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PROSPECTUS DATED APRIL 3, 2012

GT CAPITAL HOLDINGS, INC.

(incorporated with limited liability in the Republic of the Philippines)

Primary and Secondary Offer of 41,217,300 Common Shares at an Offer Price of ₱455 per Common Share with an over-allotment option of up to 6,182,590 Common Shares

to be listed and traded on the First Board of The Philippine Stock Exchange, Inc.

Sole Global Coordinator, Sole International Bookrunner and Lead Manager

UBS

Sole Domestic Coordinator, Bookrunner,
Lead Manager and Domestic Lead Underwriter

FIRST METRO
INVESTMENT CORPORATION
Metrobank Group

Participating Domestic Underwriters

Maybank ATR Kim Eng Capital Partners, Inc.

PentaCapital Investment Corporation

UBS Investments Philippines, Inc.

Vicsal Investment, Inc.

GT CAPITAL HOLDINGS, INC.
43/F GT TOWER INTERNATIONAL
AYALA AVENUE CORNER H.V. DELA COSTA STREET
MAKATI CITY 1227
PHILIPPINES
TELEPHONE NUMBER: (632) 836 4500
EMAIL: gtcap@gtcapital.com.ph
WEBSITE: www.gtcapital.com.ph

This Prospectus relates to the offer and sale of 41,217,300 common shares at an Offer Price of ₱455 (the "Firm Offer", and such shares, the "Firm Shares"), par value of ₱10.00 per ordinary share (the "Common Shares"), of GT Capital Holdings, Inc., a corporation organized under Philippine law ("GT Capital Holdings"). The Firm Shares will comprise of (i) 33,000,000 new Common Shares to be issued and offered by GT Capital Holdings by way of a primary offer (the "Primary Offer", and such Common Shares, the "Primary Offer Shares") as further described below and (ii) 8,217,300 existing Common Shares offered by Ausan Resources Corporation, and Titan Resources Corporation (collectively with Grand Titan Capital Holdings, Inc., the "Selling Shareholders") pursuant to a secondary offer (the "Secondary Offer" and such Common Shares, the "Secondary Offer Shares"). GT Capital Holdings will not receive any of the proceeds from the sale of the Secondary Offer Shares or the Optional Shares (as defined below). Grand Titan Capital Holdings, Inc. and Titan Resources Corporation have granted UBS AG, in its role as stabilizing agent (the "Stabilizing Agent"), an option exercisable in whole or in part from and including the date of listing and when trading of the Firm Shares commences (the "Listing Date") on the Philippine Stock Exchange (the "PSE") and ending on the date 30 days from the Listing Date, to purchase up to an additional 6,182,590 Common Shares from Grand Titan Capital Holdings, Inc. and Titan Resources Corporation at the Offer Price (the "Optional Shares", and together with the Firm Shares, the "Offer Shares"), on the same terms and conditions as the Firm Shares as set forth in this Prospectus, solely to cover over-allotments, if any (the "Over-Allotment Option"). The offer of the Offer Shares, including the Optional Shares, is referred to as the "Offer". See "Plan of Distribution".

As of December 31, 2011, GT Capital Holdings' authorized capital stock was 500,000,000 Common Shares with a par value of ₱10.00 per share. GT Capital Holdings' outstanding share capital consists of 125,000,000 Common Shares. A total of 158,000,000 Common Shares are to be registered comprising of 125,000,000 outstanding Common Shares and 33,000,000 Primary Offer Shares.

The Offer Shares shall be offered at a price of ₱455 per Offer Share (the "Offer Price"). The determination of the Offer Price is further discussed on page 36 of this Prospectus. A total of up to 158,000,000 Common Shares, inclusive of the Optional Shares, will be outstanding after the Offer. The Firm Shares will make up 26% of the outstanding Common Shares after the Offer.

The total proceeds to be raised by GT Capital Holdings from the sale of Firm Shares will be ₱15,015.0 million and the total proceeds to be raised by the Selling Shareholders from the sale of the Firm Shares will be ₱6,552.0 million. The estimated net proceeds to be raised by GT Capital Holdings from the Offer (after deducting fees and expenses payable by GT Capital Holdings of ₱810.3 million) will be approximately ₱14,204.7 million and the estimated net proceeds to be raised by the Selling Shareholders from the Offer will be approximately ₱6,204.7 million. GT Capital Holdings intends to use the proceeds it receives from the Offer for funding of key growth projects, acquisition of additional stakes in GT Capital companies, plant expansion and repayment of existing indebtedness. For a more detailed discussion on the proceeds from the Primary Offer and GT Capital Holdings' proposed use of proceeds, please see "Use of Proceeds" beginning on page 32 of this Prospectus.

The Sole Global Coordinator, Sole International Bookrunner and Lead Manager, and the Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter will receive a transaction fee from the Company and the Selling Shareholders equivalent to 2% of the gross proceeds from the sale of the Offer Shares. This is inclusive of the amounts to be paid to other participating underwriters and selling agents, where applicable. For a more detailed discussion on the fees to be received by the Sole Global Coordinator, Sole International Bookrunner and Lead Manager and the Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter, see "Plan of Distribution" beginning on page 416 of this Prospectus.

Each holder of Common Shares will be entitled to such dividends as may be declared by GT Capital Holdings' Board of Directors (the "Board"), provided that any stock dividends declaration requires the approval of shareholders holding at least two-thirds of its total outstanding capital stock. The Corporation Code of the Philippines, *Batas Pambansa Blg.* 68 (the "Philippine Corporation Code"), has defined "outstanding capital stock" as the total shares of stock issued, whether paid in full or not, except for treasury shares. Dividends may be declared only from GT Capital Holdings' unrestricted retained earnings. See "Dividends and Dividend Policy" on page 34 of this Prospectus.

17,105,180 of the Offer Shares (the "Domestic Offer Shares") are being offered and sold by GT Capital Holdings and the Selling Shareholders at the Offer Price in the Philippines (the "Domestic Offer"). 4,739,990 of the Domestic Offer Shares are being offered to Philippine qualified institutional buyers (the "Philippine QIBs"), 8,243,460 of the Domestic Offer Shares are being offered to all of the trading participants of the PSE (the "PSE Trading Participants"), and 4,121,730 of the Domestic Offer Shares are being offered to local small investors (the "Local Small Investors") in the Philippines. First Metro Investment Corporation (the "Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter") will act as the Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter of the Domestic Offer. Details regarding the commission to be received by the Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter can be found under "Plan of Distribution". Prior to the closing of the Domestic Offer, any allocation of Domestic Offer Shares not taken up by the PSE Trading Participants and Local Small Investors shall be distributed by the Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter to its clients or to the general public. Domestic Offer Shares not taken up by the PSE Trading Participants, the Local Small Investors and the Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter's clients or the general public shall be purchased by the Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter.

24,112,120 of the Offer Shares (the "International Offer Shares") are being offered and sold outside the Philippines by UBS AG (the "Sole Global Coordinator, Sole International Bookrunner and Lead Manager") to persons outside the United States in reliance on Regulation S ("Regulation S") under the United States Securities Act of 1933, as amended (the "U.S. Securities Act") and within the United States by the Sole Global Coordinator, Sole International Bookrunner and Lead Manager to qualified institutional buyers ("QIBs") in reliance on Rule 144A ("Rule 144A") under the U.S. Securities Act (the "International Offer").

All of the Common Shares issued and to be issued pursuant to the Offer have, or will have, identical rights and privileges. The Common Shares may be owned by any person or entity regardless of citizenship or nationality, subject to the nationality limits under Philippine law. The Philippine Constitution and related statutes set forth restrictions on foreign ownership for companies engaged in certain activities. Since GT Capital Holdings, through its subsidiaries and associates, owns land, its foreign shareholdings may not exceed 40% of its issued and outstanding voting capital stock. See "Philippine Foreign Exchange and Foreign Ownership Controls".

The allocation of the Offer Shares between the Domestic Offer and the International Offer is subject to adjustment as agreed between the Sole Global Coordinator, Sole International Bookrunner and Lead Manager and the Sole Domestic Coordinator, Lead Manager and Domestic Lead Underwriter. In the event that the total demand for shares in the local small investors' subscription is five times or more than the initial allocation of 10%, the allocation will be increased to 15%.

Before making an investment decision, investors should carefully consider the risks associated with an investment in the Common Shares. These risks include:

- risks related to the businesses and industries in which GT Capital Holdings has interests;
- risks related to the Philippines; and
- risks related to the Offer.

Please refer to the section entitled "Risk Factors" beginning on page 22 of this Prospectus, which, while not intended to be an exhaustive enumeration of all risks, must be considered in connection with a purchase of the Offer Shares.

An application for listing of the Common Shares was approved on March 14, 2012 by the board of directors of the PSE, subject to the fulfillment of certain listing conditions. The PSE assumes no responsibility for the correctness of any statements made or opinions expressed in this Prospectus. The PSE makes no representation as to its completeness and expressly disclaims any liability whatsoever for any loss arising from reliance on the entire or any part of this Prospectus. Such approval for listing is permissive only and does not constitute a recommendation or endorsement of the Shares by the PSE on the Securities and Exchange Commission of the Philippines (the "Philippine SEC").

Prior to the Offer, there has been no public market for the Common Shares. Accordingly, there has been no market price for the Common Shares derived from day-to-day trading.

An application has been made to the Philippine SEC to register the Offer Shares under the provisions of the Securities Regulation Code of the Philippines (Republic Act No. 8799) (the "SRC").

ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL INFORMATION CONTAINED HEREIN ARE TRUE AND CURRENT.

The Offer Shares are offered subject to receipt and acceptance of any order by GT Capital Holdings and subject to its right to reject any order in whole or in part. It is expected that the Offer Shares will be delivered in book-entry form against payment to the Philippine Depository and Trust Corporation (the "PDTC") on or about April 18, 2012.

GT CAPITAL HOLDINGS, INC.
By:

CARMELO MARIA LUZA BAUTISTA
President

SUBSCRIBED AND SWORN to before me this APR 0 4 2012 in Makati City, affiant exhibiting to me his Passport No. XX4905567 expiring on Nov. 5, 2014 as competent evidence of identity.

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Book No. 2
Series of 2012

ATTY. MELISSA B. REYES
NOTARY PUBLIC FOR MAKATI CITY UNTIL DEC. 31, 2012
ROLL NO. 41639 / APPOINTMENT NO. M-430
IBP NO. 852889 / PTR NO. 2712794
45/F GT TOWER INTERNATIONAL, AYALA AVENUE
CORNER H.V. DELA COSTA ST., MAKATI CITY

No representation or warranty, express or implied, is made by the Sole Global Coordinator, Sole International Bookrunner and Lead Manager or the Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter as to the accuracy or completeness of the information herein and nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation by the Sole Global Coordinator, Sole International Bookrunner and Lead Manager or the Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter. Any reproduction or distribution of this Prospectus, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Offer Shares is prohibited. Each offeree of the Offer Shares, by accepting delivery of this Prospectus, agrees to the foregoing.

No person has been or is authorized to give any information or to make any representation concerning GT Capital Holdings or the Offer Shares, which is not contained in this Prospectus and any information or representation not so contained herein must not be relied upon as having been authorized by GT Capital Holdings, the Selling Shareholders, the Sole Global Coordinator, Sole International Bookrunner and Lead Manager or the Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter. Neither the delivery of this Prospectus nor any offer, sale or delivery made in connection with the Offer shall at any time or in any circumstances imply that the information contained herein is correct as at any time subsequent to its date or constitute a representation that there has been no change or development reasonably likely to involve a material adverse change in GT Capital's affairs since the date hereof.

In connection with the Offer, the Stabilizing Agent may effect price stabilization transactions for a period beginning on or after the Listing Date but extending no later than 30 days from the Listing Date. The Stabilizing Agent may purchase Common Shares in the open market only if the market price of the Common Shares is below the Offer Price. This may have the effect of preventing a decline in the market price of the Common Shares and may also cause the price of the Common Shares to be higher than the price that otherwise would exist in the open market in the absence of these transactions. If the Stabilizing Agent commences any of these transactions, it may discontinue them at any time. The Stabilizing Agent is required to disclose to the Philippine SEC any of the foregoing price stabilization transactions and, through GT Capital Holdings, is required to simultaneously disclose to the PSE via the Online Disclosure System any such price stabilization transactions.

CONVENTIONS APPLYING TO THIS PROSPECTUS

In this Prospectus, the terms "GT Capital Holdings" or the "Company" refer to GT Capital Holdings, Inc. on an unconsolidated basis. References to "GT Capital" refer to GT Capital Holdings and its consolidated subsidiaries, Federal Land, Inc. ("Fed Land") and Global Business Power Corporation ("GBP"), and its associate companies, including Metropolitan Bank & Trust Company ("MBT" and MBT with its consolidated subsidiaries and associates the "MBT Group"), Toyota Motor Philippines Corporation ("TMP") and Philippine AXA Life Insurance Corporation ("AXA"). References to "GT Capital companies" refer to the MBT Group, Fed Land, GBP, TMP and AXA.

In this Prospectus, unless otherwise specified or the context otherwise requires, all references to the "Philippines" are references to the Republic of the Philippines. All references to the "Government" herein are references to the Government of the Republic of the Philippines. All references to the "BSP" are references to *Bangko Sentral ng Pilipinas*, the central bank of the Philippines. All references to "United States" or "U.S." herein are to the United States of America. All references to "Peso" and "₱" herein are to the lawful currency of the Philippines and all references to "U.S. dollar" or "U.S.$" herein are to the lawful currency of the United States.

For convenience, certain Peso amounts have been translated into U.S. dollar amounts, based on the exchange rate on December 29, 2011 of ₱43.928 = U.S.$1.00, being the weighted average rate for that date for the purchase of U.S. dollars with Pesos under the Philippine Dealing System (the "PDS") and published in the Reference Exchange Rate Bulletin by the BSP (the "BSP Rate"). Such translations should not be construed as representations that the Peso or U.S. dollar amounts referred to could have been, or could be, converted into Pesos or U.S. dollars, as the case may be, at that or any other rate or at all. For further information regarding rates of exchange between the Peso and the U.S. dollar, see "Exchange Rates". Figures in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown for the same item of information may vary and figures which are totals may not be an arithmetic aggregate of their components. On March 15, 2011, the BSP Rate was ₱42.734 = U.S.$1.00.

PRESENTATION OF FINANCIAL INFORMATION

Unless otherwise stated, all financial information relating to GT Capital Holdings and the GT Capital companies contained herein is stated in accordance with Philippine Financial Reporting Standards ("PFRS").

In this Prospectus, references to "2009", "2010" and "2011" refer to the fiscal years ended December 31, 2009, December 31, 2010 and December 31, 2011, respectively. SyCip Gorres Velayo & Co. ("SGV & Co."), a member firm of Ernst & Young Global Limited, has audited GT Capital's consolidated financial statements and the consolidated financial statements of Fed Land, GBP and TMP and the financial statements of AXA as of and for the years ended December 31, 2009, 2010 and 2011 and the consolidated financial statements of the MBT Group as of and for the years ended December 31, 2009 and 2010, prepared in accordance with Philippine Financial Reporting Standards ("PFRS") and the consolidated financial statements of the MBT Group as of and for the year ended December 31, 2011 prepared in accordance with accounting principles generally accepted in the Philippines for banks. PFRS is substantially based on International Financial Reporting Standards.

SGV & Co. has reviewed in accordance with the *Philippine Standard on Assurance Engagements 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information and Philippine Securities and Exchange Commission Memorandum Circular No. 2, Series of 2008, Guidelines on Reporting and Attestation of Pro Forma Financial Information Securities Regulation Code Rule 68, as amended* and rendered a report on the pro forma condensed consolidated financial information included in this Prospectus, reflecting the acquisition of GBP and the acquisition of Fed Land's non-controlling interest assuming the acquisitions occurred on January 1, 2011 or December 31, 2011, as the case maybe. The pro forma condensed consolidated financial information does not purport to represent what the results of operations and financial position of the Company and its subsidiaries would have been had the transactions actually occurred earlier, nor does it purport to project the results of operations of the Company and its subsidiaries for any future period or date. The pro forma condensed consolidated financial information has not been prepared in accordance with the requirement of Article 11 of the Regulation S-X under the U.S. Exchange Act.

Unless otherwise indicated, the description of GT Capital's business activities in this Prospectus is presented on a consolidated basis. For further information on its corporate structure, see "Business – GT Capital – Overview".

INDUSTRY AND MARKET DATA

Market data and certain industry forecasts used throughout this Prospectus were obtained from internal surveys, market research, publicly available information, third parties and industry publications. In particular, certain information related to the Philippine real estate industry in this Prospectus is extracted or derived from the industry study prepared by Colliers International Philippines, Inc. ("Colliers"), which is included as Appendix A of this Prospectus. GT Capital Holdings appointed Colliers to conduct an industry study that covers the Philippine real estate property sector. In compiling their data for the study, Colliers relied on information provided by the Company, applicable government bureaus, other public information sources and its own internal database. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and neither the Company, the Selling Shareholders nor the Sole Global Coordinator, Sole International Bookrunner and Lead Manager and the Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter (the "Underwriters") make any representation as to the accuracy of such information.

FORWARD-LOOKING STATEMENTS

This Prospectus contains forward-looking statements which reflect GT Capital's expectations regarding, among other things:

- future growth;
- results of operations (including, without limitation, future production and capital expenditures) and performance (both operational and financial);
- business prospects; and
- business opportunities.

Certain words, including, but not limited to, "plan", "expect", "budget", "forecast", "project", "anticipate", "believe", "intend" and similar expressions or statements that certain actions events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved, have been used to identify these forward-looking statements. Although the forward-looking statements contained in this Prospectus reflect the Company's current beliefs based upon information currently available to management and what management believes to be reasonable assumptions, the Company cannot be certain that its actual results will be consistent with these forward-looking statements. Forward-looking statements necessarily involve significant known and unknown risks, assumptions and uncertainties that may cause the Company's actual future growth, results of operations, performance, business prospects and opportunities to differ materially from those expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things, uncertainties relating to:

- general economic, market, business and political conditions in the Philippines;
- actual growth in demand for the GT Capital companies' products and services;
- the Company's expectations and estimates concerning its future financial performance;
- the Company's growth and expansion plans;
- technological changes;
- the GT Capital companies' ability to market new products;
- effects of competition in the industries in which the GT Capital companies operate;
- the outcome of any legal or regulatory proceedings to which the Company is or may become a party;
- the future impact of new accounting standards;
- the impact of Philippine regulations;
- the Company's exposure to market risk; and
- risk factors discussed in this Prospectus as well as other factors beyond the Company's control. See "Risk Factors". Accordingly, prospective investors should not place undue reliance on such forward-looking statements. These forward-looking statements are made as of the date of this Prospectus and the Company assumes no obligation to update or revise them to reflect new events or circumstances.

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GLOSSARY OF TERMS

In this Prospectus, unless the context otherwise requires, the following terms have the meanings set out below.

GLOSSARY OF TERMS RELATED TO THE OFFER

Application	An application to subscribe for Offer Shares pursuant to the Offer
Banking Day	A day other than a Saturday or Sunday on which banks are open for business in Metro Manila
BIR	Bureau of Internal Revenue of the Philippines
Board	The Company's Board of Directors
BSP	*Bangko Sentral ng Pilipinas*, the central bank of the Philippines
BSP Rate	The weighted average rate for a specific date for the purchase of U.S. dollars with Pesos appearing on the BSP Reference Exchange Rate Bulletin issued by the Treasury Department of the BSP as of a specific date
Common Shares	The Company's shares of common stock, par value ₱10.00 per share
Company or GT Capital Holdings	GT Capital Holdings, Inc.
Domestic Offer	The offer for sale of the Domestic Offer Shares to the public in the Philippines
Domestic Offer Period	From 9:00 a.m., Manila time, on April 10, 2012 to 12:00 p.m., Manila time, on April 16, 2012, or such other period as may be agreed between the Company and the Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter, subject to approval by the Philippine SEC and the PSE
Domestic Offer Shares	17,105,180 of the Offer Shares that are being offered by the Company and the Selling Shareholders in the Philippines pursuant to the Domestic Offer
Domestic Receiving Agent	MBT Trust Banking Group
Domestic Selling Agent	Trading Participants of the PSE
Domestic Underwriting Agreement	Agreement to be dated on or about April 3, 2012 among the Company, the Selling Shareholders and the Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter
Firm Offer	The offer and sale of 41,217,300 Common Shares by the Company and the Selling Shareholders
Firm Shares	The Common Shares relating to the Firm Offer
First Board	The First Board of The Philippine Stock Exchange
First Closing Date	Date of delivery of the Firm Shares, which is expected to occur at 9:30 a.m., Manila time, on April 20, 2012, or such other date as the Underwriters and the Company shall agree in writing
GDP	The gross domestic product of the Philippines, which is a measure of economic activity compiled by the Philippines National Statistical Coordination Board
Government	The Government of the Republic of the Philippines

International Offer	The offer for sale of the International Offer Shares outside the Philippines to: (i) persons outside the United States in reliance on Regulation S under the U.S. Securities Act; and (ii) QIBs in the United States in reliance on Rule 144A under the U.S. Securities Act. For the avoidance of doubt, the Optional Shares will be offered as part of the International Offer
International Offer Shares	24,112,120 of the Offer Shares that are being offered by the Company and the Selling Shareholders pursuant to the International Offer
International Underwriting Agreement	Underwriting agreement dated April 3, 2012 among the Company, the Selling Shareholders and the Sole Global Coordinator, Sole International Bookrunner and Lead Manager
Listing Date	The date of listing and when the trading of the Firm Shares commences
Local Small Investors	Subscribers or purchasers of the Domestic Offer Shares who are willing to subscribe or purchase such minimum number of shares as may be indicated in the Application but not to exceed an aggregate subscription price of ₱25,000
Offer	The offer of the Offer Shares, including the Optional Shares, pursuant to the Domestic Offer and the International Offer
Offer Shares	The Firm Shares and the Optional Shares
Optional Shares	The Common Shares relating to the Over-Allotment Option
Over-Allotment Option	An option granted by Grand Titan Capital Holdings, Inc. and Titan Resources Corporation to the Stabilizing Agent, exercisable within 30 days from the Listing Date, to purchase additional Common Shares comprising up to 15% of the Firm Shares to cover over-allotments, if any
Participating Domestic Underwriters	Maybank ATR Kim Eng Capital Partners Inc., PentaCapital Investment Corporation, UBS Investments Philippines, Inc. and Vicsal Investment, Inc.
PCD Nominee	PCD Nominee Corporation
PDS	The Philippine Dealing System
PDTC	The Philippine Depository and Trust Corp., the central securities depositary of, among others, securities listed and traded on the PSE
Peso or ₱	The lawful currency of the Philippines
PFRS	Philippine Financial Reporting Standards
Philippine Constitution or Constitution	The Constitution of the Philippines
Philippine Corporation Code	*Batas Pambansa Blg.* 68, otherwise known as "The Corporation Code of the Philippines"

Philippine National	As defined under Republic Act No. 7042, as amended, otherwise known as the "Foreign Investments Act of the Philippines", means a citizen of the Philippines; or a domestic partnership or association wholly owned by citizens of the Philippines; or a corporation organized under the laws of the Philippines, of which at least 60% of the capital stock outstanding and entitled to vote is owned and held by citizens of the Philippines; or a corporation organized abroad and registered to do business in the Philippines under the Philippine Corporation Code of which 100% of the capital stock outstanding and entitled to vote is wholly owned by citizens of the Philippines or a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine national and at least 60% of the funds will accrue to the benefit of Philippine nationals; provided, that where a corporation and its non-Filipino stockholders own stocks in a Philippine SEC registered enterprise, at least 60% of the capital stock outstanding and entitled to vote of each of both corporations must be owned and held by citizens of the Philippines and at least 60% of the members of the board of directors of each of both corporations must be citizens of the Philippines, in order that the corporation, shall be considered a "Philippine national"
Philippine QIBs	Qualified institutional buyers in the Philippines
Philippine SEC	The Securities and Exchange Commission of the Philippines
Philippines	Republic of the Philippines
PSE	The Philippine Stock Exchange, Inc.
PSE Trading Participants	The trading participants of the PSE in the Philippines
QIBs	Qualified institutional buyers within the meaning of Rule 144A
Regulation S	Regulation S under the U.S. Securities Act
Rule 144A	Rule 144A under the U.S. Securities Act
Selling Shareholders	Ausan Resources Corporation, Grand Titan Capital Holdings, Inc. and Titan Resources Corporation
Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter	First Metro Investment Corporation
Sole Global Coordinator, Sole International Bookrunner and Lead Manager	UBS AG
SRC	Republic Act No. 8799, otherwise known as "The Securities Regulation Code of the Philippines", as amended from time to time, and including the rules and regulations issued thereunder
Stabilizing Agent	UBS AG
stock transfer agent	MBT Trust Banking Group
Underwriters	The Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter and the Sole Global Coordinator, Sole International Bookrunner and Lead Manager
United States or U.S.	The United States of America
U.S.$ or U.S. dollar	The lawful currency of the United States of America

U.S. Securities Act	The United States Securities Act of 1933, as amended
VAT	Value-added tax

GLOSSARY OF TERMS RELATED TO THE BUSINESSES

AAIIB	Al-Amanah Islamic Investment Bank of the Philippines
AAMDG	Acquired Asset Management and Disposition Group
ABRR	Adjusted borrower risk rating, a component of ICRRS
ALCO	Asset and Liability Committee
AMLC	Anti-Money Laundering Council
Anti-Money Laundering Act	The Anti-Money Laundering Act of 2001 of the Philippines, as amended by Republic Act No. 9194
ANZ	Australia and New Zealand Banking Group Limited
APVI	ARB Power Ventures, Inc.
ATM	Automated teller machine
AUM	Assets under management
Ausan	Ausan Resources Corporation
AVID	Association of Vehicle Importers and Distributors
AXA	Philippine AXA Life Insurance Corporation
AXA APH	AXA Asia Pacific Holdings Limited, a subsidiary of the AXA Group
AXA Group	The AXA group of companies
AXA Shareholders Agreement	The shareholders agreement among AXA APH, FMIC and Ausan dated January 21, 1999 for the acquisition of the Metro Philippines Life Insurance Corporation
Balikbayans	Former Filipino residents who have returned to the Philippines
BCPlans	The business continuity plans of MBT
BCProg	The business continuity program of MBT
BOI	Philippine Board of Investments
BP 220	*Batas Pambansa Blg.* 220, a Philippine statute regulating the development and sale of real property as part of a condominium project or subdivision
BPO	Business process outsourcing
BRR	Borrower risk rating, a competent of ICRRS
BSP Manual	BSP Manual of Regulations for Banks
Building Code	Republic Act No. 6541, as amended, or the National Building Code of the Philippines
CAMPI	Chamber of Automotive Manufacturers of the Philippines, Inc.
CAR	Capital adequacy ratio
CASA	Checking or demand and savings accounts

CBU	Completely built-up units, vehicles which are wholly-imported without additional assembly required
CCCS	Central Clearing and Central Settlement system
CCU	Centralized Credit Units
CEDC	Cebu Energy Development Corporation
CEDC Contract of Services	The operation and maintenance agreement between FHIC and CEDC dated January 26, 2011
CFB	Circulating fluidized bed boiler technology
CIR	Cathay International Resources Corporation
CKD	Completely knocked down
Coal Orbis	Coal Orbis AG
COC	Certificate of Compliance, which is the permit issued by the ERC that allows a generation facility to generate electricity
Code	Philippine Insurance Code
CPI	Philippine Consumer Price Index
CRR	Composite risk rating, a component of ICRRS
CSU	Credit Support Unit
CTS	Contracts-to-sell
DAR	Philippine Department of Agrarian Reform
DBP	Development Bank of the Philippines
DENR	Philippine Department of Environment and Natural Resources
Distribution Code	The Philippine Distribution Code
DMTM	A multi-channel distribution network comprised of agents, bancassurance, corporate solutions and direct marketing/telemarketing
DOE	Philippine Department of Energy
DOSRI	Directors, officers, stockholders and related interests
DST	The Philippine documentary stamp tax
ECC	Environmental Compliance Certificate
EGF	Environmental Guarantee Fund
EIS	Environmental Impact Statement
EMB	Environmental Management Bureau
EMF	Environmental Monitoring Fund
EPC	Engineering, procurement and construction
EPIRA	Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001, as amended from time to time, and including the rules and regulations issued thereunder
EPPAs	Electric power purchase agreements
ERB	Energy Regulatory Board, predecessor of the ERC

ERC	Philippine Energy Regulatory Commission
EXCOM	The executive committee of MBT's board of directors
FAMI	First Metro Asset Management, Inc.
FCDU	Foreign currency deposit unit
Fed Land	Federal Land, Inc.
FHIC	Formosa Heavy Industries Corporation
FiT	Feed-in tariff, a scheme that involves an obligation on the part of electric power industry participants to source electricity from renewable energy generation at a guaranteed fixed price applicable for a given period of time
FLOC	Federal Land Orix Corporation
FMIC	First Metro Investment Corporation
FMIIC	First Metro International Investment Company Limited
FMSBC	First Metro Securities Brokerage Corporation
Foundation	Metrobank Foundation, Inc.
FRF	Facility risk factor, a component of ICRRS
GBH	Global Business Holdings, Inc.
GBP	Global Business Power Corporation
GCLDC	GBH Generation Cebu Limited Duration Company
General Banking Law	Republic Act No. 8791, otherwise known as the "General Banking Law of 2000"
Generation Subsidiaries	CEDC, PEDC, TPC, PPC and GPRI
GOF	First Metro Global Opportunity Fund, Inc.
Governance Manual	The Manual on Corporate Governance of the Company
GPIoS	Green Philippine Islands of Sustainability
GPRI	GBH Power Resources, Inc.
Grid Code	The Philippine Grid Code
GT-TACC	GT-Toyota Asian Cultural Center
HLURB	Housing and Land Use Regulatory Board, a government agency which enforces statutes affecting the real estate industry
IAG	Internal Audit Group
IBNR	The incurred but not reported death claims for AXA's group and individual businesses
ICAAP	Internal Capital Adequacy Assessment Process
IEE	The Initial Environmental Examination required by EMB for projects in environmentally critical areas
IFRIC	The International Financial Interpretations Committee

IFRIC 15	International Financial Interpretations Committee's Interpretation No. 15 on Agreements for the Construction of Real Estate
IPPAs	Independent power producer administrators
IRR	The EPIRA's implemented rules and regulations promulgated on February 27, 2002
ISPPIA	International Standards for the Professional Practice of Internal Auditing
kW	Kilowatt, or one thousand watts
kWh	Kilowatt-hour, the standard unit of energy used in the electric power industry. One kilowatt-hour is the amount of energy that would be produced by a generator producing one thousand watts for one hour
LBP	Land Bank of the Philippines
LC	Letters of credit
Lexus Distributor Agreement	The Lexus brand distributor agreement among TMP, TMC and TMAP renewed on December 3, 2009
LGU	Local government unit
LPH	Loan processing hubs
Maceda Law	Republic Act No. 6552, a Philippine statute known as the "Realty Installment Buyer Act" as amended from time to time
Management Committee	The Management Committee of MBT
MBCL	Metropolitan Bank (China) Ltd.
MBT	Metropolitan Bank & Trust Company
MBT Group	MBT along with its subsidiaries and associates
MCC	Metrobank Card Corporation
MCIT	Minimum corporate income tax
MCO	Maximum cumulative outflows
Metro Manila	The metropolitan area comprising the cities of Kalookan, Las Piñas, Makati, Malabon, Mandaluyong, Manila, Marikina, Muntinlupa, Navotas, Parañaque, Pasay, Pasig, Quezon, Valenzuela, Taguig and San Juan, which together comprise the "National Capital Region" and are commonly referred to as "Metro Manila"
Mitsui	Mitsui & Co. Ltd.
MOA	Memorandum of agreement
Monetary Board	Monetary Board of the BSP
MOS	The margin of solvency that a life insurance company doing business in the Philippines is required to maintain under the Code
MRCI	Metro Remittance Center, Inc.
MRCSA	Metro Remittance Center S.A.
Named executive officers	The three most highly compensated executive officers of the Company
NEA	National Electrification Administration

New Central Bank Act	Republic Act No. 7653, a Philippine statute entitled the "New Central Bank Act"
NGCP	National Grid Corporation of the Philippines
NLI	Northpine Land Inc.
Non-NPC	Plants owned and operated by IPPs that supply electricity to customers other than NPC
NPAC	Non-Performing Assets Committee
NPAs	Non-performing assets
NPC	National Power Corporation
NPLs	Non-performing loans
NREB	National Renewable Energy Board
OEM	Original equipment manufacturer, a category of parts under the Toyota Distributor Agreement
OFWs	Overseas Filipino workers
Open Access	As defined in the implementing rules and regulations of the EPIRA, the system of allowing any qualified person the use of electric power transmission, and/or distribution systems, and associated facilities subject to the payment of transmission and/or distribution retail wheeling rates duly approved by the ERC
Orix	ORIX Corporation of Japan
ORIX Metro Leasing	ORIX Metro Leasing & Finance Corporation
Orix Risingsun	ORIX Risingsun Properties, Inc.
Orix Risingsun II	ORIX Risingsun Properties II, Inc.
PAS	Philippine Accounting Standards
PCIC	PBC Capital Investment Corporation
PD 957	Presidential Decree No. 957, as amended, a Philippine statute regulating the development and sale of real property as part of a condominium project or subdivision
PDIC	Philippine Deposit Insurance Corporation
PDTC Participant	Participants of the PDTC system
PEDC	Panay Energy Development Corporation
PEDC Contract of Services	The operation and maintenance agreement between FHIC and PEDC dated January 26, 2011
PEMC	Philippine Electricity Market Corporation
PhilCharter	Philippine Charter Insurance Corporation
PI One	Philippine Investment One (SPV-AMC), Inc.
PI Two	Philippine Investment Two (SPV-AMC), Inc.
PLSD	Property Leasing and Sales Division of MBT
PPC	Panay Power Corporation

PPHC	Panay Power Holdings Corporation
PPP	Public-private-partnership
PPSRP	Philippine Peñablanca Sustainable Reforestation Project
PRC	The People's Republic of China
PSA	The Philippine Standards on Auditing
PSALM	Power Sector Assets and Liabilities Management Corporation
PSBank	Philippine Savings Bank
PSCES	Pulong Sta. Cruz Elementary School
PT Adaro	PT Adaro Indonesia
PT Sion	PT Sion Anugrah Mandiri
QAR	Quality Assurance Review
RA 4726	Republic Act No. 4726, a Philippine statute entitled the "Condominium Act"
RA 6552	Republic Act No. 6552, a Philippine statute entitled "An Act to Provide Protection to Buyers of Real Estate on Installment Payments", also known as the Maceda Law
RBC	Risk-based capital
RCIT	Regular corporate income tax
RE Law	Republic Act No. 9513, known as "The Renewable Energy Act of 2008"
REC	Renewable energy charge, a proposed surcharge to cover the costs of FiT
RMC	The Risk Management Committee of MBT
ROPA	Real and other properties acquired
RPB	The regional product blueprint published by AXA which contains the AXA Group's Asian businesses' product management and development guidelines
RPS	Renewable portfolio standards, as determined by the NREB
RSK	The Risk Management Group of MBT
SALFIF	First Metro Save & Learn Fixed Income Fund, Inc.
SALMMF	First Metro Save & Learn Money Market Fund, Inc.
SAMD	The Special Account Management Division of MBT
Samtan	Samtan Co. Ltd.
SBL	Securities borrowing and lending
SCB	Standard Chartered Bank
SCCP	Securities Clearing Corporation of the Philippines
Semirara	Semirara Mining Corporation
SES	Supervision and Examination Sector of the BSP
SGV & Co	SyCip Gorres Velayo & Co., a member firm of Ernst & Young Global Limited

Shell Oil	Pilipinas Shell Petroleum Corporation
SMBC Metro	SMBC Metro Investment Corporation
SMEs	Small-and-medium-enterprises
SMFC	Sumisho Motor Finance Corporation
SMile	Safety Milestone Recognition from the Bureau of Working Conditions of the Department of Labor and Employment
SoC	Substance of Concern elements
SPI	SBC Properties, Inc.
TAPI	Toyota Autoparts Philippines, Inc.
TFSPH	Toyota Financial Services Philippines Corporation
THC	Toledo Holdings Corporation
TLI	Taal Land, Inc.
TMAP	Toyota Motor Asia Pacific Pte Ltd.
TMAP-EM	TMAP-Engineering and Manufacturing Co., Ltd.
TMC	Toyota Motor Corporation
TMP	Toyota Motor Philippines Corporation
TMPCLO	Toyota Motor Philippines Corporation Labor Organization
TMPCSU	Toyota Motor Philippines Corporation Supervisory Union
Toyota Distributor Agreement	The Toyota brand distributor agreement amongst TMP, TMC and TMAP renewed on December 3, 2009
TPC	Toledo Power Company
TPS	The Toyota Production System, TMC's system of just-in-time production and quality control and feedback mechanisms
TransCo	National Transmission Corporation
Treasury	MBT's treasury operations
TSEZ	The TMP facility in Santa Rosa, Laguna, which was given special economic zone status through Presidential Proclamation No. 381
UITF	Unit investment trust funds
Union	Associated Labor Union – Trade Union Congress of the Philippines, the trade union of MBT
UP	The University of the Philippines
VaR	Value-at-Risk
WESM	Wholesale Electricity Spot Market
wheel or wheeled	The transmission of electricity

SUMMARY

This summary highlights information contained elsewhere in this Prospectus. This summary is qualified in its entirety by more detailed information and financial statements, including notes thereto, appearing elsewhere in this Prospectus. For a discussion of certain matters that should be considered in evaluating an investment in the Offer Shares, see "Risk Factors". Investors are advised to read this entire Prospectus carefully, including the financial statements and related notes contained herein.

OVERVIEW OF GT CAPITAL

GT Capital is a major Philippine conglomerate with interests in market-leading businesses across banking, real estate development, power generation, automotive and life insurance. GT Capital Holdings is the primary vehicle for the holding and management of the diversified business interests of the Ty family in the Philippines. GT Capital's business management, investment decisions and future business development are and will be firmly rooted in its corporate values of integrity, competence, respect, entrepreneurial spirit and commitment to value creation.

