, 2010.

New Standards and Interpretations

PFRS 3, *Business Combinations (Revised)* and PAS 27, *Consolidated and Separate Financial Statements (Amended)*
PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results.

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

Philippine Interpretation IFRIC - 17, *Distributions of Non-Cash Assets to Owners*
This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either, the financial position or performance of the Group.

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

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

Improvements to PFRS
PFRS 8, *Operating Segments*, clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information in Note 6.

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

PAS 36, *Impairment of Assets*, amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.

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

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

Improvement to PFRS 2008
- PFRS 5, Non-current Assets Held for Sale and Discontinued Operations

Improvements to PFRSs 2009
- PFRS 2, *Share-based Payment*
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
- PAS 1, *Presentation of Financial Statements*
- PAS 17, *Leases*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- Philippine Interpretation IFRIC-9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC-16, *Hedge of a Net Investment in a Foreign Operation*

Significant Accounting Policies

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

Foreign currency-denominated monetary assets and liabilities are translated in Philippine peso based on the Philippine Dealing System (PDS) closing rate prevailing at end of 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, except for transactions involving equity securities which are recognized on the trade date. Deposits, amounts due to banks and customers and loans are recognized when cash is received by the Group or advanced to the borrowers.

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

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

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

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

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

The Parent Company and a subsidiary have certain derivatives that are embedded in the debt financial instruments classified as loans and receivables. Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives are taken directly to the statement of income and are included in 'Trading and securities gain'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Financial assets or financial liabilities at FVPL
Financial assets or financial liabilities are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value relating to the held for trading positions are recognized in 'Trading and securities gain' in the statement of income. Interest earned or incurred 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.

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

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

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

HTM investments
HTM investments are quoted, non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells or reclassify other than an insignificant amount of HTM investments before maturity (other than in certain specific circumstances), the entire category would be tainted and reclassified as AFS investments. Furthermore, the Group would be prohibited from classifying any financial assets as HTM investments during the following two years.

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

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

After initial measurement, Loans and receivables, Due from BSP, 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 gain (loss) on AFS investments'.

When the security is disposed of, the cumulative gain or loss previously recognized in the statement of comprehensive income is recognized as 'Trading and securities gain' in the statement of income. Where the Group holds more than one investment in the same security, these are deemed to be disposed of on a first-in first-out basis. Interest earned on holding AFS debt investments are reported in the statement of income as 'Interest income' using the 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.

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

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

Treasury bonds
Issued bonds payable which have been reacquired but not retired or extinguished and those that are being held by a subsidiary are deducted from the carrying value of the bond and measured at weighted average cost. Treasury bonds are recorded at

face value, and any related unamortized premium, discount and issue costs are cancelled. Also, any related accrued interest paid is charged to 'Interest expense' and the difference between the acquisition cost and the book value of the treasury bonds is treated as gain or loss and recorded under 'Trading and securities gain' 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 when:

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

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

Financial liabilities

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

Repurchase and reverse repurchase agreements

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

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized 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 at gross in the statement of financial position.

Impairment of Financial Assets

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

Impairment of financial assets carried at amortized cost

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

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

If the Group determines that no objective evidence of 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 the case of equity investments classified as AFS investments, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income - is removed from the statement of comprehensive income and recognized in the statement of income.

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

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

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

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

Investment in associates
Associates are entities which the Parent Company has significant influence but not control, generally accompanying a shareholding of between 20.0% and 50.0% of the voting rights. In the consolidated financial statements, investment in associates is accounted for under the equity method of accounting.

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

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

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

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

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

Furniture, fixtures and equipment	1-5 years
Building improvements	1-5 years or the terms of the related 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 under 'Gain on sale of assets' in the statement of income in the year the asset is derecognized.

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

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

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

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

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

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

Impairment of Nonfinancial Assets

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

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

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

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

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Interest income

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

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

Fees and commission income

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

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

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

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

Trading and securities gain
Income results from trading activities including gains and losses from disposal of AFS investments and financial assets held for trading, and all gains and losses from changes in fair value of financial assets and financial liabilities at FVPL.

Rental income
Rental income arising from leased properties is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the statement of income under '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 an extension is granted, unless that term of the renewal or extension was initially included in the lease term;
c) There is a change in the determination of whether fulfillment is dependent on a specified asset; or
d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a), c) or d) above, 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' in the statement of financial position. Lease payments are apportioned between the finance charges and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to 'Interest expense' in the statement of income.

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

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense under 'Rent, light and water' 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, FMSBC and FAMI is determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current year.

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

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged against income when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceeded 10.0% of the higher of the defined benefit obligation and the fair value of the plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

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

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

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as 'Interest expense'.

Contingencies

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

Income taxes

Current tax

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

Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations, except:

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

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

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

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

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

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

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

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

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

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

Dividends on common shares
Dividends on common shares are recognized as a liability and deducted from equity when approved by the respective shareholders of the Parent Company and its subsidiaries and the 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 events that provide additional information about the Group's position at the statement of financial position date (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

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

New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2010
The Group will adopt the following standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

New Standards Issued but not yet Effective
Effective 2011

- PAS 24, *Related Party Disclosures (Amended)*
  The standard is effective for annual periods beginning on or after January 1, 2011, with earlier application permitted for either the partial exemption for government-related entities or for the entire standard. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities.

- PAS 32, *Financial Instruments: Presentation (Amendment) – Classification of Rights Issues*
  The amendment to PAS 32 is effective for annual periods beginning on or after February 1, 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

- Philippine Interpretation IFRIC–14 (Amendment), *Prepayments of a Minimum Funding Requirement*
  The amendment to Philippine Interpretation IFRIC–14 is effective for annual periods beginning on or after January 1, 2011, with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

- Philippine Interpretation IFRIC–19, *Extinguishing Financial Liabilities with Equity Instruments*
  Philippine Interpretation IFRIC–19 is effective for annual periods beginning on or after July 1, 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

Effective 2012
- PFRS 7, *Financial Instruments: Disclosures (Amendments) – Disclosures – Transfers of Financial Assets*
  The amendments to PFRS 7 are effective for annual periods beginning on or after July 1, 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

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

- Philippine Interpretation IFRIC–15, *Agreement for Construction of Real Estate*
  This Interpretation, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts,* or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

Effective 2013
- PFRS 9, *Financial Instruments: Classification and Measurement*
  PFRS 9, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, hedge accounting and derecognition will be addressed. The completion of this project is expected in middle of 2011. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

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

- PFRS 3, *Business Combinations*

  a. The improvement clarifies that the amendments to PFRS 7, PAS 32 and PAS 39, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of PFRS 3 (as revised in 2008). The amendment is applicable to annual periods beginning on or after July 1, 2010 and is applied retrospectively.

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

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

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

- PFRS 7, *Financial Instruments: Disclosures*
  The amendment emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments. The amendment is applicable for annual periods beginning January 1, 2011 and is applied retrospectively. Amendments to quantitative and credit risk disclosures are as follows:

  a. Clarify that only financial asset whose carrying amount does not reflect the maximum exposure to credit risk need to provide further disclosure of the amount that represents the maximum exposure to such risk.

  b. Require, for all financial assets, disclosure of the financial effect of collateral held as security and other credit enhancements regarding the amount that best represents the maximum exposure to credit risk (e.g., a description of the extent to which collateral mitigates credit risk).

  c. Remove the disclosure requirement of the collateral held as security, other credit enhancements and an estimate of their fair value for financial assets that are past due but not impaired, and financial assets that are individually determined to be impaired.

  d. Remove the requirement to specifically disclose financial assets renegotiated to avoid becoming past due or impaired.

  e. Clarify that the additional disclosure required for financial assets obtained by taking possession of collateral or other credit enhancements are only applicable to assets still held at the reporting date.

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

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

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

3. Significant Accounting Judgments and Estimates

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

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

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

<u>Judgments</u>

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

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

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

c. *Fair value of financial instruments*
Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, these are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments (Note 5).

d. *HTM investments*
The classification to HTM investments requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. Ability to hold the debt securities to maturity is demonstrated by the availability of financial resources to continue to finance the investment until maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire portfolio as AFS investments. The investments would therefore be measured at fair value and not at amortized cost (Note 7).

e. *Financial assets not quoted in an active market*
The Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis (Note 7).

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

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

Estimates

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

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

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

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

Refer to Note 5 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 which is substantially the same
- the expected cash flows discounted at current rates applicable for securities with similar terms and risk characteristics; or
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. The Group calibrates the valuation techniques periodically and tests them for validity using either prices from observable current market transactions in the same instrument or from other available observable market data. Where observable market data is not available, unquoted equity securities are carried at cost less allowance for impairment losses. Refer to Note 7 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 or where other objective evidence of impairment exists. This determination of what is significant or prolonged requires judgment. The Group treats 'significant' generally as decrease by more than 20.0% of the original cost of investment, and 'prolonged' as greater than 12 months. In making this judgment, the Group evaluates among other factors, the normal volatility in share price.

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

The carrying value of AFS equity securities and the allowance for impairment losses on AFS equity securities are disclosed in more detail in Notes 7 and 13.

e. Recognition of deferred taxes

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

The Parent Company and certain subsidiaries have been in a tax loss position over the past several years. However, estimates of future taxable income for the other subsidiaries indicate that certain temporary differences will be realized in the future.

The carrying amount of deferred tax asset, for both the Group and the Parent Company, are disclosed in more detail in Note 24.

h. Present value of retirement obligation

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

The expected rates of return on plan assets were based on the average historical premium of the fund assets. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of statement of financial position dates. Refer to Note 21 for the details of assumptions used in the actuarial valuation.

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

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

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

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

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

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

4. Financial Risk Management

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

- Operational Risk
- Credit risk
- Liquidity risk
- Market risk

Risk Management Framework
The Parent Company's implementation of the risk management process involves a top-down approach that starts with the Board of Directors (BOD). The Parent Company's BOD, through the board-level Risk Management Committee (RMC), is actively involved in planning, approving, reviewing, and assessing all risks involved within the Parent Company. RMC also establishes the risk culture and sets the tone for all institutional risk related activities and ensures that the risk policies are clearly formulated and disseminated within the Parent Company.

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

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

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

The Incom is tasked with reviewing all investment proposals, approving investment outlets and guiding the Fund Managers in the discharge of their respective investing responsibilities.

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

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

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

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

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

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

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

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

*The VaR methodology is manual (excel-based) and will be enhanced starting January 2011 with the adoption of the Credence Treasury System Riskmark Analytics.

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 ofthis report are approved by the BOD. These assumptions are reviewed and updated as necessary. In addition, the Parent Company develops a Liquidity and Contingency funding plan to serve asreference 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 orcounterparty, as well as the purpose and structure of the credit, and its source of repayment. The Parent Company gathers sufficient information to enable a comprehensive assessment of the true risk profile of the borrower or counterparty through independent credit ratings provider and its internal credit risk rating system.

Operational Risk

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

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

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

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

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

Credit Risk

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

The Parent Company's Risk Management Manual serves as the framework for its subsidiaries in developing their own Risk Management Manual. The Parent Company has already developed one for FMSBC in 2007.

Concentration to counterparty arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate relative sensitivity of the Parent Company's performance to developments affecting a particular industry or geographic location. The Parent Company's acceptable level of concentration is set at not more than 30.0% of the unimpaired capital.

Monitoring reports are done monthly wherein the same are elevated to the RMC on its monthly meeting for information and appropriate actions. Credit risk emanating from treasury activities are managed independently, but reported as a component of market risk exposure.

Each business unit is responsible for the performance and quality of its credit portfolio and for monitoring and controlling all credit risks in its portfolio. 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 markettraded securities either through implied or actual contractual agreements (i.e., on- or off-balance sheet exposures). The Parent Company manages its credit risk at various levels (i.e., strategic level, portfolio level down to individual credit or transaction) by adopting a credit risk management environment that has the following components:

- Formulating credit policies in areas like documentation and collateral requirements as well as credit assessments and risk grading processes. The monitoring and reporting procedures are likewise documented. The guidelines provided by the regulators are also incorporated to internal policies to ensure adherence to regulatory requirements.
- Providing seminars or programs that enhances risk awareness among its personnel.
- Establishing authorization limits for the approval and renewal of credit facilities.
- Independent review by Credit Division prior to loan approval.
- Limiting concentrations of exposure to counterparties and industries (for loans), and by issuer (for investment securities).
- Screening of prospective borrowers/deals by the Dealcom prior to endorsement to other Committees, like Crecom/Excom.
- Maintaining Internal Credit Risk Rating System (ICRRS), approved by the BOD, in order to categorize exposures according to the risk profile. The risk grading system is used for determining impairment provisions against specific credit exposures. The current risk grading framework consists of ten grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation.

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.	40.0%
Industry Analysis	Refers to the prospects of the industry as well as the company's performance and position in the industry.	30.0%
Management Quality	Refers to the management's ability to run the company successfully.	30.0%

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

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

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

The following table shows the description of ICRRS grade:

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

* applied on exposure to 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 ICRRS as well as credit risk rating from published data providers like Moody's, Standard & Poor and other reputable rating agencies 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 RMG of the approved exposure limits, likewise, with concentration limit.

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

	Consolidated		Parent Company	
	2010	2009	2010	2009
Credit risk exposures relating to on balance sheet assets are as follows:				
Cash and other cash items*	₱9,648,332,364	₱8,156,745,303	₱8,362,494,562	₱7,711,899,172
Due from BSP	880,000,000	1,965,000,000	880,000,000	1,965,000,000
Financial assets at FVPL:				
Government debt securities	2,022,048,527	1,495,143,295	2,022,048,527	1,485,138,322
Equity securities	518,780,024	394,815,702	396,026,513	318,711,862
	2,540,828,551	1,889,958,997	2,418,075,040	1,803,850,184
AFS investments:				
Government debt securities	10,560,500,918	18,598,060,193	10,405,599,696	18,368,911,305
Private debt securities	496,825,642	467,825,882	465,827,760	451,828,000
Equity securities:				
Quoted	1,440,617,514	1,533,137,184	1,404,201,514	1,491,867,184
Unquoted	166,551,751	243,196,796	165,861,647	213,783,427
	12,664,495,825	20,842,220,055	12,441,490,617	20,526,389,916
HTM investments:				
Government bonds	9,443,954,636	3,718,899,612	9,443,954,636	3,718,899,612
Private	–	16,922,118	–	–
	9,443,954,636	3,735,821,730	9,443,954,636	3,718,899,612
Loans and receivables:				
Loans and discounts:				
Corporate lending	5,333,923,369	1,753,412,382	4,965,025,078	1,542,328,704
Others	43,750,690	43,535,481	43,052,619	43,277,840
	5,377,674,059	1,796,947,863	5,008,077,697	1,585,606,544
Unquoted commercial papers	9,815,091,808	10,193,561,576	9,815,091,808	10,193,561,576
Accrued interest receivable	565,623,425	785,110,929	561,774,096	769,928,453
Accounts receivable	308,350,013	218,334,515	199,915,907	129,944,747
Dividends receivable	1,877,153	2,251,062	1,877,153	2,251,062
	16,068,616,458	12,996,205,945	15,586,736,661	12,681,292,382
Less allowance for credit losses	521,200,160	379,870,322	508,849,076	363,655,994
	15,547,416,298	12,616,335,623	15,077,887,585	12,317,636,388
	50,725,027,674	49,206,081,708	48,623,902,440	48,043,675,272
Credit risk exposures relating to on off-balance sheet assets are as follows:				
Commitments (Note 27)	1,827,371,429	195,000,000	1,797,371,429	195,000,000
	₱52,552,399,103	₱49,401,081,708	₱50,421,273,869	₱48,238,675,272

* 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			
	2010			
	Loans and Receivables*	Loans and advances to banks**	Investment Securities***	Total
Philippine government	₱1,761,927,795	₱880,000,000	₱22,026,504,077	₱24,668,431,872
Financial intermediaries	7,639,974,440	9,648,332,364	1,382,035,058	18,670,341,862
Real estate, renting and business activities	2,257,518,628	–	957,335,515	3,214,854,143
Electricity, gas and water	3,210,348,979	–	115,469,968	3,325,818,947
Transportation, storage and communication	1,510,396,120	–	326,479,642	1,836,875,762
Manufacturing (various industries)	613,823,210	–	85,583,728	699,406,938
Wholesale and retail trade	246,801,823	–	21,371,019	268,172,842
Mining and quarrying	87,640	–	92,843,087	92,930,727
Private households	46,746,073	–	–	46,746,073
Others	608,363,179	–	6,874,905	615,238,084
	17,895,987,887	10,528,332,364	25,014,496,999	53,438,817,250
Less allowance for credit losses	521,200,160	–	365,217,987	886,418,147
	₱17,374,787,727	₱10,528,332,364	₱24,649,279,012	₱52,552,399,103

	Consolidated			
	2009			
	Loans and Receivables*	Loans and advances to banks**	Investment Securities***	Total
Philippine government	₱2,529,875,883	₱1,965,000,000	₱23,812,103,100	₱28,306,978,983
Financial intermediaries	3,158,515,658	8,156,745,303	1,259,006,963	12,574,267,924
Real estate, renting and business activities	1,601,739,655	–	881,108,758	2,482,848,413
Electricity, gas and water	2,665,364,706	–	93,551,960	2,758,916,666
Transportation, storage and communication	2,007,057,461	–	547,139,997	2,554,197,458
Manufacturing (various industries)	512,830,243	–	81,798,999	594,629,242
Wholesale and retail trade	528,112,763	–	41,157,272	569,270,035
Mining and quarrying	–	–	27,777,070	27,777,070
Private households	47,639,897	–	–	47,639,897
Others	140,069,679	–	9,949,277	150,018,956
	13,191,205,945	10,121,745,303	26,753,593,396	50,066,544,644
Less allowance for credit losses	379,870,322	–	285,592,614	665,462,936
	₱12,811,335,623	₱10,121,745,303	₱26,468,000,782	₱49,401,081,708

* Comprised of Loans and receivables including commitments
** Comprised of Cash and other cash items (excluding petty cash fund) and Due from BSP
*** Comprised of Financial assets at FVPL, AFS investments and HTM investments.