GT Capital's current portfolio of businesses is well-positioned to benefit from broad-based growth in the Philippine economy, and domestic consumption in particular. The current portfolio comprises directly held interests in the following GT Capital companies:

- **Banking –** GT Capital conducts banking services through its 25.1% interest in Metropolitan Bank & Trust Company ("MBT"), a universal bank that offers corporate and commercial banking products and services throughout the Philippines. As of September 30, 2011, MBT, along with its subsidiaries and associates (the "MBT Group"), was the second largest Philippine bank by asset size, net loans and receivables and total deposits, with total assets of ₱916.1 billion, net loans and receivables of ₱432.8 billion and total deposits of ₱656.4 billion. MBT was also the largest Philippine bank by book capitalization and controls 11.4% of the Philippine banking system's total asset base as of September 30, 2011, according to published statements of condition reported to the Philippine SEC. MBT has been listed on the Philippine Stock Exchange since 1981, and as of December 31, 2011 was the third largest Philippine bank by market capitalization (₱143.5 billion, U.S.$3.3 billion). As of the same date, the MBT Group's Tier 1 and total adequacy ratios were 13.7% and 17.4%, respectively.

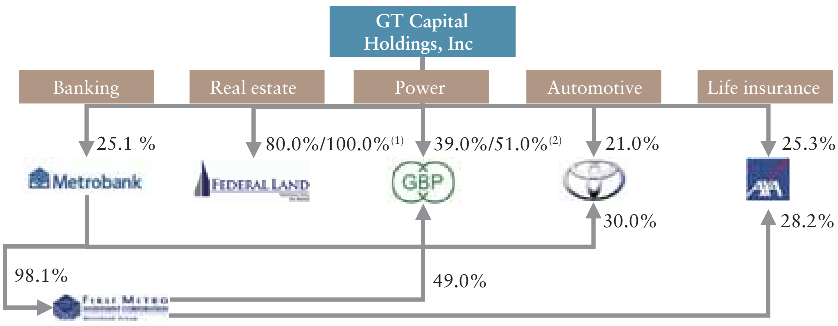
- **Real estate development –** GT Capital conducts its real estate development business through its 80.0% interest in its fully consolidated subsidiary Federal Land, Inc. ("Fed Land"), which develops residential and commercial projects. In March 2012, GT Capital Holdings signed a memorandum of agreement to acquire the outstanding 20% share capital of Fed Land for ₱2.7 billion. Following a successful consolidation process, Fed Land is today the sole Philippine real estate development company of the Ty family. Fed Land is currently executing on a comprehensive growth plan that aims to fully capitalize on the Ty family companies' 40-year track record in real estate and Fed Land's high-quality land bank and brand recognition. In 2011, Fed Land made reservation sales of 2,168 residential units with a total sales value of ₱9.05 billion (an increase of 114% compared to 2010 in terms of value). As of December 31, 2011, Fed Land had 19 different ongoing residential projects at various stages of completion, with a total number of 7,473 units. Fed Land's land bank as of December 31, 2011 comprised 100.8 hectares of land.

- **Power generation –** GT Capital conducts its power generation business through its 39.0% (assuming the exercise by GT Capital Holdings of an option to acquire from Global Business Holdings, Inc. ("GBH") an additional 4.6% of Global Business Power Corporation ("GBP")) direct ownership interest in GBP, a holding company that, through its subsidiaries, is a leading independent power producer in the Visayas Region, with a combined gross dependable capacity of 627 MW (480 MW attributable to GBP, net of minority interests in its subsidiaries). GT Capital Holdings is currently in discussions with a third-party for the purchase of additional GBP Shares. It is expected that these discussions will result in the increase of the direct holdings of GT Capital Holdings in GBP up to 51% by the end of 2012. Panay Energy Development Corporation ("PEDC") and CEDC, GBP's two largest power generation subsidiaries which own power plants with a combined installed capacity of 410 MW, only began commercial operations during the first quarter of 2011. The financial year ending December 31, 2012 is expected to be the first year of full contribution by these plants. GBP also has signed a letter agreement for two additional power projects in the Visayas, and is actively considering further expansion options across the Philippines.

- **Automotive –** GT Capital conducts its automotive business through its 21.0% interest in Toyota Motor Philippines ("TMP"). TMP is engaged in the manufacture, importation and wholesale distribution of Toyota brand motor vehicles in the Philippines, and is also engaged in the sale of motor vehicle parts and accessories both within the Philippines and through exports. TMP is also engaged in the distribution of Lexus brand motor vehicles in the Philippines. Every year since 2002, Toyota has been the top selling brand for both passenger cars and commercial vehicles in the Philippines, and since 1989, TMP has been number one in total sales in 21 out of 23 years. In 2011, TMP had a market share of 33.0% of total vehicle sales in the Philippines, according to data from the Chamber of Automotive Manufacturers of the Philippines ("CAMPI") and the Association of Vehicle Importers and Distributions ("AVID"). As the clear market leader in a key consumption sector and as exclusive manufacturer, importer and wholesale distributor in the Philippines of the No.1 global automotive brand (based on Interbrand 2011 and WPP 2011 studies), TMP is ideally positioned to capitalize on the strong projected growth of the domestic automotive market.

- **Insurance –** GT Capital conducts its insurance business through its 25.3% interest in Philippine AXA Life Insurance Corporation ("AXA"), which offers personal and group insurance products in the Philippines, including life insurance and investment-linked insurance products. AXA was first in first year premium and single premium of variable life insurance in the Philippines as of December 31, 2010. In 2011, the 'AXA' brand was the top insurance brand in the world according to Interbrand.

In addition to the direct ownership stakes set out above, GT Capital Holdings owns additional indirect stakes in GBP, TMP and AXA, as set out in the chart below.



Note:

1 *In March 2012, GT Capital Holdings signed a memorandum of agreement to acquire the outstanding 20% share capital of Fed Land for ₱2.7 billion.*

2 *GT Capital Holdings has 39.0% direct interest (assuming exercise by GT Capital Holdings of an option to acquire from GBH an additional 4.6% in GBP) as well as indirect interest through MBT/FMIC. GT Capital Holdings is currently in discussions with a third party for the purchase of additional GBP shares. It is expected that these discussions will result in the increase of the direct holdings of GT Capital Holdings in GBP up to 51% by the end of 2012. See "Business – GT Capital – GBP consolidation".*

The following tables set forth certain financial information relating to the MBT Group, Fed Land, GBP, TMP and AXA in relation to the Company which are derived from the Company's audited consolidated financial statements as of December 31, 2011 and the Company's pro forma condensed consolidated financial statements as of December 31, 2011:

	Audited Financial Statements as of December 31, 2011				
	MBT Group	Fed Land	GBP	TMP	AXA
	Amounts in ₱				
Asset contribution	31,300,775,975.51	29,543,463,155.00	3,397,120,759.00	2,071,711,843.86	895,970,794.12
Revenue contribution	2,773,656,474.51	4,478,579,566.00	–	461,836,518.15	244,827,090.58
Net income contribution	2,773,656,474.51	471,792,476.00	–	461,836,518.09	244,827,090.58
Investments					
No. of shares	530,201,070	80,000,000	–	3,253,765	885,737
Peso Value	22,477,639,960.00	8,321,246,981.60		1,471,689,039.00	598,729,027.23
% of ownership	25%	80%	0%	21%	25%

	Pro Forma Condensed Consolidated Financial Statements as of December 31, 2011				
	MBT Group	Fed Land	GBP	TMP	AXA
	Amounts in ₱				
Asset contribution	31,300,775,975.51	29,543,463,155.00	54,884,083,840.00	2,071,711,843.86	895,970,794.12
Revenue contribution	2,773,656,474.51	4,478,579,566.00	17,800,085,806.00	461,836,518.15	244,827,090.58
Net income contribution	2,773,656,474.51	589,835,595.00	527,375,164.00	461,836,518.09	244,827,090.58
Investments					
No. of shares	530,201,070	100,000,000	216,956,400	3,253,765	885,737
Peso value	22,477,639,960.00	11,021,246,981.60	6,893,224,500.00	1,471,689,039.00	598,729,027.23
% of ownership	25%	100%	39%	21%	25%

The following table presents summary information for each of GT Capital's businesses.

Industry/ Company Name	GT Capital direct ownership interest (%)	Other GT Capital companies' ownership interest (%)	Year Ended December 31, 2011 Total Assets (₱ millions)	Total Revenue (₱ millions)	Net Income (₱ millions)	Net Income Attributable to Parent Company Shareholders (₱ millions)
Banking						
Metropolitan Bank & Trust Company	25.1%	–	958,384	50,417(6)	12,390	11,031
Real estate						
Federal Land, Inc.	80.0%/ 100.0%(1)	–	29,543	4,479	601	590
Power Generation						
Global Business Power Corporation	39.0%/ 51.0%(2)	49.0%(3)	56,840	16,786	2,229	1,580
Automotive						
Toyota Motor Philippines	21.0%	30.0%(4)	18,021	54,099	2,216	2,199
Insurance						
Philippine AXA Life Insurance Corporation	25.3%	28.2%(5)	38,943	10,007(7)	967	967

Notes:

(1) *In March 2012, GT Capital Holdings signed a memorandum of agreement to acquire the outstanding 20% share capital of Fed Land for ₱2.7 billion.*

(2) *Assumes the exercise by GT Capital Holdings of an option to acquire an additional 4.6% of GBP held by GBH. GT Capital Holdings is currently in discussions with a third party for the purchase of additional GBP shares. It is expected that these discussions will result in the increase of the direct holdings of GT Capital Holdings in GBP up to 51% by the end of 2012.*

(3) *FMIC owns a 49.0% interest in GBP. FMIC is a 98.1% owned subsidiary of MBT.*
(4) *MBT owns a 30.0% interest in TMP.*
(5) *FMIC owns a 28.2% interest in AXA. FMIC is a 98.1% owned subsidiary of MBT.*
(6) *Total operating income including net interest income and share in net income of associates and a joint venture.*
(7) *Gross premiums*

GT Capital Holdings provides the GT Capital companies with corporate services including controllership, corporate finance, corporate and strategic planning, coordination of capital markets activities and human resources. GT Capital also provides the GT Capital companies with valuable market expertise in the Philippines as well as support in operations and financial management. In addition, the GT Capital companies leverage on their broad customer network and the wide array of related products and services which they offer.

GT Capital's revenues were ₱4,329.6 million, ₱6,306.8 million and ₱7,965.5 million in the years ended December 31, 2009, 2010 and 2011, respectively, with net income of ₱2,210.8 million, ₱3,112.0 million and ₱3,453.7 million, respectively. Of GT Capital's total revenue for the year ended December 31, 2011, Fed Land was the largest contributor with ₱4.5 billion, while MBT, TMP and AXA contributed revenues of ₱2.8 billion, ₱0.5 billion and ₱0.2 billion, respectively, during the same period. GT Capital's total assets amounted to ₱36,738.3 million, ₱51,303.7 million and ₱70,062.7 million as of January 1, 2010, December 31, 2010 and 2011, respectively.

Pro forma for the full consolidation of GBP and the acquisition of the remaining 20% share capital of Fed Land, in the year ended December 31, 2011, GT Capital's gross revenues were ₱25,765.6 million and net income was ₱6,419.2 million. Pro forma total assets as of December 31, 2011 were ₱124,946.8 million.

GT Capital Holdings is accessing the equity capital markets in order to tap permanent funding that would match its long term capital expenditure requirements for the expansion of the Toledo power plant on Cebu island, the expansion of the master-planned communities in Taguig, Pasay City and Cebu, as well as for the consolidation of the non-bank investments of the Ty family into GT Capital Holdings.

COMPETITIVE STRENGTHS

GT Capital Holdings is the primary vehicle for the holding and management of the various business interests of the Ty family in the Philippines. GT Capital Holdings is actively involved in the management of its market-leading businesses and continuously considers and evaluates new business initiatives and growth projects for the future. GT Capital Holdings believes that its principal strengths, enumerated below, are firmly rooted in its corporate values of integrity, competence, respect, entrepreneurial spirit and commitment to value creation:

Established market leadership across all current GT Capital businesses

Each of the GT Capital companies is an established franchise and market leader in its respective industry sector:

- As of September 30, 2011, the MBT Group was the second largest Philippine bank by asset size, net loans and receivables and total deposits, with total assets of ₱916.1 billion, net loans and receivables of ₱432.8 billion and total deposits of ₱656.4 billion. MBT was also the largest Philippine bank by book capitalization and controls 11.4% of the Philippine banking system's total asset base as of September 30, 2011, according to published statements of condition reported to the Philippine SEC. MBT enjoys strong brand recognition throughout the Philippines and was named the "Best Bank in the Philippines" by Euromoney for 2010 and 2011.

- **Fed Land** is a leader in vertical master-planned communities in the Philippines. Fed Land is the dedicated property development company of the Ty family in the Philippines and is currently implementing a comprehensive and sustainable growth program to fully capitalize on its expertise, land bank and brand recognition. In 2011, Fed Land made reservation sales of 2,168 residential units with a total sales value of ₱9.05 billion (an increase of 114% compared to 2010 in terms of value). As of December 31, 2011, Fed Land had 19 different ongoing residential projects at various stages of completion, with a total number of 7,473 units. Fed Land's land bank as of December 31, 2011 comprised 100.8 hectares of land.

- **GBP** is one of the largest independent power producers in the Visayas, with a combined gross dependable capacity of 627 MW (480 MW attributable to GBP, net of minority interests in its subsidiaries) comprising

619.5 MW of power supplied to the Visayas grid and 7.5 MW of power supplied to Mindoro Island. With 410 MW of capacity having come onstream during 2011 and a letter agreement signed for two additional power projects, GBP is also one of the fastest growing power producers across the Philippines.

- **TMP** is the Philippines' largest automobile manufacturer and the exclusive importer and wholesale distributor in the Philippines of the No.1 global automotive brand. TMP has been number one in total vehicle sales in 21 out of 23 years since 1989, with a 2011 market share of 33.0% based on data from CAMPI and AVID. TMP received the "Excellent Quality Company" award from Toyota Motor Corporation of Japan ("TMC") in April 2011 for its outstanding performance in quality vehicle production and the "Outstanding Achievement on Productivity and Quality" award at the 2011 Kapatiran sa Industriya Awards organized by the Employers Confederation of the Philippines.

- **AXA** was first in first year premium and single premium of variable life insurance in the Philippines as of December 31, 2010. AXA provides a diverse range of innovative products under the 'AXA' brand, which has been named as the 2011 top insurance brand in the world for the third consecutive year according to Interbrand.

High levels of effective ownership in all businesses

GT Capital Holdings, together with GT Capital companies and other shareholders affiliated with the Ty family, has controlling interests (subject to veto rights of certain joint venture partners with respect to certain matters) in each of its current businesses. GT Capital currently directly owns 80.0% of its fully consolidated, unlisted subsidiary Fed Land, with the outstanding balance of shares being held by other shareholders affiliated with the Ty family. In March 2012, GT Capital Holdings signed a memorandum of agreement to acquire the remaining 20.0% interest of Fed Land. GT Capital directly owns a 25.1% stake in MBT, with another 26.0% held by shareholders affiliated with the Ty family. GT Capital's interest in the power industry is through its fully consolidated subsidiary GBP, in which it directly owns a 39.0% stake and where a further 49.0% stake is held by FMIC, a majority-owned subsidiary of MBT. GT Capital Holdings is currently in discussions with a third party for the purchase of additional GBP shares. It is expected that these discussions will result in the increase of the direct holdings of GT Capital Holdings in GBP up to 51% by the end of 2012. GT Capital conducts its automotive business through TMP, in which it holds a direct 21.0% stake and where a further 30.0% stake is held by MBT. GT Capital's involvement in the insurance business is through AXA, in which it directly owns 25.3%, while an additional 28.2% stake is held by FMIC.

Strong partnerships with leading global players

A key element of GT Capital's business model is to combine local talent and expertise with the technology and resources of leading global business partners. To this end, several of the GT Capital businesses have benefited from strong partnerships with leading global players such as AXA, Australia and New Zealand Banking Group Limited ("ANZ"), Formosa Heavy Industries Corporation ("FHIC"), Mitsui Co. Ltd. ("Mitsui"), ORIX Corporation of Japan ("Orix"), Sumitomo and TMC. For example, in addition to its market-leading brand value, TMC has contributed a superior product range as well as excellence in manufacturing, marketing and customer service to TMP. AXA is a leading global insurance brand with recognized leadership in product design and risk management practices. FHIC has contributed state-of-the-art coal technology to GT Capital's power business.

GT Capital believes it is a strong local business partner for global investors in search of opportunities in the Philippines. The Ty family has a well-established reputation and credibility for integrity, sound business practices and strong corporate governance that GT Capital believes has earned it the trust and confidence of clients, suppliers, regulators and business partners, as well as strong support from the capital markets and the general investing public. Furthermore, GT Capital has a large geographic footprint in its coverage of the domestic economy as it deals with many of the key segments of the Philippine economy in Luzon, Visayas and Mindanao. GT Capital also has an established track record of successfully growing its various businesses through both stable and volatile socio-economic and political environments. GT Capital believes that it possesses in-depth knowledge of the local business environment, including the legal, regulatory and political landscapes which are key considerations for any foreign investor looking to do business in the Philippines.

GT Capital believes that strategic partnerships with leading global players leverage the complementary skill sets, expertise and resources of GT Capital and its partners, while GT Capital is able to optimize time to market, market impact, customer recognition and corporate performance based on global best practices.

Experienced management teams that are consistently focused on promoting synergies across the businesses
GT Capital has an experienced management team with a proven ability to efficiently build and operate market-leading businesses, and to identify and exploit profitable growth opportunities. GT Capital's Chairman, Dr. George Ty, founded MBT in 1962, and since then has been the driving force behind the GT Capital companies and many of the successful business ventures of the Ty family.

GT Capital also believes that the GT Capital companies follow global best practices for corporate governance. For example, MBT's board of directors consists of 12 members, seven of which are independent.

GT Capital considers active management to be a key part of its investment policy and has maintained a strict focus on recruiting and retaining strong management teams for each of its businesses. Furthermore, GT Capital's management has consistently and successfully promoted and implemented business plans across the GT Capital companies to crystallize available synergies. GT Capital believes that the market experience and knowledge that key members of its businesses management teams possess and the business relationships they have developed in the various industries in which they are involved has been, and will continue to be, an integral part of GT Capital's ability to retain and further expand its market leadership positions, to promote synergies among the GT Capital companies, and to identify profitable growth opportunities and business initiatives.

Strong financial profile based on track record of sustained and profitable growth
GT Capital and each of the GT Capital companies exhibit a strong and resilient financial profile. For the financial year ended December, 31, 2011, pro forma for the acquisition of additional stakes in Fed Land and GBP as discussed in "Summary Pro Forma Condensed Consolidated Financial Information", GT Capital's revenue, net income and total assets were ₱25,765.6 million, ₱6,419.2 million and ₱124,946.8 million. Over the period 2009 to 2011, growth in net income (CAGR) for each of the GT Capital companies MBT, Fed Land, GBP, TMP and AXA was 35.0%, 98.7%, 211.6%, 11.8% and 6.8%, respectively.

Diversified portfolio geared towards growth in domestic consumption and the broader Philippine economy
The Philippine economy has experienced significant growth from 2000 to 2010, with real gross domestic product ("GDP") growing at a compound rate of 4.8% per annum according to the National Statistical Coordination Board. The economy maintained positive growth throughout the global financial crisis of 2008-09 and according to Economic Intelligence Unit ("EIU"), real GDP growth in the Philippines is expected to continue on a strong upward trajectory, at a compound annual growth rate of 5.0% from 2011 to 2015. The Philippine economy particularly benefits from several key pillars of growth, including sustained increases in remittances from overseas Filipino workers ("OFWs"), BPO sector activity and domestic consumption, which in 2010 accounted for 79% of GDP according to the National Statistical Coordination Board. Fed Land, for example, stands to benefit from strong growth in the BPO sector and OFW remittances by tailoring its commercial and residential real estate products to cater to these markets.

The Philippines is the 12th most populous country in the world with a total population of 93.3 million as of July 2010, according to the United Nations. According to the United Nations, as of 2010, approximately 55% of the Philippine population is below the age of 24 (the median age of the population being 22.2 years), and strong population growth is expected to continue in the future. The United Nation's medium estimate for the Philippines' population in 2030 is 126.3 million. According to the World Bank, the primary school completion rate in the Philippines in 2009 was 92% and the adult literacy rate in 2008 was 95%, both well above the worldwide 2009 averages of 88% and 84%, respectively. Overall, the Philippines have a large, growing, young and well-educated population, which provides the Philippine economy with very favorable fundamentals for further growth.

As one of the leading Philippine conglomerates with a highly diversified business portfolio, GT Capital is broadly exposed to the Philippine economy through its range of businesses spanning financial services, property development, power, automotive and insurance. GT Capital's businesses are well positioned within industries which it believes are resilient and high growth sectors that particularly stand to benefit from the projected strong and sustained growth in Philippine domestic consumption.

STRATEGIES

Further strengthen GT Capital's leadership position across its existing businesses
In each of its existing businesses, GT Capital intends to further strengthen its market position by targeted strategies and investments that leverage its existing expertise, market insights, partnerships, and brand value and customer recognition:

- At MBT, asset growth and demand deposit growth will be key strategies in the near term. Coming off of a five year "clean up" period whereby MBT was able to significantly increase its NPL coverage ratio, MBT is turning its focus to growing its loan portfolio in the middle market and consumer banking segments. In addition, MBT intends to expand its current account and savings account balances through more efficient supply chain coverage and cash management products.

- At Fed Land, sustained strong growth in residential development activity – based on Fed Land's high-quality land bank and industry-leading expertise and brand recognition – shall be complemented by a broader market footprint (across middle-income and high-end segments) and an increasing portfolio of commercial properties generating recurring income.

- At GBP, ongoing capacity optimization through additional long-term off-take agreements will be complemented by new growth projects across the Visayas and Luzon, involving both conventional fuels such as coal and oil, and renewable energy projects such as hydropower.

- At TMP, the recent capacity expansion at the TMP manufacturing plant together with continued introductions of new imported CBU models, further improvements to the dealer network and best-in-class customer service are intended to maintain and further expand TMP's clear market leadership.

- At AXA, the market-leading bancassurance distribution will be further enhanced while investing in additional distribution channels, continued product innovation and targeting of new customer groups such as high net worth individuals.

Seek profitable growth opportunities in other key domestic industries via proven partnership model
GT Capital's management is focused on identifying and addressing long-term profitable business opportunities in key sectors of the economy. These include sectors where GT Capital companies are already present, such as property development and power generation. For example, Fed Land intends to capitalize on the significant future growth expected in the BPO sector by providing innovative commercial real estate solutions in key locations to potential BPO customers. In addition, GBP is currently exploring both greenfield and brownfield power generation projects, including those in the renewable energy sector such as hydroelectric. Beyond its existing business interests, GT Capital is also actively considering and evaluating new business initiatives in sectors that complement GT Capital's existing portfolio and where GT Capital will be able to contribute relevant insights, expertise and resources. Where appropriate value-enhancing business initiatives exist, GT Capital will seek to expand on its successful partnership model with recognized global industry leaders.

Consolidate GT Capital's ownership of the GT Capital companies
GT Capital Holdings is the primary vehicle for the holding and management of the various business interests of the Ty family in the Philippines. Subject to applicable laws and regulations and the conformity of its joint venture partners, GT Capital intends to acquire, over time, additional interests in current GT Capital companies, or in other companies controlled by the Ty family. Such consolidation would be consistent with GT Capital's active management approach to its portfolio and may allow an even more integrated approach among the GT Capital companies.

Further optimize synergy creation among the GT Capital companies

GT Capital's management intends to continuously seek and realize synergies among the GT Capital companies in areas including strategy, fund deployment, human resources and sharing of common IT and service platforms in order to further enhance cost efficiencies, competitive strengths and market positions across the group. Furthermore, there exist significant revenue synergies as many products and services offered by GT Capital are attractive to a common consumer target group and stand to benefit from cross-selling. For example, MBT's large depositor base represents a significant opportunity for the cross-selling of other GT Capital companies' products through coordinated efforts. In addition, mortgage products can be offered to potential purchasers of Fed Land condominium units, and the same target demographic may also be interested in automotive products (including lease financing) or life insurance-linked investment products. GT Capital aims to maximize such synergies from both existing and future business initiatives.

COMPANY INFORMATION

GT Capital Holdings is a Philippine corporation with its registered office and principal executive offices located at 43/F, GT Tower International, 6813 Ayala Avenue corner H.V. dela Costa Street, Makati City 1227, Philippines. The Company's telephone number is (632) 836 4500 and its website is www.gtcapital.com.ph. The information on the Company's website is not incorporated by reference into, and does not form part of, this Prospectus.

INFORMATION RELATING TO THE COMMON SHARES

Authorized number of Common Shares	500,000,000 Common Shares, par value ₱10.00 per Common Share
Common Shares outstanding before the Offer.......................................	125,000,000 Common Shares
Common Shares outstanding after the Offer.......................................	A total of up to 158,000,000 Common Shares will be outstanding after the Offer
Market Capitalization at the Offer Price of ₱455 per Offer Share(1) ...	₱71.89 billion

Note:

(1) Computed at the Offer Price of ₱455 per Offer Share multiplied by 158,000,000 Common Shares outstanding after the Offer. The PSE computes market capitalization based on the number of listed shares multiplied by the market price.

INVESTOR RELATIONS OFFICE

The Investor Relations Office shall be tasked with (a) the creation and implementation of an Investor Relations Program that reaches out to all shareholders and fully informs them of corporate activities, and (b) the formulation of a clear policy for accurately, effectively and sufficiently communicating and relating relevant information to the Company's stakeholders as well as to the broader investor community.

The Investor Relations Office is functionally under the direct supervision of the President of the Company.

SUMMARY OF THE OFFER

Issuer...	GT Capital Holdings, Inc., a corporation organized under the laws of the Philippines. ("GT Capital" or the "Company")
Selling Shareholders	Ausan Resources Corporation, Grand Titan Capital Holdings, Inc., and Titan Resources Corporation
Sole Coordinator, Sole International Bookrunner and Lead Manager ...	UBS AG
Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter	First Metro Investment Corporation
The Offer	Offer of 41,217,300 Firm Shares, consisting of 33,000,000 new Common Shares to be offered by the Issuer, and 8,217,300 existing Common Shares to be offered by Ausan Resources Corporation and Titan Resources Corporation and an offer up to 6,182,590 Optional Shares pursuant to the Over-Allotment Option (as described below).
International Offer	24,112,120 of the Offer Shares are being offered and sold outside the Philippines to persons outside the United States in reliance on Regulation S under the U.S. Securities Act and within the United States to QIBs in reliance on Rule 144A as part of the International Offer. The Optional Shares will form part of the International Offer.
Domestic Offer	4,739,990 of the Offer Shares are being offered and sold to Philippine QIBs, 8,243,460 of the Offer Shares are being offered and sold to PSE Trading Participants, and 4,121,730 of the Offer Shares are being offered and sold to Local Small Investors ("LSIs") as part of the Domestic Offer. First Metro Investment Corporation will act as the Sole Domestic Coordinator, Bookrunner, Lead manager and Domestic Lead Underwriter. Domestic Offer Shares not taken up by the PSE Trading Participants, the LSIs, the clients of the Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter or the general public shall be purchased by the Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter.
Offer Price...	₱455 per Offer Share.
Over-Allotment Option	Two of the three Selling Shareholders, namely Grand Titan Capital Holdings, Inc. and Titan Resources Corporation, have granted the Stabilizing Agent an option, exercisable in whole or in part, to purchase up to 6,182,590 Optional Shares at the Offer Price, on the same terms and conditions as the Firm Shares as set forth in this Prospectus, solely to cover over-allotments, if any. The Over-Allotment Option is exercisable from and including the Listing Date and ending on the date 30 days from the Listing Date. See "Plan of Distribution – The Over-Allotment Option" in this Prospectus.
Domestic Offer Period	The Domestic Offer Period shall commence at 9:00 a.m., Manila time, on April 10, 2012 and end at 12:00 p.m., Manila time, on April 16, 2012 The Company and the Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter reserve the right to extend or terminate the Domestic Offer Period with the approval of the Philippine SEC and the PSE.

Applications must be received by the Domestic Receiving Agent not later than 12:00 p.m., Manila time on April 16, 2012, whether filed through a Domestic Selling Agent or filed directly with the Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter. Applications received thereafter or without the required documents will be rejected. Applications shall be considered irrevocable upon submission to the Domestic Selling Agent or Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter, and shall be subject to the terms and conditions of the offer as stated in this Prospectus and in the Application. The actual purchase of the Offer Shares shall become effective only upon the actual listing of the Offer Shares on the PSE and upon the obligations of the Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter under the Domestic Underwriting Agreement becoming unconditional and not being suspended, terminated or cancelled on or before the Listing Date in accordance with the provisions of such agreement.

Eligible Investors.............................. The Domestic Offer Shares may be purchased by any natural person of legal age residing in the Philippines regardless of nationality, or any corporation, association, partnership, trust account, fund or entity residing in and organized under the laws of the Philippines and/or licensed to do business in the Philippines, regardless of nationality, subject to the Company's right to reject an Application or reduce the number of Offer Shares applied for subscription or purchase if the same will cause the Company to be in breach of the Philippine ownership requirement under relevant Philippine laws.

The International Offer Shares are initially being offered and sold within the United States to QIBs in reliance on Rule 144A and to persons outside the United States in reliance on Regulation S. Subscription to, and purchase of, the Offer Shares in certain jurisdictions may be restricted by law. Foreign investors interested in subscribing or purchasing the Offer Shares should inform themselves of the applicable legal requirements under the laws and regulations of the countries of their nationality, residence or domicile, and as to any relevant tax or foreign exchange control laws and regulations affecting them personally. Foreign investors, both corporate and individual, warrant that their purchase of the Offer Shares will not violate the laws of their jurisdiction and that they are allowed to acquire, purchase and hold the Offer Shares.

Restrictions on Ownership............... The Philippine Constitution and related statutes set forth restrictions on foreign ownership of companies engaged in certain activities.

As of the date of this Prospectus, GT Capital Holdings owns land indirectly through its subsidiaries and associates. Accordingly, in light of the restrictions under the Philippine Constitution, the foreign shareholdings in GT Capital Holdings may not exceed 40% of its issued and outstanding voting capital stock.

For more information relating to restrictions on the ownership of the Shares, see the sections entitled "Description of Share Capital," "Risk Factors" and "Philippine Foreign Exchange and Foreign Ownership Controls" in this Prospectus.

Transfer Restrictions	The Offer Shares are initially being offered and sold within the United States to QIBs in reliance on Rule 144A and to persons outside the United States in reliance on Regulation S. The Offer Shares have not been and will not be registered under the U.S. Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. See "Plan of Distribution – The International Offer" in this Prospectus.
Dividends	Upon completion of the Offer, it shall be the policy of the Company to declare dividends whenever there are unrestricted retained earnings available. Such declaration will take into consideration factors such as restrictions that may be imposed by current and prospective financial covenants; projected levels of operating results, working capital needs and long-term capital expenditures; and regulatory requirements on dividend payments, among others. See "Dividends and Dividend Policy" in this Prospectus.
Lock-up	Pursuant to the listing rules of the PSE, the Company's existing shareholders who own an equivalent of at least 10% of the issued and outstanding Common Shares cannot sell, assign or in any manner dispose of their Common Shares for a minimum period of 180 days after the listing of the Offer Shares. A total of 110,095,110 Common Shares, held by Grand Titan Capital Holdings, Inc. will be subject to such 180-day lock-up. See "Principal and Selling Shareholders – GT Capital Holdings – Security Ownership of Record and Beneficial Owners" in this Prospectus. In addition, all Common Shares issued within 180 days prior to the commencement of the Offer at an issue price less than the price per Offer Share shall be subject to a lock-up period of at least 365 days from the date that full payment is made on such Common Shares, as required by the PSE. There are no Common Shares that are subject to such 365-day lock-up. See "Principal and Selling Shareholders – Security Ownership of Record and Beneficial Owners". In addition to the lock-up obligations required by the PSE, the Company and Grand Titan Capital Holdings, Inc. have agreed with the Underwriters that, they will not, without the prior written consent of the Sole Global Coordinator, Sole International Bookrunner, Bookrunner, and Lead Manager, issue, offer, pledge, sell, contract to sell, pledge or otherwise dispose of (or publicly announce any such issuance, offer, sale or disposal of) any Common Shares or securities convertible or exchangeable into or exercisable for any Common Shares or warrants or other rights to purchase Common Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options for a period of 180 days after the listing of the Offer Shares. See "Plan of distribution – Lock-up" for further information relating to these lock-ups in this Prospectus.
Use of Proceeds	See "Use of Proceeds" for details of how the total net proceeds from the Offer will be applied.

Minimum Subscription	Each Application must be for a minimum of 30 Firm Shares, and thereafter, in multiples of 10 Firm Shares. Applications for multiples of any other number of Common Shares may be rejected or adjusted to conform to the required multiple, at the Company's discretion.
Reallocation	The allocation of the Offer Shares between the Domestic Offer and the International Offer is subject to adjustment as agreed between the Sole Global Coordinator, Sole International Bookrunner and Lead Manager and Sole Domestic Coordinator, Lead Manager and Domestic Lead Underwriter. In the event that the total demand for shares in the local small investors' subscription is five times or more than the initial allocation of 10%, the allocation will be increased to 15%.
Procedure for Application for the Domestic Offer	Application forms to purchase Offer Shares in the Domestic Offer may be obtained from the Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter or any Domestic Selling Agent listed in this Prospectus. All Applications shall be evidenced by the application to purchase form, duly executed in each case by an authorized signatory of the applicant and accompanied by one completed signature card which, for corporate and institutional applicants, should be authenticated by the corporate secretary, and the corresponding payment for the Offer Shares covered by the Application and all other required documents. The duly executed Application and required documents should be submitted during the Domestic Offer Period to the same office where it was obtained. If the applicant is a corporation partnership or trust account, the Application must be accompanied by the following documents: • A certified true copy of the applicant's latest articles of incorporation and by-laws and other constitutive documents (each as amended to date) duly certified by its corporate secretary; • A certified true copy of the applicant's Philippine SEC certificate of registration or certificate of filing amended articles of incorporation or bylaws, as the case may be, duly certified by its corporate secretary; and • A notarized corporate secretary's certificate setting forth the resolution of the applicant's board of directors or equivalent body authorizing the purchase of the Offer Shares indicated in the Application, identifying the designated signatories authorized for the purpose, including his or her specimen signature, and certifying to the percentage of the applicant's capital or capital stock held by Philippine Nationals. Foreign corporate and institutional applicants who qualify as Eligible Investors, in addition to the documents listed above, are required to submit in quadruplicate, a representation and warranty stating that their purchase of the Offer Shares to which their Application relates will not violate the laws of their jurisdictions of incorporation or organization, and that they are allowed, under such laws, to acquire, purchase and hold the Offer Shares.

Payment Terms for the Domestic Offer	The Domestic Offer Shares in the Domestic Offer must be paid for in full upon submission of the Application. Payment must be made by a check drawn against a bank in Metro Manila to the order of "GT Capital IPO". The check must be dated as of the date of submission of the Application and crossed for deposit.
Acceptance/Rejection of Applications for the Domestic Offer	The actual number of Domestic Offer Shares that an applicant will be allowed to purchase in the Domestic Offer is subject to the confirmation of the Sole Domestic Underwriter. Applications shall be subject to the Company's final approval. The Company reserves the right to accept or reject, in whole or in part, any Application due to any grounds specified in the Domestic Underwriting Agreement entered into by the Company and the Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter. Applications shall be subject to the Company's final approval. The Company reserves the right to accept or reject, in whole or in part, any Application due to any grounds specified in the Domestic Underwriting Agreement entered into by the Company, the Selling Shareholders and the Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter. Applications where checks are dishonored upon first presentation and Applications which do not comply with the terms of the Domestic Offer shall be rejected outright. Moreover, any payment received pursuant to the Application does not mean the Company's approval or acceptance of the Application. An Application, when accepted, shall constitute an agreement between the applicant and the Company for the purchase of the Offer at the time, in the manner and subject to terms and conditions set forth in the Application and those described in this Prospectus. Notwithstanding the acceptance of any Application by the Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter or its duly authorized representatives, acting for or on behalf of the Company, the actual purchase by the applicant of the Offer Shares will become effective only upon listing of the Offer Shares on the PSE and upon the obligations of the Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter under the Domestic Underwriting Agreement becoming unconditional and not being suspended, terminated or cancelled, on or before the Listing Date, in accordance with the provisions of such agreements. If such conditions have not been fulfilled on or before the periods provided above, all application payments will be returned to the applicants without interest and, in the meantime, the said application payments will be held in a separate bank account with the Domestic Receiving Agent.
Refunds..	In the event that the number of Offer Shares to be received by an applicant, as confirmed by the Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter, is less than the number covered by its Application, or if an Application is rejected by the Company, then the Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter shall refund, without interest, within five banking days from the end of the Domestic Offer Period, all, or a portion, of the payment corresponding to the number of Offer Shares wholly or partially rejected. All refunds shall be made through the Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter or Domestic Selling Agent with whom the applicant has filed the Application, at the applicant's risk.

Issuance and Transfer Taxes............	All standard taxes applicable to the issuance and transfer of the Offer Shares by the Company and the Selling Shareholders, pursuant to the Offer shall be for the account of the Company and the Selling Shareholders, respectively.
Registration and Lodgment of Shares with the PDTC..................	Offer Shares purchased by applicants will be lodged with the PDTC. The applicant must provide the information required for the PDTC lodgment of the Offer Shares. The Offer Shares will be lodged with the PDTC at least two trading days prior to Listing Date.
Registration of Foreign Investments..	The BSP requires that investments in shares of stock funded by an inward remittance of foreign currency be registered with the BSP if the foreign exchange needed to service capital repatriation or dividend remittance will be sourced from the Philippine banking system. The registration with the BSP of all foreign investments in the Firm Shares and the Optional Shares (if any) shall be the responsibility of the foreign investor. See "Philippine Foreign Exchange and Foreign Ownership Controls" in this Prospectus.
Restriction on Issuance and Disposal of Shares.......................................	Existing shareholders who own an equivalent of at least 10.0% of the Company's issued and outstanding Common Shares after the Offer are required under the revised listing rules of the PSE applicable to companies applying for listing on the PSE First Board, not to sell, assign or otherwise dispose of their Common Shares for a minimum period of 180 days after the Listing Date. See "– Lock-up" above and "Principal and Selling Shareholders – Security Ownership of Record and Beneficial Owners" in this Prospectus. Except for the issuance of Offer Shares pursuant to the Offer or Common Shares for distribution by way of stock dividends and certain option grants and issuances under employee incentive schemes, the PSE will require the Company, as a condition to the listing of the Common Shares, not to issue new shares in capital or grant any rights to or issue any securities convertible into or exchangeable for, or otherwise carrying rights to acquire or subscribe to, any shares in its capital or enter into any arrangement or agreement whereby any new shares or any such securities may be issued for a period of 180 days after the Listing Date. These restrictions are in addition to the contractual lock-up described above.
Listing and Trading..........................	The Company's application for the listing of the Common Shares was approved by the PSE on March 14, 2012. All of the Common Shares in issue or to be issued, including the Offer Shares, are expected to be listed on the PSE on April 20, 2012. Trading is expected to commence on the same date.
Tax Considerations..........................	See "Philippine Taxation" in this Prospectus for further information on the tax consequences of the purchase, ownership and disposition of the Offer Shares.

Expected Timetable	The timetable of the Offer is expected to be as follows: (dates provided below are dates in the Philippines):
	Pricing and allocation of the International Offer Shares....April 3, 2012
	PSE Trading Participants' Commitment Period.....................April 10 to April 12, 2012
	Domestic Offer Period
	Start..April 10, 2012
	End:
	Trading Participants ....April 16, 2012
	Local Small Investors.....................................April 16, 2012
	General Public/Underwriters..........................April 16, 2012
	Domestic Offer Settlement Date ....April 20, 2012
	International Offer Settlement Date ....April 20, 2012
	Listing Date and commencement of trading on the PSE..April 20, 2012
	The dates included above are subject to market and other conditions and may be changed.
Risk Factors	Prospective investors should carefully consider the risks associated with an investment in the Offer Shares, certain of which are discussed in the section of this Prospectus titled "Risk Factors".

SUMMARY FINANCIAL INFORMATION – GT CAPITAL

The following tables present GT Capital's summary consolidated financial information and should be read in conjunction with the auditors' reports and with GT Capital's consolidated financial statements and notes thereto contained in this Prospectus and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations – GT Capital". The summary consolidated financial information presented below as of and for the years ended December 31, 2009, 2010 and 2011 was derived from the consolidated financial statements of GT Capital, prepared in compliance with PFRS and audited by SyCip Gorres Velayo & Co. ("SGV & Co.") in accordance with PSA. The information below is not necessarily indicative of the results of future operations. For additional information regarding financial information presented in this Prospectus, see "Presentation of Financial Information".

SUMMARY CONSOLIDATED STATEMENTS OF INCOME

	For the years ended December 31,			
	2009	2010	2011	2011
	(₱ millions)			(U.S.$ million)
REVENUE				
Equity in net income of associates	2,089.8	2,948.9	3,567.9	81.2
Real estate sales	1,148.0	2,160.7	2,512.2	57.2
Sale of goods and services	584.2	644.7	764.7	17.4
Rent income	176.9	198.0	238.0	5.4
Commission income	–	47.1	96.0	2.2
Interest and other income	330.7	307.4	786.7	18.0
	4,329.6	6,306.8	7,965.5	181.4
COSTS AND EXPENSES				
Cost of real estate sales	636.7	1,364.8	1,553.8	35.4
Cost of goods and services	497.6	584.6	709.7	16.2
General and administrative expenses	755.3	893.3	1,109.8	25.3
Interest expense	169.9	281.9	989.7	22.5
	2,059.5	3,124.6	4,363.0	99.4
INCOME BEFORE INCOME TAX	2,270.1	3,182.2	3,602.5	82.0
PROVISION FOR INCOME TAX	59.3	70.2	148.8	3.4
NET INCOME	2,210.8	3,112.0	3,453.7	78.6
Attributable to:				
Equity holders of GT Capital Holdings, Inc.	2,184.0	3,001.6	3,324.4	75.7
Non-controlling interests	24.8	110.4	129.3	2.9
	2,210.8	3,112.0	3,453.7	78.6
NET INCOME	2,210.8	3,112.0	3,453.7	78.6
OTHER COMPREHENSIVE INCOME(1)				
Equity in other comprehensive income of associates:				
Net unrealized gain (loss) an avail for sale of associates	1,733.3	345.3	2,762.5	63.0
Revaluation reserve in investment prop of associates	(0.9)	(0.1)	–	–
Revaluation increment on property and equipment of associates	(0.1)	(0.2)	–	–
Translation adjustment of associates	(53.1)	(112.6)	133.1	3.0
	1,679.2	232.4	2,895.6	65.9
TOTAL COMPREHENSIVE INCOME	3,890.0	3,344.4	6,349.3	144.5
Total comprehensive income attributable to:				
Equity holders of GT Capital Holdings, Inc.	3,863.2	3,234.0	6,220.0	141.6
Non-controlling interests	26.8	110.4	129.3	2.9
	3,890.0	3,344.4	6,349.3	144.5

Note:
(1) *Other comprehensive loss represents changes in fair value of available-for-sale investments.*

See accompanying notes to GT Capital's consolidated financial statements.

SUMMARY CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	January 1, 2010	As of December 31, 2010	2011	2011
		(₱ millions)		(U.S.$ million)
ASSETS				
Current Assets				
Cash and cash equivalents	198.5	3,064.9	454.4	10.4
Receivables	755.0	1,175.6	4,864.1	110.7
Inventories	6,927.6	7,889.2	11,338.4	258.1
Due from related parties	872.1	558.2	938.8	21.4
Prepayments and other current assets	563.6	752.5	975.0	22.2
Total Current Assets	9,316.8	13,440.4	18,570.7	422.8
Non-current Assets				
Non-current receivables	284.5	908.9	1,114.9	25.4
Long-term cash investments	–	–	2,440.1	55.5
Deposits	–	–	4,085.0	93.0
Investments and advances	22,761.2	31,123.1	38,112.5	867.6
Investment properties	3,906.2	5,299.2	5,227.4	119.0
Property and equipment	373.1	430.9	396.4	9.0
Deferred tax assets	0.8	6.7	3.8	0.1
Other non-current assets	95.7	94.5	111.9	2.5
Total Non-current Assets	27,421.5	37,863.3	51,492.0	1,172.1
	36,738.3	51,303.7	70,062.7	1,594.9
LIABILITIES AND EQUITY				
Current Liabilities				
Accounts and other payables	570.7	1,935.9	4,573.4	104.1
Current portion of liabilities on purchased land	112.3	119.0	–	–
Short-term loans payable	4,257.0	7,182.2	7,648.7	174.1
Customers' deposits	615.4	417.5	457.6	10.4
Due to related parties	501.0	320.5	403.6	9.2
Dividends payable	2.0	0.2	0.2	–
Income tax payable	–	2.0	–	–
Other current liabilities	29.6	23.8	58.0	1.3
Total Current Liabilities	6,088.0	10,001.1	13,141.5	299.1
Non-current Liabilities				
Pension liabilities	24.9	24.4	28.1	0.6
Long-term loans payable	1,638.9	9,000.0	19,600.0	446.2
Non current portion of liabilities on purchased land	516.8	397.9	–	–
Deferred tax liabilities	35.2	7.3	80.6	1.8
Other non-current liabilities	38.4	52.7	62.9	1.4
Total Non-current Liabilities	2,254.2	9,482.3	19,771.6	450.0
	8,342.2	19,483.4	32,913.1	749.1
Equity				
Equity attributable to equity holders of GT Capital Holdings, Inc				
Capital Stock	1,250.0	1,250.0	1,250.0	28.5
Additional paid-in capital	23,071.7	23,071.7	23,071.7	525.2
Retained earnings	2,875.6	5,377.3	7,801.7	177.6
Other comprehensive income	(322.6)	(90.2)	2,805.4	63.9
	26,874.7	29,608.8	34,928.8	795.2
Non-controlling interest	1,521.4	2,211.5	2,220.8	50.6
Total Equity	28,396.1	31,820.3	37,149.6	845.8
TOTAL LIABILITIES AND EQUITY	36,738.3	51,303.7	70,062.7	1,594.9

See accompanying notes to GT Capital's consolidated financial statements.

SUMMARY CONSOLIDATED STATEMENTS OF CASH FLOW

	For the years ended December 31,			
	2009	2010	2011	2011
	(₱ millions)			(U.S.$ million)
Net cash provided by (used in) operating activities	481.6	109.1	(3,586.3)	(81.6)
Net cash provided by (used in) investing activities	(464.5)	(7,323.8)	(9,067.0)	(206.4)
Net cash provided by (used in) financing activities	57.0	10,081.8	10,043.0	228.6
Cash and cash equivalents at beginning of the year	124.6	198.5	3,064.9	69.8
Cash and cash equivalents at end of the year	198.5	3,064.9	454.4	10.4

SUMMARY PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The following tables present summary pro forma condensed consolidated financial information for the Company based on the historical financial statements contained elsewhere in this Prospectus, adjusted to give pro forma effect to the Company's full consolidation of GBP and the 20% increase in the Company's holdings of the share capital of Fed Land as if these occurred as of January 1, 2011. This summary should be read in conjunction with the auditors' reports and with the Company's historical consolidated financial statements and notes thereto contained in this Prospectus and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations – GT Capital." The Company's pro forma condensed consolidated financial information as of and for the year ended December 31, 2011 was derived from the historical consolidated financial statements of GT Capital prepared in compliance with PFRS and audited by SGV & Co. in accordance with PSA.

The pro forma condensed consolidated financial information has not been prepared in accordance with the requirements of Article 11 of the Regulation S-X under the U.S. Exchange Act.

The pro forma adjustments are based upon available information and certain assumptions that the Company believes are reasonable under the circumstances. The summary pro forma condensed consolidated financial information does not purport to represent what the results of operations and financial position of the Company and its subsidiaries would actually have been had the acquisition of GBP and the acquisition of Fed Land's non-controlling interests in fact occurred on January 1, 2011 or December 31, 2011, as the case may be, nor do they purport to project the results of operations of the Company and its subsidiaries for any future period or date. Furthermore, the translation of peso amounts to U.S. dollars is provided for convenience only. For additional information regarding financial information presented in this Prospectus, see "Presentation of Financial Information."

PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Pro forma adjustments (Unaudited)			
	GT Capital Holdings Balances (Audited)	Acquisition of Non-controlling Interests in Fed Land	Acquisition of GBP	**Pro forma Consolidated Balances (Unaudited)**	**Pro forma Consolidated Balances (Unaudited)**
		(₱ millions)			(U.S. $ millions)
REVENUE AND OTHER INCOME	7,965.5	–	17,800.1	25,765.6	586.5
COST AND EXPENSES	4,363.0	–	14,698.1	19,061.1	433.9
INCOME BEFORE INCOME TAX	3,602.5	–	3,102.0	6,704.5	152.6
PROVISION FOR INCOME TAX	148.8	–	136.5	285.3	6.5
NET INCOME	3,453.7	–	2,965.5	6,419.2	146.1
OTHER COMPREHENSIVE INCOME					
Change in net unrealized gain on available-for-sale investments	–	–	(101.4)	(101.4)	(2.3)
Share in other comprehensive income of associates	2,895.6	–	(15.9)	2,879.7	65.6
TOTAL COMPREHENSIVE INCOME	6,349.3	–	2,848.3	9,197.6	209.4
Net income attributable to:					
GT Capital Holdings	3,324.4	118.0	1,352.2	4,794.6	109.1
Non-controlling interests	129.3	(118.0)	1,613.3	1,624.6	37.0
	3,453.7	–	2,965.5	6,419.2	146.1
Earnings per share attributable to GT Capital Holdings:					
Basic and Diluted	26.60			38.36	
Total comprehensive income attributable to:					
GT Capital Holdings	6,220.0	118.0	1,296.8	7,634.8	173.8
Non-controlling interests	129.3	(118.0)	1,551.4	1,562.8	35.6
	6,349.3	–	2,848.3	9,197.6	209.4

See accompanying notes to GT Capital's pro forma condensed consolidated financial information.

PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	GT Capital Holdings Balances (Audited)	Pro forma adjustments (Unaudited) Acquisition of Non-controlling Interests in Fed Land	Acquisition of GBP	**Pro forma Consolidated Balances (Unaudited)**	**Pro forma Consolidated Balances (Unaudited)**
		(₱ millions)			(U.S. $ millions)
ASSETS					
Current Assets					
Cash and cash equivalents	454.4	–	8,606.7	9,061.1	206.3
Receivables	4,864.1	–	1,653.7	6,517.8	148.4
Inventories	11,338.4	–	1,114.6	12,453.0	283.5
Due from related parties	938.9	–	414.3	1,353.2	30.8
Prepayments and other current assets	975.0	–	2,019.7	2,994.7	68.2
Total Current Assets	18,570.8	–	13,809.0	32,379.8	737.1
Noncurrent Assets					
Noncurrent receivables	1,114.9	–	1,083.6	2,198.5	50.0
Investments and advances	38,112.5	–	(3,397.1)	34,715.4	790.3
Long-term cash investments	2,440.1	–	–	2,440.1	55.5
Deposits	4,085.0	–	–	4,085.0	93.0
Investment properties	5,227.4	–	–	5,227.4	119.0
Property, plant and equipment	396.4	–	41,980.6	42,377.0	964.7
Deferred tax assets	3.8	–	147.2	151.0	3.4
Other noncurrent assets	111.9	–	1,260.8	1,372.7	31.2
Total Noncurrent Assets	51,492.0	–	41,075.0	92,567.1	2,107.3
Total Assets	70,062.8	–	54,884.1	124,946.8	2,844.4
LIABILITIES AND EQUITY					
Current Liabilities					
Accounts and other payables	4,573.4	–	3,789.6	8,363.0	190.4
Liabilities for purchased shares	–	2,700.0	893.2	3,593.2	81.8
Current portion of loans payable	7,648.7	–	964.6	8,613.3	196.1
Customers' deposits	457.6	–	–	457.6	10.4
Due to related parties	403.6	–	577.8	981.4	22.3
Dividends payable	0.2	–	29.4	29.7	0.7
Income tax payable	–	–	36.6	36.6	0.8
Other current liabilities	57.9	–	–	57.9	1.3
Total Current Liabilities	13,141.5	2,700.0	6,291.3	22,132.8	503.9
Noncurrent Liabilities					
Pension liabilities	28.1	–	64.6	92.7	2.1
Loans payable – noncurrent portion	19,600.0	–	29,176.4	48,776.4	1,110.4
Deferred tax liabilities	80.6	–	1,854.6	1,935.2	44.1
Decommissioning liability	–	–	61.6	61.6	1.4
Other noncurrent liabilities	62.9	–	18.2	81.1	1.8
Total Noncurrent Liabilities	19,771.7	–	31,175.4	50,947.1	1,159.8
Total Liabilities	32,913.1	2,700.0	37,466.7	73,079.9	1,663.7
Equity					
Equity attributable to GT Capital Holdings					
Capital stock	1,250.0	–	–	1,250.0	28.5
Additional paid-in capital	23,071.7	(555.9)	–	22,515.8	512.6
Retained earnings	7,801.7	–	736.0	8,537.7	194.4
Other comprehensive income	2,805.5	–	–	2,805.5	63.9
	34,928.8	(555.9)	736.0	35,109.0	799.3
Non-controlling interests	2,220.8	(2,144.1)	16,681.3	16,758.0	381.5
Total Equity	37,149.6	(2,700.0)	17,417.3	51,867.0	1,180.8
	70,062.8	–	54,884.1	124,946.9	2,844.4

See accompanying notes to GT Capital's pro forma condensed consolidated financial information.

RISK FACTORS

An investment in the Common Shares involves a number of risks. The price of securities can and does fluctuate, and any individual security may experience upward or downward movements and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. Past performance is not a guide to future performance and there may be a large difference between the buying price and the selling price of these securities. Investors deal with a range of investments, each of which may carry a different level of risk. Investors should carefully consider all the information contained in this Prospectus, including the risk factors described below and elsewhere in this Prospectus, before deciding to invest in the Common Shares.

This section entitled "Risk Factors" does not purport to disclose all of the risks or other significant aspects of investing in the Common Shares. The occurrence of any of the events discussed below and any additional risks and uncertainties not presently known to the Company or that are currently considered immaterial could have a material adverse effect on the Company's business, results of operations, financial condition and prospects and on the Common Shares and the investors may lose all or part of their investment. Investors may request publicly available information on the Common Shares and the Company from the Philippine SEC and PSE.

An investor should seek professional advice if he or she is uncertain of, or has not understood, any aspect of this offer or the nature of risks involved in purchasing, holding and trading the Common Shares. Each investor should consult its own counsel, accountant and other advisors as to legal, tax, business, financial and related aspects of an investment in the Common Shares.

The risk factors discussed in this section are of equal importance and are only separated into categories for easy reference.

RISKS RELATING TO GT CAPITAL

GT Capital Holdings is a holding company that depends on dividends and distributions from the GT Capital companies.

GT Capital Holdings is a holding company and conducts no independent business operations other than providing certain corporate and other support services to the GT Capital companies. GT Capital Holdings conducts most of its operations through the GT Capital companies. Most of its assets are held by, and most of its earnings and cash flows are attributable to, the GT Capital companies. GT Capital Holdings' liquidity, ability to pay interest and expenses, meet obligations and providing funds to its subsidiaries are dependent upon the flow of funds from the GT Capital companies. There can be no assurance that the GT Capital companies will generate sufficient earnings and cash flows to pay dividends or otherwise distribute sufficient funds to GT Capital Holdings to enable it to meet its own financial obligations.

The ability of direct and indirect subsidiaries of GT Capital Holdings to pay dividends to its shareholders is subject to applicable laws and restrictions contained in debt instruments of such subsidiaries and may also be subject to deduction of taxes. No assurance can be given that GT Capital Holdings will have sufficient cash flow from dividends to satisfy its own financial obligations or to make payments to the GT Capital companies to enable them to meet their obligations. Any shortfall would have to be made up from other sources of revenue, such as a sale of investments or financing, available to GT Capital Holdings, which could materially and adversely affect GT Capital's business, financial condition and results of operations.

GT Capital Holdings' ability to grow its revenue in the future will depend, in part, on its ability to acquire additional companies or additional stakes in existing component companies.

As part of its business strategy, GT Capital Holdings has acquired and expects to continue to acquire businesses and assets in the Philippines, including additional stakes in existing component companies. No assurance can be given as to the timing of any additional acquisitions, or the likelihood that GT Capital Holdings will complete a transaction on favorable terms and conditions, or at all. GT Capital Holdings' ability to continue to expand successfully through acquisitions or alliances depends on many factors, including GT Capital Holdings' ability to identify new targets and to negotiate, finance and close the acquisitions.

Furthermore, certain sectors in which the GT Capital companies operate, or may in the future operate, are undergoing consolidation, and several parties may compete for a given opportunity. In respect of these opportunities, some of GT Capital's competitors may have greater resources, financial or otherwise, which could reduce the likelihood that GT Capital Holdings will successfully complete desirable acquisitions. In addition, for acquisitions within certain sectors, such as public utilities, GT Capital Holdings' bid may be subject to regulatory approval processes, which GT Capital Holdings may not be able to complete on a timely basis, or at all.

GT Capital may face risks associated with inorganic growth through acquisitions.

Growth through acquisitions involve business risks, including unforeseen contingent risks or latent business liabilities that may only become apparent after the acquisition is finalized, successful integration and management of the acquired entity within GT Capital, retention of key personnel, ability to realize synergies with other GT Capital companies, and management of a larger business. Acquisitions could also materially increase GT Capital's costs or liabilities and divert management from its other business activities. If GT Capital is unable to successfully manage and grow any future acquisitions, its business, financial condition and results of operations could be adversely affected.

Failure to obtain financing on reasonable terms or at all could affect the execution of GT Capital Holdings' growth strategies and increased debt financing may have a material adverse effect on GT Capital.

GT Capital Holdings' ability to make strategic investments and acquisitions may depend on external fundraising activities, including debt and equity financing. GT Capital Holdings' ability to raise additional equity financing from non-Philippine investors is subject to prevailing market risks and foreign ownership restrictions imposed by the Philippine Constitution and applicable laws. See "– Risks Relating to the Offer Shares – GT Holdings' Common Shares are subject to Philippine foreign ownership limitations". GT Capital Holdings' access to debt financing for new projects and acquisitions and its ability to refinance maturing debt is subject to many factors, some of which are outside of GT Capital Holdings' control. For example, political instability, economic downturns, liquidity of the U.S. dollar and Peso debt capital and the banking market, social unrest or changes in the GT Capital companies' regulatory environments could increase GT Capital Holdings' cost of borrowing or restrict GT Capital Holdings' ability to obtain debt financing. GT Capital Holdings cannot guarantee that it will be able to arrange financing on acceptable terms, if at all. The inability of GT Capital Holdings to obtain debt financing from banks and other financial institutions would adversely affect its ability to execute its growth strategies or refinance maturing debt.

In addition, any future debt incurred by GT Capital Holdings may:

- increase GT Capital's vulnerability to adverse economic and industry conditions, limit GT Capital's flexibility to react to changes in the sectors in which its companies operate, and place GT Capital at a competitive disadvantage in relation to competitors that have less debt;
- restrict GT Capital's ability to make additional capital expenditures;
- require GT Capital to dedicate a substantial portion of its cash flow to service debt payments; and/or
- subject GT Capital companies to restrictive financial and other covenants, including restrictions on the ability of GT Capital companies to declare dividends or incur additional indebtedness.

Any of these factors, alone or together, could materially and adversely affect GT Capital's business, financial condition or results of operations.

GT Capital depends on the continued service of its senior management team, and its ability to attract and retain talented personnel.
GT Capital is, and will continue to be, dependent on the continued service of its senior management team, including members of the Ty family, whose details are set out in "Board of Directors and Senior Management". GT Capital's senior management team is critical to GT Capital's success and the loss of the services of any key member of the team could materially impair GT Capital's operations and impede the execution of its strategies. GT Capital does not carry key person insurance and may not be able to replace members of its senior management within a reasonable period of time or with a person of equivalent expertise and experience, which could materially and adversely affect GT Capital's business, financial condition and results of operations.

GT Capital's corporate structure, which consists of a number of companies in multiple business lines, exposes GT Capital to challenges not found in companies with a single business line.
GT Capital consists of portfolio companies operating in multiple industries, including some publicly-traded companies with unrelated businesses. Due to the diverse characteristics of GT Capital's portfolio companies, GT Capital faces challenges not found in companies with a single business line. In particular:

- GT Capital is exposed to business and market risks relating to different industries. GT Capital needs to devote substantial resources to monitor changes in different operating environments so that it can react with appropriate strategies that fit the needs of the portfolio companies affected.

- Some of the GT Capital companies are subject to stringent government regulation, including MBT and the Philippine Savings Bank ("PSBank"), which are regulated by the BSP, AXA, which is regulated by the Philippine Insurance Commission, and GBP, which is regulated by the Philippine Energy Regulatory Commission ("ERC") and the Philippine Department of Energy ("DOE"). Pursuant to existing regulations, such portfolio companies are required to obtain licenses and comply with regulations, obtain permission to engage in certain activities, and maintain certain operating and financial standards. The large number of regulators and regulatory regimes impacting the GT Capital companies' businesses requires a significant amount of GT Capital management's time and effort to understand and oversee the regulatory compliance of its portfolio companies.

- Due to GT Capital's large number of portfolio companies, its success requires an effective management system that emphasizes accountability, imposes financial discipline on portfolio companies, and creates value-focused incentives for management.

- As MBT, PSBank and FMIC are publicly traded, transfers of funds into or out of these companies are subject to various regulatory restrictions. Intra-group transactions may also be subject to applicable disclosure and other regulatory requirements, such as issuing press notices, securing shareholders' approval at general meetings, and disclosing material information in annual reports and accounts.

The failure of GT Capital to meet the challenges mentioned above could materially and adversely affect GT Capital's business, financial condition and results of operations.

GT Capital's reputation may be affected by the operations of some of its portfolio companies.
Actions taken that adversely impact the reputation of one GT Capital company may also have an adverse impact on other GT Capital companies or GT Capital as a whole. Several of the GT Capital companies cross-sell products and coordinate marketing campaigns that associate them with other GT Capital companies. If GT Capital's, or any GT Capital companies', reputation or corporate image were to suffer, GT Capital's business, financial condition and results of operations would be materially and adversely effected.

GT Capital Holdings is effectively controlled by the Ty family and their interests may differ significantly from the interests of other shareholders.

As of December 31, 2011, the Ty family beneficially owned approximately 100% of the issued share capital of GT Capital Holdings. Upon completion of the Offer, the Ty family is expected to hold at least 70% of the issued share capital of GT Capital Holdings. As a result, the Ty family effectively controls GT Capital Holdings. Members of the Ty family, who either individually or collectively have controlled GT Capital Holdings since its inception, may have private interests in a number of companies either alone or together with other family members. The respective businesses or activities of these companies do not directly compete with GT Capital's businesses or activities. However, certain of these companies have significant commercial transactions with the GT Capital companies. See Note 23 to the audited consolidated financial statements of GT Capital as at and for the years ended December 31, 2009, 2010 and 2011. All of these transactions have been entered into on arm's length commercial terms. However, there can be no assurance that, given the Ty family's interests both within and outside GT Capital, conflicts of interest will not arise.

The interests of the joint venture partners of the GT Capital companies may conflict with the interests of GT Capital and its shareholders.

A significant proportion of GT Capital's operations are held through joint venture or other similar structures between a GT Capital company and third parties. For example, TMP is a joint venture with TMC and Mitsui. Also, GBP is a member of several joint venture partnerships, such as Cebu Energy Development Corporation ("CEDC"), for the development and operation of power generation facilities. See "Business — GBP — Cebu Energy Development Corporation"

These relationships and any similar future relationships subject GT Capital and the GT Capital companies to the risk that the interests of their joint venture partners may conflict with the interests of GT Capital and its shareholders. For instance, the GT Capital companies' joint venture partners may:

- have economic or business interests or goals that are inconsistent with those of GT Capital and its shareholders;
- take actions contrary to the instructions or requests of or contrary to the policies and objectives of GT Capital and its shareholders;
- be unable or unwilling to fulfill their obligations under the relevant joint venture or shareholders' agreements;
- experience financial difficulties;
- have disputes with GT Capital or the GT Capital companies; or
- decide against renewal of the relevant joint venture agreement, and partner with a competitor of GT Capital.

A serious dispute with the joint venture partners of GT Capital and the GT Capital companies, the dissolution of the joint venture or the early termination of the respective arrangements or agreements with the joint venture partners could materially and adversely affect GT Capital's business, financial condition and results of operations.

GT Capital's voting interests in some portfolio companies may be diluted.

Some of GT Capital's portfolio companies may from time to time require additional capital to achieve their expansion plans or other business objectives, and may issue additional shares or other equity securities to meet their capital needs. GT Capital may choose not to, or be unable to, subscribe for the securities offered in any such additional issuances by GT Capital's portfolio companies. If GT Capital fails to subscribe for additional securities of a portfolio company on a pro rata basis, GT Capital's equity interest in the company will be diluted. A dilution in GT Capital's equity interest in a portfolio company would reduce its share of the profits earned by such portfolio company, which could materially and adversely affect GT Capital's business, financial condition and results of operations.

Further, if GT Capital's ownership were reduced significantly, this may cause its representation on such company's board of directors to be reduced, or otherwise reduce its ability to direct or influence the operations of that company.

Certain of the GT Capital portfolio companies are publicly traded, and the trading price of its Common Shares may be affected by the trading prices of their securities.

MBT, PSBank and FMIC are publicly traded. Trading prices of their securities have fluctuated significantly in the past. Generally, the market values of these companies vary with their financial condition and results of operations, the market values of companies engaging in similar businesses, as well as investor sentiment in the Philippines and capital markets in general. If the market prices and trading volumes of the securities of GT Capital's publicly-listed portfolio companies fluctuate significantly, the trading price of GT Capital's Common Shares may be affected.

RISKS RELATING TO THE PHILIPPINES

Substantially all of the GT Capital companies' business activities and assets are based in the Philippines, which exposes GT Capital to risks associated with the country, including the performance of the Philippine economy.

Historically, the GT Capital companies have derived substantially all of their revenues and operating profits from the Philippines and, as such, their businesses are highly dependent on the state of the Philippine economy. Demand for banking services, residential real estate, automotives, electricity and insurance are all directly related to the strength of the Philippine economy (including its overall growth and income levels), the overall levels of business activity in the Philippines as well as the amount of remittances received from OFWs and overseas Filipinos. Factors that may adversely affect the Philippine economy include:

- decreases in business, industrial, manufacturing or financial activities in the Philippines, the Southeast Asian region or globally;
- scarcity of credit or other financing, resulting in lower demand for products and services provided by companies in the Philippines, the Southeast Asian region or globally;
- exchange rate fluctuations;
- inflation or increases in interest rates;
- levels of employment, consumer confidence and income;
- changes in the Government's fiscal and regulatory policies;
- re-emergence of SARS, avian influenza (commonly known as bird flu), or H1N1, or the emergence of another similar disease in the Philippines or in other countries in Southeast Asia;
- natural disasters, including but not limited to tsunamis, typhoons, earthquakes, fires, floods and similar events;
- political instability, terrorism or military conflict in the Philippines, other countries in the region or globally; and
- other social, political or economic developments in or affecting the Philippines.

There can be no assurance that the Philippines will achieve strong economic fundamentals in the future. Changes in the conditions of the Philippine economy could materially and adversely affect GT Capital's business, financial condition and results of operations.

Any political instability in the Philippines may adversely affect GT Capital's business, results of operations and financial condition.

The Philippines has from time to time experienced political and military instability. Under the previous administration, allegations of corruption and other misconduct brought about a series of public protests and failed military uprisings. The May 2010 elections brought in the administration of President Benigno S. Aquino III. Despite high popularity ratings, strong congressional and military support and a persistent anti-corruption campaign, there is no assurance that political stability in the country will be maintained. Leadership change and shifting political alliances could alter national and local political dynamics and result in changes of policies and priorities. In addition, organized armed threats from communist insurgents and Muslim separatists persist in certain parts of the country. Any of these political risks could materially and adversely affect GT Capital's business, financial condition and results of operations.

Acts of terrorism and violent crimes could destabilize the country and could have a material adverse effect on GT Capital's business and financial condition.

The Philippines has been subject to a number of terrorist attacks since 2000. In recent years, the Philippine army has also been in conflict with the Abu Sayyaf organization, which has ties to the al-Qaeda terrorist network, and has been identified as being responsible for certain kidnapping incidents and other terrorist activities, particularly in the southern part of the Philippines. Moreover, isolated bombings have taken place in the Philippines in recent years, mainly in cities in that part of the country. On January 25, 2011, a bomb was detonated on a bus in the northern city of Makati, Metro Manila, killing five persons. Although no one has claimed responsibility for these attacks, it is believed that the attacks were the work of various separatist groups, possibly including the Abu Sayyaf organization. An increase in the frequency, severity or geographic reach of these terrorist acts could destabilize the Philippines, and adversely affect the country's economy.

There have also been a number of violent crimes in the Philippines, including the August 2010 incident involving the hijacking of a tour bus carrying 25 Hong Kong tourists in Manila, which resulted in the deaths of eight tourists. High-profile violent crimes have, in the past, had a material adverse effect on investment and confidence in, and the performance of, the Philippine economy.

Investors may face difficulties enforcing judgments against GT Capital and the Selling Shareholders.

It may be difficult for investors to enforce judgments against GT Capital obtained outside of the Philippines. In addition, all of the Directors and officers of GT Capital and the Selling Shareholders are residents of the Philippines, and all or a substantial portion of the assets of such persons are located in the Philippines. As a result, it may be difficult for investors to effect service of process upon such persons, or to enforce against them judgments obtained in courts or arbitral tribunals outside the Philippines predicated upon the laws of jurisdictions other than the Philippines.

The Philippines is party to the United Nations Convention on the Enforcement and Recognition of Arbitral Awards, though it is not party to any international treaty relating to the recognition or enforcement of foreign judgments. Nevertheless, the Philippine Rules of Civil Procedure provide that a judgment or final order of a foreign court is, through the institution of an independent action, enforceable in the Philippines as a general matter, unless there is evidence that: (i) such judgment was obtained by collusion or fraud, (ii) the foreign court rendering such judgment did not have jurisdiction, (iii) such order or judgment is contrary to good customs, public order, or public policy of the Philippines, (iv) the company did not have notice of the proceedings before the foreign court, or (v) such judgment was based upon a clear mistake of law or fact.

The sovereign credit ratings of the Philippines may adversely affect GT Capital's business.

As of December 31, 2011, the Philippines did not have an investment grade rating for its sovereign debt. The Philippines' sovereign debt rating is Ba2 and BB+ by Moody's and Standard & Poor's Rating Services, respectively. The sovereign credit ratings of the Government directly and adversely affect companies resident in the Philippines as international credit rating agencies issue credit ratings by reference to that of the sovereign. No assurance can be given that Moody's, Standard & Poor's Rating Services or any other international credit rating agency will not downgrade the credit ratings of the Government in the future and, therefore, of Philippine companies, including GT Capital. Any of such downgrades could have an adverse impact on the liquidity in the Philippine financial markets, the ability of the Government and Philippine companies, including GT Capital, to raise additional financing and the interest rates and other commercial terms at which such additional financing is available.

The occurrence of natural catastrophes could adversely affect the GT Capital companies' business, financial condition and results of operations.

The Philippines has experienced a number of major natural catastrophes over the years, including typhoons, floods, volcanic eruptions and earthquakes that may materially disrupt and adversely affect the GT Capital companies' business operations. In particular, damage caused by natural catastrophes may materially disrupt the business operations of the GT Capital companies' customers, suppliers and partners, which may, in turn, materially and adversely affect GT Capital's business, financial condition and results of operations. There can be no assurance that the GT Capital companies are fully capable of dealing with these situations as they arise and that the insurance coverage they maintain will fully compensate them for all the damages and economic losses resulting from these catastrophes.

Corporate governance and disclosure standards in the Philippines may differ from those in more developed countries.

While a principal objective of Philippine securities laws and PSE listing rules is to promote full and fair disclosure of material corporate information, there may be less publicly-available information about Philippine public companies, such as GT Capital, than is regularly made available by public companies in the U.S. and other countries. As a result, the shareholders of GT Capital may not receive the same amount of information or receive information with the same frequency as they may receive from companies listed in the United States and many other countries. Furthermore, although GT Capital complies with the requirements of the Philippine SEC with respect to corporate governance standards, these standards may differ from those applicable in other jurisdictions. For example, the SRC requires GT Capital to have at least two independent Directors or such number of independent Directors as is equal to 20% of the Board, whichever is the lower number. GT Capital's By-laws provide for two independent Directors. Many other jurisdictions may require more independent directors.

Corporate governance standards may differ for public companies listed on the Philippine securities markets than securities markets in developed countries. Rules and policies against self-dealing and regarding the preservation of shareholder interests may be less well-defined and enforced in the Philippines than elsewhere, putting shareholders at a potential disadvantage. Because of this, the directors of Philippine companies may be more likely to have interests that conflict with the interests of shareholders generally, which may result in them taking actions that are contrary to the interests of shareholders. See " – Risks Relating to the Offer Shares – Shareholders may be subject to limitations on minority shareholder rights and regulations may differ from those in more developed countries".

RISKS RELATING TO THE PRESENTATION OF INFORMATION IN THIS PROSPECTUS

The pro forma condensed consolidated financial information included herein may not be indicative of actual results.

The Company has included the reviewed pro forma condensed consolidated financial information elsewhere in this Prospectus because it believes that such information is important to an investor's understanding of the Company's expected presentation of its consolidated results of operations and financial position after the full consolidation of GBP and the 20% increase in the Company's holdings of the share capital of Fed Land as if these occurred as of January 1, 2011. The pro forma condensed consolidated results of operations and financial position included herein are necessarily based on certain assumptions, including those identified in the notes to the pro forma condensed consolidated financial information, and such information is not necessarily indicative of the operating results or financial position that would have been achieved had these transactions been completed prior to such periods, nor is it indicative of future results of operations or financial position, and should not be relied upon as being so indicative.

Certain information contained herein is derived from unofficial publications.

Certain information in this Prospectus relating to the Philippines, the industries in which the Company's businesses compete and the markets in which the Company's develops their projects, including statistics relating to market size, is derived from various Government and private publications. This Prospectus also contains an industry study titled "Philippine Real Estate Study". The industry study was prepared and provided by Colliers and was commissioned by the Company. The industry study is based on information from Colliers' independent research as well as publicly available third-party sources identified therein. Industry publications generally state that the information they contain has been obtained from sources believed to be reliable but that the accuracy and completeness of that information is not guaranteed. Similarly, industry forecasts and market research, including those contained or extracted herein, have not been independently verified by the Company and may not be accurate, complete, up-to-date or consistent with other information compiled within or outside the Philippines. Prospective investors are cautioned accordingly.

RISKS RELATING TO THE OFFER SHARES

There can be no guarantee that the Offer Shares will be listed on the PSE.

Purchasers of Offer Shares will be required to pay for such Offer Shares on the Domestic Offer Settlement Date, which is expected to be on or about April 20, 2012 and on the International Offer Settlement Date, which is expected to be on or about April 20, 2012. Because the Listing Date is scheduled to occur after both the Domestic Offer Settlement Date and after settlement of the International Offer, there can be no guarantee that listing will occur on the anticipated Listing Date or at all. Delays in the admission and the commencement of trading in shares on the PSE have occurred in the past. If the PSE does not admit the Offer Shares onto the PSE, the market for the Offer Shares will be illiquid and shareholders may not be able to trade the Offer Shares. This may materially and adversely affect the value of the Offer Shares.