	Parent Company			
	2010			
	Loans and Receivables	Loans and advances to banks*	Investment Securities**	Total
Philippine government	₱1,761,131,834	₱880,000,000	₱21,871,602,859	₱24,512,734,693
Financial intermediaries	7,591,011,097	8,362,494,562	1,262,465,855	17,215,971,514
Real estate, renting and business activities	2,257,518,628	–	948,780,183	3,206,298,811
Electricity, gas and water	3,058,905,882	–	105,627,974	3,164,533,856
Transportation, storage and communication	1,510,396,120	–	229,522,626	1,739,918,746
Manufacturing (various industries)	613,700,416	–	12,354,200	626,054,616
Mining and quarrying	87,640	–	83,508,087	83,595,727
Wholesale and retail trade	43,103,764	–	20,680,915	63,784,679
Private households	45,462,219	–	–	45,462,219
Others	502,790,490	–	3,755,000	506,545,490
	17,384,108,090	9,242,494,562	24,538,297,699	51,164,900,351
Less allowance for credit losses	508,849,076	–	234,777,406	743,626,482
	₱16,875,259,014	₱9,242,494,562	₱24,303,520,293	₱50,421,273,869

	Parent Company			
	2009			
	Loans and Receivables*	Loans and advances to banks**	Investment Securities***	Total
Philippine government	₱2,527,422,206	₱1,965,000,000	₱23,572,949,239	₱28,065,371,445
Financial intermediaries	3,185,417,887	7,711,899,172	1,184,576,785	12,081,893,844
Real estate, renting and business activities	1,567,537,359	–	880,118,758	2,447,656,117
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
Manufacturing (various industries)	512,830,243	–	51,580,317	564,410,560
Mining and quarrying	–	–	23,877,070	23,877,070
Wholesale and retail trade	472,670,469	–	20,724,606	493,395,075
Private households	47,382,256	–	–	47,382,256
Others	41,940,147	–	7,992,397	49,932,544
	12,876,292,382	9,676,899,172	26,249,607,010	48,802,798,564
Less allowance for credit losses	363,655,994	–	200,467,298	564,123,292
	₱12,512,636,388	₱9,676,899,172	₱26,049,139,712	₱48,238,675,272

* Comprised of Loans and receivables including commitments
** Comprised of Cash and other cash items (excluding petty cash fund) and Due from BSP
*** Comprised of Financial assets at FVPL, AFS investments and HTM investments.

The following table shows the credit quality of financial assets:

	Consolidated			
	2010			
	Loans and Receivables	Loans and advances to banks*	Investment Securities**	Total
Neither past due nor impaired	₱15,866,316,390	₱10,528,332,364	₱23,896,815,352	₱50,291,464,106
Impaired	202,300,068	–	1,117,681,647	1,319,981,715
Gross	16,068,616,458	10,528,332,364	25,014,496,999	51,611,445,821
Less allowance for credit losses	521,200,160	–	365,217,987	886,418,147
Net	₱15,547,416,298	₱10,528,332,364	₱24,649,279,012	₱50,725,027,674

	Consolidated			
	2009			
	Loans and Receivables	Loans and advances to banks*	Investment 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

* Comprised of Cash and other cash items (excluding petty cash fund) and Due from BSP
** Comprised of Financial assets at FVPL, AFS investments and HTM investments.

	Parent Company			
	2010			
	Loans and Receivables	Loans and advances to banks*	Investment Securities**	Total
Neither past due nor impaired	₱15,392,981,503	₱9,242,494,562	₱23,551,056,633	₱48,186,532,698
Impaired	193,755,158	–	987,241,066	1,180,996,224
Gross	15,586,736,661	9,242,494,562	24,538,297,699	49,367,528,922
Less allowance for credit losses	508,849,076	–	234,777,406	743,626,482
Net	₱15,077,887,585	₱9,242,494,562	₱24,303,520,293	₱48,623,902,440

	Parent Company 2009			
	Loans and Receivables	Loans and advances to banks*	Investment 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

* Comprised of Cash and other cash items (excluding petty cash fund), Due from BSP, IBLR 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, 2010					
	Neither past due nor impaired					
	High Grade	Standard Grade	Substandard Grade	Unrated	Impaired	Total
Loans and advances to banks						
Due from BSP	₱–	₱880,000,000	₱–	₱–	₱–	₱880,000,000
Cash and other cash items*	205,000,000	7,173,222,108	2,115,110,016	155,000,240	–	9,648,332,364
	205,000,000	8,053,222,108	2,115,110,016	155,000,240	–	10,528,332,364
Financial assets at FVPL						
Government debt securities	–	2,022,048,527	–	–	–	2,022,048,527
Equity securities	130,550,615	339,577,368	48,652,041	–	–	518,780,024
	130,550,615	2,361,625,895	48,652,041	–	–	2,540,828,551
AFS Investments						
Government debt securities	–	10,560,500,918	–	–	–	10,560,500,918
Private debt securities	482,825,642	14,000,000	–	–	–	496,825,642
Equity Securities						
Quoted	83,074,750	568,679,104	–	36,400,000	979,816,066	1,667,969,920
Unquoted	1,230,915	12,948,835	143,841,501	8,530,500	137,865,581	304,417,332
	567,131,307	11,156,128,857	143,841,501	44,930,500	1,117,681,647	13,029,713,812
HTM investments						
Government debt securities	–	9,443,954,636	–	–	–	9,443,954,636
	–	9,443,954,636	–	–	–	9,443,954,636
Loans and receivables						
Loans and discounts						
Corporate lending	23,072,212	3,449,088,505	1,839,762,652	19,000,000	3,000,000	5,333,923,369
Others	–	–	–	43,750,690	–	43,750,690
	23,072,212	3,449,088,505	1,839,762,652	62,750,690	3,000,000	5,377,674,059
Unquoted commercial papers	4,179,241,405	4,680,484,720	955,365,683	–	–	9,815,091,808
Accrued interest receivable	38,383,630	386,256,531	101,776,673	1,295,917	37,910,674	565,623,425
Accounts receivable	–	–	–	146,960,619	161,389,394	308,350,013
Dividends receivable	88,578	1,788,575	–	–	–	1,877,153
	4,240,785,825	8,517,618,331	2,896,905,008	211,007,226	202,300,068	16,068,616,458
	₱5,143,467,747	₱39,532,549,827	₱5,204,508,566	₱410,937,966	₱1,319,981,715	₱51,611,445,821

* Excludes petty cash fund.

	Consolidated					
	December 31, 2009					
	Neither past due nor impaired					
	High Grade	Standard Grade	Substandard Grade	Unrated	Impaired	Total
Loans and advances to banks						
Due from BSP	₱–	₱1,965,000,000	₱–	₱–	₱–	₱1,965,000,000
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 debt securities	–	3,718,899,612	–	–	–	3,718,899,612
Private debt securities	–	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
	₱4,822,391,279	₱31,258,311,332	₱2,109,024,288	₱9,183,430,252	₱2,498,387,493	₱49,871,544,644

* Excludes petty cash fund.

	Parent Company					
	December 31, 2010					
	Neither past due nor impaired					
	High Grade	Standard Grade	Substandard Grade	Unrated	Impaired	Total
Loans and advances to banks						
Due from BSP	₱–	₱880,000,000	₱–	₱–	₱–	₱880,000,000
Cash and other cash items*	205,000,000	5,887,384,546	2,115,110,016	155,000,000	–	8,362,494,562
	205,000,000	6,767,384,546	2,115,110,016	155,000,000	–	9,242,494,562
Financial assets at FVPL						
Government debt securities	–	2,022,048,527	–	–	–	2,022,048,527
Equity securities	95,876,275	258,366,197	41,784,041	–	–	396,026,513
	95,876,275	2,280,414,724	41,784,041	–	–	2,418,075,040
AFS investments						
Government debt securities	–	10,405,599,696	–	–	–	10,405,599,696
Private debt securities	465,827,760	–	–	–	–	465,827,760
Equity Securities						
Quoted	83,058,750	568,679,104	–	–	979,816,066	1,631,553,920
Unquoted	1,230,915	12,948,835	143,151,397	8,530,500	7,425,000	173,286,647
	550,117,425	10,987,227,635	143,151,397	8,530,500	987,241,066	12,676,268,023
HTM investments						
Government debt securities	–	9,443,954,636	–	–	–	9,443,954,636

(Forward)

	Parent Company December 31, 2010					
	Neither past due nor impaired					
	High Grade	Standard Grade	Substandard Grade	Unrated	Impaired	Total
Loans and receivables						
Loans and discounts						
Corporate lending	₱–	₱3,421,820,604	₱1,540,204,474	₱–	₱3,000,000	₱4,965,025,078
Others	–	–	–	43,052,619	–	43,052,619
	–	3,421,820,604	1,540,204,474	43,052,619	3,000,000	5,008,077,697
Unquoted commercial papers	4,179,241,405	4,680,484,720	955,365,683	–	–	9,815,091,808
Accrued interest receivable	38,028,127	384,542,350	100,040,778	1,252,167	37,910,674	561,774,096
Accounts receivable	–	–	–	47,071,423	152,844,484	199,915,907
Dividends receivable	88,578	1,788,575	–	–	–	1,877,153
	4,217,358,110	8,488,636,249	2,595,610,935	91,376,209	193,755,158	15,586,736,661
	₱5,068,351,810	₱37,967,617,790	₱4,895,656,389	₱254,906,709	₱1,180,996,224	₱49,367,528,922

* Excludes petty cash fund.

	Parent Company December 31, 2009					
	Neither past due nor impaired					
	High Grade	Standard Grade	Substandard Grade	Unrated	Impaired	Total
Loans and advances to banks						
Due from BSP	₱–	₱1,965,000,000	₱–	₱–	₱–	₱1,965,000,000
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 debt securities	–	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
	₱4,738,088,140	₱30,965,423,539	₱1,905,868,662	₱8,613,879,311	₱2,384,538,912	₱48,607,798,564

* 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.

As of December 31, 2010 and 2009, the Group and the Parent Company has no outstanding past due but not impaired loans and receivables.

Collateral and other credit enhancements
The Group holds collateral against loans and receivables in the form of real estate and chattel mortgages, guarantees, and other registered securities over assets. Estimates of fair value are based on the value of 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, 2010 and 2009.

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

	2010	2009
Against individually impaired:		
Property	₱13,819,664	₱–
Chattel	–	800,681,000
Equities	–	25,000,000
Against neither past due nor impaired:		
Equities	3,433,000,000	–
Property	319,051,471	419,647,400
Chattel	1,010,368,200	209,687,200
Others	1,750,000,000	–
	₱6,526,239,335	₱1,455,015,600

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 RMG prepares MCO report, which quantifies the Parent Company's liquidity mismatch risk twice-a-month starting January 2009. This report is provided to the SMC and RTUs.

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

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

	Consolidated					
	December 31, 2010					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 Months	Beyond 1 Year	Total
Financial Assets						
Loans and advances						
Cash and other cash items	₱9,648,332,363	₱–	₱–	₱–	₱–	₱9,648,332,363
Due from BSP	880,000,000	–	–	–	–	880,000,000
	10,528,332,363	–	–	–	–	10,528,332,363
Loans and receivables						
Loans and discounts						
Corporate lending	4,557,663	86,605,569	170,556,330	196,631,891	6,965,392,031	7,423,743,484
Others	748,684	1,494,028	2,222,160	4,414,055	57,736,153	66,615,080
	5,306,347	88,099,597	172,778,490	201,045,946	7,023,128,184	7,490,358,564
Unquoted commercial papers	34,625,567	88,339,806	1,225,557,721	271,836,593	9,981,995,457	11,602,355,144
Accrued interest receivable	202,214,377	260,547,700	59,855,253	–	–	522,617,330
Accounts receivable	105,542,660	41,417,960	–	–	–	146,960,620
Dividends receivable	1,877,153	–	–	–	–	1,877,153
	349,566,104	478,405,063	1,458,191,464	472,882,539	17,005,123,641	19,764,168,811

(Forward)

	Consolidated					
	December 31, 2010					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 Months	Beyond 1 Year	Total
Financial Assets at FVPL						
Government debt securities	₱1,125,000	₱9,002,719	₱22,472,539	₱76,543,672	₱3,094,757,880	₱3,203,901,810
Equity securities	518,780,024	–	–	–	–	518,780,024
AFS Investments						
Government debt securities	9,460,271	225,992,389	35,972,339	314,664,805	17,816,504,202	18,402,594,006
Private debt securities	475,084	3,717,229	8,334,579	127,271,483	433,866,074	573,664,449
Quoted equity investments	–	–	–	–	1,440,617,514	1,440,617,514
Unquoted equity investments	–	–		–	– 166,551,751	166,551,751
HTM investments						
Government debt securities	13,261,111	88,703,171	80,180,724	305,929,249	9,932,028,891	10,420,103,146
	543,101,490	327,415,508	146,960,181	824,409,209	32,884,326,312	34,726,212,700
	₱11,420,999,957	₱805,820,571	₱1,605,151,645	₱1,297,291,748	₱49,889,449,953	₱65,018,713,874
Financial Liabilities						
Financial liabilities at amortized cost						
Bills payable	7,473,141,299	38,803,328,432	5,630,703,495	545,066,664	573,722,250	53,025,962,140
Bonds payable	62,815	–	1,280,190	55,214,224	–	56,557,229
Accrued interest and other expenses	51,232,746	109,114,665	28,467,428	8,332,453	–	197,147,292
Accounts payable	151,938,041	78,384,934	–	–	–	230,322,975
Other liabilities	422,481	44,438,058	–	–	9,187,500	54,048,039
	7,676,797,382	39,035,266,089	5,660,451,113	608,613,341	582,909,750	53,564,037,675
Financial liabilities at FVPL	–	–	–	39,362,369	84,058,396	123,420,765
	₱7,676,797,382	₱39,035,266,089	₱5,660,451,113	₱647,975,710	₱666,968,146	₱53,687,458,440

	Consolidated					
	December 31, 2009					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 Months	Beyond 1 Year	Total
Financial Assets						
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	1,708,845,204	2,127,025,201
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	1,765,798,576	2,192,676,857
Unquoted commercial papers	90,048,823	145,696,089	248,897,418	376,566,996	12,069,026,867	12,930,236,193
Accrued interest receivable	214,561,650	436,347,982	52,169,779	9,458,632	–	712,538,043
Accounts receivable	73,376,853	47,179,642	12,661,067	196,192	1,478,663	134,892,417
Dividends receivable	2,251,062	–	–	–	–	2,251,062
	499,239,089	797,891,945	384,606,249	454,553,183	13,836,304,106	15,972,594,572
Financial Assets at FVPL						
Government debt securities	982,500	14,330,567	600,403	48,837,095	2,005,656,884	2,070,407,449
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	–	–	–	–	1,533,137,184	1,533,137,184
Unquoted equity investments	–	–	–	–	243,196,796	243,196,796

(Forward)

	Consolidated					
	December 31, 2009					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 Months	Beyond 1 Year	Total
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
	423,464,566	202,701,636	2,681,507,868	899,429,205	34,449,128,846	38,656,232,121
	₱11,044,515,958	₱1,000,593,581	₱3,066,114,117	₱1,353,982,388	₱48,285,432,952	₱64,750,638,996
Financial Liabilities						
Financial liabilities at amortized cost						
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 interest and other expenses	33,565,124	105,894,454	38,285,963	2,819,813	–	180,565,354
Accounts payable	–	211,380,284	–	–	–	211,380,284
Other liabilities	–	62,029,827	–	–	9,187,500	,217,327
	1,587,797,151	40,587,296,113	7,582,982,984	387,542,591	771,422,567	50,917,041,406
Financial liabilities at FVPL	–	–	–	30,866,097	107,863,144	138,729,241
	₱1,587,797,151	₱40,587,296,113	₱7,582,982,984	₱418,408,688	₱879,285,711	₱51,055,770,647

	Parent Company					
	December 31, 2010					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 Months	Beyond 1 Year	Total
Financial Assets						
Loans and advances						
Cash and other cash items	₱8,362,494,562	₱–	₱–	₱–	₱–	₱8,362,494,562
Due from BSP	880,000,000	–	–	–	–	880,000,000
	9,242,494,562	–	–	–	–	9,242,494,562
Loans and receivables						
Loans and discounts						
Corporate lending	4,186,115	40,054,275	167,415,267	196,631,891	6,719,367,574	7,127,655,122
Others	731,426	1,459,513	2,170,388	4,310,511	56,853,718	65,525,556
	4,917,541	41,513,788	169,585,655	200,942,402	6,776,221,292	7,193,180,678
Unquoted commercial papers	34,625,567	88,339,806	1,225,557,721	271,836,593	9,981,995,457	11,602,355,144
Accrued interest receivable	200,145,838	259,090,696	59,531,467	–	–	518,768,001
Accounts receivable	25,392,285	21,679,139	–	–	–	47,071,424
Dividends receivable	1,877,153	–	–	–	–	1,877,153
	266,958,384	410,623,429	1,454,674,843	472,778,995	16,758,216,749	19,363,252,400
Financial Assets at FVPL						
Government debt securities	1,125,000	9,002,719	22,472,539	76,543,672	3,094,757,880	3,203,901,810
Equity securities	396,026,513	–	–	–	–	396,026,513
AFS Investments						
Government debt securities	6,396,615	192,003,914	22,647,117	274,191,677	17,803,453,582	18,298,692,905
Private debt securities	475,084	3,600,031	7,821,839	126,263,603	399,023,120	537,183,677
Quoted equity investments	–	–	–	–	1,404,201,514	1,404,201,514
Unquoted equity investments	–	–	–	–	165,861,647	165,861,647
HTM investments						
Government debt securities	13,261,111	88,703,171	80,180,724	305,929,249	9,932,028,891	10,420,103,146
	417,284,323	293,309,835	133,122,219	782,928,201	32,799,326,634	34,425,971,212
	₱9,926,737,269	₱703,933,264	₱1,587,797,062	₱1,255,707,196	₱49,557,543,383	₱63,031,718,174

(Forward)

	Parent Company					
	December 31, 2010					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 Months	Beyond 1 Year	Total
Financial Liabilities						
Financial liabilities at amortized cost						
Bills payable	₱7,473,141,299	₱38,803,328,432	₱5,630,703,495	₱545,066,664	₱573,722,250	₱53,025,962,140
Bonds payable	170,692	–	1,280,190	151,294,414	–	152,745,296
Accrued interest and other expenses	44,131,698	108,834,664	25,669,184	8,332,453	–	186,967,999
Accounts payable	–	46,709,945	–	–	–	46,709,945
Other liabilities	297,496	25,739,742	–	–	18,562,500	44,599,738
	7,517,741,185	38,984,612,783	5,657,652,869	704,693,531	592,284,750	53,456,985,118
Financial liabilities at FVPL	–	–	–	39,362,369	79,005,989	118,368,358
	₱7,517,741,185	₱38,984,612,783	₱5,657,652,869	₱744,055,900	₱671,290,739	₱53,575,353,476

	Parent Company					
	December 31, 2009					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 Months	Beyond 1 Year	Total
Financial Assets						
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	1,491,725,166	1,893,068,598
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	1,548,324,510	1,958,182,628
Unquoted commercial papers	90,048,823	145,696,089	248,897,418	376,566,996	11,894,227,397	12,755,436,723
Accrued interest receivable	199,703,175	436,023,982	52,169,779	9,458,632	–	697,355,568
Accounts receivable	42,868,187	1,642,751	316,856	196,192	1,478,663	46,502,649
Dividends receivable	2,251,062	–	–	–	–	2,251,062
	451,723,006	749,811,586	367,893,628	446,269,840	13,444,030,570	15,459,728,630
Financial Assets at FVPL						
Government debt securities	982,500	14,330,567	600,403	48,837,095	2,005,656,884	2,070,407,449
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	–	–	–	–	1,491,867,184	1,491,867,184
Unquoted equity investments	–	–	–	–	213,783,427	213,783,427
HTM investments						
Government debt securities	–	33,873,568	2,513,769,687	66,267,407	1,495,544,975	4,109,455,637
	347,360,726	202,701,636	2,681,507,868	882,507,087	34,378,445,477	38,492,522,794
	₱10,475,982,904	₱952,513,222	₱3,049,401,496	₱1,328,776,927	₱47,822,476,047	₱63,629,150,596
Financial Liabilities						
Financial liabilities at amortized cost						
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 interest and 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
Financial liabilities at FVPL	–	–	–	30,866,097	107,863,144	138,729,241
	₱1,580,927,512	₱40,474,705,625	₱7,582,982,984	₱418,408,688	₱888,660,711	₱50,945,685,520

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, as stated in the Risk Management Manual. 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 RMG 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 market risk analyses are given to SMC and RTUs.

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 99.0%. The analysis will be enhanced with the adoption of the Credence Ideal System Riskmark Analytics starting January 2011.

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, 2010 and 2009, 30.2% and 94.3%, 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 December 31, 2010						
		Sensitivity of net interest income and trading gains	Sensitivity of equity				
	Increase in basis points		0 up to 6 Months	6 months to 1 year	1 year to 5 Years	More than 5 years	Total
Currency PhP	+50	(₱39,808,231)	(₱44,622)	(₱95,660)	(₱17,904,219)	(₱373,767,977)	(₱391,812,478)
Currency PhP	-50	43,751,514	44,711	96,197	18,215,748	400,960,853	419,317,509

			Consolidated December 31, 2009				
	Increase in basis points	Sensitivity of net interest income and trading gains	Sensitivity of equity: 0 up to 6 Months	6 months to 1 year	1 year to 5 Years	More than 5 years	Total
Currency PhP	+50	(₱28,609,008)	(₱4,413)	(₱10,199)	(₱948,116)	(₱549,367,408)	(₱550,330,136)
Currency PhP	-50	29,781,962	4,420	10,247	966,481	570,322,289	571,303,437

			Parent Company December 31, 2010				
	Increase in basis points	Sensitivity of net interest income and trading gains	Sensitivity of equity: 0 up to 6 Months	6 months to 1 year	1 year to 5 Years	More than 5 years	Total
Currency PhP	+50	(₱42,130,213)	₱–	₱–	(₱17,752,634)	(₱373,507,334)	(₱391,259,968)
Currency PhP	-50	46,073,496	–	–	18,060,880	418,749,482	436,810,362

			Parent Company December 31, 2009				
	Increase in basis points	Sensitivity of net interest income and trading gains	Sensitivity of equity: 0 up to 6 Months	6 months to 1 year	1 year to 5 Years	More than 5 years	Total
Currency PhP	+50	(₱29,734,296)	₱–	₱–	₱–	(₱547,722,521)	(₱547,722,521)
Currency PhP	-50	30,907,250	–	–	–	568,627,600	568,627,600

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, 2010 and 2009, 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 2010		2009	
Changes in PSEi	20.0%	(20.0%)	21.2%	(21.2%)
Change on trading income under:				
Holding firm industry	₱24,638,427	(₱24,638,427)	₱7,700,742	(₱7,700,742)
Financial industry	20,332,741	(20,332,741)	18,964,737	(18,964,737)
Mining and oil industry	15,742,276	(15,742,276)	5,649,537	(5,649,537)
Industrial industry	12,986,541	(12,986,541)	13,214,523	(13,214,523)
Property industry	11,446,619	(11,446,619)	6,420,251	(6,420,251)
Services industry	715,209	(715,209)	10,111,644	(10,111,644)
Total	₱85,861,813	(₱85,861,813)	₱62,061,434	(₱62,061,434)
As a percentage of the Group's net trading gain for the year	17.4%	(17.4%)	17.0%	(17.0%)

	Parent Company			
	2010		2009	
Changes in PSEi	20.0%	(20.0%)	21.2%	(21.2%)
Change on trading income under:				
Holding firm industry	₱21,461,539	(₱21,461,539)	₱5,642,218	(₱5,642,218)
Financial industry	15,308,575	(15,308,575)	15,683,026	(15,683,026)
Mining and oil industry	14,120,652	(14,120,652)	4,352,589	(4,352,589)
Property industry	9,895,870	(9,895,870)	6,154,921	(6,154,921)
Industrial industry	5,086,388	(5,086,388)	10,999,525	(10,999,525)
Services industry	359,385	(359,385)	9,145,326	(9,145,326)
Total	₱66,232,409	(₱66,232,409)	₱51,977,605	(₱51,977,605)
As a percentage of the Parent Company's net trading gain for the year	14.7%	(14.7%)	17.4%	(17.4%)

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 the PSE index (PSEi) to the Group and the Parent Company's unrealized gain or loss on AFS investments:

	Consolidated			
	2010		2009	
Changes in PSEi	20.0%	(20.0%)	21.2%	(21.2%)
Change on equity under:				
Financial industry	₱53,837,821	(₱53,837,821)	₱50,319,247	(₱50,319,247)
Property industry	35,036,058	(35,036,058)	75,140,543	(75,140,543)
Services industry	31,280,361	(31,280,361)	75,363,096	(75,363,096)
Industrial industry	18,987,230	(18,987,230)	7,689,253	(7,689,253)
Total	₱139,141,470	(₱139,141,470)	₱208,512,139	(₱208,512,139)
As a percentage of the Group's net unrealized gain for the year	120.4%	(120.4%)	(48.3%)	48.3%

	Parent Company			
	2010		2009	
Changes in PSEi	20.0%	(20.0%)	21.2%	(21.2%)
Change on equity under:				
Financial industry	₱47,882,781	(₱47,882,781)	₱45,850,219	(₱45,850,219)
Property industry	35,036,058	(35,036,058)	75,140,543	(75,140,543)
Services industry	31,278,150	(31,278,150)	75,359,917	(75,359,917)
Industrial industry	18,987,230	(18,987,230)	7,689,253	(7,689,253)
Total	₱133,184,219	(₱133,184,219)	₱204,039,932	(₱204,039,932)
As a percentage of the Parent Company's net unrealized gain for the year	149.3%	(149.3%)	(45.8%)	45.8%

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 10.0% 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, 2010 and 2009, 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, 2010 and December 31, 2009 are shown in the table below:

	Consolidated		Parent Company	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
Tier 1 capital	₱7,918,345,767	₱7,804,978,957	₱7,934,799,667	₱7,774,447,097
Tier 2 capital	260,949,696	24,940,840	260,949,696	24,940,840
Gross qualifying capital	8,179,295,463	7,829,919,797	8,195,749,363	7,799,387,937
Less: Required deductions	63,656,100	44,650,242	754,239,151	688,753,763
Total qualifying capital	₱8,115,639,363	₱7,785,269,555	₱7,441,510,212	₱7,110,634,174
Risk weighted assets	₱40,941,969,264	₱32,015,451,460	₱39,733,075,121	₱30,912,109,820
Tier 1 capital ratio	19.34%	24.38%	19.97%	25.15%
Total capital ratio	19.82%	24.32%	18.73%	23.00%

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 non-controlling 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 issuance of BSP Circular No. 639 covering the Internal Capital Adequacy Assessment Process (ICAAP) in 2009 supplements the BSP's risk-based capital adequacy framework under Circular No. 538. In compliance with this new circular, the Metrobank Group has adopted and developed its ICAAP framework to ensure that appropriate level and quality of capital are maintained by the Group. Under this framework, the assessment of risks extends beyond the Pillar 1 set of credit, market and operational risks and onto other risks deemed material by the Group. The level and structure of capital are assessed and determined in light of the Group's business environment, plans, performance, risks and budget; as well as regulatory edicts. The Group follows the Metrobank Group's ICAAP framework and submits the result of its assessment to the Ultimate Parent Company. The BSP requires submission of an ICAAP document on a groupwide basis every January 31. The Group through the Parent Company has complied with the submission deadline of the first final ICAAP document.

5. Fair Value Measurement

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

Cash and other cash items and due from BSP, financial liabilities at cost except 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 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 (Note 8).

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

Bonds payable - 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			
	2010		2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Loans and advances:				
Cash and other cash items	₱9,648,394,094	₱9,648,394,094	₱8,156,812,303	₱8,156,812,303
Due from BSP	880,000,000	880,000,000	1,965,000,000	1,965,000,000
Loans and receivables:				
Loans and discounts:				
Corporate lending	5,201,679,162	5,218,925,629	1,704,356,514	1,756,260,297
Others	43,750,690	50,394,926	43,535,481	45,486,392
Other receivables:				
Unquoted commercial papers	9,630,531,343	10,016,147,688	10,018,762,106	10,498,738,010
Accrued interest receivable	522,617,330	522,617,330	712,538,043	712,538,043
Accounts receivable	146,960,620	146,960,620	134,892,417	134,892,417
Dividends receivables	1,877,153	1,877,153	2,251,062	2,251,062
Financial assets at FVPL:				
Held-for-trading:				
Government debt securities	2,022,048,527	2,022,048,527	1,495,143,295	1,495,143,295
Equity securities	518,780,024	518,780,024	394,815,702	394,815,702
AFS investments:				
Government debt securities	10,560,500,918	10,560,500,918	18,598,060,193	18,598,060,193
Private debt securities	496,825,642	496,825,642	467,825,882	467,825,882
Quoted equity investments	1,440,617,514	1,440,617,514	1,533,137,184	1,533,137,184
Unquoted equity investments	166,551,751	–	243,196,796	–
HTM investments:				
Government bonds	9,443,954,636	10,532,919,818	3,718,899,612	3,869,883,832
Private	–	–	16,922,118	16,922,118
Financial Liabilities				
Financial liabilities at FVPL:				
Derivative liability	123,420,765	123,420,765	138,729,241	138,729,241
Financial liabilities at amortized cost:				
Bills payable	52,833,492,965	52,972,585,767	50,047,335,210	50,157,881,571
Accrued interest and other expenses payable (Note 15)	197,147,292	197,147,292	180,565,354	180,565,354
Bonds payable	55,200,000	58,182,241	55,200,000	59,239,834
Other liabilities (Note 17)	54,048,039	54,048,039	71,217,327	71,217,327
Accounts payable	230,322,975	230,322,975	211,380,284	211,380,284

	Parent			
	2010		2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Loans and advances				
Cash and other cash items	₱8,362,534,562	₱8,362,534,562	₱7,711,939,172	₱7,711,939,172
Due from BSP	880,000,000	880,000,000	1,965,000,000	1,965,000,000
Loans and receivables				
Loans and discounts				
Corporate lending	4,836,587,045	4,853,833,512	1,509,487,163	1,545,176,619
Others	43,052,619	49,471,977	43,277,840	45,228,751
Other receivables				
Unquoted commercial papers	9,630,531,343	10,016,147,688	10,018,762,106	10,498,738,010
Accrued interest receivable	518,768,001	518,768,001	697,355,568	697,355,568
Accounts receivable	47,071,424	47,071,424	46,502,649	46,502,649
Dividends receivables	1,877,153	1,877,153	2,251,062	2,251,062
Financial assets at FVPL				
Held for trading				
Government debt securities	2,022,048,527	2,022,048,527	1,485,138,322	1,485,138,322
Equity Securities	396,026,513	396,026,513	318,711,862	318,711,862
AFS investments				
Government debt securities	10,405,599,696	10,405,599,696	18,368,911,305	18,368,911,305
Private debt securities	465,827,760	465,827,760	451,828,000	451,828,000
Quoted equity investments	1,404,201,514	1,404,201,514	1,491,867,184	1,491,867,184
Unquoted equity investments	165,861,647	–	213,783,427	–

(Forward)

	Parent			
	2010		2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
HTM investments				
Government bonds	₱9,443,954,636	₱10,532,919,818	₱3,718,899,612	₱3,869,883,832
Financial Liabilities				
Financial liabilities at FVPL				
Derivative liability	118,368,358	118,368,358	138,729,241	138,729,241
Financial liabilities at amortized cost				
Bills payable	52,833,492,965	52,972,585,767	50,047,335,210	50,157,881,571
Accrued interest and other expenses payable (Note 15)	186,967,999	186,967,999	173,695,715	173,695,715
Bonds payable	150,000,000	158,103,915	150,000,000	160,977,811
Other liabilities	44,599,738	44,599,738	125,177,156	125,177,156
Accounts payable	46,709,945	46,709,945	54,204,967	54,204,967

The following table shows financial instruments recognized at fair value, analyzed based on inputs to fair value 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			
	2010			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets at FVPL				
Government debt securities	₱2,022,048,527	₱–	₱–	₱2,022,048,527
Equity securities	518,780,024	–	–	518,780,024
AFS investments				
Debt securities				
Government	10,560,500,918	–	–	10,560,500,918
Private	496,825,642	–	–	496,825,642
Equity securities	1,440,617,514	–	–	1,440,617,514
Financial Liabilities				
Derivative liabilities	–	123,420,765	–	123,420,765

	Consolidated			
	2009			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets at FVPL				
Government debt securities	₱1,495,143,295	₱–	₱–	₱1,495,143,295
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	1,533,137,184	–	–	1,533,137,184
Financial Liabilities				
Derivative liabilities	–	138,729,241	–	138,729,241

	Parent Company 2010			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets at FVPL				
Government debt securities	₱2,022,048,527	₱–	₱–	₱2,022,048,527
Equity securities	396,026,513	–	–	396,026,513
AFS investments				
Debt securities				
Government	10,405,599,696	–	–	10,405,599,696
Private	465,827,760	–	–	465,827,760
Equity securities	1,404,201,514	–	–	1,404,201,514
Financial Liabilities				
Derivative liabilities	–	118,368,358	–	118,368,358

	Parent Company 2009			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets at FVPL				
Government debt securities	₱1,485,138,322	₱–	₱–	₱1,485,138,322
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	1,491,867,184	–	–	1,491,867,184
Financial Liabilities				
Derivative liabilities	–	138,729,241	–	138,729,241

As of December 31, 2010 and 2009, the Group and the 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, 2010, 2009 and 2008, the Group has a significant customer in its Treasury segment, which contributed ₱2.34 billion, ₱1.63 billion and ₱0.93 billion, respectively, of the consolidated revenue.

Interest is charged or 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 measured in accordance with PFRS as of and for the year ended December 31, 2010, 2009 and 2008:

	2010							
	Corporate Lending	Investment Banking	Investment Advisory	Treasury	Others	Total Segment	Adjustment/ Elimination	Consolidated
Results of Operations								
Net interest income	₱234,047,871	₱–	(₱45,609,469)	₱955,915,341	(₱79,145,977)	₱1,065,207,766	₱–	₱1,065,207,766
Non-interest income	3,442,255	290,787,028	357,100,841	1,072,324,981	314,533,498	2,038,188,603	–	2,038,188,603
Total Revenue	237,490,126	290,787,028	311,491,372	2,028,240,322	235,387,521	3,103,396,369	–	3,103,396,369
Intersegment Income	–	–	20,476,994	–	15,769,846	36,246,840	(36,246,840)	–
Revenue - net of interest expense	237,490,126	290,787,028	331,968,366	2,028,240,322	251,157,367	3,139,643,209	(36,246,840)	3,103,396,369
Noninterest expense	42,880,562	37,960,917	28,906,194	707,963,716	683,730,720	1,501,442,109	–	1,501,442,109
Income (loss) before share in net income of investees	194,609,564	252,826,111	303,062,172	1,320,276,606	(432,573,353)	1,638,201,100	(36,246,840)	1,601,954,260
Share in net income of investees	–	–	–	–	554,226,398	554,226,398	–	554,226,398
Income tax provision	(9,550,636)	–	(13,242,177)	(351,416,673)	(54,252,674)	(428,462,160)	–	(428,462,160)
Non-controlling interest in net income of consolidated subsidiaries	–	–	–	–	(27,519,157)	(27,519,157	–	(27,519,157)
Net income attributable to the Parent Company	₱185,058,928	₱252,826,111	₱289,819,995	₱968,859,933	₱39,881,214	₱1,736,446,181	(₱36,246,840)	₱1,700,199,341
Statement of Financial Position								
Total assets	₱6,264,832,518	₱–	₱2,514,847,831	₱38,069,976,432	₱17,119,478,716	₱63,969,135,497	₱–	₱63,969,135,497
Total liabilities	6,159,198,628	–	2,444,162,259	36,384,191,478	9,061,017,210	54,048,569,575	–	54,048,569,575
Other Segment Information								
Capital expenditures	–	–	–	–	26,901,372	26,901,372	–	26,901,372
Deferred tax assets	–	–	–	–	627,814	627,814	–	627,814
Depreciation and amortization	–	–	–	–	31,759,072	31,759,072	–	31,759,072
Provision for impairment and credit losses		–	–	–	511,028,882	511,028,882	–	511,028,882
Non-current assets	–	–	–	–	827,456,260	827,456,260	–	827,456,260