There has been no prior market for the Common Shares, so there may be no liquidity in the market for the Offer Shares and the price of the Offer Shares may fall.

The Ty family beneficially owned 100% of the Common Shares as of December 31, 2011 and, following the Offer, will beneficially own at least 70% of the outstanding Common Shares on a fully diluted basis (assuming Common Shares are sold pursuant to the full exercise of the Over-allotment Option). As there has been no prior trading in the Common Shares, there can be no assurance that an active market for the Offer Shares will develop following the Offer or, if developed, that such a market will be sustained.

The Offer Price has been determined after taking into consideration a number of factors, including, but not limited to, GT Capital's prospects, the market prices for shares of companies engaged in related businesses similar to GT Capital's and prevailing market conditions. The price at which the Common Shares will trade on the PSE at any point in time after the Offer may vary significantly from the Offer Price.

The relative volatility and illiquidity of the Philippine securities market may substantially limit investors' ability to sell the Offer Shares at a suitable price or at a time they desire.

The Philippine securities markets are substantially smaller, less liquid, and more volatile relative to major securities markets in the U.S. and other jurisdictions, and may not be as highly regulated or supervised as some of these other markets. The Offer Price could differ significantly from the price at which the Offer Shares will trade subsequent to completion of the Offer. Factors that could affect the price of GT Capital's Offer Shares include, but are not limited to, the following:

- fluctuations in GT Capital's results of operations and cash flows or those of companies in the industries in which the GT Capital companies operate;
- public reaction to GT Capital's press releases, announcements and filings with the Philippine SEC and PSE;
- additions or departures of key personnel;
- changes in financial estimates or recommendations by research analysts;
- changes in the amount of GT Capital's outstanding indebtedness;
- changes in general conditions in the Philippines and international economy, financial markets or the Philippine real estate industry, including changes in regulatory requirements and changes in political conditions in the Philippines;
- significant contracts, acquisitions, dispositions, financings, joint marketing relationships, joint ventures or capital commitments by GT Capital or by the competitors of GT Capital companies;
- asset impairments or other charges;
- developments related to significant claims or proceedings against GT Capital or the GT Capital companies;
- GT Capital's dividend policy; and

- future sales of GT Capital's equity or equity-linked securities.

In recent years, stock markets, including the Philippine stock market, have experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies for reasons unrelated to the operating performance of these companies. These broad market fluctuations may adversely affect the market prices of the Offer Shares.

Shareholders may be subject to limitations on minority shareholders' rights and regulations may differ from those in more developed countries.

The obligations under Philippine law of majority shareholders and directors with respect to minority shareholders may be more limited than those in other countries such as the United States. Consequently, minority shareholders may not be able to protect their interests under current Philippine laws to the same extent as in certain other countries.

GT Capital's corporate affairs are governed by its articles of incorporation, as amended ("Articles of Incorporation"), its by-laws, as amended ("By-laws"), the Corporation Code and other commercial laws, which contain legal principles that differ from the legal principles that would apply if GT Capital were incorporated in a jurisdiction outside the Philippines. In addition, investors' rights or shareholders' rights under Philippine corporation law to protect their interests relative to actions by the Board may be fewer and less defined than under the laws of those other jurisdictions.

Although insider trading and price manipulation are crimes under Philippine law, the Philippine securities markets are not as highly regulated and supervised as markets in certain other jurisdictions. Furthermore, rules and policies against self-dealing and regarding the preservation of shareholder interests may be less well-defined and enforced in the Philippines than elsewhere, putting investors or shareholders at a potential disadvantage.

In addition, in the Philippines, the rights of minority shareholders to assert their rights as such and the fiduciary obligations of directors and majority shareholders may not be as extensive as those in the U.S. or other countries, and the ability of any of GT Capital's shareholders to assert any of such rights or to enforce any such fiduciary obligations may be limited.

There can be no assurance that GT Capital will be able to pay dividends or maintain any given level of dividends.

If GT Capital does not generate sufficient net operating profits, GT Capital's income and resulting ability to pay dividends will be adversely affected. Dividends, when declared, are paid out of GT Capital's unrestricted retained earnings, which shall be payable in cash, property or stock to all shareholders on the basis of outstanding stock held by them. See "Dividends and Dividend Policy".

No assurance can be given as to GT Capital's ability to declare or maintain dividend payments. Nor is there any assurance that the level of dividends will increase over time, or that acquisition of additional business interests will increase GT Capital's income available for dividends to shareholders.

Future sales of the Common Shares in the public market could adversely affect the prevailing market price of the Common Shares and shareholders may experience dilution in their holdings.

In order to finance the expansion of GT Capital's business and operations, the Board will consider the funding options available to them at the time, which may include the issuance of new Common Shares. If additional funds are raised through the issuance of new equity or equity-linked securities by GT Capital other than on a pro rata basis to existing shareholders, the percentage ownership of the shareholders may be reduced, shareholders may experience subsequent dilution and/or such securities may have rights, preferences and privileges senior to those of the Common Shares. Further, the market price of the Common Shares could decline as a result of future sales of substantial amounts of the Common Shares in the public market or the issuance of new Common Shares, or the perception that such sales, transfers or issuances may occur. This could also materially and adversely affect the prevailing market price of the Common Shares or GT Capital's ability to raise capital in the future at a time and at a price it deems appropriate.

Developments in other markets and countries may adversely affect the Philippine economy and, therefore, the market price of the Common Shares.

In the past, the Philippine economy and the securities of Philippine companies have been, to varying degrees, influenced by economic and market conditions in other countries, especially other countries in Southeast Asia, as well as investors' responses to those conditions. Although economic conditions are different in each country, investors' reactions to adverse developments in one country may affect the market price of the securities of companies in other countries, including the Philippines. For example, the recent economic crisis in the United States and Europe triggered market volatility in other countries' securities markets, including the Philippines. Accordingly, adverse developments in the global economy could lead to a reduction in the demand for, and market price of, the Common Shares.

GT Capital Holdings' management has broad discretion to determine how to use the proceeds received from the Offer, and may use them in ways that may not enhance GT Capital's operating results or the price of GT Capital Holdings' Common Shares.

GT Capital plans to use the net proceeds of the Offer as described under "Use of Proceeds". GT Capital Holdings' management will have broad discretion over the use and investment of the net proceeds of the Offer, and accordingly investors in the Offer will need to rely upon the judgment of GT Capital Holdings' management with respect to the use of proceeds with only limited information concerning management's specific intentions.

GT Capital Holdings' Common Shares are subject to Philippine foreign ownership limitations.

The Philippine Constitution and related statutes restrict land ownership to Philippine Nationals. The term "Philippine National" as defined under the Republic Act No. 7042, as amended, means a citizen of the Philippines; or a domestic partnership or association wholly owned by citizens of the Philippines; or a corporation organized under the laws of the Philippines of which at least 60% of the capital stock outstanding and entitled to vote is owned and held by citizens of the Philippines; or by a corporation organized abroad and registered to do business in the Philippines under the Philippine Corporation Code of which 100% of the capital stock outstanding and entitled to vote is wholly owned by Filipinos or a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine National and at least 60% of the fund will accrue to the benefit of Philippine Nationals; provided, that where a corporation and its non-Filipino stockholders own stock in a SEC registered enterprise, at least 60% of the capital stock outstanding and entitled to vote of each corporation must be owned and held by citizens of the Philippines, in order for such corporation to be considered a Philippine national. As of the date of this Prospectus, GT Capital Holdings owns land indirectly through its subsidiaries and associates.

Considering the foregoing, as long as GT Capital owns land, foreign ownership in GT Capital Holdings is limited to a maximum of 40% of GT Capital Holding's issued and outstanding capital stock. GT Capital cannot allow the issuance or the transfer of shares to persons other than Philippine Nationals and cannot record transfers in the books of GT Capital Holdings if such issuance or transfer would result in GT Capital Holdings ceasing to be a Philippine National for the purposes of complying with the restrictions on foreign land ownership discussed above. These restrictions may adversely affect the liquidity and market price of the Common Shares to the extent international investors are not permitted to purchase Common Shares in normal secondary transactions.

Future changes in the value of the Peso against the U.S. dollar and other currencies will affect the foreign currency equivalent of the value of the Common Shares and any dividends.

Fluctuations in the exchange rate between the Peso and other currencies will affect the foreign currency equivalent of the Peso price of the Common Shares listed on the PSE. Such fluctuations will also affect the amount in foreign currency received upon conversion of cash dividends or other distributions paid in Pesos by GT Capital on, and the Peso proceeds received from, any sales of, the Common Shares.

RISKS RELATING TO THE GT CAPITAL COMPANIES

There are risks relating to each of the GT Capital companies. For a description of the risk factors for the GT Capital companies, see the pages set forth below:

Business	Page
MBT	64
Fed Land	165
GBP	222
TMP	286
AXA	321

USE OF PROCEEDS

The estimated net proceeds to be raised by GT Capital Holdings from the Offer (after deducting fees and expenses payable by GT Capital Holdings of ₱810.3 million) will be approximately ₱14,204.7 million, based on an Offer Price of ₱455 per Offer Share, and the estimated net proceeds to be raised by the Selling Shareholders from the Offer (after deducting fees and expenses payable by the Selling Shareholders of ₱347.3 million) will be approximately ₱6,204.7 million.

GT Capital Holdings will not receive any of the proceeds from the sale of the Secondary Offer Shares or the Optional Shares.

The actual net proceeds that the Company receives will depend on the number of Common Shares offered in the Offer, and the final price per Offer Share, both of which will depend on market conditions at the time of pricing. In addition, the actual underwriting commission, discounts, fees and other Offer-related expenses may vary from the amounts estimated below.

GT Capital Holdings is accessing the equity capital markets in order to tap permanent funding that would match its long term capital expenditure requirements for the expansion of the Toledo power plant on Cebu island, the expansion of the master-planned communities in Taguig, Pasay City and Cebu, as well as for the consolidation of the non-bank investments of the Ty family into GT Capital Holdings.

The following table sets forth the Company's current expectation for the use of its net proceeds from the Primary Offer:

Proposed Use	Budgeted Amount (in millions)	Estimated Timing
Capital expenditures for acceleration of key growth projects of Fed Land	₱ 3,794.7	2012-2013
Acquisition of an additional 20% stake in Fed Land	2,700.0	2012
Exercise of an option to acquire 4.6% of GBP	900.0	2012
Increase of direct ownership in GBP and plant expansion	4,010.0	2012-2014
Repayment of existing indebtedness of GT Capital Holdings	2,800.0	2012
Net Proceeds	₱14,204.7	

Financing for Fed Land Projects

The Company intends to allocate a portion of the net proceeds from the Primary Offer of an approximate amount of ₱3.8 billion to finance several prime projects of Fed Land in Metro Manila and Cebu. This will be infused through a deposit for future stock subscription. ₱2.268 billion of the amount will be allocated to the Metrobank Center/Grand Hyatt Project and other projects in Bonifacio Global City. Approximately ₱432 million is earmarked to finance the Marco Polo Project in Cebu, which covers Marco Polo Residences 1 and 2 and Marco Polo Parkview; and ₱1.1 billion is allocated to the Metropolitan Park Project in Pasay City, which includes Bay Garden Club and Residences 2 and 3, Six Senses Resort and Blue Wave Stripmall. The projects are described in detail in "Business – Fed Land" in this Prospectus.

Acquisition of Additional Stake in Fed Land

The Company plans to acquire the remaining 20% stake in Fed Land that is currently held by other Ty family holding companies. This would increase the direct holdings of GT Capital in Fed Land from 80% to 100% and is consistent with the plans of the group to consolidate all non-bank investments into GT Capital. A memorandum of agreement has been signed by the various selling shareholders subject to the conclusion of the Offer, the proceeds of which will be used to pay for the subject Fed Land shares. The same shares were valued based on a 25% premium above book value as of December 31, 2011 as determined by the expected re-valuation of the 43.5 hectare Biñan Laguna property which is still undervalued on the books of Fed Land.

Exercise of Option on GBP Shares

The Company signed a Memorandum of Agreement dated December 27, 2011 (the "Option Agreement") with GBH for the purchase of additional GBP shares equivalent to 4.6% of GBP at a fixed price of ₱3,500 per share. With the acquisition of these shares, the direct ownership of GT Capital in GBP will increase from 34.4% to 39%. The said option will expire on December 26, 2012. The purchase of the secondary shares in GBP from GBH will further consolidate GBP into GT Capital.

Increase of Direct Ownership in GBP and Plant Expansion

The Company is currently in discussion with a third party for the purchase of additional GBP shares. It is expected that these discussions will result in an increase of the direct holdings of GT Capital in GBP of up to 51% by the end of 2012. Furthermore, GT Capital will invest in the expansion of the Toledo power plant on Cebu island to increase capacity by another 82 MW. GBP has already signed a letter agreement with FHIC for the EPC contract and plant construction while initial discussions are on-going for the off-take of the additional plant capacity with a mining company located within the plant vicinity. The 30% equity infusion is a pre-requisite for the project financing of the 70% project cost through the debt capital markets.

Debt Repayment

Of the ₱2.8 billion proceeds earmarked for debt retirement, the Company plans to fully settle its ₱2 billion term loan with the Union Bank of the Philippines and to partially pay ₱0.8 billion of its ₱5 billion Notes Facility.

The ₱2.0 billion UnionBank loan was availed in December 2011. The loan has a term of five years payable in full at the end of the term of the loan. The loan carried an interest rate based on the five year Philippine Dealing System Treasury Fixing Rate, plus a spread of 1% per annum. The loan was used to partially finance the purchase of GBP shares.

The ₱5 billion Notes Facility was availed in November 2010 and is subdivided into a three-year tranche amounting to ₱4.2 billion and a five-year tranche amounting to ₱0.8 billion. The three-year note carried an interest rate based on the three-year Philippine Dealing System Treasury Reference Rate plus a spread of 75 basis points per annum fixed throughout the term of the note. The five-year note carried an interest rate based on the five year Philippine Dealing System Treasury Reference Rate, plus a spread of 75 basis points per annum fixed throughout the term of the note.

To the extent that the net proceeds from the Primary Offer are not immediately applied to the above purposes, the Company will invest the net proceeds in short-term demand deposits and/or money market instruments.

The foregoing represents the Company's current plans, and is based on its current estimates of the capital cost of those plans. The Company's plans may change, based on factors including changing market conditions, or new information regarding the cost or feasibility of the Company's plans. The Company's cost estimates may also change as it develops its plans, and actual costs may deviate from its budgeted costs due to factors such as changes in the exchange rate between the Peso and the U.S. dollar. For these reasons, the Company may find it necessary or advisable to reallocate the net proceeds within the categories described above, or to alter its plans. If the Company's proceeds from the Offer are lower than it expects, the Company may have to incur debt to finance the shortfall, or delay or abandon one or more of the components of its plans. In the event of any deviation or adjustment in the planned use of proceeds, the Company shall inform its shareholders and the Philippine SEC in writing at least 30 days before its implementation.

Costs and Expenses

Based on the Offer Price of ₱455 per Offer Share, the Company estimates that its total fees and expenses for the Primary Offer will be approximately ₱810.3 million. The costs and expenses to be incurred by the Selling Shareholders for the Secondary Offer are estimated to be approximately ₱347.3 million. The costs and expenses for the Offer shall consist of the following (in millions):

	Company	Selling Shareholders	Total
Underwriting and selling fees	377.3	161.7	539.0
IPO taxes	303.8	130.2	434.0
Philippine SEC filing and legal research	5.0	2.1	7.1
PSE listing and processing fee	37.8	16.2	54.0
Brokers' commission	26.2	11.3	37.5
Estimated professional fees	54.6	23.4	78.0
Estimated other expenses	5.6	2.4	8.0
Total	**810.3**	**347.3**	**1,157.6**

DIVIDENDS AND DIVIDEND POLICY

The Board is authorized to declare dividends. A cash dividend declaration does not require any further approval from the Company's shareholders. A stock dividend declaration requires the further approval of shareholders' representing not less than two-thirds of the Company's outstanding capital stock at the stockholders meeting duly called for the purpose. Dividends may be declared only from unrestricted retained earnings.

In relation to foreign shareholders, dividends payable may not be remitted using foreign exchange sourced from the Philippine banking system unless the investment was first registered with the BSP.

The Company is allowed under Philippine laws to declare property and stock dividends, subject to certain requirements. See "Description of Share Capital – Rights Relating to the Shares – Dividend Rights".

RECORD DATE

Pursuant to existing Philippine SEC rules, cash dividends declared by the Company must have a record date not less than ten days nor more than 30 days from the date the cash dividends are declared. In the absence of any record date specified in the declaration of cash dividends, then the record date shall be deemed fixed at 15 days from such declaration.

With respect to stock dividends, the record date is to be not less than ten days nor more than 30 days from the date of shareholder approval, provided, however, that the set record date is not to be less than ten trading days from receipt by the PSE of the notice of declaration of stock dividend. If no record date is set, under Philippine SEC rules, the record date will be deemed fixed at 15 days from the date of the stock dividend declaration. In the event that a stock dividend is declared in connection with an increase in authorized capital stock, the corresponding record date is to be fixed by the Philippine SEC.

Article II, Section 8 of the Company's By-laws provides for the authority of the Board to fix the record date of stockholders who are entitled to receive a payment of dividends. Article VII, Section 3 of the Company's By-laws reiterates the rule that dividends may only be paid from the unrestricted retained earnings to all stockholders on the basis of outstanding stock held by them at such time as may be determined by the Board and in accordance with law.

Pursuant to Listing and Disclosure Rules of the PSE, for a corporation whose shares of stock are lodged with PDTC, all cash dividends and stock dividends shall be remitted to PDTC for immediate distribution to participants not later than 18 trading days from record date (the "Payment Date") provided that in case of stock dividends, the credit of the stock dividend shall be on the Payment Date which in no case shall be later than the stock dividends' listing date. If the stock dividend shall come from an increase in capital stock, all stock shall be credited to PDTC for immediate distribution to its participants not later than 18 trading days from the record date set by SEC which in no case later than the stock dividends' listing date.

DIVIDENDS

It shall be the policy of the Company to declare dividends whenever there are unrestricted retained earnings available. Such declaration will take into consideration factors such as restrictions that may be imposed by current and prospective financial covenants; projected levels of operating results, working capital needs and long-term capital expenditures; and regulatory requirements on dividend payments, among others.

The Company paid cash dividends to its shareholders in 2009, 2010 and 2011 in the amounts of ₱1,040.0 million, ₱500.0 million and ₱500.0 million, respectively.

EXCHANGE RATES

Fluctuations in the exchange rates between the Peso and the U.S. dollar and other foreign currencies will affect the equivalent in U.S. dollars or other foreign currencies of the Peso price of the Common Shares on the PSE, of dividends distributed in Pesos by the Company, if any, and of the Peso proceeds received by investors on a sale of the Common Shares on the PSE, if any. Fluctuations in such exchange rates will also affect the Peso value of the Company's assets and liabilities which are denominated in currencies other than Pesos.

The PDS, a computer network supervised by the BSP, through which the members of the Bankers Association of the Philippines effect spot and forward currency exchange transactions, was introduced in 1992. The PDS was adopted by the BSP as a means to monitor foreign exchange rates. The BSP Rate is the weighted average rate for the purchase of U.S. dollars with Pesos under the PDS and published in the BSP's Reference Exchange Rate Bulletin. On March 15, 2011, the BSP Rate was ₱42.734 = U.S.$1.00.

The following table sets forth certain information concerning the BSP Rate between the Peso and the U.S. dollar for the periods and dates indicated, expressed in Pesos per U.S.$1.00:

	Peso/U.S. dollar exchange rate			
Year	**Period end**	**Average(1)**	**High(2)**	**Low(2)**
2007	41.401	46.148	49.156	41.142
2008	47.486	44.475	49.984	40.360
2009	46.356	47.637	49.056	45.947
2010	43.885	45.110	46.983	42.516
2011	43.927	43.313	44.585	41.955
September	43.636	43.026	43.843	42.200
October	43.028	43.451	44.103	43.028
November	43.810	43.275	43.815	42.608
December	43.928	43.649	44.238	43.256
2012				
January	42.946	43.619	44.246	42.859
February	42.864	42.661	43.038	42.193
March (through March 15, 2012)	42.734	42.732	42.987	42.503

Source: Reference Exchange Rate Bulletin, Treasury Department of the BSP

Notes:

(1) *The average of the monthly average PDS weighted average rates for the relevant period, and for monthly periods, the monthly average PDS weighted average rates for the relevant month.*

(2) *Highest and lowest daily (end of day) rate for the period.*

DETERMINATION OF OFFER PRICE

The Offer Price has been set at ₱455 per Offer Share. The Offer Price was determined through a book-building process and discussions between the Company, the Sole Global Coordinator, Sole International Bookrunner and Lead Manager and the Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter. Since the Common Shares have not been listed on any stock exchange, there has been no market price for the Common Shares derived from day-to-day trading.

The factors considered in determining the Offer Price are, among others, the Company's ability to generate earnings and cash flow, its short and long-term prospects and the market price of comparable local and regional listed companies. The Offer Price may not have any correlation to the actual book value of the Offer Shares.

CAPITALIZATION

As of December 31, 2011, the Company's authorized capital stock was 500,000,000 Common Shares with a par value of ₱10.00 per Common Share. As of December 31, 2011, prior to the issuance and sale of 41,217,300 Offer Shares, the Company's issued and outstanding share capital consisted of 125,000,000 Common Shares.

The following table sets forth the Company's long-term debt, equity and capitalization as of December 31, 2011 and as adjusted to reflect the issuance and sale of 41,217,300 Offer Shares at the Offer Price of ₱455 per Common Share (assuming no exercise of the Over-Allotment Option), and after deducting underwriting discounts, commissions and estimated offering expenses payable by the Company.

The table should be read in conjunction with the Company's consolidated financial statements, including the notes thereto, included in this Prospectus beginning on page F-1 and also "Management's Discussion and Analysis of Financial Condition and Results of Operations – GT Capital – Liquidity and Capital Resources". Other than as described below, there has been no material change in the Company's capitalization since December 31, 2011.

	As of December 31, 2011			
	Actual		As Adjusted After Giving Effect to the Offer	
	₱	U.S.$	₱	U.S.$
	(in thousands)			
Debt				
Long-term	19,600.0	446.2	19,600.0	446.2
	19,600.0	446.2	19,600.0	446.2
Equity				
Equity attributable to equity holders of GT Capital Holdings, Inc.				
Capital stock	1,250.0	28.5	1,580.0	36.0
Additional paid-in capital	23,071.7	525.2	36,946.4	841.1
Retained earnings	7,801.7	177.6	7,801.7	177.6
Other comprehensive income	2,805.4	63.8	2,805.4	63.8
	34,928.8	795.2	49,133.5	1,118.5
Total Capitalization[1]	54,528.8	1,241.4	68,733.5	1,564.7

Note:

(1) *The sum of total long-term debt and total equity attributable to equity holders of GT Capital.*

DILUTION

As of December 31, 2011, the Company's net book value was ₱34,928.8 million, or ₱279.4 per Common Share. Net book value represents total assets minus total liabilities and non-controlling interests while net book value per Common Share represents total assets minus total liabilities and non-controlling interests divided by the total number of Common Shares outstanding. Without taking into account any other changes in net book value after December 31, 2011, other than to give effect to the sale of 41,217,300 Offer Shares at the Offer Price of ₱455.0 per Common Share (assuming no exercise of the Over-Allotment Option) and after deduction of the underwriting discounts and commissions and estimated offering expenses of the Offer payable by the Company, its net book value as of December 31, 2011 would increase to ₱49,133.5 million, or ₱311.0 per Common Share. This represents an immediate increase in net book value of ₱31.6 per Common Share to existing shareholders, and an immediate dilution of ₱144.0 per Offer Share to purchasers of Offer Shares at the Offer Price. Exercise of the Over-allotment Option will not result in any dilution on a per share basis, as all Option Shares are being offered by two of the Selling Shareholders.

The following table illustrates dilution on a per Common Share basis based on an Offer of 41,217,300 Offer Shares at an Offer Price of ₱455.0 per Offer Share (assuming no exercise of the Over-Allotment Option):

Offer Price per Offer Share	₱455.0
Net book value per Common Share as of December 31, 2011	279.4
Increase in net book value per Common Share	31.6
Pro forma net book value per Common Share after the Offer	311.0
Dilution to purchasers of the Offer Shares	144.0

The following table summarizes, on a pro forma basis as of December 31, 2011, the differences between existing shareholders and the new investors with respect to the number of Common Shares purchased from the Company, the total consideration paid and the average price per Common Share paid before deducting the underwriting discounts and commissions and estimated offering expenses, based on an Offer of 41,217,300 Offer Shares at an Offer Price of ₱455.0 per Offer Share.

	Shares purchased		Total consideration		Average price
	Number	Percent	Amount	Percent	per share
	(₱ in millions, except percentages)				
Existing Shareholders	116,782,700	73.91%	22,722.8	51.5%	194.6
New Investors	41,217,300	26.09%	18,753.9	48.5%	455.0
Total	158,000,000	100.00%	41,476.7	100.0%	262.5

See also "Risk Factors – Risks Relating to the Offer Shares – Future sales of the Common Shares in the public market could adversely affect the prevailing market price of the Common Shares and shareholders may experience dilution in their holdings".

SELECTED FINANCIAL INFORMATION – GT CAPITAL

The following tables present GT Capital's selected consolidated financial information and should be read in conjunction with the auditors' reports and with GT Capital's consolidated financial statements and notes thereto contained in this Prospectus and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations – GT Capital". The selected consolidated financial information presented below as of and for the years ended December 31, 2009, 2010 and 2011 was derived from the consolidated financial statements of GT Capital, prepared in compliance with PFRS and audited by SGV & Co. in accordance with PSA. The information below is not necessarily indicative of the results of future operations. For additional information regarding financial information presented in this Prospectus, see "Presentation of Financial Information".

SELECTED CONSOLIDATED STATEMENTS OF INCOME

	For the years ended December 31,			
	2009	2010	2011	2011
		(₱ millions)		(U.S.$ million)
REVENUE				
Equity in net income of associates	2,089.8	2,948.9	3,567.9	81.2
Real estate sales	1,148.0	2,160.7	2,512.2	57.2
Sale of goods and services	584.2	644.7	764.7	17.4
Rent income	176.9	198.0	238.0	5.4
Commission income	–	47.1	96.0	2.2
Interest and other income	330.7	307.4	786.7	18.0
	4,329.6	6,306.8	7,965.5	181.4
COSTS AND EXPENSES				
Cost of real estate sales	636.7	1,364.8	1,553.8	35.4
Cost of goods and services	497.6	584.6	709.7	16.2
General and administrative expenses	755.3	893.3	1,109.8	25.3
Interest expense	169.9	281.9	989.7	22.5
	2,059.5	3,124.6	4,363.0	99.4
INCOME BEFORE INCOME TAX	2,270.1	3,182.2	3,602.5	82.0
PROVISION FOR INCOME TAX	59.3	70.2	148.8	3.4
NET INCOME	2,210.8	3,112.0	3,453.7	78.6
Attributable to:				
Equity holders of GT Capital Holdings, Inc.	2,184.0	3,001.6	3,324.4	75.7
Non-controlling interests	26.8	110.4	129.3	2.9
	2,210.8	3,112.0	3,453.7	78.6
NET INCOME	2,210.8	3,112.0	3,453.7	78.6
OTHER COMPREHENSIVE INCOME(1)				
Equity in other comprehensive income of associates:				
Net unrealized gain (loss) an avail for sale of associates	1,733.3	345.3	2,762.5	63.0
Revaluation reserve in investment prop of associates	(0.9)	(0.1)	–	–
Revaluation increment on property and equipment of associates	(0.1)	(0.2)	–	–
Translation adjustment of associates	(53.1)	(112.6)	133.1	3.0
	1,679.2	232.4	2,895.6	65.9
TOTAL COMPREHENSIVE INCOME	3,890.0	3,344.4	6,349.3	144.5
Total comprehensive income attributable to:				
Equity holders of GT Capital Holdings, Inc.	3,863.2	3,234.0	6,220.0	141.6
Non-controlling interests	26.8	110.4	129.3	2.9
	3,890.0	3,344.4	6,349.3	144.5

Note:

(1) Other comprehensive loss represents changes in fair value of available-for-sale investments.

See accompanying notes to GT Capital's consolidated financial statements.

SELECTED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	January 1, 2010	As of December 31, 2010	2011	2011
	(₱ millions)			(U.S.$ million)
ASSETS				
Current Assets				
Cash and cash equivalents	198.5	3,064.9	454.4	10.4
Receivables	755.0	1,175.6	4,864.1	110.7
Inventories	6,927.6	7,889.2	11,338.4	258.1
Due from related parties	872.1	558.2	938.8	21.4
Prepayments and other current assets	563.6	752.5	975.0	22.2
Total Current Assets	9,316.8	13,440.4	18,570.7	422.8
Non-current Assets				
Noncurrent receivables	284.5	908.9	1,114.9	25.4
Long-term cash investments	–	–	2,440.1	55.5
Deposits	–	–	4,085.0	93.0
Investments and advances	22,761.2	31,123.1	38,112.5	867.6
Investment properties	3,906.2	5,299.2	5,227.4	119.0
Property and equipment	373.1	430.9	396.4	9.0
Deferred tax assets	0.8	6.7	3.8	0.1
Other noncurrent assets	95.7	94.5	111.9	2.5
Total Noncurrent Assets	27,421.5	37,863.3	51,492.0	1,172.1
	36,738.3	51,303.7	70,062.7	1,594.9
LIABILITIES AND EQUITY				
Current Liabilities				
Accounts and other payables	570.7	1,935.9	4,573.4	104.1
Current portion of liabilities on purchased land	112.3	119.0	–	–
Short-term loans payable	4,257.0	7,182.2	7,648.7	174.1
Customers' deposits	615.4	417.5	457.6	10.4
Due to related parties	501.0	320.5	403.6	9.2
Dividends payable	2.0	0.2	0.2	–
Income tax payable	–	2.0	–	–
Other current liabilities	29.6	23.8	58.0	1.3
Total Current Liabilities	6,088.0	10,001.1	13,141.5	299.1
Non-current Liabilities				
Pension liabilities	24.9	24.4	28.1	0.6
Long-term loans payable	1,638.9	9,000.0	19,600.0	446.2
Noncurrent portion of liabilities on purchased land	516.8	397.9	–	–
Deferred tax liabilities	35.2	7.3	80.6	1.8
Other non-current liabilities	38.4	52.7	62.9	1.4
Total Non-current Liabilities	2,254.2	9,482.3	19,771.6	450.0
	8,342.2	19,483.4	32,913.1	749.1
Equity				
Equity attributable to equity holders of GT Capital Holdings, Inc.				
Capital Stock	1,250.0	1,250.0	1,250.0	28.5
Additional paid-in capital	23,071.7	23,071.7	23,071.7	525.2
Retained earnings	2,875.6	5,377.3	7,801.7	177.6
Other comprehensive income	(322.6)	(90.2)	2,805.4	63.9
	26,874.7	29,608.8	34,928.8	795.2
Non-controlling interest	1,521.4	2,211.5	2,220.8	50.6
Total Equity	28,396.1	31,820.3	37,149.6	845.8
TOTAL LIABILITIES AND EQUITY	36,738.3	51,303.7	70,062.7	1,594.9

See accompanying notes to GT Capital's consolidated financial statements.

SELECTED CONSOLIDATED STATEMENTS OF CASH FLOW

	For the years ended December 31,			
	2009	2010	2011	2011
		(₱ millions)		(U.S.$ million)
Net cash provided by (used in) operating activities	481.6	109.1	(3,586.3)	(81.6)
Net cash provided by (used in) investing activities	(464.5)	(7,323.8)	(9,067.0)	(206.4)
Net cash provided by (used in) financing activities	57.0	10,081.8	10,043.0	228.6
Cash and cash equivalents at beginning of the year	124.6	198.5	3,064.9	69.9
Cash and cash equivalents at end of the year	198.5	3,065.0	454.4	10.3

SELECTED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The following tables present selected pro forma condensed consolidated financial information for the Company based on the historical financial statements contained elsewhere in this Prospectus, adjusted to give pro forma effect to the Company's full consolidation of GBP and the 20% increase in the Company's holdings of the share capital of Fed Land as if these occurred as of January 1, 2011. This summary should be read in conjunction with the auditors' reports and with the Company's historical consolidated financial statements and notes thereto contained in this Prospectus and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations – GT Capital". The Company's pro forma condensed consolidated financial information as of and for the year ended December 31, 2011 was derived from the historical consolidated financial statements of GT Capital prepared in compliance with PFRS and audited by SGV & Co. in accordance with PSA.

The pro forma condensed consolidated financial information has not been prepared in accordance with the requirements of Article 11 of the Regulation S-X under the U.S. Exchange Act.

The pro forma adjustments are based upon available information and certain assumptions that the Company believes are reasonable under the circumstances. The summary pro forma condensed consolidated financial information does not purport to represent what the results of operations and financial position of the Company and its subsidiaries would actually have been had the acquisition of GBP and the acquisition of Fed Land's non-controlling interests in fact occurred on January 1, 2011 or December 31, 2011, as the case may be, nor do they purport to project the results of operations of the Company and its subsidiaries for any future period or date. Furthermore, the translation of peso amounts to U.S. dollars is provided for convenience only. For additional information regarding financial information presented in this Prospectus, see "Presentation of Financial Information".

PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Pro forma adjustments (Unaudited)			
	GT Capital Holdings Balances (Audited)	Acquisition of Non-controlling Interests in Fed Land	Acquisition of GBP	**Pro forma Consolidated Balances (Unaudited)**	**Pro forma Consolidated Balances (Unaudited)**
		(₱ millions)			(U.S. $ millions)
REVENUE AND OTHER INCOME ...	7,965.5	–	17,800.1	25,765.6	586.5
COST AND EXPENSES	4,363.0	–	14,698.1	19,061.1	433.9
INCOME BEFORE INCOME TAX	3,602.5	–	3,102.0	6,704.5	152.6
PROVISION FOR INCOME TAX	148.8	–	136.5	285.3	6.5
NET INCOME	3,453.7	–	2,965.5	6,419.2	146.1
OTHER COMPREHENSIVE INCOME					
Change in net unrealized gain on available-for-sale investments	–	–	(101.4)	(101.4)	(2.3)
Share in other comprehensive income of associates	2,895.6	–	(15.9)	2,879.7	65.6
TOTAL COMPREHENSIVE INCOME	6,349.3	–	2,848.3	9,197.6	209.4
Net income attributable to:					
GT Capital Holdings	3,324.4	118.0	1,352.2	4,794.6	109.1
Non-controlling interests	129.3	(118.0)	1,613.3	1,624.6	37.0
	3,453.7	–	2,965.5	6,419.2	146.1
Earnings per share attributable to GT Capital Holdings:					
Basic and Diluted	26.60			38.36	
Total comprehensive income attributable to:					
GT Capital Holdings	6,220.0	118.0	1,296.8	7,634.8	173.8
Non-controlling interests	129.3	(118.0)	1,551.4	1,562.8	35.6
	6,349.3	–	2,848.3	9,197.6	209.4

See accompanying notes to GT Capital's pro forma condensed consolidated financial information.

PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	GT Capital Holdings Balances (Audited)	Pro forma adjustments (Unaudited) Acquisition of Non-controlling Interests in Fed Land	Pro forma adjustments (Unaudited) Acquisition of GBP	**Pro forma Consolidated Balances (Unaudited)**	**Pro forma Consolidated Balances (Unaudited)**
	(₱ millions)				(U.S. $ millions)
ASSETS					
Current Assets					
Cash and cash equivalents	454.4	–	8,606.7	9,061.1	206.3
Receivables	4,864.1	–	1,653.7	6,517.8	148.4
Inventories	11,338.4	–	1,114.6	12,453.0	283.5
Due from related parties	938.9	–	414.3	1,353.2	30.8
Prepayments and other current assets	975.0	–	2,019.7	2,994.7	68.2
Total Current Assets	18,570.8	–	13,809.0	32,379.8	737.1
Noncurrent Assets					
Noncurrent receivables	1,114.9	–	1,083.6	2,198.5	50.0
Investments and advances	38,112.5	–	(3,397.1)	34,715.4	790.3
Long-term cash investments	2,440.1	–	–	2,440.1	55.5
Deposits	4,085.0	–	–	4,085.0	93.0
Investment properties	5,227.4	–	–	5,227.4	119.0
Property, plant and equipment	396.4	–	41,980.6	42,377.0	964.7
Deferred tax assets	3.8	–	147.2	151.0	3.4
Other noncurrent assets	111.9	–	1,260.8	1,372.7	31.2
Total Noncurrent Assets	51,492.0	–	41,075.0	92,567.1	2,107.3
Total Assets	70,062.8	–	54,884.1	124,946.8	2,844.4
LIABILITIES AND EQUITY					
Current Liabilities					
Accounts and other payables	4,573.4	–	3,789.6	8,363.0	190.4
Liabilities for purchased shares	–	2,700.0	893.2	3,593.2	81.8
Current portion of loans payable	7,648.7	–	964.6	8,613.3	196.1
Customers' deposits	457.6	–	–	457.6	10.4
Due to related parties	403.6	–	577.8	981.4	22.3
Dividends payable	0.2	–	29.4	29.7	0.7
Income tax payable	–	–	36.6	36.6	0.8
Other current liabilities	57.9	–	–	57.9	1.3
Total Current Liabilities	13,141.5	2,700.0	6,291.3	22,132.8	503.9
Noncurrent Liabilities					
Pension liabilities	28.1	–	64.6	92.7	2.1
Loans payable – noncurrent portion	19,600.0	–	29,176.4	48,776.4	1,110.4
Deferred tax liabilities	80.6	–	1,854.6	1,935.2	44.1
Decommissioning liability	–	–	61.6	61.6	1.4
Other noncurrent liabilities	62.9	–	18.2	81.1	1.8
Total Noncurrent Liabilities	19,771.7	–	31,175.4	50,947.1	1,159.8
Total Liabilities	32,913.1	2,700.0	37,466.7	73,079.9	1,663.7
Equity					
Equity attributable to GT Capital Holdings					
Capital stock	1,250.0	–	–	1,250.0	28.5
Additional paid-in capital	23,071.7	(555.9)	–	22,515.8	512.6
Retained earnings	7,801.7	–	736.0	8,537.7	194.4
Other comprehensive income	2,805.5	–	–	2,805.5	63.9
	34,928.8	(555.9)	736.0	35,109.0	799.3
Non-controlling interests	2,220.8	(2,144.1)	16,681.3	16,758.0	381.5
Total Equity	37,149.6	(2,700.0)	17,417.3	51,867.0	1,180.8
	70,062.8	–	54,884.1	124,946.9	2,844.4

See accompanying notes to GT Capital's pro forma condensed consolidated financial information.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – GT CAPITAL

The following discussion of GT Capital's recent financial results should be read in conjunction with the auditors' reports and GT Capital's consolidated financial statements and notes thereto contained in this Prospectus and the section entitled "Selected Financial Information". GT Capital's audited consolidated financial statements as of December 31, 2009, 2010 and 2011 were prepared in compliance with PFRS and audited by SGV & Co. in accordance with PSA.

This discussion contains forward-looking statements and reflects the current views of GT Capital with respect to future events and financial performance. Actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors such as those set forth in the section entitled "Risk Factors" and elsewhere in this Prospectus.

FACTORS AFFECTING RESULTS OF OPERATIONS

GT Capital Holdings is a holding company which conducts all of its operations through its subsidiaries and associates. As a holding company, GT Capital Holdings derives virtually all of its consolidated revenues from the revenues of its consolidated subsidiaries, namely Fed Land and GBP, and as equity in net earnings of its associates, namely MBT, AXA and TMP. For a discussion of the factors affecting the results of operations of GT Capital's subsidiaries and associates, please refer to the sections titled "Management's Discussion and Analysis of Financial Condition and Results of Operations – Factors Affecting Results of Operations" for each of the GT Capital companies contained elsewhere in this Prospectus.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those that are both (i) relevant to the presentation of GT Capital's financial condition and results of operations and (ii) require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increase, those judgments become even more subjective and complex. In order to provide an understanding of how GT Capital's management forms its judgments about future events, including the variables and assumptions underlying its estimates, and the sensitivity of those judgments to different circumstances, GT Capital has identified certain critical accounting policies. For a complete discussion of GT Capital's critical accounting policies and significant accounting judgements and estimates, see Note 2 and Note 3 to GT Capital's financial statements included in this Prospectus.

DESCRIPTION OF KEY LINE ITEMS

Revenue

Equity in Net Income of Associates

Equity in net income of associates represents GT Capital's share in the results of operations of its associates and joint ventures based on its effective ownership in those associates and joint ventures. Only companies in which GT Capital's ownership exceeds 20% are equitized. Equity-accounted associates consist of MBT, TMP and AXA.

Real estate sales

Real estate sales in a given accounting period reflect the amount for which down payments have been paid based on the percentage of completion method. Required down payments range from 10% to 50% of the total contract price, depending on the type of property being purchased, and buyers are given anywhere from one to 50 months to complete the down payment, depending on the project involved. Revenue recognition begins once 10% of the down payment is collected from a buyer and 15% of the project is completed. Revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

Sale of goods and services

Sale of goods and services consist of sales of petroleum and non-fuel products on a wholesale or retail basis and other allied services.

Commission income

Commission income consists of commission from selling of units pertaining to Federal Land Orix Corporation ("FLOC") and joint venture partners.

Interest income on real estate sales

Interest income on real estate sales is derived partly from interest paid by customers who have obtained in-house financing from Fed Land. Interest rates on these customer loans currently range from 15.0% to 18.0% per annum, depending on the term of the loan. This line item also reflects accretion of interest on deferred sales using the effective interest rate method.

Rent Income

Rent income consists of income from various properties rented out by Fed Land, including the Blue Wave Malls, several units at the Phil AXA Life Centre and one floor of the GT Tower International.

Interest income from banks

Interest income earned from banks represents interest earned from short-term placements, deposits and savings accounts maintained with banks.

Other Income

Other income consists primarily of real estate forfeitures, charges and penalties, management fees, dividend income and others.

Costs and Expenses

Cost of real estate sales

Cost of real estate sales reflects the cost of residential units sold and the sales of which have been recorded as real estate sales. The cost of residential units sold before project completion is determined based on, among other factors, the cost of land, expenses for regulatory approvals, project personnel costs, site development costs, construction costs and other project cost estimates. Cost of real estate sales are recognized in line with sales.

Cost of goods and services

The cost of goods and services consists of costs associated with oil and petroleum products as well as ancillary goods and services sold at the Blue Wave Malls.

General and administrative expenses

General and administrative expenses consist of salaries, wages and employee benefits, commissions, advertising and promotions, light, water and other utilities, depreciation and amortization, taxes and licenses, outside services, rent, professional fees, office supplies, transportation and travel, royalty and service fees, entertainment, amusement and recreation, retirement expenses, repairs and maintenance and miscellaneous expenses.

Interest expense

Interest expense relates to interest incurred on the interest-bearing debt obligations of GT Capital.

RESULTS OF OPERATIONS

Year ended December 31, 2011 compared to year ended December 31, 2010

Equity in net income of associates

GT Capital recorded equity in net income of associates of ₱3,567.9 million in 2011, an increase of 21.0% from ₱2,948.9 million in 2010. This increase was primarily attributable to the increase in equity earnings from MBT amounting to ₱795.1 million due to higher net income of MBT in 2011 resulting from increased business activities.

Real estate sales

GT Capital recorded real estate sales of ₱2,512.2 million in 2011, an increase of 16.3% from ₱2,160.7 million in 2010. The increase was mainly due to a higher percentage of completion for ongoing Fed Land projects such as Bay Garden Club and Residences 1 (Banyan), Riverview, Four Seasons Riviera, The Capital Tower 2 – Beijing and Peninsula Garden Midtown Homes Tower 1.

Sale of goods and services

GT Capital recorded sale of goods and services of ₱764.7 million in 2011, an increase of 18.6% from ₱644.7 million in 2010. The increase was primarily due to the increase in the sale of petroleum at the Blue Wave Malls resulting from higher volumes and increased prices. The higher volumes were primarily the result of the increased traffic in the area in and around the Mall of Asia.

Commission income

GT Capital recorded commission income of ₱96.0 million in 2011, an increase of 103.8%, from ₱47.1 million in 2010. The increase was primarily due to commissions earned in units owned by FLOC resulting from a higher number of units at the Grand Midori reaching the 10% collection threshold and the launch of a second tower in 2010.

Interest income on real estate sales

GT Capital recorded interest income on real estate sales of ₱195.9 million in 2011, an increase of 12.3% from ₱174.5 million in 2010. This increase was primarily a result of higher accretion of interest income from various Fed Land projects.

Rent income

GT Capital recorded rent income of ₱238.0 million in 2011, an increase of 20.2% from ₱198.0 million in 2010. The increase was primarily due to higher occupancy and increased rental rates at both of the Blue Wave Malls resulting from the full year recognition of rent from a call center anchor tenant that began its tenancy in May 2010 as well as the acquisition of a floor in the GT Tower International in November 2010 which GT Capital Holdings leased out.

Interest income from banks

GT Capital recorded interest income from banks of ₱64.6 million in 2011, an increase of 559.2% from ₱9.8 million in 2010. This increase was primarily a result of a substantial increase in money market placements during the year due to the placement of proceeds from corporate notes issued in 2010 into money market funds.

Other income

GT Capital recorded other income of ₱526.2 million in 2011, an increase of 327.5% from ₱123.1 million in 2010. The increase was primarily due to a reimbursement in 2011 of interest expense from option money granted to affiliates for land purchases amounting to ₱337.1 million.

Cost of real estate sales

GT Capital recorded cost of real estate sales of ₱1,553.8 million in 2011, an increase of 13.8% from ₱1,364.8 million in 2010. This increase was primarily due to an increase in real estate sales as discussed above.

Cost of goods and services

GT Capital recorded cost of goods and services of ₱709.7 million in 2011, an increase of 21.4% from ₱584.6 million in 2010. The increase was the result of the increase in the volume of petroleum sold at the Blue Wave Malls as well as higher costs incurred for the purchase of petroleum products.

General and administrative expenses

GT Capital recorded general and administrative expenses of ₱1,109.8 million in 2011, an increase of 24.2% from ₱893.3 million in 2010. A significant portion of the increase was due to an increase in commission expense due to higher sales, administrative and management fees, salaries and wages (as a result of an overall increase in head count and general wage increases due to higher sales), professional fees, and advertising and promotions for the greater number of new projects launched in 2011, amounting to ₱54.2 million, ₱49.4 million, ₱44.7 million, ₱37.4 million and ₱32.9 million, respectively.

Interest expense

GT Capital recorded interest expense of ₱989.7 million in 2011, an increase of 251.1% from ₱281.9 million in 2010. The significant increase was primarily due to the increase in loans availed in 2011 by Fed Land for land bank acquisition and by the Company to fund investments in GBP.

Provision for income tax

GT Capital recorded provision for income tax of ₱148.8 million in 2011, an increase of 112.0% from ₱70.2 million in 2010. The increase was a result of the substantial increase in taxable income during the year.

Net income

As a result of the foregoing, GT Capital's net income increased to ₱3,453.7 million in 2011, an increase of 11.0% from ₱3,112.0 million in 2010.

Year ended December 31, 2010 compared to year ended December 31, 2009

Equity in Net Income of Associates

GT Capital recorded equity in net income of associates of ₱2,948.9 million in 2010, an increase of 41.1% from ₱2,089.8 million in 2009. This increase was primarily attributable to the increase in equity earnings from MBT and TMP amounting to ₱470.7 million and ₱360.0 million, respectively, resulting from increased net income at MBT and TMP resulting from increased business activities.

Real estate sales

GT Capital recorded real estate sales of ₱2,160.7 million in 2010, an increase of 88.2% from ₱1,148.0 million in 2009. The increase was mainly due to an increase in the percentage of completion of Cordova, Athens, Peninsula Gardens, Bay Garden Residences, Oriental Place Toledo, Bell Flower, Beijing and Riverview Mansion.

Sale of goods and services

GT Capital recorded sale of goods and services of ₱644.7 million in 2010, an increase of 10.4% from ₱584.2 million in 2009. The increase was primarily due to an increase in sales of petroleum at the Blue Wave Malls caused by higher volumes and increased prices.

Commission income

GT Capital recorded commission income of ₱47.1 million in 2010 from nil in 2009. The increase was primarily due to commissions earned in selling units of FLOC.

Interest income on real estate sales

GT Capital recorded interest income on real estate sales of ₱174.5 million in 2010, a decrease of 3.4% from ₱180.6 million in 2009. This decrease was primarily a result of lower accretion of interest income from certain Fed Land projects.

Rent income

GT Capital recorded rent income of ₱198.0 million in 2010, an increase of 11.9% from ₱176.9 million in 2009. The increase was primarily due to the net effect of (i) higher occupancy and increased rental rates at the Blue Wave Malls (ii) the acquisition of two floors in the GT Tower International for rental and (iii) office and commercial space rented out at the Blue Wave Mall to a call center in 2009, with 2010 being the first full year of revenue recognition from the call center tenant.

Interest income from banks

GT Capital recorded interest income from banks of ₱9.8 million, an increase of 197.0% from ₱3.3 million in 2009. This increase was primarily a result of an increase in short-term placements amounting to ₱2,553.5 million in 2010.

Other income

GT Capital recorded other income of ₱123.1 million in 2010, a decrease of 16.1% from ₱146.8 million in 2009. The decrease was primarily due to lower management fees relating to lower collections.

Cost of real estate sales

GT Capital recorded cost of real estate sales of ₱1,364.8 million in 2010, an increase of 114.4% from ₱636.7 million in 2009, due to the increase in real estate sales as discussed above.

Cost of goods and services

GT Capital recorded cost of goods and services of ₱584.6 million in 2010, an increase of 17.5% from ₱497.6 million in 2009. The increase was primarily a result of an increase in the volume of petroleum sold at the Blue Wave Malls as well as higher prices paid for petroleum due to increased traffic in the areas around the malls.

General and administrative expenses

GT Capital recorded general and administrative expenses of ₱893.3 million in 2010, an increase of 18.3% from ₱755.3 million in 2009. A significant portion of the increase was due to an increase in professional fees, commission expense, advertising and publicity and taxes and licenses , primarily as a result of the increase in business activities in 2010, amounting to ₱44.3 million, ₱31.1 million, ₱21.5 million and ₱21.1 million respectively.

Interest expense

GT Capital recorded interest expense of ₱281.9 million in 2010, an increase of 65.9% from ₱169.9 million in 2009. The significant increase was primarily due to the increase in loans availed by GT Capital Holdings in 2010 amounting to ₱11,071.3 million.

Provision for income tax

GT Capital recorded provision for income tax of ₱70.2 million in 2010, an increase of 18.3% from ₱59.3 million in 2009. The increase was a result of an increase in revenue recognition in 2010.

Net income

As a result of the foregoing, GT Capital's net income increased to ₱3,112.0 million in 2010, an increase of 40.8% from ₱2,210.8 million in 2009.

LIQUIDITY AND CAPITAL RESOURCES

In 2009, 2010, and 2011, GT Capital's principal source of liquidity were cash dividends received from investee companies and proceeds from loan availments. As of December 31, 2011, GT Capital had cash and cash equivalents totaling ₱454.4 million. GT Capital expects that its principal uses of cash in 2012 will be additional investments and debt repayments.

The following table sets forth selected information from GT Capital's statements of cash flows for the periods indicated:

	As of December 31,			
	2009	2010	2011	
	(₱ millions)			(U.S.$ millions)(1)
Net cash provided by operating activities	481.6	109.1	(3,586.3)	(81.6)
Net cash provided by (used in) investing activities	(464.5)	(7,323.8)	(9,067.0)	(206.4)
Net cash provided by (used in) financing activities	57.0	10,081.8	10,043.0	228.6
Net increase in cash and cash equivalents	73.9	2,866.4	(2,610.5)	(59.4)
Cash and cash equivalents at beginning of period	124.6	198.5	3,064.9	69.9
Cash and cash equivalents at end of period	198.5	3,065.0	454.4	10.3

Cash flows from operating activities

Cash flows from (used in) operating activities was ₱481.6 million in 2009, ₱109.1 million in 2010, and (₱3,586.3 million) in 2011. In 2009, the primary source of cash was ₱233.9 million from operations while cash from operations was used for an increase in inventories of ₱820.6 million. In 2010, the primary source of cash was ₱408.7 million from operations while cash from operations was used for an increase in amounts of receivables of ₱1,068.3 million and an increase in inventories of ₱820.9 million. In 2011, the primary source of cash was ₱514.0 million from operations while cash from operations was used for an increase in receivables and inventories amounting to ₱4,203.9 million and ₱3,228.6 million, respectively.

Cash flows used in investing activities

Cash flows used in investing activities was (₱464.5 million) in 2009, (₱7,323.8 million) in 2010, and (₱9,067.0 million) in 2011. In 2009, cash flows used in investing activities were primarily due to the increase in investment and advances of ₱240.0 million. In 2010, cash flows used in investing activities were primarily due to the additions to investments and advances and investment properties of ₱5,928.0 million and ₱1,411.6 million, respectively. In 2011, cash flows used in investing activities were primarily due to additions to deposit, long term investment and investments and advances amounting to ₱4,085.0 million, ₱2,440.1 million and ₱2,624.7 million, respectively.

Cash flows from financing activities

Cash flows from financing activities were ₱57.0 million in 2009, ₱10,081.8 million in 2010, and ₱10,043.0 million in 2011. In 2009, cash flow from financing activities were primarily from the proceeds from loan availments of ₱3,235.3 million while partially offset by payments of cash dividends of ₱1,113.0 million. In 2010, cash flows from financing activities were primarily from the proceeds from loan availments of ₱14,189.0 million while partially offset by payment of loans payable of ₱3,902.7 million. In 2011, cash flows from financing activities were primarily from the proceeds of loan availments of ₱19,305.0 million while partially offset by payment of loans payable and dividends amounting to ₱8,238.5 million and ₱600.0 million, respectively.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following table sets forth GT Capital Holdings' contractual long-term obligations and commitments as of December 31, 2011:

	Contractual Long-term Obligations and Commitments Payments Due by Period			
		2012	2013-2015	After 2015
	Total		(₱ millions)	
Long-term debt obligations	11,000.0	–	9,000.0	2,000.0
Operating lease obligations	25.4	4.2	15.7	5.5
Total	11,025.4	4.2	9,015.7	2,005.5

Note:

Amounts shown are on a non-consolidated basis for GT Capital Holdings.

DEBT OBLIGATIONS AND FACILITIES

GT Capital's total amount of long-term debt was ₱19,600.0 million as of December 31, 2011, with no current portion.

The following table sets forth GT Capital Holdings' total indebtedness, on an unconsolidated basis, as of the periods indicated:

	As of December 31,			
	2009	2010	2011	2011
	(₱ millions)			(U.S.$ millions)
Short-term debt	1,263.7	3,335.0	3,091.7	70.4
Long-term debt	–	9,000.0	11,000.0	250.4
Total	1,263.7	12,335.0	14,091.7	320.8

GT Capital Holdings intends to repay existing indebtedness of up to ₱2.8 billion relating to loans with terms of five years with interest rates ranging from 5.4% to 6.5% per annum with proceeds from the Offer. See "Use of Proceeds".

OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2011, GT Capital did not have any off-balance sheet arrangements.

KEY PERFORMANCE INDICATORS

The following are the major performance measures used by GT Capital for 2009, 2010 and 2011.

	As of and for the years ended December 31,			
	2009	2010	2011	2011
	(₱ millions, except %)			(U.S.$ millions, except %)
Total revenues	4,329.6	6,306.8	7,965.5	181.4
Net income attributable to GT Capital Holdings	2,184.0	3,001.6	3,324.4	75.7
Total assets	36,738.3	51,303.7	70,062.7	1,594.9
Total liabilities	8,342.2	19,483.4	32,913.1	749.1
Equity attributable to GT Capital Holdings	26,874.7	29,608.8	34,928.8	795.2
Return on equity(1)	8.39%	10.63%	10.30%	10.30%

Note:

(1) Net Income attributable to GT Capital Holdings divided by average equity; where average equity is the sum of equity attributable to GT Capital Holdings at the beginning and end of the year divided by 2.

QUALITATIVE AND QUANTITATIVE DISCLOSURE OF MARKET RISK

GT Capital's principal financial instruments consist of its long-term debt, cash on hand and in the bank, receivables from installment sales, short-term investments and receivables from and payables to affiliated companies. These are used to provide funding for GT Capital's business operations. GT Capital does not enter into hedging transactions or engage in speculation with respect to financial instruments.

GT Capital believes that the principal risks arising from its financial instruments are interest rate risk, liquidity risk, credit risk and commodity risk.

Interest Rate Risk

GT Capital Holding's exposure to interest rate risk relates primarily to its long-term debt obligations with variable market interest rates. As of December 31, 2011, ₱7,091.7 million of GT Capital Holding's loans bear floating rates and ₱7,000.0 million of its loans bear interest at fixed rates ranging from 5.0% to 6.5% per annum. Increases in interest rates would have the effect of increasing the interest due on GT Capital Holding's outstanding debt and increases in such rates could make it more difficult for GT Capital Holdings to procure new debt on attractive terms, or at all. As of December 31, 2011, GT Capital Holdings does not, and has no plans to engage in, interest rate derivative or swap activity to hedge its exposure to increases in interest rates.

For a discussion of the interest rate risk faced by GT Capital's subsidiaries and associates, please refer to the sections titled "Management's Discussion and Analysis of Financial Condition and Results of Operations – Qualitative and Quantitative Disclosure of Market Risk – Interest Rate Risk" for the GT Capital companies contained elsewhere in this Prospectus.

Liquidity Risk

GT Capital Holdings bears the risk that it will not have sufficient cash flows to meet its operating requirements and its financing obligations when they come due. GT Capital Holdings manages this risk by regularly reviewing its cash flow position, debt maturity profiles, availability of credit facilities and overall liquidity position to mitigate the effects of fluctuations in cash flow. Going forward, and to the extent it is able to do so, GT Capital intends to use internally generated funds and additional equity offerings primarily to meet its financing requirements.

For a discussion of the liquidity risk faced by GT Capital's subsidiaries and associates, please refer to the sections titled "Management's Discussion and Analysis of Financial Condition and Results of Operations – Qualitative and Quantitative Disclosure of Market Risk – Liquidity Risk" for the GT Capital companies contained elsewhere in this Prospectus.

Credit Risk

For a discussion of the credit risk faced by GT Capital's subsidiaries and associates, please refer to the sections titled "Management's Discussion and Analysis of Financial Condition and Results of Operations – Qualitative and Quantitative Disclosure of Market Risk – Credit Risk" for the GT Capital companies contained elsewhere in this Prospectus.

Foreign Exchange Risk

For a discussion of the foreign exchange risk faced by GT Capital's subsidiaries and associates, please refer to the sections titled "Management's Discussion and Analysis of Financial Condition and Results of Operations – Qualitative and Quantitative Disclosure of Market Risk – Foreign Exchange Risk" for the GT Capital companies contained elsewhere in this Prospectus.

Seasonality

For a discussion of the impact that seasonality has on GT Capital's subsidiaries and associates, please refer to the sections titled "Management's Discussion and Analysis of Financial Condition and Results of Operations – Qualitative and Quantitative Disclosure of Market Risk – Seasonality" for the GT Capital companies contained elsewhere in this Prospectus.

TAXES

Income Tax

Domestic corporations are subject to the Regular Corporate Income Tax ("RCIT") equivalent to 30% of its taxable income. Taxable income is calculated as the company's gross income minus allowable deductions, exclusions or income exempt from income tax.

In the alternative, domestic corporations may be imposed with the Minimum Corporate Income Tax ("MCIT") equivalent to 2% of its gross income, when the computed MCIT is greater than the computed RCIT. However, MCIT may only be imposed on the fourth taxable year immediately following the year in which such corporation commenced its business operation. For this purpose, the commencement of business operations shall be deemed to be the date the company was registered with the Bureau of Internal Revenue of the Philippines ("BIR").

Value-Added Tax

The sale of goods or services in the Philippines is generally subject to a 12% value added tax.

BUSINESS – GT CAPITAL

OVERVIEW

GT Capital is a major Philippine conglomerate with interests in market-leading businesses across banking, real estate development, power generation, automotive and life insurance. GT Capital Holdings is the primary vehicle for the holding and management of the diversified business interests of the Ty family in the Philippines. GT Capital's business management, investment decisions and future business development are and will be firmly rooted in its corporate values of integrity, competence, respect, entrepreneurial spirit and commitment to value creation.

GT Capital's current portfolio of businesses is well-positioned to benefit from broad-based growth in the Philippine economy, and domestic consumption in particular. The current portfolio comprises directly held interests in the following GT Capital companies:

- **Banking –** GT Capital conducts banking services through its 25.1% interest in MBT, a universal bank that offers corporate and commercial banking products and services throughout the Philippines. As of September 30, 2011, the MBT Group was the second largest Philippine bank by asset size, net loans and receivables and total deposits, with total assets of ₱916.1 billion, net loans and receivables of ₱432.8 billion and total deposits of ₱656.4 billion. MBT was also the largest Philippine bank by book capitalization and controls 11.4% of the Philippine banking system's total asset base as of September 30, 2011, according to published statements of condition reported to the Philippine SEC. MBT has been listed on the Philippine Stock Exchange since 1981, and as of December 31, 2011 was the third largest Philippine bank by market capitalization (₱143.5 billion, U.S.$3.3 billion). As of the same date, the MBT Group's Tier 1 and total adequacy ratios were 13.7% and 17.4%, respectively.

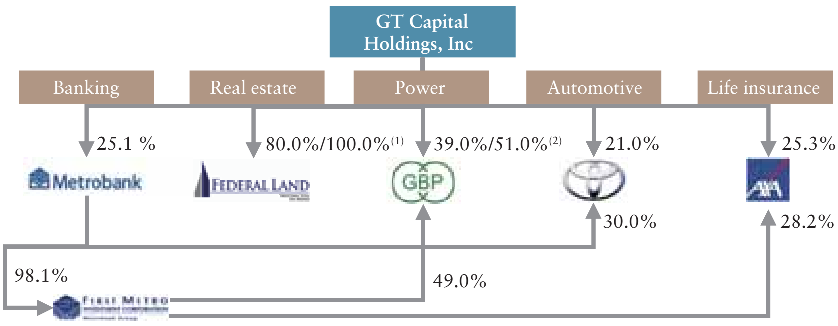
- **Real estate development –** GT Capital conducts its real estate development business through its 80.0% interest in its fully consolidated subsidiary Fed Land, which develops residential and commercial projects. In March 2012, GT Capital Holdings signed a memorandum of agreement to acquire the outstanding 20% share capital of Fed Land for ₱2.7 billion. Following a successful consolidation process, Fed Land is today the sole Philippine real estate development company of the Ty family. Fed Land is currently executing on a comprehensive growth plan that aims to fully capitalize on the Ty family companies' 40-year track record in real estate and Fed Land's high-quality land bank and brand recognition. In 2011, Fed Land made reservation sales of 2,168 residential units with a total sales value of ₱9.05 billion (an increase of 114% compared to 2010 in terms of value). As of December 31, 2011, Fed Land had 19 different ongoing residential projects at various stages of completion, with a total number of 7,473 units. Fed Land's land bank as of December 31, 2011 comprised 100.8 hectares of land.

- **Power generation –** GT Capital conducts its power generation business through its 39.0% (assuming the exercise by GT Capital Holdings of an option to acquire from GBH an additional 4.6% of GBP) direct ownership interest in GBP, a holding company that, through its subsidiaries, is a leading independent power producer in the Visayas Region, with a combined gross dependable capacity of 627 MW (480 MW attributable to GBP, net of minority interests in its subsidiaries). GT Capital Holdings is currently in discussions with a third-party for the purchase of additional GBP Shares. It is expected that these discussions will result in the increase of the direct holdings of GT Capital Holdings in GBP up to 51% by the end of 2012. PEDC and CEDC, GBP's two largest power generation subsidiaries which own power plants with a combined installed capacity of 410 MW, only began commercial operations during the first quarter of 2011. The financial year ending December 31, 2012 is expected to be the first year of full contribution by these plants. GBP also has signed a letter agreement for two additional power projects in the Visayas, and is actively considering further expansion options across the Philippines.

- **Automotive –** GT Capital conducts its automotive business through its 21.0% interest in Toyota Motor Philippines ("TMP"). TMP is engaged in the manufacture, importation and wholesale distribution of Toyota brand motor vehicles in the Philippines, and is also engaged in the sale of motor vehicle parts and accessories both within the Philippines and through exports. TMP is also engaged in the distribution of Lexus brand motor vehicles in the Philippines. Every year since 2002, Toyota has been the top selling brand for both passenger cars and commercial vehicles in the Philippines, and since 1989, TMP has been number one in total sales in 21 out of 23 years. In 2011, TMP had a market share of 33.0% of total vehicle sales in the Philippines, according to data from the Chamber of Automotive Manufacturers of the Philippines ("CAMPI") and the Association of Vehicle Importers and Distributions ("AVID"). As the clear market leader in a key consumption sector and as exclusive manufacturer, importer and wholesale distributor in the Philippines of the No.1 global automotive brand (based on Interbrand 2011 and WPP 2011 studies), TMP is ideally positioned to capitalize on the strong projected growth of the domestic automotive market.

- **Insurance –** GT Capital conducts its insurance business through its 25.3% interest in Philippine AXA Life Insurance Corporation ("AXA"), which offers personal and group insurance products in the Philippines, including life insurance and investment-linked insurance products. AXA was first in first year premium and single premium of variable life insurance in the Philippines as of December 31, 2010. In 2011, the 'AXA' brand was the top insurance brand in the world according to Interbrand.

In addition to the direct ownership stakes set out above, GT Capital Holdings owns additional indirect stakes in GBP, TMP and AXA, as set out in the chart below.



Note:

1 *In March 2012, GT Capital Holdings signed a memorandum of agreement to acquire the outstanding 20% share capital of Fed Land for ₱2.7 billion.*

2 *GT Capital Holdings has 39.0% direct interest (assuming exercise by GT Capital Holdings of an option to acquire from GBH an additional 4.6% in GBP) as well as indirect interest through MBT/FMIC. GT Capital Holdings is currently in discussions with a third party for the purchase of additional GBP shares. It is expected that these discussions will result in the increase of the direct holdings of GT Capital Holdings in GBP up to 51% by the end of 2012. See "Business – GT Capital – GBP consolidation".*

The following tables set forth certain financial information relating to the MBT Group, Fed Land, GBP, TMP and AXA in relation to the Company which are derived from the Company's audited consolidated financial statements as of December 31, 2011 and the Company's pro forma condensed consolidated financial statements as of December 31, 2011:

	Audited Financial Statements as of December 31, 2011				
	MBT Group	Fed Land	GBP	TMP	AXA
	Amounts in ₱				
Asset contribution	31,300,775,975.51	29,543,463,155.00	3,397,120,759.00	2,071,711,843.86	895,970,794.12
Revenue contribution	2,773,656,474.51	4,478,579,566.00	–	461,836,518.15	244,827,090.58
Net income contribution	2,773,656,474.51	471,792,476.00	–	461,836,518.09	244,827,090.58
Investments					
No. of shares	530,201,070	80,000,000	–	3,253,765	885,737
Peso Value	22,477,639,960.00	8,321,246,981.60		1,471,689,039.00	598,729,027.23
% of ownership	25%	80%	0%	21%	25%

	Pro Forma Condensed Consolidated Financial Statements as of December 31, 2011				
	MBT Group	Fed Land	GBP	TMP	AXA
	Amounts in ₱				
Asset contribution	31,300,775,975.51	29,543,463,155.00	54,884,083,840.00	2,071,711,843.86	895,970,794.12
Revenue contribution	2,773,656,474.51	4,478,579,566.00	17,800,085,806.00	461,836,518.15	244,827,090.58
Net income contribution	2,773,656,474.51	589,835,595.00	527,375,164.00	461,836,518.09	244,827,090.58
Investments					
No. of shares	530,201,070	100,000,000	216,956,400	3,253,765	885,737
Peso value	22,477,639,960.00	11,021,246,981.60	6,893,224,500.00	1,471,689,039.00	598,729,027.23
% of ownership	25%	100%	39%	21%	25%

The following table presents summary information for each of GT Capital's businesses.

			Year Ended December 31, 2011			
Industry/ Company Name	GT Capital direct ownership interest (%)	Other GT Capital companies' ownership interest (%)	Total Assets (₱ millions)	Total Revenue (₱ millions)	Net Income (₱ millions)	Net Income Attributable to Parent Company Shareholders (₱ millions)
Banking						
Metropolitan Bank & Trust Company	25.1%	–	958,384	29,407(6)	12,390	11,031
Real Estate						
Federal Land, Inc.	80.0%/ 100.0%(1)	–	29,543	4,479	601	590
Power Generation						
Global Business Power Corporation	39.0%/ 51.0%(2)	49.0%(3)	56,840	16,786	2,229	1,580
Automotive						
Toyota Motor Philippines	21.0%	30.0%(4)	18,021	54,099	2,216	2,199
Insurance						
Philippine AXA Life Insurance Corporation	25.3%	28.2%(5)	38,943	10,007(7)	967	967

Notes:

(1) *In March 2012, GT Capital Holdings signed a memorandum of agreement to acquire the outstanding 20% share capital of Fed Land for ₱2.7 billion.*

(2) *Assumes the exercise by GT Capital Holdings of an option to acquire an additional 4.6% of GBP held by GBH. GT Capital Holdings is currently in discussions with a third party for the purchase of additional GBP shares. It is expected that these discussions will result in the increase of the direct holdings of GT Capital Holdings in GBP up to 51% by the end of 2012.*

(3) *FMIC owns a 49.0% interest in GBP. FMIC is a 98.1% owned subsidiary of MBT.*
(4) *MBT owns a 30.0% interest in TMP.*
(5) *FMIC owns a 28.2% interest in AXA. FMIC is a 98.1% owned subsidiary of MBT.*
(6) *Net interest income*
(7) *Gross premiums*

GT Capital Holdings provides the GT Capital companies with corporate services including controllership, corporate finance, corporate and strategic planning, coordination of capital markets activities and human resources. GT Capital also provides the GT Capital companies with valuable market expertise in the Philippines as well as support in operations and financial management. In addition, the GT Capital companies leverage on their broad customer network and the wide array of related products and services which they offer.

GT Capital's revenues were ₱4,329.6 million, ₱6,306.8 million and ₱7,965.5 million in the years ended December 31, 2009, 2010 and 2011, respectively, with net income of ₱2,210.8 million, ₱3,112.0 million and ₱3,453.7 million, respectively. Of GT Capital's total revenue for the year ended December 31, 2011, Fed Land was the largest contributor with ₱4.5 billion, while MBT, TMP and AXA contributed revenues of ₱2.8 billion, ₱0.5 billion and ₱0.2 billion, respectively, during the same period. GT Capital's total assets amounted to ₱36,738.3 million, ₱51,303.7 million and ₱70,062.7 million as of January 1, 2010, December 31, 2010 and 2011, respectively.

Pro forma for the full consolidation of GBP and the acquisition of the remaining 20% share capital of Fed Land, in the year ended December 31, 2011, GT Capital's revenues were ₱25,765.6 million and net income was ₱6,419.2 million. Pro forma total assets as of December 31, 2011 were ₱124,946.8 million.

GT Capital Holdings is accessing the equity capital markets in order to tap permanent funding that would match its long term capital expenditure requirements for the expansion of the Toledo power plant on Cebu island, the expansion of the master-planned communities in Taguig, Pasay City and Cebu, as well as for the consolidation of the non-bank investments of the Ty family into GT Capital Holdings.

GT CAPITAL'S HISTORY

GT Capital Holdings was organized and registered with the Philippine SEC on July 26, 2007, with an initial authorized capital stock of ₱20.0 million and subscribed and paid-up capital of ₱5.0 million. GT Capital Holdings was formed as a holding company to consolidate the various business interests of the Ty family in the Philippines. In order to implement the infusion of the component companies into GT Capital, share-for-share swaps were executed.

On July 15, 2008, GT Capital Holdings' stockholders approved an increase in authorized capital stock from ₱20.0 million divided into 2.0 million shares, with a par value of ₱10.00 per share, to ₱5.0 billion, divided into 500 million shares with a par value of ₱10.00 per share. The following companies subscribed to the increase in the authorized capital stock of GT Capital Holdings:

Subscriber	No. of Shares Subscribed
Grand Titan Capital Holdings, Inc.	114,520,452
Titan Resources Corporation	7,532,333
Ausan Resources Corporation	2,447,215
Total	**124,500,000**

The payment for the above subscriptions was through the conveyance of the subscribers' respective shareholdings in MBT, Fed Land, TMP and AXA, which had an aggregate value of ₱24.3 billion. The MBT shares were valued at the market price prevalent as of the date of the acquisition, while the Fed Land, TMP and AXA shares were valued based on each respective company's net book value as of June 30, 2008.

GBP CONSOLIDATION

As of February 16, 2012, the Company owned a 34.41% direct interest in GBP. This came about after securing SEC approval of the conversion of a deposit for future subscription into common shares of GBP in January 2012, representing a 21.04% interest in GBP and the execution of Deeds of Absolute Sale with GBH for the sale and transfer of common shares of GBP, with GBH as seller and the Company as the buyer, representing a 13.37% interest in GBP. GT Capital Holdings will hold a 39.0% direct share of GBP, assuming the exercise by GT Capital Holdings of an option to acquire from GBH an additional 4.6% in GBP held by GBP. In consideration of a loan that was granted by GT Capital Holdings to GBH, GBH granted GT Capital Holdings the right, but not the obligation to acquire additional common shares of GBP held by GBH corresponding to approximately 4.6% of the outstanding capital stock of GBP. The option granted to GT Capital Holdings by GBH may be exercised up to one year from the execution of the Memorandum of Agreement, dated December 27, 2011, which set forth the terms of the option. A portion of the proceeds from the Offer will be used by GT Capital Holdings to exercise the option. See "Use of Proceeds". In addition, the Company owns an indirect interest through FMIC, a majority owned subsidiary of MBT, of 12%, thereby bringing its effective interest of GBP to 51%. GT Capital Holdings is currently in discussions with a third-party for the purchase of additional GBP shares. It is expected that these discussions will result in the increase of the direct holdings of GT Capital Holdings in GBP to 51% by the end of 2012.

FED LAND ACQUISITION

In March 2012, GT Capital Holdings signed a memorandum of agreement to acquire the outstanding 20% share capital of Fed Land for ₱2.7 billion from certain Ty family entities.

THE TY FAMILY

The early 1960s marked the beginning of a new era in the Philippine banking industry. The decade saw the emergence of several commercial and thrift banks to answer the financial needs of a growing economy. It was at this time that Dr. George S.K. Ty saw an opportunity to take an active part in this historic economic development by providing needed funding to entrepreneurs and, together with a group of local businessmen, founded the Metropolitan Bank and Trust Company (MBT). MBT opened its doors to the public on September 5, 1962.

MBT took its first steps toward building a financial conglomerate in 1972 when it established FMIC, which is now the largest local investment house in the Philippines. In 1980, MBT acquired controlling interests in PSBank, currently the Philippines' second largest thrift bank. Through the years, MBT acquired and merged with various smaller banks such as the Philippine Banking Corporation, Asian Bank, Solid Bank and Global Business Bank, making it one of the Philippines' largest universal banks today.

With MBT as its flagship company, the Ty family business diversified into both financial and non-financial industries through several partnerships and joint ventures.