	2009							
	Corporate Lending	Investment Banking	Investment Advisory	Treasury	Others	Total Segment	Adjustment/ Elimination	Consolidated
Results of Operations								
Net interest income	₱104,719,766	₱–	(₱25,775,535)	₱798,171,471	(₱131,935,364)	₱745,180,338	₱–	₱745,180,338
Noninterest income	1,018,059	230,274,527	255,615,992	462,559,277	252,504,671	1,201,972,526	–	1,201,972,526
Total Revenue	105,737,825	230,274,527	229,840,457	1,260,730,748	120,569,307	1,947,152,864	–	1,947,152,864
Intersegment Income	–	–	1,859,056	–	4,620,556	6,479,612	(6,479,612)	–
Revenue - net of interest expense	105,737,825	230,274,527	231,699,513	1,260,730,748	125,189,863	1,953,632,476	(6,479,612)	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	–	1,004,661,734
Income (loss) before share in net income of investees	74,824,828	201,102,526	203,895,304	970,026,844	(500,878,760)	948,970,742	(6,479,612)	942,491,130
Share in net income of investees	–	–	–	–	427,749,836	427,749,836	–	427,749,836
Income tax provision	(3,810,249)	–	(6,928,630)	(303,991,593)	(25,739,181)	(340,469,653)	–	(340,469,653)
Non-controlling interest in net income of consolidated subsidiaries	–	–	–	–	(7,158,394)	(7,158,394)	–	(7,158,394)
Net income attributable to the Parent Company	₱71,014,579	₱201,102,526	₱196,966,674	₱666,035,251	(₱106,026,499)	₱1,029,092,531	(₱6,479,612)	₱1,022,612,919
Statement of Financial Position								
Total assets	₱1,929,899,420	₱–	₱877,959,790	₱42,868,854,991	₱13,899,594,859	₱59,576,309,060	₱–	₱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	–	50,962,385,721
Other Segment Information								
Capital expenditures		–	–	–	25,417,122	25,417,122	–	25,417,122
Deferred tax assets	–	–	–	–	8,526,242	8,526,242	–	8,526,242
Depreciation and amortization	–	–	–	–	30,672,542	30,672,542	–	30,672,542
Provision for impairment and credit losses	–	–	–	–	180,737,944	180,737,944	–	180,737,944
Non-current assets	–	–	–	–	885,036,422	885,036,422	–	885,036,422

	2008							
	Corporate Lending	Investment Banking	Investment Advisory	Treasury	Others	Total	Adjustments/ Eliminations	Total
Results of Operations								
Net interest income	₱195,682,930	₱–	(₱21,774,409)	₱353,693,258	(₱86,271,382)	₱441,330,397	₱–	₱441,330,397
Noninterest income	–	167,432,279	(249,222,190)	631,613,164	106,524,254	656,347,507	–	656,347,507
Total Revenue	195,682,930	167,432,279	(270,996,599)	985,306,422	20,252,872	1,097,677,904	–	1,097,677,904
Intersegment Income	–	–	1,794,400	–	7,675,460	9,469,860	(9,469,860)	–
Revenue - net of interest expense	195,682,930	167,432,279	(269,202,199)	985,306,422	27,928,332	1,107,147,764	(9,469,860)	1,097,677,904
Noninterest expense	53,217,122	26,797,676	(1,259,949)	227,967,526	302,904,035	609,626,410	–	609,626,410
Income (loss) before share in net income of investees	142,465,808	140,634,603	(267,942,250)	757,338,896	(274,975,703)	497,521,354	(9,469,860)	488,051,494
Share in net income of investees	–	–	–	–	75,548,641	75,548,641	–	75,548,641
Income tax provision	(7,186,804)	–	(6,739,753)	(133,288,634)	(17,478,427)	(164,693,618)	–	(164,693,618)
Non-controlling interest in net loss of consolidated subsidiaries	–	–	–	–	800,603	800,603	–	800,603
Net income attributable to the Parent Company	₱135,279,004	₱140,634,603	(₱274,682,003)	₱624,050,262	(₱216,104,886)	₱409,176,980	₱(9,469,860)	₱399,707,120
Statement of Financial Position								
Total assets	₱6,329,920,830	₱–	₱734,435,051	₱27,696,956,907	₱11,402,211,432	₱46,163,524,220	₱–	₱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	–	38,852,529,750
Other Segment Information								
Capital expenditures	–	–	–	–	57,266,387	57,266,387	–	57,266,387
Deferred tax assets	–	–	–	–	3,702,731	3,702,731	–	3,702,731
Depreciation and amortization	–	–	–	–	29,014,916	29,014,916	–	29,014,916
Recovery from impairment and credit losses	(136,779,104)	–	–	–	(30,542,489)	(167,321,593)	–	(167,321,593)
Non-current assets	–	–	–	–	945,935,941	945,935,941	–	945,935,941

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 to property, plant and equipment and investment properties.

Non-current assets consist of investment properties, foreclosed assets, 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. Trading and Investment Securities

This account consists of:

	Consolidated		Parent Company	
	2010	2009	2010	2009
Financial assets at FVPL	**₱2,540,828,551**	₱1,889,958,997	**₱2,418,075,040**	₱1,803,850,184
AFS investments (Notes 14)	**12,664,495,825**	20,842,220,055	**12,441,490,617**	20,526,389,916
HTM investments	**9,443,954,636**	3,735,821,730	**9,443,954,636**	3,718,899,612
	₱24,649,279,012	₱26,468,000,782	**₱24,303,520,293**	₱26,049,139,712

Financial Assets at FVPL

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

	Consolidated		Parent Company	
	2010	2009	2010	2009
Government debt securities	**₱2,022,048,527**	₱1,495,143,295	**₱2,022,048,527**	₱1,485,138,322
Equity securities	**518,780,024**	394,815,702	**396,026,513**	318,711,862
	₱2,540,828,551	₱1,889,958,997	**₱2,418,075,040**	₱1,803,850,184

As of December 31, 2010, 2009 and 2008, HFT securities include fair value gain (loss) of ₱17.2 million, ₱14.5 million and (₱31.4 million), respectively, for the Group and fair value gain (loss) of ₱7.3 million, ₱4.9 million and (₱8.1 million), respectively, for the Parent Company.

AFS Investments
AFS investments consist of the following:

	Consolidated		Parent Company	
	2010	2009	2010	2009
Debt securities (Notes 14 and 16):				
Government	₱10,560,500,918	₱18,598,060,193	₱10,405,599,696	₱18,368,911,305
Private	496,825,642	467,825,882	465,827,760	451,828,000
	11,057,326,560	19,065,886,075	10,871,427,456	18,820,739,305
Equity securities:				
Quoted	1,667,969,920	1,704,879,482	1,631,553,920	1,663,609,482
Unquoted	304,417,332	357,047,112	173,286,647	242,508,427
	1,972,387,252	2,061,926,594	1,804,840,567	1,906,117,909
Less allowance for impairment losses (Note 13)	365,217,987	285,592,614	234,777,406	200,467,298
	1,607,169,265	1,776,333,980	1,570,063,161	1,705,650,611
	₱12,664,495,825	₱20,842,220,055	₱12,441,490,617	₱20,526,389,916

Unquoted equity securities are investments where the Group and the Parent Company generally have less than 20.0% in equity holdings. These are strategic investments initiated by the Group and the Parent Company with the objective of generating income through dividends. The Group and the Parent Company intend to hold on/retain their holdings in companies that provide acceptable/modest returns. The Group and the Parent Company will dispose these investments depending on 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		
	2010	2009	2008
Balance at January 1	(₱431,605,063)	(₱631,686,077)	₱504,538,078
Unrealized gain (loss) recognized directly in equity, net of tax	1,261,486,792	254,897,828	(684,625,051)
Amounts realized in profit or loss	(793,916,060)	(226,559,112)	(469,876,931)
Provision for impairment loss (Note 13)	79,625,373	171,742,298	18,277,827
Net change during the year	547,196,105	200,081,014	(1,136,224,155)
Balance at December 31	₱115,591,042	(₱431,605,063)	(₱631,686,077)

	Parent Company		
	2010	2009	2008
Balance at January 1	(₱445,370,380)	(₱631,188,494)	₱493,222,026
Unrealized gain (loss) recognized directly in equity, net of tax	1,247,096,008	234,892,273	(697,036,705)
Amounts realized in profit or loss	(746,854,755)	(220,816,457)	(427,373,815)
Provision for impairment loss	34,310,108	171,742,298	–
Net change during the year	534,551,361	185,818,114	(1,124,410,520)
Balance at December 31	₱89,180,981	(₱445,370,380)	(₱631,188,494)

HTM Investments
As of December 31, 2010 and 2009, HTM investments consist of government bonds amounting to ₱9.4 billion and ₱3.7 billion, respectively, for the Group and Parent Company and private securities amounting to nil and ₱16.9 million, respectively, for the Group and Parent Company.

As of December 31, 2010 and 2009, the unamortized premium related to HTM investments amounted to ₱73.1 million and ₱53.8 million, respectively, for the Group and Parent Company.

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

	Consolidated		
	2010	2009	2008
Realized from sale of:			
HFT securities	₱475,892,958	₱350,819,143	(₱288,102,413)
AFS investments	793,916,060	226,559,112	469,876,931
Unquoted commercial papers	54,086,440	5,824,289	26,447
	1,323,895,458	583,202,544	181,800,965
Changes in fair value of financial instruments at FVPL:			
HFT securities	17,182,883	14,518,371	(31,426,463)
Derivative liability	(33,641,827)	47,319,971	(2,107,258)
	(16,458,944)	61,838,342	(33,533,721)
	₱1,307,436,514	₱645,040,886	₱148,267,244

	Parent Company		
	2010	2009	2008
Realized from sale of:			
HFT securities	₱443,699,379	₱294,093,690	(₱193,362,303)
AFS investments	746,854,755	220,816,457	427,373,815
Unquoted commercial papers	54,086,440	5,824,289	26,447
	1,244,640,574	520,734,436	234,037,959
Changes in fair value of financial instruments at FVPL:			
HFT securities	7,256,003	4,947,899	(8,100,160)
Derivative liability	(33,641,827)	47,319,971	(2,107,258)
	(26,385,824)	52,267,870	(10,207,418)
	₱1,218,254,750	₱573,002,306	₱223,830,541

Trading and investment securities in 2010, 2009 and 2008 bear nominal annual interest rates ranging from 2.9% to 12.0%, 3.1% to 13.2% and 4.3% to 11.7%, respectively, for the Group and Parent Company. In 2010, dollar-denominated and euro-denominated trading investment securities bear nominal annual interest rates ranging from 2.9% to 4.1% and 3.3% to 4.1%, respectively.

Derivative Financial Instruments
As of December 31, 2010 and 2009, the Group and the Parent Company have outstanding investments in private commercial papers amounting to ₱1.6 billion and ₱2.8 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 ₱5.1 million and ₱75.4 million in 2010 and 2009, respectively. As of December 31, 2010 and 2009, the fair value of the embedded derivative liability amounted to ₱123.4 million and ₱138.7 million, respectively, for the Group and ₱118.4 million and ₱138.7 million, respectively for the Parent Company.

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

	Consolidated		Parent	
	2010	2009	2010	2009
Balance at beginning of year	₱138,729,241	₱116,511,055	₱138,729,241	₱116,511,055
Effect of bifurcation	5,052,407	75,354,400	–	75,354,400
Fair value changes	33,641,827	(47,319,971)	33,641,827	(47,319,971)
	38,694,234	28,034,429	33,641,827	28,034,429
Settlement	(54,002,710)	(5,816,243)	(54,002,710)	(5,816,243)
	₱123,420,765	₱138,729,241	₱118,368,358	₱138,729,241

8. Loans and Receivables

This account consists of:

	Consolidated		Parent Company	
	2010	2009	2010	2009
Loans and discounts:				
Corporate lending	₱5,333,931,444	₱1,753,455,658	₱4,965,033,153	₱1,542,371,980
Others	43,750,690	43,535,481	43,052,619	43,277,840
Unearned discounts	(8,075)	(43,276)	(8,075)	(43,276)
	5,377,674,059	1,796,947,863	5,008,077,697	1,585,606,544
Unquoted commercial papers (Notes 7 and 14)	9,815,091,808	10,193,561,576	9,815,091,808	10,193,561,576
Accrued interest receivable	565,623,425	785,110,929	561,774,096	769,928,453
Accounts receivable	308,350,013	218,334,515	199,915,907	129,944,747
Dividends receivable	1,877,153	2,251,062	1,877,153	2,251,062
	16,068,616,458	12,996,205,945	15,586,736,661	12,681,292,382
Allowance for credit losses (Note 13)	(521,200,160)	(379,870,322)	(508,849,076)	(363,655,994)
	₱15,547,416,298	₱12,616,335,623	₱15,077,887,585	₱12,317,636,388

As of December 31, 2010 and 2009, 30.2% and 94.3% of the total loans and discounts were subject to periodic interest repricing, respectively, for the Group and 25.1% and 94.1%, respectively, for the Parent Company. The remaining loans earned fixed annual interest rates ranging from 6.6% to 10.5%, 7.2% to 10.0% and 5.9% to 15.3% in 2010, 2009 and 2008, respectively, for the Group and the Parent Company.

As of December 31, 2010 and 2009, all outstanding unquoted commercial papers were subject to fixed interest rate.

BSP Reporting

As of December 31, 2010 and 2009, secured and unsecured non-performing loans (NPLs) amounted to ₱3.0 million and ₱2.5 million, respectively, for the Group and Parent Company.

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

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

In the case of receivables that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered 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 (10.0%) 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.

Current banking regulations allow banks and non-bank financial intermediaries with quasibanking functions with no unbooked valuation reserves and capital adjustments to exclude from non-performing classification those receivables from customers classified as Loss in the latest examination of the BSP which are fully covered by allowance for credit losses, provided that interest on said receivables shall not be accrued. As of December 31, 2010 and 2009, NPLs of the Group and the Parent Company are fully covered by allowance for credit losses.

As of December 31, 2010, the Group and the Parent Company has outstanding restructured loans amounting to ₱0.84 million and nil for 2009, respectively.

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, 2010 and 2009 (amounts in thousands):

	Consolidated				Parent Company			
	2010		2009		2010		2009	
	Amount	%	Amount	%	Amount	%	Amount	%
Secured loans:								
Chattel	₱870,612	16.19	₱992,037	55.21	₱870,612	17.38	₱992,037	62.56
Real estate	145,432	2.70	216,734	12.06	144,593	2.89	216,734	13.67
Shares of stock	1,649,829	30.68	96,929	5.39	1,649,826	32.94	96,929	6.11
Others – Guarantee	2,200,000	40.91	–	–	2,200,000	43.93	–	–
	4,865,873	90.48	1,305,700	72.66	4,865,031	97.14	1,305,700	82.34
Unsecured loans	511,809	9.52	491,291	27.34	143,055	2.86	279,950	17.66
	₱5,377,682	100.00	₱1,796,991	100.00	₱5,008,086	100.00	₱1,585,650	100.00

As of December 31, 2010 and 2009, 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			
	2010		2009		2010		2009	
	Amount	%	Amount	%	Amount	%	Amount	%
Financial intermediaries	₱3,226,200	59.99	₱65,250	3.63	₱3,182,200	63.54	₱34,167	2.15
Electricity, gas and water	1,685,240	31.34	1,238,966	68.95	1,538,240	30.72	1,088,966	68.68
Wholesale and retail trade	180,561	3.36	236,373	13.15	1,965	0.04	206,373	13.02
Real estate, renting and business activities	137,304	2.55	205,920	11.46	137,304	2.74	205,920	12.99
Private households	45,377	0.84	44,942	2.50	45,377	0.91	44,684	2.82
Manufacturing (various industries)	3,000	0.06	3,000	0.17	3,000	0.06	3,000	0.19
Others	100,000	1.86	2,540	0.14	100,000	1.99	2,540	0.16
	₱5,377,682	100.00	₱1,796,991	100.00	₱5,008,086	100.00	₱1,585,650	100.00

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

Unquoted Commercial Papers

This account consists of various financial instruments issued by private corporations with interest rates ranging from 5.0% to 12.0% in 2010 and 2009.

As of December 31, 2010 and 2009, the unamortized premium related to unquoted commercial papers amounted to ₱72.6 million and ₱104.4 million, respectively, for the Group and Parent Company.

9. Property and Equipment

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

	Consolidated					
	2010			2009		
	Building Improvements	Furnitures, Fixtures and Equipment	Total	Building Improvements	Furnitures, Fixtures and Equipment	Total
Cost						
Balance at beginning of year	₱56,409,183	₱128,272,367	₱184,681,550	₱45,667,034	₱117,260,831	₱162,927,865
Acquisition	5,650,118	21,251,254	26,901,372	10,742,149	14,674,973	25,417,122
Disposals/write-offs	–	(18,089,523)	(18,089,523)	–	(3,663,437)	(3,663,437)
Balance at end of year	62,059,301	131,434,098	193,493,399	56,409,183	128,272,367	184,681,550
Accumulated depreciation and amortization						
Balance at beginning of year	19,764,710	86,015,479	105,780,189	11,018,820	71,644,691	82,663,511
Depreciation and amortization	9,899,428	17,994,841	27,894,269	8,745,890	17,705,513	26,451,403
Disposals/write-offs	–	(14,561,944)	(14,561,944)	–	(3,334,725)	(3,334,725)
Balance at end of year	29,664,138	89,448,376	119,112,514	19,764,710	86,015,479	105,780,189
Net book value at end of year	₱32,395,163	₱41,985,722	₱74,380,885	₱36,644,473	₱42,256,888	₱78,901,361

	Parent Company					
	2010			2009		
	Building Improvements	Furnitures, Fixtures and Equipment	Total	Building Improvements	Furnitures, Fixtures and Equipment	Total
Cost						
Balance at beginning of year	₱47,101,984	₱97,679,845	₱144,781,829	₱36,411,069	₱87,158,951	₱123,570,020
Acquisition	4,652,011	18,464,788	23,116,799	10,690,915	14,184,331	24,875,246
Disposals/write-offs	–	(5,446,600)	(5,446,600)	–	(3,663,437)	(3,663,437)
Balance at end of year	51,753,995	110,698,033	162,452,028	47,101,984	97,679,845	144,781,829
Accumulated depreciation and amortization						
Balance at beginning of year	14,394,354	62,902,961	77,297,315	6,475,569	52,426,698	58,902,267
Depreciation and amortization	9,014,246	14,486,852	23,501,098	7,918,785	13,810,988	21,729,773
Disposals/write-offs	–	(4,522,932)	(4,522,932)	–	(3,334,725)	(3,334,725)
Balance at end of year	23,408,600	72,866,881	96,275,481	14,394,354	62,902,961	77,297,315
Net book value at end of year	₱28,345,395	₱37,831,152	₱66,176,547	₱32,707,630	₱34,776,884	₱67,484,514

As of December 31, 2010 and 2009, the gross carrying value of fully depreciated property and equipment that are still in use amounted to ₱52.1 million and ₱39.5 million, respectively, for the Group and ₱48.3 million and ₱35.4 million, respectively, for the Parent Company.