Being a universal bank, MBT was licensed to invest in allied undertakings and, in 1988, formed a joint venture with the Ty family-owned Titan Resources Corporation and Japan's largest automaker, TMC, to form TMP. In 1999, the Ty family's Metro Philippines Life Insurance Corporation (formerly known as Pan-Philippine Life Insurance Corporation) entered into a joint venture with FMIC and the AXA Group of France (then National Mutual Holdings Limited of Australia) to form AXA. Another successful partnership was when MBT formed a joint venture with the Australia New Zealand Banking Corporation in 2003 to form Metrobank Card Corporation ("MCC").

Other joint ventures of the Ty family companies include the Sumisho Motor Finance Corporation between PSBank and the Sumitomo Corporation of Japan; Orix Metro Leasing & Finance Corporation ("ORIX Metro Leasing") with Orix; the Toyota Financial Services (Philippines) Corporation with Toyota Financial Services Corporation of Japan; and the Philippine Charter Insurance Corporation with Sumitomo Insurance Co., Ltd.

In the non-financial sector, one of the core business activities of the Ty family is in property development. The Ty family, through its various real estate business interests, has made its mark as one of the top real estate developers in the country, with more than 50 completed projects in the Philippines. Although its focus is primarily on residential projects in Metro Manila, one of its most recognized developments is the GT International Tower office building along Ayala Avenue in Makati City. Other notable completed projects are the Bay Garden in Macapagal Avenue in Pasay City and Marquinton Residences in Marikina City. Another of the Ty family companies' recognized projects is the Grand Midori in Makati, which is a joint venture between Fed Land and Orix.

The Ty family has also ventured into the power generation industry through its investment in GBP, which runs power plants in the Visayas through its subsidiaries. GBP is now one of the largest independent power producers in the Visayas region.

Over the years, the Ty family has successfully entered into long term joint ventures in various industries with globally-recognized corporate leaders. GT Capital believes that this is a testament to the recognition and acceptance of the Ty family as a reputable local business partner.

The Ty family companies are run by professionals that are experts in their respective fields. At the helm is Dr. George S.K. Ty who is actively and ably assisted by his two sons, Arthur and Alfred Ty.

COMPETITIVE STRENGTHS

GT Capital Holdings is the primary vehicle for the holding and management of the various business interests of the Ty family in the Philippines. GT Capital Holdings is actively involved in the management of its market-leading businesses and continuously considers and evaluates new business initiatives and growth projects for the future. GT Capital Holdings believes that its principal strengths, enumerated below, are firmly rooted in its corporate values of integrity, competence, respect, entrepreneurial spirit and commitment to value creation:

Established market leadership across all current GT Capital businesses

Each of the GT Capital companies is an established franchise and market leader in its respective industry sector:

- As of September 30, 2011, the MBT Group was the second largest Philippine bank by asset size, net loans and receivables and total deposits, with total assets of ₱916.1 billion, net loans and receivables of ₱432.8 billion and total deposits of ₱656.4 billion. MBT was also the largest Philippine bank by book capitalization and controls 11.4% of the Philippine banking system's total asset base as of September 30, 2011, according to published statements of condition reported to the Philippine SEC. MBT enjoys strong brand recognition throughout the Philippines and was named the "Best Bank in the Philippines" by Euromoney for 2010 and 2011.

- **Fed Land** is a leader in vertical master-planned communities in the Philippines. Fed Land is the dedicated property development company of the Ty family in the Philippines and is currently implementing a comprehensive and sustainable growth program to fully capitalize on its expertise, land bank and brand recognition. In 2011, Fed Land made reservation sales of 2,168 residential units with a total sales value of ₱9.05 billion (an increase of 114% compared to 2010 in terms of value). As of December 31, 2011, Fed Land had 19 different ongoing residential projects at various stages of completion, with a total number of 7,473 units. Fed Land's land bank as of December 31, 2011 comprised 100.8 hectares of land.

- **GBP** is one of the largest independent power producers in the Visayas, with a combined gross dependable capacity of 627 MW (480 MW attributable to GBP, net of minority interests in its subsidiaries) comprising 619.5 MW of power supplied to the Visayas grid and 7.5 MW of power supplied to Mindoro Island. With 410 MW of capacity having come onstream during 2011 and a letter agreement signed for two additional power projects, GBP is also one of the fastest growing power producers across the Philippines.

- **TMP** is the Philippines' largest automobile manufacturer and the exclusive importer and wholesale distributor in the Philippines of the No.1 global automotive brand. TMP has been number one in total vehicle sales in 21 out of 23 years since 1989, with a 2011 market share of 33.0% based on data from CAMPI and AVID. TMP received the "Excellent Quality Company" award from TMC in April 2011 for its outstanding performance in quality vehicle production and the "Outstanding Achievement on Productivity and Quality" award at the 2011 Kapatiran sa Industriya Awards organized by the Employers Confederation of the Philippines.

- **AXA** was first in first year premium and single premium of variable life insurance in the Philippines as of December 31, 2010. AXA provides a diverse range of innovative products under the 'AXA' brand, which has been named as the 2011 top insurance brand in the world for the third consecutive year according to Interbrand.

High levels of effective ownership in all businesses

GT Capital Holdings, together with GT Capital companies and other shareholders affiliated with the Ty family, has controlling interests (subject to veto rights of certain joint venture partners with respect to certain matters) in each of its current businesses. GT Capital currently directly owns 80.0% of its fully consolidated, unlisted subsidiary Fed Land, with the outstanding balance of shares being held by other shareholders affiliated with the Ty family. In March 2012, GT Capital Holdings signed a memorandum of agreement to acquire the remaining 20.0% interest of Fed Land. GT Capital directly owns a 25.1% stake in MBT, with another 26.0% held by shareholders affiliated with the Ty family. GT Capital's interest in the power industry is through its fully consolidated subsidiary GBP, in which it directly owns a 39.0% stake and where a further 49.0% stake is held by FMIC, a majority-owned subsidiary of MBT. GT Capital Holdings is currently in discussions with a third party for the purchase of additional GBP shares. It is expected that these discussions will result in the increase of the direct holdings of GT Capital Holdings in GBP up to 51% by the end of 2012. GT Capital conducts its automotive business through TMP, in which it holds a direct 21.0% stake and where a further 30.0% stake is held by MBT. GT Capital's involvement in the insurance business is through AXA, in which it directly owns 25.3%, while an additional 28.2% stake is held by FMIC.

Strong partnerships with leading global players

A key element of GT Capital's business model is to combine local talent and expertise with the technology and resources of leading global business partners. To this end, several of the GT Capital businesses have benefited from strong partnerships with leading global players such as AXA, ANZ, FHIC, Mitsui, Orix, Sumitomo and TMC. For example, in addition to its market-leading brand value, TMC has contributed a superior product range as well as excellence in manufacturing, marketing and customer service to TMP. AXA is a leading global insurance brand with recognized leadership in product design and risk management practices. FHIC has contributed state-of-the-art coal technology to GT Capital's power business.

GT Capital believes it is a strong local business partner for global investors in search of opportunities in the Philippines. The Ty family has a well-established reputation and credibility for integrity, sound business practices and strong corporate governance that GT Capital believes has earned it the trust and confidence of clients, suppliers, regulators and business partners, as well as strong support from the capital markets and the general investing public. Furthermore, GT Capital has a large geographic footprint in its coverage of the domestic economy as it deals with many of the key segments of the Philippine economy in Luzon, Visayas and Mindanao. GT Capital also has an established track record of successfully growing its various businesses through both stable and volatile socio-economic and political environments. GT Capital believes that it possesses in-depth knowledge of the local business environment, including the legal, regulatory and political landscapes which are key considerations for any foreign investor looking to do business in the Philippines.

GT Capital believes that strategic partnerships with leading global players leverage the complementary skill sets, expertise and resources of GT Capital and its partners, while GT Capital is able to optimize time to market, market impact, customer recognition and corporate performance based on global best practices.

Experienced management teams that are consistently focused on promoting synergies across the businesses

GT Capital has an experienced management team with a proven ability to efficiently build and operate market-leading businesses, and to identify and exploit profitable growth opportunities. GT Capital's Chairman, Dr. George Ty, founded MBT in 1962, and since then has been the driving force behind the GT Capital companies and many of the successful business ventures of the Ty family.

GT Capital also believes that the GT Capital companies follow global best practices for corporate governance. For example, MBT's board of directors consists of 12 members, seven of which are independent.

GT Capital considers active management to be a key part of its investment policy and has maintained a strict focus on recruiting and retaining strong management teams for each of its businesses. Furthermore, GT Capital's management has consistently and successfully promoted and implemented business plans across the GT Capital companies to crystallize available synergies. GT Capital believes that the market experience and knowledge that key members of its businesses management teams possess and the business relationships they have developed in the various industries in which they are involved has been, and will continue to be, an integral part of GT Capital's ability to retain and further expand its market leadership positions, to promote synergies among the GT Capital companies, and to identify profitable growth opportunities and business initiatives.

Strong financial profile based on track record of sustained and profitable growth

GT Capital and each of the GT Capital companies exhibit a strong and resilient financial profile. For the financial year ended December, 31, 2011, pro forma for the acquisition of additional stakes in Fed Land and GBP as discussed in "Summary Pro Forma Condensed Consolidated Financial Information", GT Capital's revenues, net income and total assets were ₱25,765.6 million, ₱6,419.2 million and ₱124,946.9 million. Over the period 2009 to 2011, growth in net income (CAGR) for each of the GT Capital companies MBT, Fed Land, GBP, TMP and AXA was 35.0%, 98.7%, 211.6%, 11.8% and 6.8%, respectively.

Diversified portfolio geared towards growth in domestic consumption and the broader Philippine economy

The Philippine economy has experienced significant growth from 2000 to 2010, with real GDP growing at a compound rate of 4.8% per annum according to the National Statistical Coordination Board. The economy maintained positive growth throughout the global financial crisis of 2008-09 and according to EIU, real GDP growth in the Philippines is expected to continue on a strong upward trajectory, at a compound annual growth rate of 5.0% from 2011 to 2015. The Philippine economy particularly benefits from several key pillars of growth, including sustained increases in remittances from OFWs, BPO sector activity and domestic consumption, which in 2010 accounted for 79% of GDP according to the National Statistical Coordination Board. Fed Land, for example, stands to benefit from strong growth in the BPO sector and OFW remittances by tailoring its commercial and residential real estate products to cater to these markets.

The Philippines is the 12th most populous country in the world with a total population of 93.3 million as of July 2010, according to the United Nations. According to the United Nations, as of 2010, approximately 55% of the Philippine population is below the age of 24 (the median age of the population being 22.2 years), and strong population growth is expected to continue in the future. The United Nation's medium estimate for the Philippines' population in 2030 is 126.3 million. According to the World Bank, the primary school completion rate in the Philippines in 2009 was 92% and the adult literacy rate in 2008 was 95%, both well above the worldwide 2009 averages of 88% and 84%, respectively. Overall, the Philippines have a large, growing, young and well-educated population, which provides the Philippine economy with very favorable fundamentals for further growth.

As one of the leading Philippine conglomerates with a highly diversified business portfolio, GT Capital is broadly exposed to the Philippine economy through its range of businesses spanning financial services, property development, power, automotive and insurance. GT Capital's businesses are well positioned within industries which it believes are resilient and high growth sectors that particularly stand to benefit from the projected strong and sustained growth in Philippine domestic consumption.

STRATEGIES

Further strengthen GT Capital's leadership position across its existing businesses

In each of its existing businesses, GT Capital intends to further strengthen its market position by targeted strategies and investments that leverage its existing expertise, market insights, partnerships, and brand value and customer recognition:

- At MBT, asset growth and demand deposit growth will be key strategies in the near term. Coming off of a five year "clean up" period whereby MBT was able to significantly increase its NPL coverage ratio, MBT is turning its focus to growing its loan portfolio in the middle market and consumer banking segments. In addition, MBT intends to expand its current account and savings account balances through more efficient supply chain coverage and cash management products.

- At Fed Land, sustained strong growth in residential development activity – based on Fed Land's high-quality land bank and industry-leading expertise and brand recognition – shall be complemented by a broader market footprint (across middle-income and high-end segments) and an increasing portfolio of commercial properties generating recurring income.

- At GBP, ongoing capacity optimization through additional long-term off-take agreements will be complemented by new growth projects across the Visayas and Luzon, involving both conventional fuels such as coal and oil, and renewable energy projects such as hydropower.

- At TMP, the recent capacity expansion at the TMP manufacturing plant together with continued introductions of new imported CBU models, further improvements to the dealer network and best-in-class customer service are intended to maintain and further expand TMP's clear market leadership.

- At AXA, the market-leading bancassurance distribution will be further enhanced while investing in additional distribution channels, continued product innovation and targeting of new customer groups such as high net worth individuals.

Seek profitable growth opportunities in other key domestic industries via proven partnership model

GT Capital's management is focused on identifying and addressing long-term profitable business opportunities in key sectors of the economy. These include sectors where GT Capital companies are already present, such as property development and power generation. For example, Fed Land intends to capitalize on the significant future growth expected in the BPO sector by providing innovative commercial real estate solutions in key locations to potential BPO customers. In addition, GBP is currently exploring both greenfield and brownfield power generation projects, including those in the renewable energy sector such as hydroelectric. Beyond its existing business interests, GT Capital is also actively considering and evaluating new business initiatives in sectors that complement GT Capital's existing portfolio and where GT Capital will be able to contribute relevant insights, expertise and resources. Where appropriate value-enhancing business initiatives exist, GT Capital will seek to expand on its successful partnership model with recognized global industry leaders.

Consolidate GT Capital's ownership of the GT Capital companies

GT Capital Holdings is the primary vehicle for the holding and management of the various business interests of the Ty family in the Philippines. Subject to applicable laws and regulations and the conformity of its joint venture partners, GT Capital intends to acquire, over time, additional interests in current GT Capital companies, or in other companies controlled by the Ty family. Such consolidation would be consistent with GT Capital's active management approach to its portfolio and may allow an even more integrated approach among the GT Capital companies.

Further optimize synergy creation among the GT Capital companies

GT Capital's management intends to continuously seek and realize synergies among the GT Capital companies in areas including strategy, fund deployment, human resources and sharing of common IT and service platforms in order to further enhance cost efficiencies, competitive strengths and market positions across the group. Furthermore, there exist significant revenue synergies as many products and services offered by GT Capital are attractive to a common consumer target group and stand to benefit from cross-selling. For example, MBT's large depositor base represents a significant opportunity for the cross-selling of other GT Capital companies' products through coordinated efforts. In addition, mortgage products can be offered to potential purchasers of Fed Land condominium units, and the same target demographic may also be interested in automotive products (including lease financing) or life insurance-linked investment products. GT Capital aims to maximize such synergies from both existing and future business initiatives.

COMPETITION

Many of GT Capital's activities are carried on in highly competitive industries. Given the diversity of GT Capital's businesses, GT Capital companies compete based on product, service and geographic area. While GT Capital is one of the largest conglomerates in the Philippines, the GT Capital companies compete against several companies in various sectors, some of which possess greater manufacturing, financial, research and development and market resources than the GT Capital companies.

The table below sets out GT Capital's principal competitors in each of the principal industry segments in which the GT Capital companies operate.

Industry Segment	Principal Competitors
Banking	Banco de Oro and Bank of the Philippine Islands
Real Estate Development	Ayala Land, Inc., Filinvest Land, Inc., Megaworld Corporation and Robinsons Land Corporation
Power	Kepco Salcon Power Corporation, Salcon Island Power Corporation, Green Core, and Unified Leyte Geothermal
Automotive	Hyundai, Honda, Mitsubishi, Isuzu, Nissan and Ford
Insurance	Philippine American Life, Sun Life of Canada, Insular Life, Pru Life of the U.K. and Manufacturers Life

EMPLOYEES

As of December 31, 2011, the GT Capital companies had a combined 16,987 full-time employees (excluding contract and temporary employees), broken down by operating company or division as follows:

Operating Company	Number of Employees
GT Capital Holdings	5
MBT	13,859
Fed Land	202
GBP	713
TMP	1,368
AXA	840
Total	**16,987**

GT Capital's management believes that labor relations are generally good between management and employees at each of the GT Capital companies. GT Capital currently has no plans of hiring additional employees, except where necessary to complement its legal and compliance, finance and accounting, investor relations, and corporate planning and business development. For a description of the labor agreements and other employee related matters for each of the GT Capital companies, see the sections titled "– Employees" or "– Employees and Labor Relations" in each component company's Business section.

INSURANCE

For a description of the insurance carried by each of the GT Capital companies, see the section titled "– Insurance" in each component company's Business section.

PROPERTIES

As of December 31, 2011, GT Capital Holdings leases its office space at GT Tower International located at 43/F GT Tower International, Ayala Avenue corner H.V. dela Costa St., Makati City, Manila 1227, Philippines. Currently, GT Capital Holdings has no plans to acquire properties. For a description of the properties of each of the GT Capital companies, see the section entitled "– Properties" in each of the component company's Business section.

LEGAL PROCEEDINGS

For a description of the legal proceedings for each of the GT Capital companies, see the section titled "– Legal Proceedings" in each component company's Business section.

SUMMARY – MBT

You should read the following summary together with the more detailed information about MBT and MBT's financial information included elsewhere in this Prospectus. MBT's summary also should be read together with the matters set forth under "Risk Factors – MBT". Additional information on MBT, including corporate structure and segment information, can be found in MBT's consolidated financial statements found in this Prospectus.

OVERVIEW

MBT is a universal bank based in the Philippines which provides, through itself and other members of the MBT Group, a full range of banking and other financial products and services including corporate, commercial and consumer banking products and services as well as credit card, investment banking and trust services. As of September 30, 2011, MBT Group was the second largest Philippine bank by asset size, net loans and receivables and total deposits, with total assets of ₱916.1 billion, net loans and receivables of ₱432.8 billion and total deposits of ₱656.4 billion. MBT was also the largest Philippine bank by book capitalization and controls 11.4% of the Philippine banking system's total asset base as of September 30, 2011, according to published statements of condition reported to the Philippine SEC.

The MBT Group offers corporate and commercial banking products and services throughout the Philippines. The MBT Group's corporate banking services consists of banking services provided to corporate customers (generally recognized by MBT as the top 1,000 Philippine companies, multinational companies and Government-owned and controlled companies). The MBT Group's commercial banking services consists of banking services provided to small and medium-sized businesses. As of December 31, 2009, 2010 and 2011, corporate and commercial loans represented 74.9%, 72.7% and 72.9% of the MBT Group's total loan portfolio, respectively.

The MBT Group, through MBT and PSBank (a 76.0% owned subsidiary of MBT), is also a leading provider of consumer banking products and services in the Philippines. Through its network of branches, the MBT Group offers a wide range of deposit, mortgage and vehicle finance products and services, targeted primarily at its existing customers. MBT offers a variety of products to high net worth individuals, which is a growing demographic group in the Philippines.

The MBT Group offers trust banking services, credit card services and investment banking services through subsidiaries of MBT, and is also engaged in other businesses, some of which are unrelated to the financial services sector. See "Business – MBT – Subsidiaries and Associates".

As of December 31, 2011, the MBT Group had a total of 785 branches in the Philippines, of which 585 were operated by MBT and 200 were operated by PSBank. MBT's international operations consist of branches in Taipei, New York, Guam, Tokyo, Seoul, Pusan and Osaka, together with representative offices in Beijing and Hong Kong. MBT also has an extensive network of remittance centers in Asia, Europe and North America which has enabled it to become a leading provider of remittance services to OFWs.

As of December 31, 2009, 2010 and 2011, the MBT Group's total assets amounted to ₱854.3 billion, ₱887.3 billion and ₱958.4 billion, respectively, while equity attributable to equity holders of MBT amounted to ₱75.2 billion, ₱87.6 billion and ₱109.8 billion, respectively. Consolidated net income attributable to equity holders of MBT for the years ended December 31, 2009, 2010 and 2011 amounted to ₱6.0 billion, ₱8.4 billion and ₱11.0 billion, respectively.

MBT has been listed on the PSE since February 1981 after its initial public offering. Its market capitalization as of December 31, 2011 was ₱143.5 billion. MBT was founded by Dr. George S.K. Ty. GT Capital is the single largest shareholder of MBT.

As of December 31, 2009, 2010 and 2011, the MBT Group's Tier 1 and total capital adequacy ratios were 10.0% and 14.3%, 12.0% and 16.4%, and 13.7% and 17.4%, respectively.

COMPETITIVE STRENGTHS

The MBT Group believes that its competitive strengths are the following:

- Strong financial position
- Leading market position across diverse product segments
- Diversified franchise with large scale of operations
- Strong management team
- Well recognized brand

STRATEGIES

The MBT Group's principal strategies are the following:

- Continue to improve product and service offerings and create new revenue streams across its product segments
- Rationalize costs and increase operational efficiencies
- Invest in human resources and enhanced organizational competencies
- Develop the overseas Filipino remittances segment
- Strengthen corporate governance
- Continue to improve the MBT Group's capital position
- Maintain superior asset quality through enhanced NPA management

RISK FACTORS – MBT

RISKS RELATING TO MBT AND THE MBT GROUP'S BUSINESS

The MBT Group may be unable to recover the assessed value of its collateral when its borrowers default on their obligations, which may expose the MBT Group to significant losses.

As of December 31, 2011, the MBT Group's secured loans represented 53.1% of the MBT Group's total loans, and 32.8% of the collateral on these secured loans consisted of real properties. There can be no assurance that the collateral securing any particular loan will protect the MBT Group from suffering a partial or complete loss if the loan becomes non-performing. The recorded values of the MBT Group's collateral may not accurately reflect its liquidation value, which is the maximum amount the MBT Group is likely to recover from a sale of collateral, less expenses of such sale. There can be no assurance that the realized value of the collateral would be adequate to cover the MBT Group's loans. In addition, some of the valuations in respect of MBT's collateral may also be out of date or may not accurately reflect the value of the collateral. In certain instances, where there are no purchasers for a particular type of collateral, there may be significant difficulties in disposing of such collateral at a reasonable price. Any decline in the value of the collateral securing the MBT Group's loans, including with respect to any future collateral taken by the MBT Group, would mean that its provisions for credit losses may be inadequate and the MBT Group may need to increase such provisions. Any increase in the MBT Group's provisions for credit losses could materially and adversely affect MBT's business, financial condition and results of operations.

Furthermore, the MBT Group may not be able to recover in full the value of any collateral or enforce any guarantee due, in part, to difficulties and delays involved in enforcing such obligations through the Philippine legal system. To foreclose on collateral or enforce a guarantee, banks in the Philippines are required to follow certain procedures specified by Philippine law. These procedures are subject to administrative and bankruptcy law requirements which may be more burdensome than in certain other jurisdictions. The resulting delays can last several years and lead to a deterioration in the physical condition and market value of the collateral, particularly where the collateral is in the form of inventory or receivables. In addition, such collateral may not be insured. These factors have exposed, and may continue to expose, the MBT Group to legal liability while in possession of the collateral. These difficulties may significantly reduce the MBT Group's ability to realize the value of its collateral and therefore the effectiveness of taking security for the loans it makes.

MBT has some concentration of loans to certain customers and to certain sectors and if a substantial portion of these loans were to become non-performing, the quality of its loan portfolio could be adversely affected.

As of December 31, 2011, MBT's total exposure to borrowers (or outstanding receivables from customers) was ₱348.4 billion. The ten largest individual borrowers in aggregate accounted for 19.9% of MBT's total exposure and its ten largest borrower groups in aggregate accounted for 26.5% of its total exposure. The BSP generally prohibits any bank from maintaining a financial exposure to any single person or group of connected persons in excess of 25.0% of its net worth. As of December 31, 2011, MBT's single borrower's limit was ₱20.7 billion. In determining whether MBT meets the single borrower's limit of the BSP, MBT includes exposures to related accounts (including accounts of subsidiaries and parent companies of the borrower). MBT's largest borrower as of December 31, 2011 accounted for 2.9% of MBT's total exposure and 12.0% of MBT's total equity. The largest borrower group as of December 31, 2011 accounted for 4.6% of MBT's total exposure and for 19.2% of MBT's total equity. Credit losses on these large single borrower and group exposures could adversely affect the business, financial position and results of operation of the MBT Group.

The MBT Group has extended loans to several sectors in the Philippines. The table below sets out the MBT Group's five largest industry exposures in amount and percentage of its total loan portfolio as of December 31, 2011.

Rank	Industry	Amount (₱ millions)	Percent (%)
1	Manufacturing (various industries)	83,035	18.3
2	Real estate, renting and business activities	76,569	16.9
3	Wholesale and retail trade	73,861	16.2
4	Private households	63,828	14.0
5	Financial intermediaries	38,589	8.5
Total		335,882	73.9

The MBT Group's exposure to these five sectors, totaling ₱335.9 billion, constituted 73.9% of the MBT Group's total loan portfolio. Although the MBT Group's portfolio contains loans to a wide variety of businesses, financial difficulties in these industries could increase the level of non-performing loans ("NPLs") and restructured assets, and could materially and adversely affect the MBT Group's business, financial condition and results of operations.

The MBT Group has a significant exposure to the Philippine real estate market; therefore, a downturn in the Philippine real estate market could increase the MBT Group's NPLs and otherwise adversely affect the MBT Group's business, financial position and results of operations.

The MBT Group has significant exposure to the Philippine real estate market due to its portfolio of loans to real estate companies, as well as the level of real estate it holds as collateral. As of December 31, 2011, loans secured by real estate collateral accounted for 32.8% of the MBT Group's total secured loans to customers, and loans to customers involved in real estate, renting and other real estate related activities accounted for 16.9% of the MBT Group's total loans to customers. The Philippine real estate market is highly cyclical, and real estate prices in general have been volatile. Real estate prices are affected by a number of factors, including, among other things, the supply of and demand for comparable properties, the rate of economic growth in the Philippines, remittances from OFWs and political and economic developments. Accordingly, an extended downturn in the Philippine real estate sector could increase the level of the MBT Group's NPLs and related provisions for impairment loan losses, reduce the MBT Group's net income and consequently materially and adversely affect the MBT Group's business, financial condition and results of operations.

The MBT Group's unsecured lending portfolio entails higher credit risk and may have a negative impact on its business, results of operations and financial condition.

As of December 31, 2011, 46.9% of the MBT Group's lending portfolio was unsecured. Unsecured loans entail a higher degree of credit risk than loans secured by collateral. For example, a downturn in the Philippine or global economies may result in a higher level of NPLs with unsecured obligations which would, in turn, negatively impact the MBT Group's asset quality and increase write-offs without the possibility of mitigation through the acquisition of collateral assets. Any increase in the level of NPLs with unsecured obligations could materially and adversely affect the MBT Group's business, financial condition and results of operations.

The MBT Group may not be successful in implementing new business strategies or penetrating new markets.

The MBT Group's ability to grow its revenue will partly depend on its ability to penetrate new markets and expand the range of its products and services, which may expose the MBT Group to a number of risks and challenges, including, among others, the following:

- new and expanded business activities may have less growth or profit potential than the MBT Group anticipates, and there can be no assurance that new business activities will become profitable at the level the MBT Group desires or at all;

- the MBT Group's competitors may have substantially greater experience and resources for the new and expanded business activities; and

- economic conditions, such as rising interest rates or inflation, could hinder the MBT Group's expansion, particularly in the consumer loan industry.

In addition, new business endeavors may require knowledge and expertise which differ from those used in the current business operations of the MBT Group, including different management skills, risk management procedures, guidelines and systems, credit risk evaluation, monitoring and recovery procedures. The MBT Group may not be successful in developing such knowledge and expertise. Furthermore, managing such growth and expansion requires significant managerial and operational resources, which the MBT Group may not be able to procure on a timely basis or at all. The MBT Group's inability to implement its business strategy could materially and adversely affect the MBT Group's business, financial condition and results of operations.

Increased exposure to consumer debt could result in increased delinquencies in the MBT Group's loan and credit card portfolios.

The MBT Group plans to continue to expand its consumer loan operations, including credit card services. Such expansion plans will increase the MBT Group's exposure to consumer debt and vulnerability with respect to changes in general economic conditions affecting Philippine consumers. Accordingly, economic difficulties in the Philippines that have a significant adverse effect on Philippine consumers could result in reduced growth and a deterioration in the credit quality of the MBT Group's consumer loan and credit card portfolios. A rise in unemployment or an increase in interest rates could have an adverse impact on the ability of borrowers to make payments and increase the likelihood of potential defaults and reduce demand for consumer loans, which could materially and adversely affect the MBT Group's business, financial condition and results of operations.

The MBT Group may face increasing levels of NPLs and provisions for impairment losses, which may adversely affect the MBT Group's business, financial position, results of operations and capital adequacy.

The MBT Group's results of operations have been affected by its NPL levels. The MBT Group's total NPLs were equal to ₱12.5 billion, ₱11.0 billion and ₱10.1 billion as of December 31, 2009, 2010 and 2011, respectively. In 2009, 2010 and 2011, the MBT Group's provisions for credit losses on receivables from customers were ₱2.8 billion, ₱3.0 billion and ₱2.8 billion, respectively, representing 0.8%, 0.8% and 0.6% of the MBT Group's total loan portfolio for these periods, respectively. Volatile economic conditions in the Philippines may adversely affect the future ability of the MBT Group's borrowers to meet their obligations under their indebtedness and, as a result, the MBT Group may again experience significant levels of non-performing and provisions for impairment losses in the future.

Volatile economic conditions in the Philippines, including volatile exchange and interest rates, may adversely affect many of the MBT Group's customers, causing uncertainty regarding their ability to fulfill obligations under the MBT Group's loans and significantly increasing the MBT Group's exposure to credit risk. These and other factors could result in an increased number of NPLs in the future. Any significant increase in the MBT Group's NPLs could materially and adversely affect the MBT Group's business, financial condition and results of operations.

The MBT Group's restructured loans may become non-performing due to the way these loans have been structured or otherwise as a result of the inherent weaknesses of the borrower.

In the restructuring of a number of its loans, the MBT Group has agreed with borrowers to set interest payments at a relatively low level for a certain period of time, followed by much larger payments of interest in later periods. The lower level of initial payments increases the likelihood that a restructured loan will be reclassified as a performing loan as, generally, a restructured loan is reclassified as a performing loan once three consecutive payments of the required amortization of principal and/or interest are made. However, future payments that are significantly higher than the initial payments may cause the loan to be reclassified as non-performing if the borrower is unable to meet its higher payment obligations. In addition, in the experience of the MBT Group, loans that have been restructured and are reclassified as performing loans are, in general, more likely to become NPLs in the future, compared to other loans. As of December 31, 2011, ₱1.4 billion of restructured loans were reclassified as NPLs. As of December 31, 2011, the MBT Group had ₱7.5 billion of restructured loans in its loan portfolio, ₱4.0 billion of which was included under the MBT Group's performing loans. If a significant number of the MBT Group's customers are unable to meet their payment obligations under restructured loans, the MBT Group's NPL portfolio will increase, thereby requiring additional allowances, and could materially and adversely affect the MBT Group's business, financial condition and results of operations.

The MBT Group's substantial portfolio of real and other properties acquired ("ROPA") exposes the MBT Group to risks related to realizing the value of its ROPA and risks related to the valuation of, and provisions with respect to, its ROPA.

The MBT Group has a substantial portfolio of ROPA and as of December 31, 2011, the MBT Group's ROPA amounted to ₱15.5 billion. While the amount of ROPA appearing on the MBT Group's statement of financial position is shown net of allowance for impairment losses and depreciation in value, there can be no assurance that the MBT Group will be able to recover the full estimated value of ROPA stated in its financial statements. The MBT Group's ROPA is subject to the risks associated with the cyclical Philippine real estate market. Furthermore, given the MBT Group's significant amount of ROPA, it may take several years before the MBT Group is able to realize a significant part of the value of its ROPA. Delays in realizing the value of its ROPA may result in further provisions as the ROPA loses value over time. Under Philippine Accounting Standards ("PAS") 40 Investment Property, the MBT Group carries the value of the foreclosed properties at the fair value at the time of foreclosure and, in the case of depreciable property, depreciated over such property's useful life. While the MBT Group, at each statement of financial position date, provides for impairment losses on its foreclosed properties in accordance with PFRS, it may incur further expenses to maintain such properties. In realizing cash value for such properties, the MBT Group may incur further expenses such as legal fees and taxes associated with such realization. There can be no assurance that the MBT Group will be able to realize the full value, or even partial value, of its ROPA.

MBT's investments in equity of unconsolidated subsidiaries may adversely affect MBT's qualifying capital and MBT's ability to meet BSP's capital adequacy ratio requirements.

MBT's investments in subsidiaries amounted to ₱25.4 billion as of December 31, 2011. As prescribed under BSP Circular No. 538, investments in the equity of unconsolidated subsidiary banks, insurance companies, other financial and non-financial allied undertakings and reciprocal investments in the equity and debt capital instruments of other banks and enterprises, among others, are deductions from the gross qualifying capital in computing for the risk-based CAR.

As required by the BSP, CAR, expressed as a percentage of qualifying capital to risk weighted assets, shall not be less than 10% on both a non-consolidated and consolidated basis. Whenever the capital accounts of a bank are deficient with respect to the prescribed risk-based CAR of 10%, the Monetary Board, may (1) limit or prohibit the distribution of dividends and shall require that part or all of the net profits be used to increase the capital accounts of MBT until the minimum requirement has been met, and (2) restrict or prohibit the making of new investments except purchases of readily marketable evidence of indebtedness issued by the Philippine National Government and BSP. These limits or restrictions could materially and adversely affect the MBT Group's business, financial condition and results of operations.

The MBT Group is involved in many businesses subject to a variety of regulatory regimes and guidelines, and any changes in the relevant regulatory regimes or guidelines may adversely affect the MBT Group's businesses, financial condition and results of operations.

The MBT Group has business interests in a number of highly regulated sectors, including banking, leasing, credit cards, real estate investments, insurance and manufacturing. Each of these businesses is subject to separate regulatory regimes and guidelines that are periodically subject to change. Failure to comply with relevant laws and regulations may result in financial penalties or administrative or legal proceedings against the MBT Group, including the revocation of the MBT Group's licenses, permits or certificates. Regulators of the MBT Group's businesses may alter current regulations or introduce new regulations to control any particular line of business. There can be no assurance that the guidelines issued by the regulatory authorities will not materially and adversely affect the MBT Group's business, financial condition or results of operations. For a discussion of the banking regulations governing the MBT Group, see "– The MBT Group may have to comply with strict regulations and guidelines issued by banking regulatory authorities in the Philippines, including the BSP and the BIR" and "Banking regulation and supervision".

The MBT Group, including FMIC, may incur significant losses from its trading and investment activities due to market fluctuations and volatility.

MBT's asset portfolio is comprised primarily of loans to customers and securities held for investment, primarily Philippine Government securities denominated in Pesos. While that proportion of loans and securities held for investment in the MBT Group's asset portfolio has remained relatively stable over the last three years, the MBT

Group generally earns higher earnings on loans than it does from trading and investment securities because earnings from loans are taxed under regular corporate income tax, against which the MBT Group is able to apply its substantial amounts of net operating loss carryover for previously incurred losses, which amounts can be deducted from taxable income. In addition, FMIC engages in proprietary trading primarily in corporate and Government debt as well as equity securities. The MBT Group generated 12.7% and 12.1% of its total income (net of interest expense) from trading and investment securities in 2010 and 2011, respectively, compared to 56.6% and 57.6% of its total income (net of interest expense) from interest income on loans and receivables, respectively. During periods of high volatility in interest rates and prices of securities, the MBT Group is able to earn relatively higher earnings from its trading and investment securities, although this may be counter balanced by the MBT Group's increased risk aversion in the difficult operating environment and the consequent reduction in fixed income and foreign exchange trading business.

The MBT Group's income from these activities is subject to substantial volatility based on, among other things, changes in interest rates, foreign currency exchange rates and debt prices, as well as stock market fluctuations. For example, an increase in interest rates may have a substantial impact on the value of the MBT Group's investments in fixed income securities. Escalating inflationary pressures have prompted the MBT Group, in line with other financial institutions in the Philippines, to shorten the duration of its Peso securities inventory to avert potential losses that may arise once interest rates rise. This has resulted in lower Peso asset yields on replacement securities. In addition, downgrades of the credit ratings of some of these fixed income securities may negatively affect the MBT Group's results of operations. Although the MBT Group does have hedging and trading limits in place to mitigate these risks, there can be no assurance that the MBT Group will not incur substantial investment and trading losses in the future in connection with its investment and trading activities.

Increased enforcement by the Government related to priority lending for the agrarian reform and agricultural sectors could adversely affect the MBT Group's business, financial position and results of operations.

The Government has imposed an agrarian reform and agriculture lending policy requiring Philippine banks to extend certain loan amounts to agrarian beneficiaries and the agricultural sectors of the country. Failure to meet the specified level of loans may result in fines being assessed against a non-compliant bank. As of December 31, 2011, the requirement applicable to the MBT Group was ₱18.6 billion. Because the MBT Group is unable to generate sufficient exposure to the agrarian reform based sector due to its prudent credit and risk management policies, the MBT Group has paid fines in the past and may continue to do so in the future. There can be no assurance that the Government will not increase its penalties for non-compliance or force banks to lend in accordance with the policy in the future. If the Government substantially increases the penalty for non-compliance or the MBT Group is forced to extend loans to the agrarian reform and agricultural sectors that are inconsistent with the MBT Group's credit and risk management policies, it could materially and adversely affect the MBT Group's business, financial condition and results of operations.

The MBT Group's treasury and risk management functions and systems are conducted separately from such functions for its subsidiaries, thereby exposing MBT and the MBT Group to significant risks.

Treasury functions, including trading and investment functions, and risk management functions, are conducted separately at each of MBT, PSBank and FMIC. BSP regulations mandate that certain risk management functions and systems be managed and installed on an entity-by-entity basis. Accordingly, the MBT Group may not possess information that enables it to assess properly the credit, market, foreign exchange and other operational risks applying to its subsidiaries or to the MBT Group as a whole. This decentralized approach to risk management may result in the MBT Group being exposed to significant risks that it is unable to recognize or properly assess and could materially and adversely affect the MBT Group's business, financial condition and results of operations.

The MBT Group's failure to manage risks associated with its information and technology systems could adversely affect its business.

The MBT Group is subject to risks relating to its information and technology systems and processes. The hardware and software used by the MBT Group in its information technology is vulnerable to damage or interruption by human error, misconduct, malfunction, natural disasters, power loss, sabotage, computer viruses or the interruption or loss of support services from third parties such as internet service providers and telephone companies. Any disruption, outage, delay or other difficulties experienced by any of these information and technology systems could result in delays, disruptions, losses or errors that may result in loss of income and decreased consumer confidence in the MBT Group. These may, in turn, adversely affect the MBT Group's business, financial position and results of operations.

The MBT Group also seeks to protect its computer systems and network infrastructure from physical break-ins as well as security breaches and other disruptive problems caused by the MBT Group's increased use of the internet. Computer break-ins and security breaches could affect the security of information stored in and transmitted through these computer systems and network infrastructure. The MBT Group employs security systems, including firewalls and password encryption, designed to minimize the risk of security breaches and maintains operational procedures to prevent break-ins, damage and failures. The potential for fraud and securities problems is likely to persist and there can be no assurance that these security measures will be adequate or successful. The costs of maintaining such security measures may also increase substantially. Failure in security measures could materially and adversely affect the MBT Group's business, financial condition and results of operations.

The MBT Group is subject to credit, market and liquidity risk which may have an adverse effect on its credit ratings and its cost of funds.

As of December 31, 2011, MBT had a credit rating of Ba2 for long term foreign deposit, Ba2 for local subordinated debt, and a financial strength of D by Moody's, and Capital Intelligence rated MBT's long term foreign currency BB and financial strength BB+. To the extent any of the instruments or strategies the MBT Group uses to manage its exposure to market or credit risk are not effective, the MBT Group may not be able to effectively mitigate its risk exposures, in particular to market environments or against particular types of risk. The MBT Group's balance sheet growth will be dependent upon economic conditions, as well as upon its determination to securitize, sell, purchase or syndicate particular loans or loan portfolios. The MBT Group's trading revenues and interest rate risk exposure are dependent upon its ability to properly identify and mark to market the changes in the value of financial instruments caused by changes in market prices or rates. The MBT Group's earnings are dependent upon the effectiveness of its management of migrations in credit quality and risk concentrations, the accuracy of its valuation models and its critical accounting estimates and the adequacy of its allowances for credit losses. To the extent its assessments, assumptions or estimates prove inaccurate or not predictive of actual results, the MBT Group could suffer higher than anticipated losses. The successful management of credit, market and operational risk is an important consideration in managing its liquidity risk because it affects the evaluation of its credit ratings by rating agencies. A failure by the MBT Group to effectively manage its credit, market and liquidity risk could materially and adversely affect the MBT Group's business, financial condition and results of operations.

A downgrade of MBT's credit rating could have a negative effect on its business, financial position and results of operations.

In the event of a downgrade of MBT by one or more credit rating agencies, MBT may have to accept terms that are not as favorable in its transactions with counterparties, including capital raising activities, or may be unable to enter into certain transactions. This could have a negative impact on the MBT Group's treasury operations and also adversely affect its financial position and results of operations. Rating agencies may reduce or indicate their intention to reduce the ratings at any time. The rating agencies may also decide to withdraw their ratings altogether, which may have the same effect as a reduction in its ratings. Any reduction in the MBT Group's ratings (or withdrawal of ratings) may increase its borrowing costs, limit its access to capital markets and adversely affect its ability to sell or market its products, engage in business transactions, particularly longer-term and derivatives transactions, or retain its customers. This, in turn, could reduce the MBT Group's liquidity and materially and adversely affect the MBT Group's business, financial condition or results of operations.

This Prospectus contains incomplete financial information for the MBT Group; therefore, investors may be unable to accurately evaluate the MBT Group's financial performance or properly assess their investment in the Offer Shares of GT Capital.

Certain financial information contained in this Prospectus has been presented on a non-consolidated basis only. Given that certain financial information for the MBT Group is not presented in this Prospectus, investors may not have a meaningful basis to evaluate GT Capital's financial performance or properly assess their investment in the Offer Shares of GT Capital. Investors should therefore be cautioned when relying on the incomplete financial information presented herein when making an investment decision regarding the Offer Shares.

The MBT Group relies on certain key personnel and the loss of any such key personnel or the inability to attract and retain other highly capable individuals may negatively affect its business.

The MBT Group's success depends upon, among other factors, the retention of its key management, senior executives and upon its ability to attract and retain other highly capable individuals. The loss of some of the MBT

Group's key management, senior executives or an inability to attract or retain other key individuals could materially and adversely affect the MBT Group's business, financial condition and results of operations.

The MBT Group's business, reputation and prospects may be adversely affected if the MBT Group is not able to detect and prevent fraud or other misconduct committed by the MBT Group's employees or outsiders on a timely basis.

The MBT Group is exposed to the risk that fraud and other misconduct committed by employees or outsiders could occur. Such incidences may adversely affect banks and financial institutions more significantly than companies in other industries due to the large amounts of cash that flow through their systems. Any occurrence of such fraudulent events may damage the reputation of the MBT Group and may adversely affect its business, financial position, results of operations and prospects. In addition, failure on the part of the MBT Group to prevent such fraudulent actions may result in administrative or other regulatory sanctions by the BSP or other Government agencies, which may be in the form of suspension or other limitations placed on the MBT Group's banking and other business activities. Although the MBT Group has in place certain internal procedures to prevent and detect fraudulent activities, these may be insufficient to prevent such occurrences from transpiring. There can be no assurance that the MBT Group will be able to avoid incidents of fraud that could materially and adversely affect the MBT Group's business, financial condition or results of operations The MBT Group is involved in litigation, which could materially and adversely affect the MBT Group's business, financial condition and results of operations.

The MBT Group is involved in litigation, which could result in financial losses or harm its business.

The MBT Group is, and may in the future be, implicated in lawsuits on an ongoing basis. Litigation could result in substantial costs to, and a diversion of effort by, the MBT Group and/or subject the MBT Group to significant liabilities to third parties. There can be no assurance that the results of such legal proceedings will not materially harm the MBT Group's business, reputation or standing in the marketplace or that the MBT Group will be able to recover any losses incurred from third parties, regardless of whether the MBT Group is at fault. However, there can be no assurance that: (i) losses relating to litigation will not be incurred beyond the limits, or outside the coverage, of bank insurance, or that any such losses would not have a material adverse effect on the results of the MBT Group's business, financial position or results of operations, or (ii) provisions made for litigation related losses will be sufficient to cover the MBT Group's ultimate loss or expenditure.

If the MBT Group is not able to integrate any future acquisitions, the MBT Group's business could be disrupted.

The MBT Group may seek opportunities for growth through acquisitions or be required to undertake mergers mandated by the BSP. Any future acquisitions or mergers may involve a number of risks, including deterioration of asset quality, diversion of its management's attention required to integrate the acquired business, failure to retain key acquired personnel and clients, leverage synergies, rationalize operations, or develop the skills required for new businesses and markets, or unknown and known liabilities, some or all of which could materially and adversely affect the MBT Group's business, financial condition and results of operations.

The MBT Group is subject to regulatory risks associated with expanding its operations into new geographic markets.

While the Philippine market is the MBT Group's primary market, the group has expanded its operations to other parts of the world, including China, Japan, Korea, the United Kingdom and the United States. The banking industries in these markets are also highly regulated and there may be restrictions on foreign banks or foreign investments. There may also be the additional burdens of complying with a wide variety of foreign laws and regulations, especially with regard to the money laundering statutes and the tightening of capital requirements, which could exert pressure on the MBT Group. In addition, the MBT Group may experience difficulties dealing with unfamiliar regulatory environments and legal systems, which may put them at a competitive disadvantage compared to their local competitors. The failure of the MBT Group to effectively manage these challenges could materially and adversely affect the MBT Group's business, financial condition and results of operations.

RISKS RELATING TO THE PHILIPPINE BANKING INDUSTRY

The MBT Group's principal businesses are in the highly competitive Philippine banking industry and increases in competition may result in declining margins in the MBT Group's principal businesses.

The MBT Group is subject to significant levels of competition from many other Philippine banks and branches of international banks, including, in some instances, competitors that have greater financial and other capital resources, greater market share and greater brand name recognition than the MBT Group. The banking industry in the Philippines is a mature market that has, in recent years, been subject to consolidation and liberalization, including liberalization of foreign ownership regulations. There were a total of 38 domestic and foreign commercial banks operating in the Philippines as of December 31, 2011.

In the future, the MBT Group may face increased competition from financial institutions offering a wider range of commercial banking services and products than the MBT Group and having larger lending limits, greater financial resources and stronger balance sheets than the MBT Group. Increased competition may arise from:

- other large Philippine banking and financial institutions with significant presence in Metro Manila and large country-wide branch networks;

- foreign banks, due to, among other things, relaxed standards permitting large foreign banks to expand their branch network through acquiring domestic banks;

- domestic banks entering into strategic alliances with foreign banks with significant financial and management resources; and

- continued consolidation in the banking sector involving domestic and foreign banks, driven in part by the gradual removal of foreign ownership restrictions.

PSBank, MBT's savings bank subsidiary, faces similar competitive challenges.

There can be no assurance that the MBT Group will be able to compete effectively in the face of such increased competition. Increased competition may make it difficult for the MBT Group to increase the size of its loan portfolio and deposit bases and may cause increased pricing competition, which could have an effect on its growth plans, margins, ability to pass on increased costs of funding, results of operations and financial position, which could materially and adversely affect the MBT Group's business, financial condition and results of operations.

If the current gradual recovery of the Philippine banking sector fails, it could materially and adversely affect the MBT Group.

The Philippine banking sector is in the process of gradually recovering from the global economic crisis as evidenced by the steady decrease in average NPL ratios (including interbank loans) in the Philippine banking system from 3.0% in 2009 to 2.2% as of December 31, 2011. The MBT Group has realized some benefits from this recovery, including increased liquidity levels in the Philippine market, lower levels of interest rates as well as lower levels of NPLs. However, the Philippine banking industry continues to face significant financial and operating challenges. These challenges include, among other things, a high level of NPLs, variations of asset and credit quality, low loan growth and potential or actual under-capitalization of the banking system. Fresh disruptions in the Philippine financial sector, or general economic conditions in the Philippines, may cause the Philippine banking sector in general, and the MBT Group in particular, to experience similar problems to those faced in the past, including substantial increases in NPLs, problems meeting capital adequacy requirements, liquidity problems and other challenges.

The MBT Group may have to comply with strict regulations and guidelines issued by banking regulatory authorities in the Philippines, including the BSP and the BIR.

The MBT Group's banking interests are regulated and supervised principally by, and has reporting obligations to, the BSP. The MBT Group is also subject to the banking, corporate, taxation and other laws in effect in the Philippines. In recent years, existing rules and regulations have been modified, new rules and regulations have been enacted and reforms have been implemented which are intended to provide tighter control and added transparency in the Philippine banking sector. These rules include new guidelines on the monitoring and reporting of suspected money laundering activities as well as regulations governing the capital adequacy of banks in the Philippines.

The BSP Monetary Board, through its Circular 538, approved major revisions to the country's risk-based capital adequacy framework implemented on July 1, 2007 to align the current framework with the new Basel II standards as issued by the Basel Committee on Banking Supervision, which is an international committee of banking supervisory authorities. Basel II standards make regulatory capital requirements more risk sensitive and reflective of all, or at least most, of the risks banks are exposed to. In terms of minimum capital requirements, Basel II standards include the addition of specific capital requirements for credit derivatives, securitization exposures, counterparty risk in the trading book, and operational risk. Another major change is the imposition of a capital requirement on foreign currency-denominated credit exposures to the Government. Implementation of Basel III began in January 2011, with the BSP releasing Circular 709 amending the risk-based capital adequacy framework for banks and quasi-banks on the definition of qualifying capital instruments. In January 2012, the Monetary Board approved the implementation plans for Basel III standards on minimum capital requirements, highlights of which include:

- adopting a new categorization of the capital base;
- adopting eligibility criteria for each capital category that is not yet included in Circular 709;
- removing existing limits on eligible Hybrid Tier 1, Lower Tier 1, and total Tier 2 capital;
- as applicable, allowing BSP to adopt regulatory deductions in Basel III;
- keeping minimum CAR at 10%, and prescribing:
  - a minimum Common Equity Tier 1 (CET 1) ratio of 6%;
  - a minimum Tier 1 ratio of 7.5%;
  - a capital conservation buffer of 2.5%;
- allowing regulatory capital instruments to be rendered ineligible under the minimum conditions of Basel III to qualify as regulatory capital only until the end of 2013; and
- subjecting covered banks and quasi-banks to enhanced disclosure requirements relative to regulator capital.

In order to meet future capital adequacy requirements called for under Basel III, MBT may have to raise additional capital through sales of equity shares, which would dilute existing shareholders and could have a negative impact on MBT's share price.

On January 15, 2009, the BSP issued Circular No. 639 covering the Internal Capital Adequacy Assessment Process ("ICAAP") which supplements the BSP's risk-based capital adequacy framework under BSP Circular No. 538. The BSP requires banks to have in place an ICAAP that (i) takes into account not just the credit, market and operational risks but also all other material risks to which a bank is exposed (such as interest rate risk in the banking book, liquidity risk, compliance risk, strategic/business risk and reputation risk); (ii) covers more precise assessments and quantification of certain risks (i.e. credit concentration risk); and (iii) evaluates the quality of capital. Further, in 2009, the Basel Committee on Banking Supervision agreed on the broad framework of Basel III proposals. These may result in an increase in the capital adequacy requirement applicable to the MBT Group. Unless the MBT Group is able to access the necessary amount of additional capital, any incremental increase in the capital requirement due to the implementation of ICAAP and Basel III, may impact the MBT Group's ability to grow its business and may even require the MBT Group to withdraw from or to curtail some of its current business operations, which could materially and adversely affect the MBT Group's business, financial condition and results of operations. There can also be no assurance that the MBT Group will be able to raise adequate additional capital in the future at all or on terms favorable to it. In addition, the implementation of Basel III may require the MBT Group to divest itself of certain non-allied undertakings. If the MBT Group is forced to sell all or a portion of certain subsidiaries or associates, its business, financial condition or results of operations could be adversely effected.

As of December 31, 2010 and June 30, 2011 according to the BSP, the universal and commercial banking industry's CAR on a consolidated basis was 17.25% and 17.32%, respectively. As of December 31, 2010 and 2011, the MBT Group's CAR on a consolidated basis was computed at 16.4% and 17.4%, respectively.

The local banking industry faces higher credit risks and greater market volatility than that of other developed markets.

Philippine banks are subject to the credit risk that borrowers may not make timely payments of principal and interest on loans and, in particular, that upon such failure to pay, Philippine banks may not be able to enforce the security interest they may have. The credit risk of Philippine borrowers is, in many instances, higher than those of borrowers in more developed countries due to the greater uncertainty associated with the Philippine regulatory, political, legal and economic environment, the large foreign debt of the Government and corporate sectors relative to the gross domestic product of the Philippines, and the greater volatility of interest rates and Peso/U.S. Dollar exchange rates.

Higher credit risk has a material adverse effect on the quality of loan portfolios and exposes Philippine banks, including MBT and PSBank, to more potential losses and higher risks than banks in more developed countries. In addition, higher credit risk generally increases the cost of capital for Philippine banks compared to their international counterparts. Such losses and higher capital costs arising from this higher credit risk could materially and adversely affect the MBT Group's business, financial condition and results of operations. According to data published by the BSP, average NPL ratios (including interbank loans) in the Philippine banking system were 2.97%, 2.86% and 2.23% as of December 31, 2009, 2010 and 2011, respectively.

The MBT Group's ability to assess, monitor and manage risks inherent in its business is limited by the quality and timeliness of available data.

The MBT Group is exposed to a variety of risks, including credit risk, market risk, foreign exchange risk and operational risk. The effectiveness of the MBT Group's risk management, in particular its credit risk management, is limited by the quality and timeliness of available data in the Philippines in relation to factors such as the credit history of proposed borrowers and the loan exposure borrowers have with other financial institutions. Limitations in the MBT Group's risk management systems may result in the MBT Group making loans or taking positions that expose the MBT Group to significant credit risks or otherwise result in the MBT Group being over exposed to interest rate, liquidity, foreign exchange rate and other risks.

In addition to the MBT Group's own risk management, the BSP has increasingly focused its attention on the process review of financial institutions in the Philippines, including those of the MBT Group. In January 2006, the BSP approved the guidelines on supervision by risk which outline the BSP's expectations on how financial institutions should identify, measure, monitor and control risk. Under the guidelines, the management body of the financial institution is responsible for the implementation, integrity and maintenance of risk management systems.

SELECTED FINANCIAL INFORMATION – MBT

The following tables present the MBT Group's selected consolidated financial information and should be read in conjunction with the auditors' reports and with the MBT Group's consolidated financial statements and notes thereto contained in this Prospectus and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations – MBT". The selected consolidated financial information presented below were derived from the consolidated financial statements of the MBT Group as of and for the years ended December 31, 2009 and 2010 prepared in accordance with PFRS and December 31, 2011 prepared in accordance with accounting principles generally accepted in the Philippines for banks and audited by SGV & Co. in accordance with PSA. The information below is not necessarily indicative of the results of future operations. For additional information regarding financial information presented in this Prospectus, see "Presentation of Financial Information".

SELECTED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the years ended December 31,			
	2009	2010	2011	2011
	(₱ millions, except for earnings per share)			(U.S.$ million, except for earnings per share)
Interest income on				
Loans and receivables	28,582	27,216	29,022	661
Trading and investment securities	10,500	9,553	9,883	225
Interbank loans receivable and securities purchased under resale agreements	1,005	938	458	10
Deposits with banks and others	3,628	3,757	5,674	129
	43,715	41,464	45,037	1,025
Interest and finance charges				
Deposit liabilities	11,293	9,713	10,234	233
Bills payable and securities sold under repurchase agreements, subordinated debt and others	5,743	5,361	5,396	123
	17,036	15,074	15,630	356
Net interest income	26,679	26,390	29,407	670
Service charges, fees and commissions	6,499	6,853	7,711	176
Trading and securities gain –net	3,623	6,122	6,118	139
Foreign exchange gain –net	2,210	2,855	1,623	37
Leasing	1,008	824	1,017	23
Profit from assets sold	925	1,172	897	20
Income from trust operations	516	480	695	16
Dividends	141	118	96	2
Miscellaneous	1,159	1,668	1,416	32
Total operating income	42,760	46,482	48,980	1,115
Compensation and fringe benefits	10,370	11,452	13,310	303
Provision for credit and impairment losses	8,793	7,285	3,823	87
Taxes and licenses	4,005	4,391	4,601	105
Depreciation and amortization	1,852	2,061	2,104	48
Occupancy and equipment-related cost	1,497	1,758	1,959	45
Amortization of software costs	160	199	230	5
Miscellaneous	7,958	7,957	8,476	193
Total operating expenses	34,635	35,103	34,503	786
Income before share in net income of associates and a joint venture	8,125	11,379	14,477	329
Share in net income of associates and a joint venture	919	1,618	1,437	33
Income before income tax	9,044	12,997	15,914	362
Provision for income tax	2,249	3,731	3,524	80
Net income	6,795	9,266	12,390	282
Attributable to:				
Equity holders of the Bank	6,029	8,366	11,031	251
Non-controlling Interest	766	900	1,359	31
	6,795	9,266	12,390	282
Basic/Diluted Earnings Per Share Attributable to Equity Holders of MBT	3.01*	4.11*	5.02	0.11

** Restated to show the effect of stock rights granted in 2010.*

See accompanying notes to the MBT Group's consolidated financial statements.

SELECTED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As of December 31,			
	2009	2010	2011	2011
	(₱ millions)			(U.S.$ million)
Assets				
Cash and Other Cash Items	19,727	20,201	20,954	477
Due from Bangko Sentral ng Pilipinas	71,981	168,402	156,537	3,563
Due from Other Banks	36,702	38,308	32,095	731
Interbank Loans Receivable and Securities Purchased Under Resale Agreements	79,554	26,507	24,367	555
Financial Assets at Fair Value Through Profit or Loss	17,046	12,580	6,188	141
Available-for-Sale Investments	156,735	126,467	143,057	3,257
Held-to-Maturity Investments	23,621	32,663	47,457	1,080
Loans and Receivables	362,327	392,659	457,422	10,413
Investments in Associates and a Joint Venture	21,651	15,575	17,641	402
Property and Equipment	13,086	13,119	13,937	317
Investment Properties	21,680	18,401	15,471	352
Deferred Tax Assets	8,476	7,496	7,597	173
Goodwill	6,449	6,449	6,413	146
Other Assets	15,272	8,496	9,248	210
Total Assets	854,307	887,323	958,384	21,817
Liabilities and Equity				
Liabilities				
Deposit Liabilities				
Demand	48,568	68,261	77,589	1,766
Savings	242,145	267,930	283,011	6,443
Time	324,987	315,071	320,393	7,293
	615,700	651,262	680,993	15,502
Bills Payable and Securities Sold Under Repurchase Agreements	95,868	85,513	99,657	2,269
Derivative Liabilities	2,384	3,161	2,819	64
Manager's Checks and Demand Drafts Outstanding	1,955	2,043	2,610	59
Income Taxes Payable	485	331	597	14
Accrued Interest and Other Expenses	4,847	5,174	7,200	164
Subordinated Debt	21,634	21,673	19,735	449
Deferred Tax Liabilities	165	137	157	4
Other Liabilities	30,951	25,012	28,112	640
	773,989	794,306	841,880	19,165
Equity				
Attributable to Equity Holders of MBT	75,225	87,634	109,798	2,499
Non-controlling Interest	5,093	5,383	6,706	153
Total Liabilities and Equity	854,307	887,323	958,384	21,817

See accompanying notes to the MBT Group's consolidated financial statements.

SELECTED CONSOLIDATED STATEMENTS OF CASH FLOW

	For the years ended December 31,			
	2009	2010	2011	2011
	(₱ millions)			(U.S.$ million)
Net cash provided by (used in) operating activities	25,986	18,951	(17,635)	(401)
Net cash provided by (used in) investing activities	(48,693)	33,255	(18,956)	(432)
Net cash provided by (used in) financing activities	40,927	(7,294)	18,894	430
Cash and cash equivalents at beginning of the year	187,554	205,774	250,686	5,707
Cash and cash equivalents at end of the year	205,774	250,686	232,989	5,304

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – MBT

The following discussion and analysis of the MBT Group's financial position and results of operations should be read in conjunction with the consolidated financial statements and the related notes included elsewhere in this Prospectus and the sections entitled "Selected Financial Information – MBT", "Selected Statistical Information", "Banking Risk Management" and "Business – MBT". The selected financial information presented below were derived from the consolidated financial statements of the MBT Group as of and for the years ended December 31, 2009 and 2010 prepared in accordance with PFRS and December 31, 2011 prepared in accordance with accounting principles generally accepted in the Philippines for banks and audited by SGV & Co. in accordance with the Philippine Standards on Auditing.

The following discussion contains financial information for both MBT and the MBT Group. Certain financial information for the MBT Group has not been made available. Investors should therefore be cautioned when relying on the incomplete financial information presented herein when making an investment decision regarding the Offer Shares.

This Prospectus contains forward-looking statements largely based on the MBT Group's current expectations and projections about future events and financial trends affecting its business. The MBT Group's actual results may differ materially from those discussed in any forward-looking statements.

FACTORS AFFECTING RESULTS OF OPERATIONS

The MBT Group's results of operations and financial position are affected by a variety of factors. Set out below is a discussion of the most significant factors that have affected the MBT Group's results in the past and which MBT expects will affect its financial results in the future. Factors other than those set forth below could also have a significant impact on the MBT Group's results of operations and financial condition in the future.

Interest Rates

Beginning in 2004, the Philippine Government reduced its borrowings and its budget deficit, achieved in part through Government improvements in cash and revenue management as well as various privatization programs. The 91-day Treasury bill rates have decreased from an average rate of 7.3% in 2004 to an average rate of 1.5% in 2011. The interbank call loan rate, which is the rate on loans among Philippine banks for periods less than 24 hours, primarily for the purpose of covering reserve deficiencies, has decreased from an average rate of 4.8% in 2009 to 4.2% in 2010 and 4.5% as of December 31, 2011. Commercial lending interest rates in the Philippines have generally followed the trends in Government borrowing rates, moving from an average range of 7.3% to 9.3% in 2009, 6.6% to 8.7% in 2010, and 5.6% to 7.7% as of December 31, 2011 based on data from the BSP.

The following tables set out certain domestic interest rates for the periods indicated:

	2009	2010	2011
	(weighted averages per period)		
91-day Treasury bill rates	4.2%	3.7%	1.5%
Interbank call loan rate[1]	4.8%	4.2%	4.5%
Philippine commercial bank average lending rates[2][3]	7.3-9.3%	6.6-8.7%	5.6-7.7%

Source: BSP

Notes:

(1) Rate on loans among Philippine banks for periods less than 24 hours.

(2) Range of monthly rates reflect the annual percentage equivalent of all commercial banks' actual monthly interest income on Peso-denominated loans to the total outstanding level of the Peso-denominated demand/time loans, bills discounted, mortgage contract receivables and restructured loans.

(3) Based on Philippine commercial bank average lending rates as of December 31, 2011.

Fluctuations in domestic market interest rates can have a significant impact on the MBT Group by affecting its interest income, cost of funding and general performance of its existing loan portfolio and other assets. For example, in a period of rising domestic interest rates, MBT competes aggressively to attract deposits by offering higher rates to depositors in order to increase the MBT Group's loanable funds. However, when interest rates payable on deposits increase, the MBT Group's cost of funding rises correspondingly. As the cost of funding increases, MBT aims to protect its profitability by adjusting its lending rates upward. Depending on the extent of these adjustments, the MBT Group's profitability can be positively or negatively impacted. However, increased interest rates on their customers' floating rate loans can also negatively affect the MBT Group's business by increasing default rates among the MBT Group's borrowers, which could in turn lead to increases in the MBT Group's NPL portfolio and its ROPA. Finally, continued increases in market interest rates could adversely affect the liquidity levels of the MBT Group and the Philippine banking industry in general, which have recently been supported by the relatively low interest rate environment in the Philippines. The MBT Group actively manages its assets and liabilities to maximize interest income and minimize the cost of funding, as well as to ensure that exposure to fluctuations in interest rates is kept within acceptable limits. In recent times, decreases in interest rates in the Philippines have resulted in increases in the MBT Group's fixed-rate maturity securities portfolio and resulted in increased levels of trading and investment securities gains. However, such trends may not continue in the future.

Inflation

The Philippines reports inflation as the annual percentage change in the consumer price index, which measures the average price of a standard "basket" of goods and services used by a typical consumer. Based on the 2000 CPI basket, inflation was 3.8% in 2010 on a year-on-year basis. The rise in consumer prices has grown in 2011, averaging to 4.4% as of December 2011 as a result of higher energy and food prices.

The following table sets out the consumer price index (based on the 2000 CPI basket), the producer price index for manufacturing (which is based on the 2000 PPI benchmark), as well as the annual percentage change in each index.

	2009	2010	2011
Consumer Price Index	160.0	166.1	173.4
Increase over previous year	3.2%	3.8%	4.4%
Producer Price Index for manufacturing	172.9	164.3	165.2[(1)]
Increase (decrease) over previous year	(1.4)%	(4.9)%	0.02%[(1)]

Source: National Statistics Office

Note:

(1) As of September 30, 2011.

The consumer price index has been on an increasing trend for the past two years. The producer price index peaked in 2008, but declined in 2009 and 2010 as costs of imported inputs for the manufacturing sector declined. The Philippines has experienced significant increases in inflation rates in the past. For example, in 2008, the consumer price index increased by 9.3% and the producer price index increased by 4.1%. Recent increases in cash inflows from foreign investors, as well as positive trends in the economic growth rates in the Philippines, could contribute to increasing inflation rates in the Philippines in the near future. Philippine inflation has also been historically vulnerable to fluctuations in the global energy and commodity prices. Continued increases in inflation rates in the Philippines could materially adversely affect the Philippine economy and thereby impact the MBT Group's financial position and results of operations. In addition, high rates of inflation in the Philippine economy could also impact the MBT Group's ability to sustain profitable net interest margins because it could lower loan demand, discourage diversification of the MBT Group's loan portfolio or require the MBT Group to increase the cost of funding for its deposits.

Competition

The Philippine banking industry is characterized by intense regulations and competitive price and service offerings. All banks have generic products and compete via differentiation in servicing and targeting specific niches. In 2011, the industry experienced greater competition coupled with higher customer service standards.

The Philippine banking system is composed of a total of 20 universal banks of which 11 are local private universal banks, three are government banks and six are branches/subsidiaries of foreign banks. Six local private universal banks have branches and/or remittance offices abroad while MBT and the rest of the banks in the industry compete primarily in the domestic market, serving their respective mix of corporate, middle market and retail clients.

Among the local private universal banks, the MBT Group was the second largest Philippine Bank by asset size, net loans and receivables and total deposits, with total assets of ₱916.1 billion, net loans and receivables of ₱432.8 billion and total deposits of ₱656.4 billion as of September 30, 2011. MBT was also the largest Philippine bank by book capitalization and controls 11.4% of the Philippine banking system's total asset base as of September 30, 2011. There are three large banks, MBT, Banco de Oro and Bank of the Philippine Islands, which lead the industry with total assets of approximately ₱2.8 trillion and shareholders' equity of at least ₱7,288.7 billion as of September 30, 2011. The other eleven local private universal banks are included in the category with asset sizes between ₱101.0 billion to ₱320.0 billion and shareholders' equity between ₱14.0 billion to ₱41.0 billion.

Effects of financial crises

As a bank with substantially all of its operations in the Philippines, the MBT Group's financial position and results of operations have been and will continue to be significantly affected by economic and political conditions in the Philippines. After the onset of the Asian economic crisis in 1997, the Philippines experienced economic turmoil characterized by currency depreciation, interest rate volatility, a significant decline in share prices on the PSE and a reduction of foreign currency reserves. More recently, the slowdown in the U.S. economy, which began in 2007, as well as the subsequent crisis in worldwide financial markets has had an adverse effect on the Philippine economy, which affected the MBT Group's financial results in December 31, 2008. The Philippine Peso has appreciated against the U.S. dollar in the recent past. Appreciation of the Peso may have a negative impact on the Philippine economy by making Philippine exports more expensive and thereby negatively impacting economic growth and the exporters' ability to meet their financial obligations to MBT and other financial institutions. During the course of 2010, interest rates in the Philippines declined, mirroring a worldwide monetary policies' response to the financial crisis. In 2011, the Peso opened at ₱43.77 and appreciated 0.16% to a close of ₱43.84 against the U.S. Dollar. Additionally, interest rates in the Philippines have recently declined, due to greater liquidity and stable inflation. Lower interest rates on the MBT Group's asset products would reduce its margins and thus its net income.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those that are both (i) relevant to the presentation of the MBT Group's financial condition and results of operations and (ii) require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increase, those judgments become even more subjective and complex. In order to provide an understanding of how the MBT Group's management forms its judgments about future events, including the variables and assumptions underlying its estimates, and the sensitivity of those judgments to different circumstances, the MBT Group has identified certain critical accounting policies. For a complete discussion of the MBT Group's critical accounting policies and significant accounting judgements and estimates, see Note 2 and Note 3 to the MBT Group's financial statements included in this Prospectus.

PORTFOLIO INFORMATION

Securities Portfolio

The MBT Group classifies its securities in the following categories: financial assets at fair value through profit and loss ("FVPL"), held-to-maturity ("HTM") investments and available-for-sale ("AFS") investments. These are initially measured at fair value. Except for financial assets valued at FVPL, the initial measurement of financial assets includes transaction costs. After initial measurement, financial assets at FVPL and AFS investments are subsequently measured at fair value while HTM investments are subsequently measured at amortized cost using the effective interest method, less impairment in value. Changes in fair value relating to the financial instrument at FVPL are recognized as trading and securities gain–net in the statement of income while the unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from reported earnings and are reported as net unrealized gain or loss on AFS investments in the equity section of the statement of financial position.

The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. The MBT Group determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. Financial assets at FVPL include debt and equity securities which have been acquired principally for the purpose of selling or repurchasing in the near term. AFS investments include debt and equity instruments which are designated as such or do not qualify to be classified as financial assets 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. HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the MBT Group's management has the positive intention and ability to hold to maturity.

In 2011, the MBT Group followed accounting principles generally accepted in the Philippines for banks in accounting for its HTM investments in its consolidated financial statements. As discussed in Note 8 to the MBT Group's consolidated financial statements, in 2011, FMIC, a majority owned subsidiary of MBT, participated in a bond exchange transaction under the liability management exercise of the Philippine Government. The SEC granted an exemptive relief from the existing tainting rule on HTM investments under PAS 39, *Financial Instruments: Recognition and Measurement*, while the BSP also provided the same exemption for prudential reporting to the participants. Following this exemption, the basis of preparation of the financial statements of the availing entities shall not be PFRS but should be the prescribed financial reporting framework for entities which are given relief from certain requirements of the full PFRS.

The table below shows the balances of the MBT Group's securities as of the dates indicated:

	As of December 31, 2009		As of December 31, 2010		As of December 31, 2011	
	Book value	Market value	Book value	Market value	Book value	Market value
	(₱ millions)		(₱ millions)		(₱ millions)	
Financial Assets at FVPL	17,046	17,046	12,580	12,580	6,188	6,188
HTM Investments...............	23,621	24,918	32,663	37,723	47,457	55,290
AFS Investments	156,735	156,735	126,467	126,467	143,057	143,057
Total..................................	**197,402**	**198,699**	**171,710**	**176,770**	**196,702**	**204,535**

The following table sets out an analysis of the MBT Group's total investment portfolio by maturity as of December 31, 2011:

	Due within one year	Due more than 1 to 5 years	Due more than 5 to 10 years	Due more than 10 years	Total
			(₱ millions)		
Financial assets at FVPL	2,593	1,376	1,252	967	6,188
HTM Investments..	5,153	5,791	19,713	16,800	47,457
AFS Investments	25,259	34,582	65,556	17,660	143,057
Total	**33,005**	**41,749**	**86,521**	**35,427**	**196,702**

Loan portfolio

As of December 31, 2011, the MBT Group's total loan portfolio (receivables from customers), amounted to ₱454.3 billion, representing 47.4% of total assets as of that date. Corporate loans represented 60.0% of the MBT Group's total outstanding loans, commercial loans represented 12.9%, and 27.1% represented consumer loans.

The following table sets out, for the periods indicated, the allocation of the total loan portfolio held by the MBT Group among its principal lending units:

	As of December 31,		
	2009	2010	2011
	(₱ millions)		
Corporate loans[(1)]	199,135	225,027	272,482
Commercial loans[(2)]	64,371	52,838	58,824
Consumer loans	88,531	104,281	123,035
Total	**352,037**	**382,146**	**454,341**

Notes:

(1) Loans made to large Philippine corporations, generally with revenues in excess of ₱700.0 million per annum.

(2) Loans made to small- and medium-sized businesses.

The following table shows the breakdown of consumer loans as of the dates indicated:

	As of December 31,		
	2009	2010	2011
	(₱ millions)		
Mortgage	33,212	37,344	44,290
Auto	32,692	42,096	49,125
Credit Cards	17,269	18,968	23,931
Others	5,358	5,873	5,689
Total	**88,531**	**104,281**	**123,035**

The following table sets forth, for the periods indicated, an analysis of the MBT Group's loan portfolio by economic activity, as defined and categorized by the BSP:

	As of December 31,					
	2009		2010		2011	
	Amount	%	Amount	%	Amount	%
	(₱ millions, except percentages)					
Manufacturing (various industries)	63,804	18.1	72,379	18.9	83,035	18.3
Real estate, renting and business activities	58,779	16.7	63,360	16.6	76,569	16.9
Wholesale and retail trade	58,639	16.7	57,389	15.0	73,861	16.3
Private households	52,720	15.0	55,163	14.4	63,828	14.0
Financial intermediaries	30,743	8.7	35,562	9.3	38,589	8.5
Transportation, storage and communication	30,428	8.6	27,986	7.3	29,908	6.6
Other community, social and personal activities	20,369	5.8	24,278	6.4	22,450	4.9
Electricity, gas and water	15,549	4.4	19,071	5.0	36,980	8.1
Agricultural, hunting and forestry	5,908	1.7	4,602	1.2	5,900	1.3
Hotel and restaurants	5,887	1.7	8,790	2.3	7,594	1.7
Construction	5,160	1.5	7,221	1.9	9,209	2.0
Public administration and defense, compulsory social security	1,105	0.3	1,941	0.5	2,641	0.6
Mining and quarrying	308	0.1	358	0.1	671	0.1
Others	2,638	0.7	4,046	1.1	3,106	0.7
Total	**352,037**	**100.0**	**382,146**	**100.0**	**454,341**	**100.0**

The MBT Group monitors its exposure to specific sectors of the economy such as agriculture and micro, small and medium-sized enterprises to comply with BSP regulations. The BSP regulations currently require all Philippine banks to set aside 25.0% of their loanable funds for loans to the agricultural sector (or invest in eligible securities as an alternative form of compliance). Likewise, banks are also required by the BSP to set aside at least 8.0% of their total loan portfolio for micro and small-sized enterprises and 2.0% for medium-sized enterprises.

Loan maturity profile

The following table sets out an analysis of the MBT Group's total loan portfolio by maturity:

	As of December 31,									
	2007		2008		2009		2010		2011	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(₱ millions, except percentages)									
Within one year(1)	176,902	58.8	183,134	52.5	169,914	48.3	180,309	47.2	223,336	49.2
More than one year	55,461	18.4	72,692	20.8	54,927	15.6	59,788	15.6	165,484	36.4
More than five years	68,406	22.8	93,039	26.7	127,196	36.1	142,049	37.2	65,521	14.4
Total	**300,769**	**100.0**	**348,865**	**100.0**	**352,037**	**100.0**	**382,146**	**100.0**	**454,341**	**100.0**

Note:

(1) *Includes past due loans.*

As of December 31, 2011, 49.2% of the MBT Group's loan portfolio had a maturity of less than one year. The modest growth in the loan portfolio was the result of a deliberate phase-out of unprofitable accounts coupled with the maintenance and selective acquisition of target credits that generated profits above predefined minimum hurdle rates. The short-term profile of the loan portfolio is adequately matched by the MBT Group's funding sources, primarily deposits, which have similarly short-term maturities.