In 2010, 2009 and 2008, the Group and the Parent Company recognized gain from sale of property and equipment amounting to ₱832.9 thousand, ₱661.3 thousand and ₱92.5 thousand, respectively.

10. Investments in Subsidiaries, Associates and Joint Venture

This account consists of investments in:

	Ownership (%)		Consolidated		Parent Company	
	2010	2009	2010	2009	2010	2009
Acquisition cost:						
Subsidiaries (Note 2):						
PBC	100.00	100.00	₱–	₱–	₱324,798,000	₱324,798,000
FMSBC	100.00	100.00	–	–	130,000,000	130,000,000
SPI	100.00	100.00	–	–	130,000,000	130,000,000
FEI	100.00	100.00	–	–	12,500,000	12,500,000
FMIBC	100.00	100.00	–	–	10,250,000	10,250,000
PVDC	100.00	100.00	–	–	4,200,000	4,200,000
FMSLMMF	100.00	74.45	–	–	200,000,000	50,000,000
FMSLGCF	100.00	100.00	–	–	50,000,000	50,000,000
Resiliency (SPC), Inc.	100.00	100.00	–	–	5,000,000	5,000,000
FAMI	70.00	70.00	–	–	8,235,000	8,235,000
FMSLFIF	54.53	69.61	–	–	510,828,526	181,645,777
Associates:						
Cathay International Resources, Inc. (CIRC)	35.00	35.00	488,950,000	₱488,950,000	488,950,000	488,950,000
Philippine Charter Insurance Corporation (PCIC)	33.33	33.33	59,977,343	59,977,343	59,977,343	59,977,343
Global Business Power Corporation (GBPC)	30.00	30.00	6,354,075,340	4,498,979,440	6,354,075,340	4,498,979,440
First Metro Travel Inc. (FMTI)	30.00	–	9,900,000	–	–	–
Philippine AXA Life Insurance Corporation (PALIC)	28.15	28.15	172,140,059	278,118,238	172,140,059	278,118,238
FMIIC	20.00	20.00	363,567,634	363,567,634	363,567,634	363,567,634
Skyland Realty Development Corporation (SRDC)	20.00	20.00	318,333	318,333	318,333	318,333
Dahon Realty Corporation	20.00	20.00	2,853,580	2,853,580	2,853,580	2,853,580
Orix Metro Leasing and Finance Corp (OMLFC)	20.00	20.00	183,157,361	183,157,361	183,157,361	183,157,361
Lepanto Consolidated Mining Company (LCMC)	19.68	11.08	2,135,041,154	1,368,635,113	2,135,041,154	1,368,635,113

(Forward)

	Ownership (%)		Consolidated		Parent Company	
	2010	2009	2010	2009	2010	2009
First Metro Save & Learn Balanced Fund (FMSALBF)	10.73	27.57	30,779,090	27,779,090	25,202,510	25,202,510
First Metro Save & Learn Equity Fund (FMSALEF)	8.99	31.60	115,102,458	247,234,492	68,644,354	235,244,345
Joint Venture:						
Aurora Towers, Inc.	50.00	50.00	18,408,000	18,408,000	18,408,000	18,408,000
			9,934,270,352	7,537,978,624	11,258,147,194	8,430,040,674
Accumulated equity in net earnings:						
Balance at beginning of year			1,525,830,332	1,240,372,916	–	–
Equity in net earnings			554,226,398	427,749,836	–	–
Cash dividends			–	(139,783,750)	–	–
Others			–	(2,508,670)	–	–
Balance at end of year			2,080,056,730	1,525,830,332	–	–
Equity in unrealized gain on AFS investments of associates			266,419,151	168,916,960	–	–
Equity in revaluation increment			35,934,252	29,948,345	–	–
Equity in translation adjustment			(39,379,598)	(29,422,895)	–	–
			12,277,300,887	9,233,251,366	11,258,147,194	8,430,040,674
Less allowance for impairment losses (Note 13)			129,490,672	–	403,809,020	100,098,520
			₱12,147,810,215	₱9,233,251,366	₱10,854,338,174	₱8,329,942,154

Investment in PBC
As of December 31, 2010 and 2009, the Group did not take up losses in excess of PBC's investments in its subsidiary amounting to ₱0.7 million and ₱36.0 million, respectively.

Investment in CIRC
As of December 31, 2010 and 2009, the Group's investment in CIRC includes deposit for future subscription amounting to ₱314.0 million.

Investment in GBPC
As of December 31, 2010 and 2009, the Group's investment in GBPC includes deposit for future subscription amounting to ₱5.3 billion and ₱3.4 billion, respectively.

Investment in PALIC
The decrease in balance in the Group's investment in PALIC as of December 31, 2010 represents return of the Group's investment amounting to ₱106.0 million.

Investment in FMTI
The Parent Company owned 60.0% of FMTI through PVDC, a wholly owned subsidiary. On November 3, 2010, PVDC disposed its 30.0% ownership in FMTI for a total consideration of ₱9.9 million under the Share Purchase Agreement with a third party. PVDC's remaining 30.0% ownership in FMTI is classified as investment in associates. The breakdown of the disposed assets and liabilities follows:

	Amounts
Current assets	
Cash and cash equivalents	₱34,860,041
Accounts receivables	22,585,064
Other assets	8,426,114
Total current assets	65,871,219
Noncurrent assets	
AFS investments	251,300
HTM investments	8,767,715
Deferred tax asset	7,428,480
Property, and equipment	3,207,574
Total noncurrent assets	19,655,069
Total Assets 85,526,288	
Current liabilities	16,968,097
Deferred income	987,139
Minority interest	27,028,421
Total liabilities	44,983,657
Net assets disposed	40,542,631
Investment in associate recognized	(9,900,000)
Loss on disposal of investment	(20,742,631)
Total selling price	₱9,900,000

(Forward)

	Amounts
Net cash outflow arising on disposal	
Cash consideration	P9,900,000
Cash and cash equivalent disposed	(34,860,041)
	(P24,960,041)

Investment in LCMC
As of December 31, 2010, the Group's direct ownership in LCMC increased to 19.68% after its acquisition of the LCMC shares held by the Ultimate Parent Company. As of December 31, 2009, the Group has 11.1% ownership interest in LCMC. However, it 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.

The fair value of investment in LCMC and net assets value of investments in mutual funds amounted to ₱2.9 billion and ₱950.3 million as of December 31 2010, respectively, and ₱173.5 million and ₱574.9 million as of December 31, 2009, respectively.

The following table presents the financial information of significant associates as of and for the years ended December 31, 2010 and 2009 (amounts in thousands):

	2010				
	Statement of Financial Position		Statement of Income		
Name of Company	Total Assets	Total Liabilities	Gross Income	Operating Income (Loss)	Net Income (Loss)
PALIC	₱35,609,663	₱32,044,565	₱3,800,678	₱4,716,288	₱795,453
GBPC	62,689,185	43,109,844	4,698,606	445,811	507,523
OMLFC	9,659,639	7,848,777	457,370	94,988	94,934
LCMC	8,100,469	3,631,536	134,062	19,709	19,709
PCIC	4,056,517	3,310,902	1,679,724	151,843	102,008
CIRC	2,211,619	1,740,635	81,327	(3,393)	(3,393)
FMIIC	921,863	28,033	6,190	(8,021)	(8,021)
FMSALEF	1,691,002	1,658,583	581,170	536,365	525,001
FMSALBF	474,536	10,827	116,107	107,063	105,299

	2009				
	Statement of Financial Position		Statement of Income		
Name of Company	Total Assets	Total Liabilities	Gross Income	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

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

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

11. Investment Properties

The composition of and movements in this account follow:

	Consolidated					
	2010			2009		
	Land	Building/ condominium for sale/lease	Total	Land	Building/ condominium for sale/lease	Total
Cost						
Balance at beginning of year	₱736,491,815	₱138,227,457	₱874,719,272	₱791,807,202	₱138,227,457	₱930,034,659
Additions	–	–	–	4,707,113	–	4,707,113
Disposals	(27,139,673)	(1,969,101)	(29,108,774)	(60,022,500)	–	(60,022,500)
Balance at end of year	709,352,142	136,258,356	845,610,498	736,491,815	138,227,457	874,719,272
Accumulated depreciation						
Balance at beginning of year	–	67,354,711	67,354,711	–	63,133,572	63,133,572
Depreciation	–	3,864,803	3,864,803	–	4,221,139	4,221,139
Disposals	–	(995,560)	(995,560)	–	–	–
Balance at end of year	–	70,223,954	70,223,954	–	67,354,711	67,354,711
Allowance for impairment losses (Note 13)	21,081,669	1,229,500	22,311,169	–	1,229,500	1,229,500
Net book value at end of year	₱688,270,473	₱64,804,902	₱753,075,375	₱736,491,815	₱69,643,246	₱806,135,061

	Parent Company					
	2010			2009		
	Land	Building/ condominium for sale/lease	Total	Land	Building/ condominium for sale/lease	Total
Cost						
Balance at beginning of year	₱736,491,815	₱138,227,457	₱874,719,272	₱731,807,202	₱138,227,457	₱870,034,659
Additions	–	–	–	4,707,113	–	4,707,113
Disposals	(27,139,673)	(1,969,101)	(29,108,774)	(22,500)	–	(22,500)
Balance at end of year	709,352,142	136,258,356	845,610,498	736,491,815	138,227,457	874,719,272
Accumulated depreciation						
Balance at beginning of year	–	67,354,711	67,354,711	–	63,133,572	63,133,572
Depreciation	–	3,864,803	3,864,803	–	4,221,139	4,221,139
Disposals	–	(995,560)	(995,560)	–		–
Balance at end of year	–	70,223,954	70,223,954	–	67,354,711	67,354,711
Allowance for impairment losses (Note 13)	21,081,669	1,229,500	22,311,169	–	1,229,500	1,229,500
Net book value at end of year	₱688,270,473	₱64,804,902	₱753,075,375	₱736,491,815	₱69,643,246	₱806,135,061

The aggregate market value of investment properties as of December 31, 2010 and 2009 amounted to ₱1.2 billion and ₱1.5 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 2010, 2009 and 2008, the Group recognized gain from disposal of investment properties amounting to ₱45.5 million, ₱10.0 million and ₱22.7 million, respectively, while the Parent Company recognized gain from disposal of investment properties amounting to ₱45.5 million, ₱34.3 thousand and ₱22.7 million, respectively.

In 2010, 2009 and 2008, rental income from leased properties (included under 'Miscellaneous income') amounted to ₱4.6 million, ₱4.8 million and ₱4.7 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 ₱0.7 million, ₱1.5 million and ₱1.6 million in 2010, 2009 and 2008, 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 ₱1.8 million, ₱2.8 million and ₱4.7 million in 2010, 2009 and 2008, respectively (Note 23).

12. Other Assets

This account consists of:

	Consolidated		Parent Company	
	2010	2009	2010	2009
Creditable withholding tax	₱210,024,392	₱172,325,126	₱190,766,231	₱162,224,721
Prepaid expenses	23,584,344	30,276,866	22,446,059	16,766,020
Tax credit	11,306,129	11,897,444	11,306,129	11,897,444
Retirement asset (Note 21)	621,149	–	621,149	–
Miscellaneous	22,615,790	28,846,886	13,732,211	10,801,742
	₱268,151,804	₱243,346,322	₱238,871,779	₱201,689,927

Creditable withholding taxes arise from income generated from taxes withheld on service charges, fees and commissions, interest income and rental income.

Miscellaneous consists of other deferred charges (i.e. software licenses) and other assets (i.e. rental and other deposits, unused office supplies).

13. Allowance for Impairment and Credit Losses

Changes in the allowance for impairment and credit losses follow:

	Consolidated		Parent Company	
	2010	2009	2010	2009
Balance at beginning of year				
Loans and receivables (Note 8)	₱379,870,322	₱376,935,308	₱363,655,994	₱355,047,308
AFS equity investments (Note 7)	285,592,614	113,850,316	200,467,298	28,725,000
Investment properties (Note 11)	1,229,500	1,229,500	1,229,500	1,229,500
Investment in associates (Note 10)	–	8,741,999	100,098,520	108,848,520
Other assets (Note 12)	5,090,768	–	–	–
	671,783,204	500,757,123	665,451,312	493,850,328
Provision for impairment and credit losses	511,028,882	180,737,944	664,741,381	171,742,298
Write-offs and others	(144,592,098)	(9,711,863)	(160,446,022)	(141,314)
	366,436,784	171,026,081	504,295,359	171,600,984
Balance at end of year				
Loans and receivables (Note 8)	521,200,160	379,870,322	508,849,076	363,655,994
AFS equity investments (Note 7)	365,217,987	285,592,614	234,777,406	200,467,298
Investment properties (Note 11)	22,311,169	1,229,500	22,311,169	1,229,500
Investment in associates (Note 10)	129,490,672	–	403,809,020	100,098,520
Other assets (Note 12)	–	5,090,768	–	–
	₱1,038,219,988	₱671,783,204	₱1,169,746,671	₱665,451,312

Below is the breakdown of provision for (reversal of) impairment and credit losses in 2010, 2009 and 2008.

	Consolidated			Parent Company		
	2010	2009	2008	2010	2009	2008
Loans and receivables	₱280,831,168	₱3,904,878	(₱187,834,021)	₱284,779,278	₱–	(₱187,877,322)
Investment in associates	129,490,672	–	2,234,601	324,570,326	–	81,375,522
AFS equity investments	79,625,373	171,742,298	18,277,827	34,310,108	171,742,298	–
Investment Properties	21,081,669	–	–	21,081,669	–	–
Other assets	–	5,090,768	–	–	–	–
	₱511,028,882	₱180,737,944	(₱167,321,593)	₱664,741,381	₱171,742,298	(₱106,501,800)

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

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

	Consolidated				
	2010				
	Corporate Lending	Unquoted commercial papers	Accrued interest Receivables	Accounts receivables	Total
At January 1, 2010	₱49,055,868	₱174,799,470	₱72,572,886	₱83,442,098	₱379,870,322
Provision for impairment losses	71,875,866	118,434,861	12,658,014	77,862,427	280,831,168
Write-offs/others	11,312,473	(108,673,866)	(42,224,805)	84,868	(139,501,330)
At December 31, 2010 (Note 8)	₱132,244,207	₱184,560,465	₱43,006,095	₱161,389,393	₱521,200,160
Individual impairment	₱300,000	₱–	₱37,910,675	₱161,389,393	₱199,600,068
Collective impairment	131,944,207	184,560,465	5,095,420	–	321,600,092
	₱132,244,207	₱184,560,465	₱43,006,095	₱161,389,393	₱521,200,160
Gross amount of loans and receivables individually determined to be impaired	₱3,000,000	₱–	₱37,910,675	₱161,389,393	₱202,300,068

	Consolidated				
	2009				
	Corporate Lending	Unquoted commercial papers	Accrued interest Receivables	Accounts receivables	Total
At January 1, 2009	₱51,572,540	₱166,190,784	₱74,807,486	₱84,364,498	₱376,935,308
Provision for impairment losses	–	–	–	3,904,878	3,904,878
Write-offs/others	(2,516,672)	8,608,686	(2,234,600)	(4,827,278)	(969,864)
At December 31, 2009 (Note 8)	₱49,055,868	₱174,799,470	₱72,572,886	₱83,442,098	₱379,870,322
Individual impairment	₱40,356,798	₱174,799,470	₱70,234,741	₱82,094,041	₱367,485,050
Collective impairment	8,699,070	–	2,338,145	1,348,057	12,385,272
	₱49,055,868	₱174,799,470	₱72,572,886	₱83,442,098	₱379,870,322
Gross amount of loans and receivables individually determined to be impaired	₱904,772,991	₱456,250,000	₱97,297,523	₱113,178,648	₱1,571,499,162

	Parent Company				
	2010				
	Corporate Lending	Unquoted commercial papers	Accrued interest Receivables	Accounts receivables	Total
At January 1, 2010	₱32,841,541	₱174,799,470	₱72,572,885	₱83,442,098	₱363,655,994
Provision for impairment losses	84,284,018	118,434,861	12,658,014	69,402,385	284,779,278
Write-offs/others	11,312,474	(108,673,866)	(42,224,804)	–	(139,586,196)
At December 31, 2010 (Note 8)	₱128,438,033	₱184,560,465	₱43,006,095	₱152,844,483	₱508,849,076
Individual impairment	₱300,000	₱–	₱37,910,675	₱152,844,483	₱191,055,158
Collective impairment	128,138,033	184,560,465	5,095,420	–	317,793,918
	₱128,438,033	₱184,560,465	₱43,006,095	₱152,844,483	₱508,849,076
Gross amount of loans and receivables individually determined to be impaired	₱3,000,000	₱–	₱37,910,675	₱152,844,483	₱193,755,158

	Parent Company				
	2009				
	Corporate Lending	Unquoted commercial papers	Accrued interest Receivables	Accounts receivables	Total
At January 1, 2009	₱32,841,541	₱166,190,784	₱72,572,885	₱83,442,098	₱355,047,308
Write-offs/others	–	8,608,686	–	–	8,608,686
At December 31, 2009 (Note 8)	₱32,841,541	₱174,799,470	₱72,572,885	₱83,442,098	₱363,655,994
Individual impairment	₱31,161,697	₱174,799,470	₱70,857,164	₱83,323,702	₱360,142,033
Collective impairment	1,679,844	–	1,715,721	118,396	3,513,961
	₱32,841,541	₱174,799,470	₱72,572,885	₱83,442,098	₱363,655,994
Gross amount of loans and receivables individually determined to be impaired	₱904,772,991	₱456,250,000	₱97,297,523	₱83,528,794	₱1,541,849,308

Movements in the allowance for credit and impairment losses on AFS equity investments, investment in associates and investment properties follow:

	Consolidated				
	AFS Investments	Investment in associate	Investment Properties	Other assets	Total
At January 1, 2010	₱285,592,614	₱–	₱1,229,500	₱5,090,768	₱291,912,882
Provision for impairment losses	79,625,373	129,490,672	21,081,669	–	230,197,714
Write-offs/others	–	–	–	(5,090,768)	(5,090,768)
At December 31, 2010	₱365,217,987	₱129,490,672	₱22,311,169	₱–	₱517,019,828
At January 1, 2009	₱113,850,316	₱8,741,999	₱1,229,500	₱–	₱123,821,815
Provision for impairment losses	171,742,298	–	–	5,090,768	176,833,066
Write-offs/others	–	(8,741,999)	–	–	(8,741,999)
At December 31, 2009	₱285,592,614	₱–	₱1,229,500	₱5,090,768	₱291,912,882

	Parent			
	AFS Investments	Investment in associate	Investment Properties	Total
At January 1, 2010	₱200,467,298	₱100,098,520	₱1,229,500	₱301,795,318
Provision for impairment losses	34,310,108	324,570,326	21,081,669	379,962,103
Write-offs/others	–	(20,859,826)	–	(20,859,826)
At December 31, 2010	₱234,777,406	₱403,809,020	₱22,311,169	₱660,897,595
At January 1, 2009	₱28,725,000	₱108,848,520	₱1,229,500	₱138,803,020
Provision for impairment losses	171,742,298	–	–	171,742,298
Write-offs/others	–	(8,750,000)	–	(8,750,000)
At December 31, 2009	₱200,467,298	₱100,098,520	₱1,229,500	₱301,795,318

14. Bills Payable

This account consists of:

	2010	2009
Deposit substitutes:		
Promissory notes issued	₱37,813,384,186	₱38,946,458,315
Repurchase agreements	7,440,468,505	10,310,876,895
Borrowings from local banks	1,379,640,274	500,000,000
Interbank call loans	6,200,000,000	290,000,000
	₱52,833,492,965	₱50,047,335,210

Deposit substitutes have maturities of 15-364 days and bear annual interest rates ranging from 1.0% to 4.5%, 2.3% to 8.0%, and 2.0% to 8.0% in 2010, 2009 and 2008, respectively.

The carrying values of financial assets pledged as collateral to securities sold under agreement to repurchase and classified under AFS debt securities, unquoted commercial papers and HTM securities amounted to ₱67.0 million, ₱3.4 billion and ₱3.9 billion, respectively, as of December 31, 2010 and ₱7.7 billion, ₱2.6 billion and nil, respectively, as of December 31, 2009 (Notes 7 and 8). The repurchase agreements are not negotiable and are not automatically renewed at maturity.

Borrowings from local banks represent dollar-, euro- and peso-denominated loans. In April 2010, the Parent Company borrowed dollar- and euro-denominated loans which will mature in January 2011 and bear interest of 0.9% and 1.8%, respectively (Note 26). In January 2007, the Parent Company borrowed peso funds which bear interest of 6.4% and will mature in 2014.

Interbank call loans are short-term borrowings that have terms of 1-5 days and bear annual interests ranging from 4.1% to 4.9%, 4.1% to 6.3%and 5.0% to 6.3% in 2010, 2009 and 2008, respectively.

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

	2010	2009	2008
Deposit substitutes:			
Promissory notes issued	₱1,406,672,134	₱1,782,967,227	₱1,562,453,327
Repurchase agreements	483,968,478	169,634,283	37,983,139
Borrowings from local banks	40,129,919	33,040,572	32,209,723
Interbank call loan	39,654,195	54,003,194	29,679,170
Securities sold under agreement to repurchase	–	–	18,053,267
	₱1,970,424,726	₱2,039,645,276	₱1,680,378,626

Under BSP Circular No. 632, deposit substitutes are subject to liquidity and statutory reserves of 11.0% and 8.0%, respectively. As of December 31, 2010 and 2009, the Parent Company's available reserves on these deposits as reported to the BSP follow:

	2010	2009
Cash and other cash items	₱7,979,255,884	₱7,343,021,749
Due from BSP	880,000,000	1,965,000,000
	₱8,859,255,884	₱9,308,021,749

As of December 31, 2010 and 2009, the Parent Company was in compliance with the regulations on reserve requirements.

15. Accrued Taxes, Interest and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2010	2009	2010	2009
Financial liabilities (Note 18):				
Accrued interest payable	₱154,585,918	₱161,431,476	₱155,305,100	₱161,762,068
Accrued other expenses payable	42,561,374	19,133,878	31,662,899	11,933,647
	197,147,292	180,565,354	186,967,999	173,695,715
Nonfinancial liabilities (Note 18):				
Accrued taxes and licenses	21,450,668	28,336,996	21,450,668	26,818,782
Retirement liability (Note 21)	3,279,418	10,173,481	–	8,424,840
	24,730,086	38,510,477	21,450,668	35,243,622
	₱221,877,378	₱219,075,831	₱208,418,667	₱208,939,337

16. Bonds Payable

Details of this account follow:

	2010	2009
Bonds payable	₱150,000,000	₱150,000,000
Less bonds held by PBC	94,800,000	94,800,000
	₱55,200,000	₱55,200,000

On July 12, 2007, the Parent Company issued Floating Rate Bonds (FRBs) 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 100.0% of the face value of the bond liability. As of December 31, 2010 and 2009, the Parent Company's investment in government bonds (included under 'AFS investments') amounting to ₱160.0 million and ₱172.2 million, respectively, are used as collateral for the FRBs issued by the Parent Company (Note 7).

In 2010, 2009 and 2008, interest expense on bonds payable for the Group and the Parent Company amounted to ₱2.4 million, ₱2.7 million and ₱8.4 million, respectively, for the Group and ₱6.6 million, ₱7.5 million and ₱8.3 million, respectively, for the Parent Company.

17. Other Liabilities

This account consists of:

	Consolidated 2010	Consolidated 2009	Parent Company 2010	Parent Company 2009
Financial liabilities (Note 18):				
Dividends payable	₱20,235,096	₱20,287,932	₱20,235,096	₱20,287,932
Subscriptions payable (Note 26)	9,187,500	9,187,500	18,562,500	18,562,500
Payables for securities purchased	5,504,646	1,784,302	5,504,646	86,025,766
Premiums payable	19,120,797	39,957,593	297,496	300,958
	54,048,039	71,217,327	44,599,738	125,177,156
Nonfinancial liabilities (Note 18):				
Non-equity non-controlling interest	452,336,324	110,800,553	–	–
Withholding taxes payable (Note 25)	33,553,344	38,943,210	32,825,692	38,192,549
Miscellaneous	9,385,211	57,050,167	4,140,026	45,153,558
	495,274,879	206,793,930	36,965,718	83,346,107
	₱549,322,918	₱278,011,257	₱81,565,456	₱208,523,263

Non-equity non-controlling interests arise when funds are consolidated and where the Group holds less than 100.0% of the investment in those funds. When this occurs, the Group acquires a liability in respect of non-controlling interests in the funds of which the Group has control. Such non-controlling interests are distinguished from equity non-controlling interests since these are puttable instruments.

18. Maturity Analysis of Financial and Nonfinancial Assets and Liabilities

The following tables present the assets and liabilities of the Group and of the Parent Company by contractual maturity and settlement dates as of December 31, 2010 and 2009:

	Consolidated					
	2010			2009		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial Assets						
Cash and other cash items	₱9,648,394,094	₱–	₱9,648,394,094	₱8,156,812,303	₱–	₱8,156,812,303
Due from BSP	880,000,000	–	880,000,000	1,965,000,000	–	1,965,000,000
Financial assets FVPL	796,453,572	1,744,374,979	2,540,828,551	503,827,997	1,386,131,000	1,889,958,997
AFS investments - at gross (Note 7)	145,706,296	12,884,007,516	13,029,713,812	–	21,127,812,669	21,127,812,669
HTM investments	–	9,443,954,636	9,443,954,636	2,437,278,231	1,298,543,499	3,735,821,730
Loans and receivables - at gross (Note 8)	2,280,380,031	13,788,244,502	16,068,624,533	1,672,161,480	11,324,087,741	12,996,249,221
	13,750,933,993	37,860,581,633	51,611,515,626	14,735,080,011	35,136,574,909	49,871,654,920
Nonfinancial Assets						
Investments in subsidiaries, associates and joint venture - at gross (Note 10)	–	12,277,300,887	12,277,300,887	–	9,233,251,366	9,233,251,366
Property and equipment	–	74,380,885	74,380,885	–	78,901,361	78,901,361
Investment properties - at gross (Note 11)	–	775,386,544	775,386,544	–	807,364,561	807,364,561
Deferred tax assets	–	627,814	627,814	–	8,526,242	8,526,242
Other assets - at gross	–	268,151,804	268,151,804	–	248,437,090	248,437,090
	–	13,395,847,934	13,395,847,934	–	10,376,480,620	10,376,480,620
Allowance for impairment and credit losses (Note 13)	–	(1,038,219,988)	(1,038,219,988)	–	(671,783,204)	(671,783,204)
Unearned interest and discounts (Note 8)	(8,075)	–	(8,075)	–	(43,276)	(43,276)
	(8,075)	(1,038,219,988)	(1,038,228,063)	–	(671,826,480)	(671,826,480)
	₱13,750,925,918	₱50,218,209,579	₱63,969,135,497	₱14,735,080,011	₱44,841,229,049	₱59,576,309,060
Financial Liabilities						
Bills payable	₱52,333,492,965	₱500,000,000	₱52,833,492,965	₱49,547,335,210	₱500,000,000	₱50,047,335,210
Accrued interest and other expenses payable (Note 15)	197,147,292	–	197,147,292	180,565,354	–	180,565,354
Accounts payable	230,322,975	–	230,322,975	211,380,284	–	211,380,284
Derivative Liability	39,362,369	84,058,396	123,420,765	30,866,097	107,863,144	138,729,241
Bonds payable	55,200,000	–	55,200,000	–	55,200,000	55,200,000
Other liabilities (Note 17)	44,860,539	9,187,500	54,048,039	62,029,827	9,187,500	71,217,327
	52,900,386,140	593,245,896	53,493,632,036	50,032,176,772	672,250,644	50,704,427,416

(Forward)

	Consolidated					
	2010			2009		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Nonfinancial Liabilities						
Accrued taxes and other expenses payable (Note 15)	24,730,086	–	24,730,086	28,336,996	10,173,481	38,510,477
Income taxes payable	24,658,317	–	24,658,317	5,649,974	–	5,649,974
Deferred tax liability (Note 24)	–	10,274,257	10,274,257	–	7,003,924	7,003,924
Other liabilities (Note 17)	495,274,879	–	495,274,879	206,793,930	–	206,793,930
	544,663,282	10,274,257	554,937,539	240,780,900	17,177,405	257,958,305
	₱53,445,049,422	₱603,520,153	₱54,048,569,575	₱50,272,957,672	₱689,428,049	₱50,962,385,721

	Parent Company					
	2010			2009		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial Assets						
Cash and other cash items	₱8,362,534,562	₱–	₱8,362,534,562	₱7,711,939,172	₱–	₱7,711,939,172
Due from BSP	880,000,000	–	880,000,000	1,965,000,000	–	1,965,000,000
Financial assets at FVPL	423,700,061	1,994,374,979	2,418,075,040	964,530	1,802,885,654	1,803,850,184
AFS investments - at gross (Note 7)	113,990,760	12,562,277,263	12,676,268,023	–	20,726,857,214	20,726,857,214
HTM investments	–	9,443,954,636	9,443,954,636	2,420,356,113	1,298,543,499	3,718,899,612
Loans and receivables - at gross (Note 8)	1,932,895,352	13,653,849,384	15,586,744,736	1,256,914,818	11,424,420,840	12,681,335,658
	11,713,120,735	37,654,456,262	49,367,576,997	13,355,174,633	35,252,707,207	48,607,881,840
Nonfinancial Assets						
Investments in subsidiaries, associates and joint venture at gross (Note 10)	–	11,258,147,194	11,258,147,194	–	8,430,040,674	8,430,040,674
Property and equipment	–	66,176,547	66,176,547	–	67,484,514	67,484,514
Investment properties - at gross (Note 11)	–	775,386,544	775,386,544	–	807,364,561	807,364,561
Other assets - at gross	–	238,871,779	238,871,779	–	201,689,927	201,689,927
	–	12,338,582,064	12,338,582,064	–	9,506,579,676	9,506,579,676
Allowance for impairment and credit losses (Note 13)	–	(1,169,746,671)	(1,169,746,671)	–	(665,451,312)	(665,451,312)
Unearned interest and discounts (Note 8)	(8,075)	–	(8,075)	–	(43,276)	(43,276)
	(8,075)	(1,169,746,671)	(1,169,754,746)	–	(665,494,588)	(665,494,588)
	₱11,713,112,660	₱48,823,291,655	₱60,536,404,315	₱13,355,174,633	₱44,093,792,295	₱57,448,966,928
Financial Liabilities						
Bills payable	₱52,333,492,965	₱500,000,000	₱52,833,492,965	₱49,547,335,210	₱500,000,000	₱50,047,335,210
Accrued interest and other expenses payable (Note 15)	186,967,999	–	186,967,999	173,695,715	–	173,695,715
Accounts payable	46,709,945	–	46,709,945	54,204,967	–	54,204,967
Derivative liability	39,362,369	79,005,989	118,368,358	30,866,097	107,863,144	138,729,241
Bonds payable	150,000,000	–	150,000,000	–	150,000,000	150,000,000
Other liabilities (Note 17)	26,037,238	18,562,500	44,599,738	106,614,656	18,562,500	125,177,156
	52,782,570,516	597,568,489	53,380,139,005	49,912,716,645	776,425,644	50,689,142,289
Nonfinancial Liabilities						
Accrued taxes and other expenses payable (Note 15)	21,450,668	–	21,450,668	26,818,782	8,424,840	35,243,622
Other liabilities (Note 17)	36,965,718	–	36,965,718	83,346,107	–	83,346,107
	58,416,386	–	58,416,386	110,164,889	8,424,840	118,589,729
	₱52,840,986,902	₱597,568,489	₱53,438,555,391	₱50,022,881,534	₱784,850,484	₱50,807,732,018

19. Equity

Details of the Parent Company's capital stock as of December 31, 2010 and 2009 follow:

	2010		2009	
	Shares	Amount	Shares	Amount
Common stock - ₱10 par value				
Authorized - 800,000,000 shares				
Issued - 420,869,240 shares				
Issued and paid up capital	**420,869,240**	**₱4,208,692,400**	420,869,240	₱4,208,692,400
Less treasury shares	**43,813,090**	**2,256,151,891**	43,813,090	2,256,151,891
Total issued and outstanding at end of year	**377,056,150**	**₱1,952,540,509**	377,056,150	₱1,952,540,509

Acquisition of Treasury shares
In 2010, PBC acquired 444,700 shares of stock of the Parent Company for ₱12.7 million.

Details of the Parent Company's dividend distribution follow:

	Dividend				
Date of Declaration	Per Share	Total Amount	Date of BSP Approval	Record Date	Payment Date
June 22, 2010	₱2.65	₱999,198,798	August 11, 2010	September 8, 2010	September 30, 2010

The Parent Company did not declare dividends in 2009 and 2008.

20. Interest Income

This account consists of interest income on:

	Consolidated			Parent Company		
	2010	2009	2008	2010	2009	2008
Loans and receivables	**₱1,093,416,023**	₱969,264,641	₱1,000,733,178	**₱1,069,630,540**	₱939,893,602	₱984,669,699
AFS investments	**749,040,415**	1,108,571,005	433,815,400	**735,658,262**	1,101,168,608	408,857,800
HTM investments	**698,272,034**	325,543,036	319,102,545	**698,272,034**	316,520,995	319,102,545
Deposits with banks	**329,997,931**	283,443,001	138,855,938	**321,228,262**	274,103,074	127,564,617
IBLR and SPURA	**94,808,160**	44,244,521	161,677,541	**94,808,160**	44,124,318	161,677,541
Due from BSP	**49,327,342**	56,431,744	69,311,079	**49,327,342**	56,431,744	69,311,079
Others	**23,186,296**	8,085	6,565,079	**22,874,396**	–	6,404,210
	₱3,038,048,201	₱2,787,506,033	₱2,130,060,760	**₱2,991,798,996**	₱2,732,242,341	₱2,077,587,491

Interest income on loans and receivables include interest income accrued on impaired loans and receivables amounting to nil, ₱24.7 million and ₱32.1 million in 2010, 2009 and 2008, respectively.

21. Retirement Plans

The Parent Company, FMSBC and FAMI have funded noncontributory defined benefit retirement plans covering substantially all its officers and regular employees. Under these retirement plans, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements.

The Parent Company's, FMSBC's and FAMI's annual contribution to the retirement plan consists of a payment covering the current service cost, amortization of the unfunded actuarial accrued liability and interest on such unfunded actuarial liability.

The following table shows the assumptions used in the actuarial valuation:

	January 1, 2010 Actuarial Assumptions					
	Date of Actuarial Valuation Report	Retirement Age	Average Remaining Working Life	Expected Return on Assets	Salary Rate Increase	Discount Rate
Parent Company	January 1, 2010	55	8	6.0%	10.0%	9.1%
FMSBC	January 1, 2010	55	8	6.0%	10.0%	9.4%
FAMI	January 1, 2010	55	7	6.0%	8.0%	8.7%

	Date of Actuarial Valuation Report	Retirement Age	Average Remaining Working Life	Expected Return on Assets	Salary Rate Increase	Discount Rate
	January 1, 2009 Actuarial Assumptions					
Parent Company	January 1, 2008	55	11	6.0%	10.0%	8.3%
FMSBC	January 1, 2009	55	9	5.0%	10.0%	14%

Discount rates used to arrive at the present value of the obligation of the Parent Company, FMSBC and FAMI as of December 31, 2010 and 2009 follow:

	2010	2009
Parent Company	9.1%	9.1%
FMSBC	9.4%	9.4%
FAMI	8.7%	–

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

	Consolidated		Parent Company	
	2010	2009	2010	2009
Present value of funded obligation	₱112,478,948	₱96,860,000	₱102,769,769	₱89,364,700
Fair value of plan assets	(98,647,760)	(68,001,367)	(94,874,857)	(65,493,526)
	13,831,188	28,858,633	7,894,912	23,871,174
Unrecognized actuarial gains (losses)	(10,454,286)	(17,476,453)	(7,797,428)	(14,237,635)
Unrecognized past service cost - nonvested benefits	(718,633)	(1,208,699)	(718,633)	(1,208,699)
Net retirement liability (asset)	₱2,658,269	₱10,173,481	(₱621,149)	₱8,424,840
Retirement asset (Note 12)	₱621,149	₱–	₱621,149	₱–
Retirement liability (Note 15)	3,279,418	10,173,481	–	8,424,840

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

	Consolidated		Parent Company	
	2010	2009	2010	2009
Balance at beginning of year	₱10,173,481	₱4,676,817	₱8,424,840	₱3,003,929
Retirement expense	21,175,198	21,753,373	17,754,288	21,420,911
Contribution paid	(28,690,410)	(16,256,709)	(26,800,277)	(16,000,000)
Balance at end of year	₱2,658,269	₱10,173,481	(₱621,149)	₱8,424,840

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

	Consolidated		Parent Company	
	2010	2009	2010	2009
Balance at beginning of year	₱96,860,000	₱126,261,508	₱89,364,700	₱124,797,342
Current service cost	14,854,075	13,881,300	12,399,000	13,404,800
Interest cost	8,937,328	10,575,642	8,132,188	10,370,659
Benefits paid	(8,172,455)	(50,261,002)	(7,126,119)	(50,004,293)
Actuarial loss (gain)	–	(3,597,448)	–	(9,203,808)
Balance at end of year	₱112,478,948	₱96,860,000	₱102,769,769	₱89,364,700

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

	Consolidated		Parent Company	
	2010	2009	2010	2009
Balance at beginning of year	₱68,001,367	₱85,850,323	₱65,493,526	₱83,678,134
Contribution paid	28,690,410	16,256,709	26,800,277	16,000,000
Benefits paid	(8,172,455)	(50,261,002)	(7,126,119)	(50,004,293)
Expected return on plan assets	4,080,082	5,129,297	3,929,612	5,020,688
Actuarial gains	6,048,356	11,026,040	5,777,561	10,798,997
Balance at end of year	₱98,647,760	₱68,001,367	₱94,874,857	₱65,493,526
Actual return on plan assets	₱10,128,438	₱16,155,337	₱9,707,173	₱15,819,685

The Group and Parent Company expects to contribute ₱26.8 million to its defined benefit pension plan in 2011, respectively.

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

	Consolidated		Parent Company	
	2010	2009	2010	2009
Current service cost	₱14,854,075	₱13,881,300	₱12,399,000	₱13,404,800
Interest cost	8,937,328	10,575,642	8,132,188	10,370,659
Expected return on plan assets	(4,080,082)	(5,129,297)	(3,929,612)	(5,020,688)
Net actuarial loss (gain) recognized during the year	973,811	1,935,662	662,646	2,176,074
Amortization of past service cost	490,066	490,066	490,066	490,066
	₱21,175,198	₱21,753,373	₱17,754,288	₱21,420,911

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

	Consolidated		Parent Company	
	2010	2009	2010	2009
Fixed-income securities	41.5%	36.1%	39.4%	35.0%
Equities	37.2%	51.0%	38.7%	53.1%
Cash	11.1%	2.6%	11.4%	2.3%
Others	10.2%	10.3%	10.5%	9.6%
	100.0%	100.0%	100.0%	100.0%

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

Amounts for the current and previous years are as follows:

	Consolidated				
	2010	2009	2008	2007	2006
Present value of funded obligation	₱112,478,948	₱96,860,000	₱126,261,508	₱107,324,930	₱64,493,160
Fair value of plan assets	(98,647,760)	(68,001,367)	(85,850,323)	(73,644,344)	(62,544,775)
Funded status	13,831,188	28,858,633	40,411,185	33,680,586	1,948,385
Experience adjustment on plan assets	6,048,356	11,026,040	(9,201,006)	2,922,679	(11,031,570)
Experience adjustment on plan liabilities	–	(3,597,448)	(4,851,990)	23,007,456	18,665,231

	Parent Company				
	2010	2009	2008	2007	2006
Present value of funded obligation	₱102,769,769	₱89,364,700	₱124,797,342	₱102,141,300	₱60,251,148
Fair value of plan assets	(94,874,857)	(65,493,526)	(83,678,134)	(71,280,345)	(62,544,775)
Funded status	7,894,912	23,871,174	41,119,208	30,860,955	(2,293,627)
Experience adjustment on plan assets	5,777,561	10,798,997	(8,728,328)	2,922,679	(11,031,570)
Experience adjustment on plan liabilities	–	(9,203,808)	–	22,860,652	17,013,165

22. 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 2010, 2009 and 2008, rent expense recognized under 'Rent, light and water expenses' in the statements of income amounted to ₱33.8 million, ₱33.1 million and ₱33.0 million, respectively, for the Group, and ₱29.1 million, ₱28.9 million and ₱25.6 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, 2010 and 2009 follow:

	Consolidated		Parent Company	
	2010	2009	2010	2009
Within one year	₱19,683,068	₱17,898,170	₱17,110,586	₱15,555,078
After one year but not more than five years	31,705,912	51,388,980	28,680,601	45,791,187
Interest cost	₱51,388,980	₱69,287,150	₱45,791,187	₱61,346,265

As of December 31, 2010 and 2009, the Group and the Parent Company leases its investment property on a short-term basis and is renewable annually upon mutual agreement of the parties. The Group and the Parent Company has no future minimum rentals receivable under noncancellable operating leases as of December 31, 2010 and 2009.

In 2010, 2009 and 2008, rental income from leased properties (included under 'Miscellaneous income') amounted to ₱4.6 million, ₱4.8 million and ₱4.7 million, respectively, for the Group and the Parent Company.

23. Miscellaneous Expenses

This account consists of:

	Consolidated			Parent Company		
	2010	2009	2008	2010	2009	2008
Broker's commission	₱56,828,143	₱19,694,227	₱1,658,505	₱63,150,630	₱19,694,227	₱1,658,505
Supervision fees	28,380,149	10,627,490	11,914,288	28,380,149	10,627,490	11,914,288
Professional fees	23,454,344	32,426,870	28,757,308	19,130,882	24,920,464	16,879,815
Communication	17,718,693	15,583,004	15,468,971	14,824,815	13,265,428	12,426,110
Security, messengerial and janitorial	12,185,146	11,363,711	11,952,014	10,456,379	9,879,497	8,839,064
Advertising	10,122,448	3,734,368	6,424,860	6,813,342	2,926,993	5,340,693
Litigation/asset acquired expenses (Note 11)	9,270,902	7,794,525	4,068,521	9,270,902	7,794,525	4,068,521
Insurance	8,322,082	8,407,627	5,853,191	7,539,789	7,556,320	5,285,481
Transportation and travel	7,811,576	5,896,127	9,664,262	6,450,822	4,527,827	8,329,051
Membership dues	7,004,330	6,988,239	6,963,027	6,474,516	6,472,163	6,866,975
Stationery and supplies used	5,240,212	4,278,673	5,021,051	3,729,254	3,120,603	3,645,772
Repairs and maintenance	1,613,914	1,173,665	1,929,721	1,107,772	725,003	1,427,341
Donations	91,900	10,229,750	25,589,700	91,900	10,209,750	25,589,700
Others	75,573,600	26,561,034	52,210,778	38,618,702	15,593,470	36,487,407
	₱263,617,439	₱164,759,310	₱187,476,197	₱216,039,854	₱137,313,760	₱148,758,723

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

24. Income and Other Taxes

The provision for income tax consists of:

	Consolidated			Parent Company		
	2010	2009	2008	2010	2009	2008
Current						
Final tax	₱393,151,698	₱328,803,664	₱161,917,853	₱385,903,300	₱322,495,876	₱152,322,945
Corporate	33,877,363	11,289,694	1,474,155	1,204,878	–	–
	427,029,061	340,093,358	163,392,008	387,108,178	322,495,876	152,322,945
Deferred	1,433,099	376,295	1,301,610	–	–	–
	₱428,462,160	₱340,469,653	₱164,693,618	₱387,108,178	₱322,495,876	₱152,322,945

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 20.0%, which is a final withholding tax on gross interest income from debt instruments and other deposit substitutes.

Effective November 1, 2005, Republic Act (RA) No. 9337, an act amending the National Internal Revenue Code (NIRC of 1997), provides that the RCIT rate shall be 35.0% until January 1, 2009. Starting January 1, 2009 the RCIT rate shall be 30.0%. Interest allowed as a deductible expense is reduced by an amount equivalent to 42.0% of interest income subjected to final tax starting November 1, 2005 until December 31, 2008. Starting January 1, 2009, interest allowed as deductible expense shall be reduced by 33%.

The NIRC of 1997 also provides for rules on the imposition of a 2% MCIT on the gross income as of the end of the taxable year beginning on the fourth (4th) taxable year immediately following the taxable year in which the Company commenced its business operations. Any excess MCIT over the RCIT can be carried forward on an annual basis and credited against the RCIT for the three (3) immediately succeeding taxable years.

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 2010 and 2009 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.

As of December 31, 2010 and 2009, deferred tax assets of the Group represents the tax effect of the allowance for impairment and credit losses and NOLCO of subsidiaries amounting to ₱0.6 million and ₱8.5 million, respectively.

The components of consolidated deferred tax liabilities - net follows:

	Consolidated		Parent Company	
	2010	2009	2010	2009
Deferred tax liability on:				
Unrealized gain on AFS investments	₱9,456,634	₱7,875,000	₱–	₱–
Unrealized gain on HFT investments	1,430,971	149,956	–	–
Unrealized trading gain on derivative liability	238,592	–		
Retirement asset	186,345	–	186,345	–
Rent receivable	142,742	–		
	11,455,284	8,024,956	186,345	–
Deferred tax asset on:				
Unamortized past service cost	477,568	496,440	–	–
Accrued retirement liability	466,533	524,592	–	–
Allowance for impairment and credit losses	186,345	–	186,345	–
Accrued expenses	50,581	–	–	–
	1,181,027	1,021,032	186,345	–
	₱10,274,257	₱7,003,924	₱–	₱–

As of December 31, 2010 and 2009, the Group and the Parent Company recognized deferred tax liability directly against equity (as a reduction of other comprehensive income) amounting to ₱1.6 million and ₱7.9 million, respectively, for the Group and nil for the Parent Company.

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

	Consolidated		Parent Company	
	2010	2009	2010	2009
Temporary differences on:				
NOLCO	₱2,370,837,409	₱1,941,212,084	₱2,367,995,977	₱1,938,290,559
Allowance for impairment and credit losses	543,324,984	381,099,822	530,973,900	364,885,494
Accumulated depreciation on investment properties and other foreclosed properties	105,823,202	105,378,191	105,823,202	105,378,191
Unrealized loss on AFS investments	34,166,324	4,953	14,958,141	–
Unamortized past service cost	14,477,140	4,163,587	14,477,140	5,734,872
Carryforward benefits of MCIT	2,274,024	966,497	1,204,878	–
	₱3,070,903,083	₱2,432,825,134	₱3,035,433,238	₱2,414,289,116

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

As of December 31, 2010 and 2009, 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
2007	₱278,139,865	₱278,139,865	₱–	2010
2008	683,383,664	–	683,383,664	2011
2009	976,767,030	–	976,767,030	2012
2010	707,845,283	–	707,845,283	2013
	₱2,646,135,842	₱278,139,865	₱2,367,995,977	

Details of the Parent Company's MCIT follow:

Inception Year	Amount	Used/Expired	Balance	Expiry Year
2010	₱1,204,878	–	–	2013

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

	Consolidated			Parent Company		
	2010	2009	2008	2010	2009	2008
Statutory income tax rate	30.00%	30.00%	35.00%	30.00%	30.00%	35.00%
Tax effects of:						
Tax-exempt and tax-paid income	(27.38)	(29.79)	(79.01)	(45.51)	(44.69)	(50.88)
Equity in earnings of investees	(7.72)	(9.36)	(9.75)	–	–	–
Non-deductible expenses	7.76	15.03	16.22	13.43	17.07	7.88
Unrecognized deferred tax assets	17.18	21.49	69.54	31.67	24.96	21.61
Others	0.03	(2.52)	(2.78)	–	–	–
Effective income tax rate	19.87%	24.85%	29.22%	29.59%	27.34%	13.61%

25. Supplemental Information Under Revenue Regulations 15-2010

The Parent Company also reported and/or paid the following types of taxes for the year:

Gross Receipts Tax (GRT) and Documentary Stamp Tax

Under the Philippine tax laws, financial institutions are subject to percentage and other taxes as well as income taxes (Note 24). Percentage and other taxes paid by the Parent Company consist principally of GRT and documentary stamp tax.

Taxes and Licenses
This includes all other taxes, documentary stamp tax, local tax, fringe benefit tax including licenses and permit fees lodged under 'Taxes and licenses' account in the Parent Company's statements of income:

	2010
GRT	₱192,140,209
Documentary stamps tax - promissory notes	188,399,691
Local taxes	4,075,827
Capital gains tax	668,075
Fringe benefit tax	526,374
Deficiency tax	499,808
	₱386,309,984

Withholding Taxes
Details of total remittances and balance as of December 31, 2010 are as follows:

	2010	
	Total Remittances	Balance December 31 (Note 17)
Final withholding taxes on deposit substitute borrowings	₱350,795,924	₱28,754,009
Withholding taxes on compensation and benefits	44,883,643	3,120,092
Expanded withholding taxes	9,437,172	951,591
	₱405,116,739	₱32,825,692

26. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions or if they are subjected to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are based on terms similar to those offered to non-related parties.

In the ordinary course of business, the Group and the Parent Company have transactions with its subsidiaries, associated companies, affiliates, and with certain related interests collectively referred to as directors, officers, stockholders and other related interests (DOSRI). These transactions consist primarily of loan transactions, management contracts, outright purchases and sales of trading and investment securities and other regular banking transactions.

Existing BSP regulations limit the amount of individual loans to DOSRI, of which 70.0% must be secured, to the total amount of their respective deposits and book value of their respective investments in the Parent Company. In the aggregate, loans to DOSRI generally should not exceed 100% of combined Parent Company's capital accounts, net of deferred income tax, unbooked valuation reserves ad other capital adjustments as may be required by the BSP.

The following table shows information on loans to DOSRI as of December 31, 2010 and 2009:

	2010	2009	2008
Total outstanding DOSRI loans	₱2,242,057,043	₱41,637,429	₱30,748,000
Percent of DOSRI loans to total loans	44.7%	2.6%	0.6%
Percent of unsecured DOSRI loans to total DOSRI	20.4%	17.9%	9.7%

Under BSP Circular 423, loans and other credit accommodations and guarantees secured by assets are considered as non-risk by the Parent Company and therefore excluded from DOSRI individual and aggregate ceilings.

Total interest income on DOSRI loans amounted to ₱72.0 million, ₱3.2 million and ₱2.6 million in 2010, 2009 and 2008, 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.

On May 12, 2009, BSP issued Circular No. 654 allowing a separate individual limit to loans of banks/quasi-banks to their subsidiaries and affiliates engaged in energy and power generation, i.e., a separate individual limit of twenty-five (25%) of the net worth of the lending bank/quasibank: provided, that the unsecured portion thereof shall not exceed twelve and one-half percent (12.5%) of such net worth: provided further, that these subsidiaries and affiliates are not related interests of any of the director, officer and/or stockholder of the lending bank/quasi-bank; except where such director, officer or stockholder sits in the board of directors or is appointed officer of such corporation as representative of the bank/quasi-bank.

As of December 31, 2010 and 2009, the total outstanding loans, other credit accommodations and guarantees to each of the Parent Company's subsidiaries and affiliates engaged in energy and power generation did not exceed 25% of the Parent Company's net worth, as reported to the BSP, and the unsecured portion did not exceed 12.5% of such net worth.

In addition to the related party information disclosed elsewhere in the consolidated 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):

			Elements of Transactions				
			Statement of Financial Position		Statement of Income		
Related Party	Relationship		2010	2009	2010	2009	2008
Metrobank	Ultimate Parent Company	Cash and other cash items	₱2,447,614	₱806,635			
		Bills payable	1,179,640	290,000			
		Financial assets at FVPL	21,456	10,215			
		Accrued interest payable	1,803	103			
		Interest income			₱7,878	₱5,811	₱14,429
		Interest expense			32,040	49,751	16,886
Global Business Holdings, Inc. (GBHI)	Affiliate	Loans and receivables	700,000	–			
		AFS investments	12,949	12,927			
		Accrued interest receivable	2,874	–			
		Interest income			2,874	–	–
Toledo Power Corporation	Affiliate	Loans and receivables	238,850	286,650			
		Accrued interest receivable	1,618	1,901			
		Interest income			23,123	19,328	18,126
Panay Power Corporation	Affiliate	Loans and receivables	731,762	805,387			
		Accrued interest receivable	20,585	22,772			
		Interest income			59,882	69,083	74,283
Philippine Savings Bank	Affiliate	Cash and other cash items	1,843,277	2,931,146			
		AFS investments	568,679	492,967			
		Financial assets at FVPL	80,958	71,500			
		Interest income			101,682	89,805	–
		Interest expense			9,453	–	–
Toyota Cubao, Inc. (TCI)	Affiliate	Loans and receivables	144,000	200,000			
		AFS investments	7,200	7,200			
		Accrued interest receivable	660	1,160			
		Interest income			16,175	36,454	72,764
Toyota Financial Services Philippines, Inc.	Affiliate	Loans and receivables	1,500,000	–			
		Accrued interest receivable	18,361	–			
		Interest income			68,509	–	–

(Forward)

			Elements of Transactions				
			Statement of Financial Position		Statement of Income		
Related Party	Relationship		2010	2009	2010	2009	2008
Toyota Manila Bay Corp	Affiliate	AFS investments	12,250	12,250			
		Subscription payable	9,187	9,187			
		Interest income			–	–	20,059
		Subscription payable	9,187	9,187			
		Interest income			–	–	20,059
Aurora Towers, Inc.	Associate	Accounts receivable	44,094	44,066			
		Management fees			5	5	5
PALIC	Affiliate	Accounts payable	1,883	1,968			
Claredon Tower Holdings Corp (CTHC)	Affiliate	Loans and receivable	–	96,929			
		Accrued interest receivable	–	1,953			
		Interest Income			5,434	8,654	9,024

The Parent Company also obtained foreign currency denominated short-term borrowings from a local bank to fund its participation in the Bureau of Treasury's Multicurrency Retail Treasury Bond issue. The interest rates on the said borrowings range from 0.9% to 1.8% and they are scheduled to mature on January 28, 2011.

In June 2010, the Parent Company acquired 2,827,408,995 Lepanto A shares from Metropolitan Bank & Trust Company for a total consideration of ₱764.6 million. The said acquisition raised the Parent Company's equity holding in Lepanto to 19.68%.

The loans granted to related parties are secured by properties of the respective borrowers while loans to GBHI and Toyota Financial Services Philippines, Inc. are 100.0% and 70.0% guaranteed by Philippine Export-Import Credit Agency (PHILEXIM), respectively.

In 2010, the Ultimate Parent Company sold its remaining shares in GBHI to Cellini Holdings, Inc., a company where the majority stockholders of the Ultimate Parent Company have indirect minority interest. Beginning December 30, 2010, the Group does not consider GBHI as a related party. The related party transactions disclosed for GBHI are those transactions with GBHI up to the date of disposal of the Ultimate Parent Company.

As of December 31, 2010 and 2009, investment securities transactions with subsidiaries, affiliates and other related parties of the Group and Parent Company follow:

	Consolidated		Parent Company	
	2010	2009	2010	2009
Sale of securities	₱54,495,987,403	₱14,502,139,540	₱28,389,669,419	₱13,828,780,915
Purchase of securities	47,918,868,260	10,537,160,934	21,688,873,104	9,516,413,263

As of December 31, 2009, 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 100.0%-owned subsidiary of GBPC, a 30.0%-owned company of the Parent Company. The amount of income deferred is up to the extent of Parent Company's effective ownership in CTHC. In 2010, deferred income amounting to ₱17.6 million was reversed due to disposal of 26.0% ownership in TCI (Note 10).

Compensation of key management personnel
The compensation of key management personnel are as follows:

	Consolidated			Parent Company		
	2010	2009	2008	2010	2009	2008
Short-term employee benefits	₱97,743,356	₱80,514,521	₱73,687,889	₱93,557,877	₱77,811,715	₱68,249,640
Post employment benefits	7,126,119	11,031,599	11,445,002	7,126,119	10,884,866	11,431,400
	₱104,869,475	₱91,546,120	₱85,132,891	₱100,683,996	₱88,696,581	₱79,681,040

27. Commitments and Contingent Accounts

The Group, specifically the associates, are defendants in legal actions arising from normal business activities. Management believes that the ultimate liability, if any, resulting from these cases will not materially affect the Group's financial position and performance. As of December 31, 2010 and 2009, the Group and the Parent Company commit to extend credit to various borrowers totaling ₱1.8 billion and ₱0.2 billion, respectively.

28. Financial Performance

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

	2010	2009	2008
Return on average equity	13.41%	14.38%	20.55%
Return on average assets	1.56	1.63	2.47
Net interest margin over average earning assets	2.20	1.67	1.42

29. Earnings Per Share

EPS were computed as follows:

	Consolidated		
	2010	2009	2008
a. Net income attributable to equity holdings of the Parent Company	₱1,700,199,341	₱1,022,612,919	₱399,707,120
b. Weighted average number of common shares (Note 19)	377,056,150	377,056,150	377,056,150
c. Basic/Diluted EPS (a/b)	₱4.51	₱2.71	₱1.06

As of December 31, 2010, 2009 and 2008, 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 25, 2011.

Metrobank Domestic Subsidiaries and Affiliates

redefining / insurance

AXA Philippines is borne out of the formidable partnership between the AXA Group and the Metrobank Group. The company stands as one of the world's leaders in financial protection and wealth management. Originating from France, it serves a global clientele of more than 80 million customers in more than 50 countries, with over €1 billion under management.

AXA Philippines started its operations in 1999. Since then, the Company has progressed to become one of the top players in the local life insurance industry. It continues to challenge itself to become the leader in innovation and service for clients and employers.

Today, AXA Philippines is the leading variable life insurance provider in the country in terms of first-year premium income, with more than 30% market share. The company ranks third in the industry based on total premiums, serving over 250,000 customers and with over P30.0 billion funds under management.

AXA Philippines' imperative to redefine insurance is anchored on its commitment to always look out for the customers' interest. The company has dedicated itself to meet and exceed customers' expectations in providing the best solutions for all kinds of financial needs - be it for education, savings, retirement or investment.

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In thousand Philippine pesos

FOR THE YEAR	2010*	2009**
Gross Revenues	3,482,873	3,178,389
Total Expenses	2,686,580	2,329,896
Net Income	796,292	848,493
AT YEAR END		
Total Assets	35,554,171	32,809,486
Total Liabilities	31,988,234	30,290,083
Stockholders' Equity	3,565,937	2,519,403

*2010 figures still unaudited as of press time
**2009 as restated

First Metro Asset Management, Inc.
Metrobank Group

First Metro Asset Management, Inc. (FAMI) bested its peers in the mutual fund industry in 2010 in terms of five-year return as it registered a 238.9% return on its portfolio since its launch in 2005.

FAMI's total assets grew by 165.0% from P20.0 million at the end of 2009 to P53.0 million as of year-end 2010, net income rose by 495.0% from P2.0 million in 2009 to P11.9 million in 2010. Shareholders' equity increased by 91.0% from P16.0 million to P31.0 million, reflecting return on equity of 78.0% in 2010.

FAMI's 2010 net sales of P1.4 billion accounted for 67.0% of the AUM growth or P2.08 billion for the year. Gross sales were approximately 13 times more than the previous years' sales.

Operating income grew by 196.2% from P19.0 million in 2009 to P56.0 million in 2010 due to a 61.0% increase in management fees, 943.0% increase in fees from sales and new entrants to the various funds. FAMI also earned an additional P21.9 million as incentive fee for 2010 due to market out-performance. The funds performed as follows:

SALEF: 63.00% Ranked first in YTD, 1-Year, 3-Year and 5-Year time buckets
SALBF: 61.80% Ranked first in YTD, 1-Year, and 3-Year time buckets
SALFIF: 12.05% Ranked 2nd for the year

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In Philippine pesos

FOR THE YEAR	2010	2009
Gross Revenues	56,236,593	18,958,543
Total Expenses	39,070,325	16,043,423
Net Income	11,991,997	2,000,470
AT YEAR END		
Total Assets	52,776,112	20,035,696
Total Liabilities	21,920,421	3,576,671
Stockholders' Equity	30,855,691	16,459,025

First Metro Securities Brokerage Corporation
Metrobank Group

First Metro Securities Brokerage Corp. (First Metro Securities) is the stock brokerage arm of the Metrobank Group and is wholly owned by First Metro Investment Corporation. The company is a licensed Trading Participant of the Philippine Stock Exchange. It caters to both retail and institutional investors.

In 2010, First Metro Securities introduced its enhanced online stock trading platform, www.firstmetrosec.com.ph, which is optimized for PSETrade, the Philippine Stock Exchange's new trading system. www.firstmetrosec.com.ph enables clients to view real-time stock market related information and trade equities online.

2010 was a banner year for First Metro Securities. The company registered a net income of P53.01 million or a year on year growth of 175.0%. Revenues likewise surged to P122.0 million on the back of record level commissions and trading income. Out of the 133 active trading participants in the Philippine Stock Exchange, First Metro Securities ranked 17th in terms of market value turnover, a two notch gain versus 2009.

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In Philippine pesos

FOR THE YEAR	2010	2009
Gross Revenues	122,041,525	64,164,745
Total Expenses	48,370,550	44,855,028
Net Income	53,011,052	19,309,717
AT YEAR END		
Total Assets	439,286,614	366,369,645
Total Liabilities	182,370,703	166,139,786
Stockholders' Equity	256,915,911	200,229,859

GBP
Global Business Power Corporation

Global Business Power Corporation (GBPC) is one of the largest independent power producers in Visayas, supplying over 633MW of power to the region that is stable, reliable and cost efficient. With its aim of powering development, GBPC is now a major player amongst independent power producers in the Southern Philippines.

GBPC has two flagship projects: The Cebu Energy Development Corporation (CEDC), a 246MW coal-fired power plant situated in Toledo City and Panay Energy Development Corporation (PEDC), a 164MW coal-fired power plant situated in the heart of Iloilo City. Both projects are milestones in the history of the Visayan power industry; being the first base load plant and the first to make use of state-of-the-art clean coal technology to generate electricity.

Together, CEDC and PEDC have brought in over $900 million in new capital investments in Visayas. In 2009, CEDC signed a P16.0 billion project financing deal with 11 institutions, while PEDC signed its own P14.0 billion financing deal last February 2010. Collectively both CEDC and PEDC have raised P30.0 billion in project financing—the biggest peso long term (12-years) fixed rate debt in recent history.

Both plants are expected to be fully operational within the first quarter of 2011. With CEDC and PEDC coming online, GBPC increases its capacity from 223MW to 633MW, effectively becoming one of the largest independent power producers in Visayas.

Since the Metrobank group's takeover in July 2006, GBPC has posted a growth of 530.0% or an average annual growth rate of 60.0% from a net income of P72.5 million in 2006 to its 2010 income of P457.0 million. With two new projects coming online, GBPC expects a stellar growth in 2011.

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In Philippine pesos

FOR THE YEAR	2010*	2009
Gross Revenues	4,700,558,718	3,876,522,801
Total Expenses	3,637,107,481	3,292,849,460
Net Income	530,442,002	256,455,263
AT YEAR END		
Total Assets	56,127,940,219	35,517,713,882
Total Liabilities	36,525,681,779	18,937,849,572
Stockholders' Equity	19,602,258,440	16,579,864,310

**2010 figures still unaudited as of press time*

Metrobank Domestic Subsidiaries and Affiliates

Metrobank Card Corporation (A Finance Company) a joint venture of Metrobank, Australia and New Zealand Bank (ANZ), aims to be the leading payment solutions provider in the Philippines. It is dedicated to its customers, committed to its people and their development, steadfast in fulfilling its responsibility to the community, and consistent in delivering maximized shareholders' value.

In 2010, MCC's customer base ending at 834,000 cards-in-force yielded a 10.0% growth in its receivables and 23.0% growth in its billings, higher compared to the industry's single digit growth of 8.0% and 20.0% growth in the receivables and billings, respectively. Customers' purchasing power was enhanced with strategic rewards 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 ended the year at P854.0 million net profit after tax, a 3.0% increase from 2009. Even with its growth in card billings, MCC maintained its asset quality with a 5.49% past due rate, while industry averaged at 6.22%. MCC continues to be an industry leader in portfolio management and proactive credit and collections strategies.

Merchant Acquiring registered P17.0 billion in billings, representing a 24.0% increase from the previous year. With almost 7,000 terminals deployed in Metro Manila and key provincial cities, MCC's growth of 24.0% in the number of deployed of terminals outperformed the industry's average of 8.0%.

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In Philippine pesos

FOR THE YEAR	2010	2009
Gross Revenues	6,536,511,750	5,844,843,502
Total Expenses	5,682,797,695	5,015,523,238
Net Income	853,714,055	829,320,264
AT YEAR END		
Total Assets	23,889,498,210	21,061,194,874
Total Liabilities	19,650,202,833	17,606,636,281
Stockholders' Equity	4,239,295,377	3,454,558,593

ORIX METRO Leasing and Finance Corporation is a joint venture of Metropolitan Bank & Trust Company and ORIX Corporation of Japan. ORIX METRO's principal line of business is financial leasing of all kinds of vehicles; industrial machineries; medical equipment; and other types of personal properties. In 2007, the company was given a quasi-banking license.

Fiscal year 2010 was another banner year as ORIX METRO generated a significant milestone by surpassing virtually all its performance targets. Total resources grew by a solid 20.2% or P9.6 billion supported by the sustained double-digit rise in the volume of business from across all markets. The opening of two new branches bolstered its presence in the countryside during the fiscal year, raising its total branch network to 37.

In spite of the aggressive growth in business volumes, the overall quality of portfolio remained strong as total NPLs declined to just 1.78%. These NPLs were likewise substantially provisioned against possible losses. In addition, ORIX METRO's Capital Adequacy Ratio (CAR) stood at 15.48%, well beyond the 10.0% required by regulations.

After tax profits surged 20.3% to P340.5 million, revenues continued to increase while margins remained robust supported by the continued decline in overall cost of funds. This translated to a Return on Average Equity of 21.10%, well above those of peers.

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In Philippine pesos

FOR THE YEAR	2010	2009
Gross Income	1,717,575,776	1,506,532,381
Net Income After Tax	340,534,900	283,014,415
AT YEAR END		
Total Assets	9,615,693,894	8,000,668,534
Net Investment in Leases	1,978,369,872	2,060,446,394
Net Investment in Loans	5,048,157,636	3,922,555,709
Stockholders' Equity	1,715,873,819	1,516,370,507

PhilCharter

Philippine Charter Insurance Corporation (PhilCharter) belongs to the top ten non life insurance corporations in the Philippines. It rose to the 8th position in the Gross Premiums insurance industry ranking, equivalent to P163.0 million increase over 2009.

2010 was a milestone for PhilCharter as it posted a net income increase of 296.8% to P102.0 million in 2010, from P25.7 million into 2009. It posted a positive net underwriting income of 505.0% or P113.0 million. The gross underwriting contribution reached an 87.2% to P329.9 million in 2010, compared to P176.2 million from the previous year. Total claims paid for the year amounted to P1.3 billion.

2010 also marked the 50th Anniversary of PhilCharter in the insurance industry. Simultaneous to its rebirth as a corporation is the launching of the Compulsory Insurance for Agency Hired Migrant Workers - a product that protects the welfare of Overseas Filipino Workers wherein PhilCharter is the lead insurer of more than 60-member non life insurance consortium.

The company's reinsurance facilities have been further improved led by Marine Cargo which has an automatic facility of P150.0 million from P75.0 million. To be able to focus and provide immediate service channels, the company introduced the EZ Claims Program, a 24 hour claims services for P50,000.00 claims and below for vehicle damages to be serviced thru accredited repair shops nationwide.

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In Philippine pesos

FOR THE YEAR	2010	2009
Gross Revenues	1,131,357,386	1,024,396,605
Total Expenses	1,028,958,576	1,005,590,198
Net Income	102,398,810	18,806,407
AT YEAR END		
Total Assets	4,450,934,361	5,302,879,020
Total Liabilities	3,649,667,106	4,642,984,490
Stockholders' Equity	801,267,255	659,894,530

SMBC Metro Investment Corporation

SMBC Metro Investment Corporation's net income for the year 2010 increased by 97% to a record high of P70.7 million from the P35.9 million earned in 2009. Total revenues generated in 2010 amounted to P111.2 million, from P73.4 million in the previous year. The Company's operations in 2010 bear out the strength and consistency of income contributions from all business segments. This was achieved as a result of successful efforts to improve business strategies and operating efficiencies.

During the year, the Company successfully closed two major long term loans for selected prime companies in the Philippines with a combined amount of $110 million. Fee-based business yielded an overall fee income of P39.1 million from last year's P22.9 million.

At year-end, SMBC Metro posted total resources of P840.8 million, while its equity remained generally strong at P777.3 million.

SMBC Metro declared a cash dividend of 23.33 % equivalent to P140.0 million in 2010. The Company's favorable results of operations enable it to consistently declare cash dividends annually since 2001, with an aggregate cash dividend amount declared to date of P512.0 million.

For 2011, SMBC Metro positions itself to take advantage of the positive economic conditions in the Philippines, with the end in view of sustaining the business growth and preserving the sound financial condition of the Company.

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In thousand Philippine pesos

FOR THE YEAR	2010	2009
Gross Revenues	111,227	73,450
Total Expenses	40,548	37,568
Net Income	70,679	35,882
AT YEAR END		
Total Assets	840,806	853,584
Total Liabilities	63,500	33,521
Stockholders' Equity	777,306	820,063

Metrobank Domestic Subsidiaries and Affiliates

TOYOTA

Toyota Motor Philippines Corporation (TMP), recognized as the country's leading automotive company, achieved several milestones in 2010 that helped shape the automotive landscape. It posted record-breaking sales of 56,855 units capturing 33.7% market share. TMP also bagged its 9th consecutive Triple Crown – achieving best performance in overall sales, as well as passenger car and commercial vehicle sales. TMP's locally-manufactured vehicles, Vios and Innova, remained the country's top best-selling vehicles for the year. The company posted strong financial results with a net income of P3.1 billion in 2010.

Now on its second year of operations, Toyota's luxury line, the Lexus, continues to make waves in the luxury segment as it registered a 36.6% growth compared to the same period of last year. Anchored on the philosophy of relentless pursuit of perfection, Lexus introduced the first full hybrid luxury vehicles in the country in 2010.

The trust and confidence of customers drive Toyota to continuously improve on its operations. In a survey conducted by J.D. Power Asia Pacific in 2010, TMP received the highest in Customer Satisfaction Index among 11 brands included in the study.

In the area of corporate social responsibility, TMP implemented the 2nd phase of Philippine Peñablanca Sustainable Reforestation Project (PPSRP). The PPSRP involves the reforestation of 2,500 hectares of the Peñablanca Protected Landscape and Seascape located in the northern province of Cagayan. In 2010, the GT-Toyota Asian Cultural Center (GT-TACC) in UP Diliman has become fully operational - venue for the Asian Center's important functions and activities. Aside from UP, other institutions and companies have utilized the GT-TACC's facilities for their respective lectures, forums, seminars, and conferences.

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In thousand Philippine pesos

FOR THE YEAR	2010	2009
Net Sales	58,537,068	46,058,888
Total Expenses	3,114,285	1,849,566
Net Income	3,110,493	1,724,216
AT YEAR END		
Total Assets	17,790,693	13,939,312
Total Liabilities	9,946,016	7,625,787
Stockholders' Equity	7,844,678	6,313,525

Shareholder Information

Annual Shareholders Meeting
Thursday, 14 April 2011, 3:00 p.m.
Metrobank Auditorium, 2/F 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 14, 2011 is 1,484.

Market Information
Following are the high and low closing prices for FMIC common shares in Philippine peso in 2009 and 2010:

Year		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2009	High	36.0	34.0	33.0	32.0
	Low	28.0	29.0	30.0	28.0
2010	High	29.5	32.0	34.5	37.2
	Low	25.0	25.0	27.0	31.0

Annual Report in SEC Form 17-A
The financial Report included in this report follows the information contained in the SEC Form 17-A as required by and submitted to the Securities and Exchange Commission. Copies of this report may be obtained free of charge upon written request from:

The Controller
First Metro Investment Corporation
2/F Wellington Building
Plaza Lorenzo Ruiz, Binondo
Manila 1006, Philippines

Corporate Planning & Affairs Department
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Makati City 1200, Philippines
Tel. No. (63 2) 858-7900
Fax No. (63 2) 840-3706
Email: corpplan@firstmetro.com.ph

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

The Controller
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