Foreign currencies

The following table sets out an analysis of the MBT Group's total loan portfolio by currency:

	As of December 31,					
	2009		2010		2011	
	Amount	%	Amount	%	Amount	%
	(₱ millions, except percentages)					
Philippine Peso	327,604	93.1	350,424	91.7	408,157	89.8
Foreign Currency	24,433	6.9	31,722	8.3	46,184	10.2
Total	**352,037**	**100.0**	**382,146**	**100.0**	**454,341**	**100.0**

As of December 31, 2011, 89.8% of the MBT Group's total loan portfolio was denominated in Pesos and 10.2% was denominated in foreign currency, a substantial proportion of which was in U.S. Dollars.

As a matter of policy, the MBT Group's lending in foreign currency is primarily to customers who have an identifiable source of foreign currency earnings from which to repay the loans, and to importers who have authorization from the BSP to purchase foreign currency to service their foreign currency related obligations. As such, foreign currency loan exposures accounted for only a small portion of the total loan portfolio over the past years.

Interest rates

As of December 31, 2011, 79.4% of the MBT Group's total loan portfolio was on a floating rate basis. The MBT Group sets interest rates for Peso-denominated loans based on the Philippine Treasury Bill rate and for U.S. Dollar-denominated loans based on U.S.$ LIBOR. The floating rate loans are re-priced for interest periods of typically 30 to 90 days.

The following table shows the total amount of the MBT Group's loans that have fixed and floating interest rates:

	As of December 31,					
	2009		2010		2011	
	Amount	%	Amount	%	Amount	%
	(₱ millions, except percentages)					
Fixed rate	59,906	17.0	79,984	20.9	93,662	20.6
Floating rate	292,131	83.0	302,162	79.1	360,679	79.4
Total	**352,037**	**100.0**	**382,146**	**100.0**	**454,341**	**100.0**

Size and concentration of loans

MBT monitors its financial exposure to its customers in order to ensure that concentration risk is prudently managed. As of December 31, 2011, MBT's single largest corporate borrower accounted for 2.2% of the MBT Group's total outstanding loan portfolio while MBT's ten largest borrowers in the aggregate accounted for ₱69.4 billion, or 15.3% of its outstanding loan portfolio. There are no NPLs in the top ten loan accounts.

The BSP generally prohibits any bank from maintaining a financial exposure to any single person or group of connected persons in excess of 25% of its unimpaired capital as defined by the BSP.

Security

The following table sets out a breakdown of the MBT Group's total loan portfolio by security:

	As of December 31,					
	2009		2010		2011	
	Amount	%	Amount	%	Amount	%
	(₱ millions, except percentages)					
Secured						
Real estate mortgage	83,979	23.9	81,644	21.4	79,155	17.4
Chattel mortgage	39,115	11.1	48,634	12.7	54,783	12.1
Deposit hold-out	12,953	3.7	14,714	3.9	11,659	2.5
Assignment of receivables	710	0.2	1,234	0.3	1,779	0.4
Securities	9,167	2.6	7,290	1.9	9,463	2.1
Stand-by letters of credit	3,218	0.9	2,051	0.5	2,338	0.5
Others	42,831	12.2	50,621	13.3	82,233	18.1
Total Secured	191,973	54.6	206,188	54.0	241,410	53.1
Unsecured	160,064	45.4	175,958	46.0	212,931	46.9
Total	**352,037**	**100.0**	**382,146**	**100.0**	**454,341**	**100.0**

Loan classification and loan loss provisioning

Current BSP regulations require Philippine banks to classify loans based on four different categories of risk assets according to their risk profile. All risk assets, in particular the MBT Group's loan portfolio, are either classified or unclassified. Loans which do not have a greater than normal risk, and for which no loss on ultimate collection is anticipated, are unclassified. All other loan accounts, comprising those loan accounts which have a greater than normal risk, are classified as "especially mentioned", "substandard", "doubtful" or "loss" assets. In addition to specific allowance for credit losses based on the risk classification, banks are also required to provide general loan loss allowance based on BSP guidelines. The MBT Group undertakes such classifications and levels of provisions in accordance with the BSP regulations for purposes of statutory reporting as a regulated bank, and these requirements may differ from the levels of provisions that the MBT Group is required to maintain pursuant to PFRS for the purposes of preparing its financial statements. As prescribed by the BSP for regulatory reporting, the MBT Group recognizes provision for credit losses based on the higher amount between the BSP classification and the result of impairment in accordance with PAS 39.

The MBT Group reviews its loan portfolio at least annually in accordance with prescribed policy guidelines and BSP categorization. "Especially mentioned" loans are those loans which have demonstrated minor deficiencies in credit quality but in respect of which repayments on the loans are up-to-date. "Substandard" loans are those which the MBT Group believes represent a substantial and unreasonable degree of risk to the MBT Group. "Especially mentioned" and "substandard" classifications may also apply to current loans in accordance with BSP regulations. "Doubtful" loans are those in respect of which the MBT Group believes that collection in full, either according to their terms or through liquidation, is highly improbable and that substantial loss is probable. Loans which are considered impossible to collect or worthless are characterized as "loss" loans.

The table below is a summary of the risk classification of MBT's aggregate loan portfolio as a percentage of total outstanding loans on a non-consolidated basis.

	As of December 31,					
	2009		2010		2011	
	Amount	%	Amount	%	Amount	%
	(₱ millions, except percentages)					
Classified						
Especially mentioned	4,885	1.8	6,298	2.2	5,968	1.7
Substandard secured and unsecured	8,675	3.2	7,648	2.7	5,807	1.7
Doubtful	1,772	0.6	1,524	0.5	1,137	0.3
Loss	2,695	0.9	2,470	0.9	2,991	0.9
Total classified	18,027	6.5	17,940	6.3	15,903	4.6
Unclassified	256,916	93.5	264,934	93.7	332,521	95.4
Total	**274,943**	**100.0**	**282,874**	**100.0**	**348,424**	**100.0**

The risk classification of MBT's total loan portfolio in the above table does not include the risk classification in relation to loans held by special purpose vehicles ("SPVs"). If loans held by SPV were included, as of December 31, 2009, 2010 and 2011 the total of MBT's classified loans would have been ₱28.7 billion, ₱17.9 billion and ₱15.9 billion, respectively, compared to ₱18.0 billion, ₱17.9 billion, and ₱15.9 billion, respectively, (as shown in the table above).

Except for loans classified as substandard which are secured, where BSP guidelines allow the borrower's collateral position to be taken into account, the allowance for credit losses on other classified accounts (especially mentioned, substandard unsecured, doubtful or loss) is based on the total principal balance outstanding without taking account of the value of any realizable collateral. Loans classified as "loss" assets are generally written-off by MBT in accordance with BSP guidelines. These guidelines allow banks, upon approval by their board of directors, to write off loans, other credit accommodations, advances and other assets, regardless of amount, against allowance for credit losses (valuation reserves) or current operations as soon as they are satisfied that such loans, other credit accommodations, advances and other assets are of no value. However, prior approval of the Monetary Board of the BSP is required to write off loans and advances to directors, officers, stockholders and related interests ("DOSRI").

MBT's allowance for credit losses on receivables from customers was ₱5.6 billion, ₱5.4 billion and ₱5.0 billion as of December 31, 2009, 2010 and 2011, respectively. As a percentage of MBT's NPL portfolio, such loan loss allowance was 72.1%, 88.8%, and 97.7% as of December 31, 2009, 2010 and 2011, respectively.

Non-performing loans

Loans are classified as non-accruing (or past due) if (i) any repayment of principal at maturity or any scheduled payment of principal or interest due quarterly (or longer) is not made when due and (ii) in the case of any principal or interest due monthly, if the amount due is not paid and has remained outstanding for three months. In the case of (i), such loans are treated as non-performing if the payment is not made within an additional 30 days. In the case of (ii), such loans are treated as non-performing upon the occurrence of default in payment.

In accordance with BSP guidelines, loans and other assets in litigation are classified as non-performing assets ("NPAs"). MBT's NPAs principally comprise investment properties and NPLs. MBT has established the Acquired Asset Management and Disposition Group ("AAMDG") to actively manage and, where appropriate, sell its investment properties. The MBT Group has sold ₱4.2 billion, ₱4.7 billion and ₱4.8 billion of ROPAs in 2009, 2010 and 2011, respectively, resulting in a gain on sale of ₱642.4 million, ₱1.1 billion and ₱807.2 million, respectively.

The table below sets forth details of the MBT Group's NPLs, non-accruing loans, investment properties, NPLs (as described below), restructured loans and write-offs for loan losses as of December 31, 2009, 2010 and 2011:

	As of December 31,		
	2009[(4)]	2010	2011
	(₱ millions, except percentages)		
NPLs	23,123	11,005	10,095
Total Gross Loans	362,673	382,146	454,341
Loans Held by SPV	10,636	–	–
Total NPLs to gross loans	6.4%	2.9%	2.2%
Non-accruing loans	23,129	11,055	10,254
Non-accruing loans to total gross loans	6.4%	2.9%	2.3%
ROPA – gross	27,049	23,659	20,165
NPAs[(1)]	50,172	34,664	30,260
Total assets	854,307	887,323	958,384
NPAs to total assets	5.9%	3.9%	3.2%
Total allowance for credit and impairment losses[(2)]	18,600	12,922	12,571
Allowance for credit losses-loans	16,074	10,161	10,045
Allowance for impairment losses-ROPA	2,526	2,761	2,526
Allowance for credit losses-loans to total NPLs	69.5%	92.3%	99.5%
Total allowance for credit losses to NPAs	37.1%	37.3%	41.5%
Total restructured loans[(3)]	10,047	8,688	7,538
Restructured loans to total gross loans	2.8%	2.3%	1.7%
Accounts written off – loans	502	1,988	2,893

Notes:

(1) *NPAs comprise of gross ROPA plus NPLs.*

(2) *Total allowance for credit and impairment losses comprises of allowance for credit losses on loans (including Loans Held by SPV), and allowance for impairment losses on ROPA.*

(3) *Group's restructured loans as at relevant date, net of loans repaid, written off or foreclosed. Total restructured loans include loans which are undergoing restructuring and still classified as NPLs.*

(4) *Amounts except for ROPA – gross, Allowance for impairment losses – ROPA and total restructured loans, include Loans held by SPV as of December 31, 2009.*

In order to manage its loan portfolio and reduce its exposure to NPLs, MBT's practice is to restructure those classified loans which it considers suitable for restructuring. MBT restructures loans on a case-by-case basis. Restructuring methods used by MBT include extending the maturity of loans beyond their original maturity date and providing for rescheduled payments of principal consistent with the expected cash flows of the borrower in question. MBT will also consider, in certain circumstances, receiving partial repayments of principal in respect of restructured loans. MBT has also entered into debt-for-equity swap agreements with borrowers, although it is rarely adopted as a restructuring solution.

In accordance with BSP guidelines, in general, NPLs which are successfully restructured are generally considered current and no longer non-performing following three consecutive payments of the required amortization of principal and/or interest. For restructured loans with capitalized interest and which are not fully secured, six consecutive payments are required for the loan to be considered performing. As of December 31, 2009, 2010 and 2011, MBT had a portfolio of ₱5.4 billion, ₱4.5 billion and ₱3.9 billion of restructured loans which were treated as performing, respectively, representing 60.3%, 58.9% and 58.2% of total restructured loans, respectively.

Sectoral analysis of NPLs

The following table sets forth, as at the dates indicated, MBT's gross NPLs by the respective borrowers' industry or economic activity and as a percentage of MBT's gross NPLs:

	As of December 31,					
	2009	**% of total**	**2010**	**% of total**	**2011**	**% of total**
	(₱ millions, except percentages)					
Wholesale and retail trade	1,138	14.7	975	16.1	546	10.6
Manufacturing (various industries)	2,549	33.0	2,038	33.7	1,844	36.0
Real estate, renting and business activities	792	10.3	1,058	17.5	1,061	20.7
Other community, social and personal activities	85	1.1	56	0.9	45	0.9
Transportation, storage and communication	148	1.9	125	2.1	163	3.2
Hotel and restaurants	92	1.2	72	1.2	49	1.0
Construction	823	10.7	787	13.0	608	11.8
Agricultural, hunting and forestry	51	0.7	41	0.7	30	0.6
Financial intermediaries	8	0.1	152	2.5	44	0.8
Electricity, gas and water	694	9.0	34	0.6	36	0.7
Others[1]	1,337	17.3	708	11.7	704	13.7
Total	**7,717**	**100.0**	**6,046**	**100.0**	**5,130**	**100.0**

Note:

(1) Includes mining and quarrying, private households, services and public utilities and "others", as defined in accordance with categorizations by the BSP.

The information presented in the table above reflects a sectoral breakdown of the gross NPLs of MBT representing 61.8%, 54.9% and 50.8% of the MBT Group's NPLs as of December 31, 2009, 2010 and 2011, respectively.

Ten largest NPLs

As of December 31, 2010 and 2011, MBT's ten largest NPLs accounted for 1.1% and 0.9%, respectively, of its total loans to customers and 51.3% and 63.0%, respectively, of its gross NPLs to customers. MBT's exposure to its ten largest NPLs ranged from ₱0.1 billion to ₱0.7 billion during the year ended December 31, 2010 and amounted to ₱3.1 billion in the aggregate as of December 31, 2010 and ranged from ₱0.1 billion to ₱1.1 billion during the year ended December 31, 2011 and amounted to ₱3.2 billion in the aggregate as of December 31, 2011. As of December 31, 2009, 2010 and 2011, no individual borrower or group accounted for more than 21.3% of MBT's total NPLs.

Foreclosure and disposal of assets

Loans that become past due for payment first enter a collection phase whereby MBT reaches out to the customer in an effort to salvage the loan. When all collection efforts fail for those loans that are secured by collateral, MBT's Special Account Management Group's ("SAMG") lending unit recommends foreclosure (as the only remaining course of action) to the Non-Performing Assets Committee ("NPAC") for approval. The account is deliberated on, previous efforts to collect are discussed, and the action is recommended to and justified before the NPAC. The NPAC approval and collateral documents are turned over to the in-house counsel of the Remedial & Litigation Division. After reviewing relevant documents, the account is endorsed to an accredited external counsel for the appropriate filing of foreclosure proceedings. External counsel are responsible for the consolidation of the title to the property in the name of MBT and the writ of possession of the property. However, after the auction and issuance of the certificate of sale, the property is endorsed to the AAMDG as ROPA for sale.

MBT disposes of its ROPA assets in three ways: (1) through the in-house sales team of AAMDG, (2) through MBT's nationwide branch network and (3) through external real estate brokers. Sales volumes are generally split equally among the three options. Selling prices for properties are set using external appraisal reports by duly accredited BSP appraisers which, according to policy, must be no less than 12 months old as of the time of price-setting. External appraisal reports and selling prices are updated on an annual basis. On payment terms, nearly all of the ROPA are sold either on a cash basis or through real estate loans from MBT or third-party banks. Sales are generally done on an as-is, where-is and no recourse basis.

Funding

MBT's funding is primarily provided by time, savings, and demand deposits, which amounted to 40.9%, 46.8% and 12.3%, respectively, of the total amount of deposits of ₱581.6 billion as of December 31, 2011. MBT believes that its branch network is important to attract deposits from the public. MBT also sources part of its funding requirements from the interbank market and occasionally from the BSP rediscount window, which generally results in lower overall funding costs due to the relatively lower interest rate charged at the rediscount window as compared to other sources of funding. MBT may also, from time-to-time, issue various subordinated notes to increase its funding.

MBT has been successful in attracting and retaining its low cost deposit base. While the cost of deposits has largely been driven by interest rate movements, the average cost of deposits is also bolstered by the continued rise in the percentage of checking or demand and savings accounts ("CASA") in relation to total deposits. MBT will continue to emphasize growth in its CASA by launching various CASA products aimed towards retail, middle market and corporate customers. The maturities of MBT's funding portfolio enable it to achieve funding stability and liquidity while achieving its desired profile of loan and deposit maturities. MBT's depositors typically roll over their deposits at maturity, effectively providing MBT with a base of core liquidity.

The following table sets out an analysis of MBT's principal sources of funding for the periods indicated:

	As of December 31,								
	2009			2010			2011		
	Amount	% of total	Average cost of funding	Amount	% of total	Average cost of funding	Amount	% of total	Average cost of funding
	(₱ millions, except for percentages)								
Deposits by type:									
Demand	44,521	8.2%	0.3%	61,216	10.9%	0.3%	71,667	12.3%	0.3%
Savings	234,378	43.1%	0.4%	260,269	46.2%	0.4%	272,331	46.8%	0.4%
Time	264,630	48.7%	3.2%	242,323	42.9%	2.6%	237,638	40.9%	2.5%
Total	543,529	100.0%	1.8%	563,808	100.0%	1.4%	581,636	100.0%	1.3%
Deposits by currency:									
Peso	433,974	79.8%	2.0%	457,534	81.2%	1.6%	482,858	83.0%	1.5%
Foreign	109,555	20.2%	1.0%	106,274	18.8%	0.6%	98,778	17.0%	0.5%
Total	543,529	100.0%	1.8%	563,808	100.0%	1.4%	581,636	100.0%	1.3%
Borrowings (including subordinated notes):									
Peso	42,681	92.9%	6.3%	18,420	63.9%	6.5%	18,446	57.6%	7.6%
Foreign	3,268	7.1%	2.0%	10,391	36.1%	1.2%	13,596	42.4%	0.8%
Total	45,949	100.0%	5.8%	28,811	100.0%	5.8%	32,042	100.0%	5.7%

As of December 31, 2011, 59.1% of MBT's outstanding deposits were demand and savings deposits, which can be withdrawn on demand without any prior notice from the customer. The following table sets out an analysis of the maturities of the deposit base of MBT as of the dates indicated:

	As of December 31,		
	2009	2010	2011
	(₱ millions)		
Demand	44,521	61,216	71,667
Savings	234,378	260,269	272,331
Time	264,630	242,323	237,638
30-90 days	243,621	223,365	220,803
91-180 days	11,813	9,543	10,369
181 days and longer	9,196	9,415	6,466
Total	**543,529**	**563,808**	**581,636**

MBT also maintains credit lines with domestic commercial banks and financial institutions in the interbank market primarily for treasury management purposes. Interbank borrowings are typically for short-term durations of between one day and a few weeks. The BSP is a lender of last resort to the Philippine banking industry. MBT has not had to resort to this facility but has managed its liquidity through its participation in the interbank market in the Philippines.

MBT is a member of the Philippine Deposit Insurance Corporation (the "PDIC"), which insures all deposits up to a maximum of ₱0.5 million per depositor. The PDIC is funded by semi-annual assessment fees at a prescribed percentage of MBT's deposit liabilities less certain exclusions.

Liquidity management

MBT manages its liquidity to meet financial liabilities arising from the withdrawal of deposits, repayments of deposits at maturity and working capital needs. Funds are required to create assets in the form of loans and extensions of other forms of credit, investments in securities, trade financing and capital investments. MBT seeks to ensure sufficient liquidity through a combination of active management of liabilities, a liquid asset portfolio, the securing of ample money market lines and swap lines and the maintenance of repurchase facilities.

Liquidity risk is monitored and managed using the Maximum Cumulative Outflows ("MCO") and funding diversification/concentration limits. A Contingency Funding Plan is likewise in place to ensure readiness for every liquidity crisis situation. MBT's Asset and Liability Committee ("ALCO") is directly responsible for liquidity risk exposures. ALCO regularly monitors MBT's positions and sets the appropriate fund transfer prices to effectively manage movement of funds across business activities. MBT does not anticipate any cash flow or liquidity problems within the next 12 months, and is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement. There are no known trends, demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in any material increase or decrease in MBT's liquidity.

As of December 31, 2011, Peso deposits and deposit substitutes are subject to 10.0% statutory and 11.0% liquidity reserve requirements. At least 25.0% of the statutory reserve requirement must be deposited with the BSP. Deposits maintained by banks with the BSP of up to 40.0% of the reserve requirement, excluding the liquidity reserve, shall be paid an interest rate of 4.0% per annum. The balance of 75.0% of the statutory reserve may be in the form of one or a combination of deposits with the BSP, cash on hand and/or in the vault of MBT and reserve eligible government securities. All of the required liquidity reserves may be held in the form of government securities declared by the BSP as liquidity reserve eligible. The BSP also requires banks to maintain asset cover of 100.0% for foreign currency liabilities, of which 30.0% must be in liquid assets.

As of December 31, 2011, MBT's liquid assets amounted to ₱318.2 billion, representing 43.5% of MBT's total assets. Liquid assets include cash and other cash items due from the BSP and from other banks, interbank loans receivable and securities purchased under resale agreement, financial assets at FVPL, AFS investments and HTM investments.

The following table sets out information with respect to the MBT Group's liquidity position as of the dates indicated:

	As of December 31,		
	2009	2010	2011
	(₱ millions, except percentages)		
Liquid assets	405,366	425,128	430,655
Financial Ratios:			
Liquid assets to total assets	47.5%	47.9%	44.9%
Liquid assets to total deposits	65.8%	65.3%	63.2%
Net loans[1] to total deposits	54.6%	55.9%	64.0%

Note:

(1) *Receivables from customers net of allowance for credit losses and unearned discounts and capitalized interest and other charges.*

As of December 31, 2011, the scheduled maturity of MBT's loan portfolio and liquid financial investments were as follows:

	Loans	Liquid financial investments[1]
	(₱ millions)	
Due within one year	184,219	190,475
Over one year	164,205	127,891

Note:

(1) *Includes cash and other cash items, due from BSP and other banks, interbank loans and SPURA, financial assets at FVPL, AFS and HTM investments.*

MBT measures its liquidity risk via the MCO or Liquidity Gaps Report. Separate limits have been established for both the Peso book and the U.S. Dollar book. As of December 31, 2011, MBT is in compliance with the established limits.

RESULTS OF OPERATIONS

Year ended December 31, 2011 compared with year ended December 31, 2010

Interest income

The MBT Group recorded interest income of ₱45.0 billion in 2011, an increase of 8.6% from ₱41.5 billion in 2010, due to (i) the increases in interest from loans and receivables by ₱1.8 billion, or 6.6%, resulting from higher loan volumes in 2011, while partially offset by lower interest rates, (ii) trading and investment securities by ₱0.3 billion, or 3.4%, and (iii) deposit with banks resulting from higher volumes of special deposit accounts ("SDA") with the BSP by ₱1.9 billion, or 51.0%, reduced by the decrease in interest on interbank loans receivable and SPURA by ₱0.5 billion, or 51.2% resulting from a shift towards SDA from interbank loans receivable and SPURA.

Interest and finance charges

The MBT Group recorded interest and finance charges of ₱15.6 billion in 2011, an increase of 3.7% from ₱15.1 billion in 2010, due to the increases in interest on deposit liabilities by ₱0.5 billion, or 5.4%, primarily as a result of an overall increase in deposit volumes that was partially offset by a shift in the deposit mix towards more low cost deposits, as well as interest on bills payable and other borrowings by ₱35.0 million, or 0.6%, respectively.

Other income

The following table sets forth the components of the MBT Group's other income for the years indicated:

	For the year ended December 31,			Percentage
	2010	2011	2011	change
	(₱ millions)		(U.S.$ millions)	(%)
Service charges, fees and commissions	6,853	7,711	176	12.5
Trading and securities gain – net	6,122	6,118	139	(0.1)
Foreign exchange gain – net	2,855	1,623	37	(43.2)
Profit from assets sold	1,172	897	20	(23.5)
Leasing	824	1,017	23	23.4
Income from trust operations	480	695	16	44.8
Dividends	118	96	2	(18.6)
Miscellaneous	1,668	1,416	32	(15.1)
Total	**20,092**	**19,573**	**445**	**(2.6)**

Other income representing 40.0% of the MBT Group's total operating income decreased to ₱19.6 billion for the year ended December 31, 2011, lower by ₱0.5 billion, or 2.6%, from ₱20.1 billion in 2010. This was primarily the result of the net effect of the decreases in income from trading and foreign exchange transactions by ₱1.2 billion, or 13.8%, caused by an appreciation of the Peso, dividend income by ₱22.0 million, or 18.6%, caused by declining business volume of the associate companies, profit from assets sold by ₱0.3 billion, or 23.5%, as a result of most investment properties being sold in prior years, and miscellaneous income, which includes gain on initial recognition of investment properties and recovery on charged-off assets, by ₱0.3 billion, or 15.1%, due to less foreclosures in 2011 than in 2010 and the increases in service charges fees and commissions by ₱0.9 billion, or 12.5%, resulting from the volume increase of transactions, leasing income by ₱0.2 billion, or 23.4% from improved leasing income from ORIX Metro Leasing and income from trust operations by ₱0.2 billion, or 44.8%, as assets under management ("AUM") increased significantly during 2011.

Operating expenses

The following table sets out the components of the MBT Group's operating expenses for the years indicated:

	For the year ended December 31,			Percentage
	2010	2011	2011	change
	(₱ millions)		(U.S.$ millions)	(%)
Compensation and fringe benefits	11,452	13,310	303	16.2
Provision for credit and impairment losses	7,285	3,823	87	(47.5)
Taxes and licenses	4,391	4,601	105	4.8
Depreciation and amortization	2,061	2,104	48	2.1
Occupancy and equipment-related cost	1,758	1,959	45	11.4
Amortization of software costs	199	230	5	15.6
Miscellaneous	7,957	8,476	193	6.5
Total	**35,103**	**34,503**	**786**	**(1.7)**

Operating expenses decreased by ₱0.6 billion, or 1.7%, to ₱34.5 billion in 2011, from ₱35.1 billion in 2010. Provision for credit and impairment losses declined by ₱3.5 billion, or 47.5% due to higher than necessary provisions made in 2010. Partially offsetting these decreases were increases in compensation and fringe benefits by ₱1.9 billion, or 16.2%, due to an overall increase in headcount and compensation in line with the increase in net income, taxes and licenses by ₱0.2 billion, or 4.8%, due to a higher overall volume of business, depreciation and amortization by ₱43.0 million, or 2.1%, occupancy and equipment-related costs by ₱0.2 billion, or 11.4%, resulting from a greater number of ATMs and branches, amortization of software costs by ₱31.0 million, or 15.6%, and miscellaneous expenses by ₱0.5 billion, or 6.5% due to the overall increase in business.

Share in net income of associates and a joint venture
The MBT Group recorded share in net income of associates and a joint venture of ₱1.4 billion in 2011, a decrease of 11.2% from ₱1.6 billion in 2010, primarily due to the decrease in the net income of associates, primarily that of TMP.

Provision for income taxes
The MBT Group recorded provision for income tax of ₱3.5 billion in 2011, a decrease of 5.5% from ₱3.7 billion in 2010, primarily as a result of the decrease in provision for deferred income tax by ₱0.7 billion, or 120.3%. The provision for final tax and corporate tax, however, increased by ₱0.4 billion, or 19.4%, and ₱0.1 billion, or 10.4%, respectively, in 2011.

Net income
As a result of the foregoing, net income increased to ₱12.4 billion in 2011, an increase of 33.7% from ₱9.3 billion in 2010.

Financial position

Assets
The following table sets out selected components of the MBT Group's assets as of the years indicated:

	As of December 31,			Percentage change
	2010	2011	2011	
	(₱ millions)		(U.S.$ millions)	(%)
Total Assets	**887,323**	**958,384**	**21,817**	**8.0**
Cash and Other Cash Items	20,201	20,954	477	3.7
Due from *Bangko Sentral ng Pilipinas*	168,402	156,537	3,563	(7.0)
Due from Other Banks	38,308	32,095	731	(16.2)
Interbank Loans Receivable and Securities Purchased Under Resale Agreements	26,507	24,367	555	(8.1)
Financial Assets at Fair Value Through Profit or Loss	12,580	6,188	141	(50.8)
Available-for-Sale Investments	126,467	143,057	3,257	13.1
Held-to-Maturity Investments	32,663	47,457	1,080	45.3
Loans and Receivables	392,659	457,422	10,413	16.5
Investments in Associates and a Joint Venture	15,575	17,641	402	13.3
Property and Equipment	13,119	13,937	317	6.2
Investment Properties	18,401	15,471	352	(15.9)
Deferred Tax Assets	7,496	7,597	173	1.3
Goodwill	6,449	6,413	146	(0.6)
Other Assets	8,496	9,248	210	8.9

The MBT Group had total assets of ₱958.4 billion as of December 31, 2011, an increase of 8.0% from total assets of ₱887.3 billion as of December 31, 2010. The increase in total assets was primarily attributable to the factors discussed below.

Changes in the MBT Group's cash and other items, due from BSP, due from other banks and interbank loans receivable and SPURA are based on the liquidity requirements and investment mix for the periods covered.

Due from BSP, which represents 16.3% of the MBT Group's total assets, decreased by ₱11.9 billion, or 7.0%. The funds were used for the expansion of loans and investment securities portfolio.

Due from Other Banks decreased by ₱6.2 billion, or 16.2% mainly due to the net effect of the decreases in the balances maintained by MBT and PSBank as well as increases in the balances maintained by FMIC, MCC and ORIX Metro Leasing in various accounts with foreign banks.

Interbank Loans Receivable and securities purchased under resale agreements ("SPURA") decreased by ₱2.1 billion, or 8.1%. The decrease was due to the ₱16.2 billion, or 63.4%, decline in interbank loans to various local and foreign banks partially offset by the ₱14.0 billion increase in overnight placements with the BSP.

Financial Assets at FVPL consists of held-for-trading securities and derivative assets amounting to ₱3.9 billion and ₱2.3 billion, respectively, in 2011, and ₱9.1 billion and ₱3.5 billion, respectively, in 2010. The decline of ₱6.4 billion, or 50.8%, was primarily attributable to the disposal of various government securities by MBT.

AFS Investments representing 14.9% and 14.3% of the MBT Group's total assets as of December 31, 2011 and 2010, respectively, increased by ₱16.6 billion, or 13.1%. The MBT Group's investment in government securities increased by ₱24.3 billion, or 23.7%, while investment in private debt securities and equity securities went down by ₱8.8 billion, or 38.3%, and ₱0.1 billion, or 5.1%, respectively.

HTM Investments increased by ₱14.8 billion, or 45.3%, due to the acquisition of additional government securities of MBT, FMIC and PSBank. Total investments in government bonds, treasury notes and private bonds, which comprises the HTM investment account, increased by ₱8.8 billion, ₱2.1 billion and ₱3.7 billion, respectively, in 2011.

Loans and Receivables representing 47.7% and 44.3% of the MBT Group's total assets as of December 31, 2011 and 2010, respectively, went up by ₱64.8 billion, or 16.5%, with strong growth coming from both consumer and commercial segments.

Investments in Associates and a Joint Venture increased by ₱2.1 billion, or 13.3%, resulting from the additional investments and share in net income of associates and a joint venture net of cash dividends. Carrying values of investments in GBPC, LCMC, SMFC and FMSLEF increased by ₱0.9 billion, ₱0.2 billion, ₱0.3 billion and ₱0.6 billion, respectively.

Property and Equipment increased by ₱0.8 billion, or 6.2%, mainly due to increases in furniture, fixtures and equipment by ₱0.5 billion and leasehold improvements by ₱44 million.

Investment Properties decreased by ₱2.9 billion, or 15.9%, due to MBT's continuing efforts to dispose of various foreclosed properties carried on the books of MBT.

Other Assets consist of among others, assets held under joint ventures, inter-office float items, creditable withholding tax, software costs, prepaid expenses, retirement assets, chattel properties acquired in foreclosure and miscellaneous assets. The increases in creditable withholding tax of ₱0.4 billion and miscellaneous assets of ₱0.9 billion contributed to the ₱0.8 billion, or 8.9%, increase in other assets.

Liabilities

The following table sets out the selected components of the MBT Group's liabilities as of the dates indicated:

	As of December 31,			Percentage change
	2010	2011	2011	
	(₱ millions)		(U.S.$ millions)	(%)
Total Liabilities	**794,306**	**841,880**	**19,165**	**6.0**
Deposit Liabilities	651,262	680,993	15,502	4.6
Bills Payable and Securities Sold Under Repurchase Agreements	85,513	99,657	2,269	16.5
Derivative Liabilities	3,161	2,819	64	(10.8)
Manager's Checks and Demand Drafts Outstanding	2,043	2,610	59	27.8
Income Taxes Payable	331	597	14	80.4
Accrued Interest and Other Expenses	5,174	7,200	164	39.2
Subordinated Debt	21,673	19,735	449	(8.9)
Deferred Tax Liabilities	137	157	4	14.6
Other Liabilities	25,012	28,112	640	12.4

The MBT Group had total liabilities of ₱841.9 billion as of December 31, 2011, an increase of 6.0% from ₱794.3 billion as of December 31, 2010. The increase was primarily attributable to the growth in deposit liabilities and bills payable and securities sold under repurchase agreements ("SSURA").

Deposit Liabilities represent 80.9% and 82.0% of the MBT Group's total liabilities as of December 31, 2011 and 2010, respectively. The MBT Group's deposit level, sourced primarily from MBT, PSBank and MBCL, reached ₱681.0 billion as of December 31, 2011, higher by ₱29.7 billion, or 4.6%, from ₱651.3 billion as of December 31, 2010. The increment resulted from the growth in demand, savings and time deposits by ₱9.3 billion, or 13.7%, ₱15.1 billion, or 5.6%, and ₱5.3 billion, or 1.7%, respectively. Low cost deposits represented 52.9% and 51.6% of the MBT Group's total deposits as of December 31, 2011 and 2010, respectively.

Bills Payable and SSURA represents 11.8% and 10.8% of the MBT Group's total liabilities as of December 31, 2011 and 2010, respectively. The increase of ₱14.1 billion, or 16.5%, resulted from the increases in the balance of deposit substitutes which pertain to borrowings from the public of FMIC, ORIX Metro Leasing and MCC by ₱10.8 billion, SSURA by ₱9.4 billion and borrowings from local banks by ₱2.0 billion. The decreases in borrowings with various foreign banks and with the BSP by ₱7.9 billion and ₱0.2 billion, respectively, also contributed to the variance in this account.

Derivative Liabilities includes foreign currency forwards, interest rate swaps, credit default swaps, cross currency swaps and interest rate derivatives embedded in structured debt instrument. The decrease of ₱0.3 billion, or 10.8%, in this account resulted from decreases in the fair values of derivative financial instruments of MBT, particularly foreign currency forwards and interest rate swaps.

Manager's Checks and Demand Drafts Outstanding increased by ₱0.6 billion, or 27.8%, as a result of the normal banking operations of MBT and PSBank.

Income Taxes Payable increased by ₱0.3 billion, or 80.4%, on account of the corporate income tax accrued by MBT in 2011.

Accrued Interest and Other Expenses increased by ₱2.0 billion, or 39.2%, due to increases in the accrual for other expenses and interest expense, which increased by ₱0.2 billion and ₱1.8 billion, respectively.

Subordinated Debt decreased by ₱1.9 billion, or 8.9%, due to the redemption of the 2016 Peso Notes of PSBank with a face value of ₱2.0 billion in January 2011.

Deferred Tax Liabilities increased by ₱20.0 million, or 14.6%, primarily due to the deferred tax liability recognized by ORIX Metro Leasing.

Other Liabilities of the MBT Group were ₱28.1 billion, an increase of ₱3.1 billion, or 12.4%, from the ₱25.0 billion balance in 2010. The increase was primarily due to the net effect of the increases in bonds payable and accounts payable by ₱4.8 billion and ₱1.3 billion, respectively, and the decrease in marginal deposits and bills purchased-contra by ₱2.3 billion and ₱1.1 billion, respectively. Bonds payable pertain to fixed corporate bonds amounting to ₱5.0 billion issued by FMIC on November 25, 2011, which will mature on February 25, 2017.

Year ended December 31, 2010 compared with year ended December 31, 2009

Interest income

The MBT Group recorded interest income of ₱41.5 billion in 2010, a decrease of 5.1% from ₱43.7 billion in 2009. Interest income from trading and investment securities decreased by ₱0.9 billion or 9.0% due to disposals of high-yielding securities in 2010, while the decline in yields of loans caused the decrease in interest income on loans and receivables by ₱1.4 billion or 4.8%. Interest earned on interbank loans and receivables and SPURA also decreased by ₱0.1 billion or 6.7%. Other interest income including interest income on deposits with banks increased by ₱0.1 billion, or 3.6%.

Interest and finance charges

The MBT Group recorded interest and finance charges of ₱15.1 billion in 2010, a decrease of 11.5% from ₱17.0 billion in 2009. The change in deposit mix wherein the volume of high-cost deposits declined although low-cost deposits increased caused the interest on deposit liabilities to drop by ₱1.6 billion, or 14.0%. Interest on bills payable and securities sold under repurchase agreements, subordinated debt and others decreased by ₱0.4 billion, or 6.7%.

Other income

The following table sets out the components of the MBT Group's other income for the years indicated:

	For the year ended December 31, 2009	2010	Percentage change
	(₱ millions)		%
Service charges, fees and commissions	6,499	6,853	5.4
Trading and securities gain – net	3,623	6,122	69.0
Foreign exchange gain–net	2,210	2,855	29.2
Leasing	1,008	824	(18.3)
Profit from assets sold	925	1,172	26.7
Income from trust operations	516	480	(7.0)
Dividends	141	118	(16.3)
Miscellaneous	1,159	1,668	43.9
Total	**16,081**	**20,092**	**24.9**

The MBT Group recorded other income of ₱20.1 billion in 2010, an increase of 24.9% from ₱16.1 billion in 2009. Trading and securities gain increased ₱2.5 billion or 69.0% as a result of disposals of high-yielding securities in 2010. Foreign exchange gain increased ₱0.6 billion or 29.2%, while the continuous disposal of investment properties resulted in a ₱0.2 billion, or 26.7%, increase in profit from assets sold. Service charges, fees and commissions also increased by ₱0.4 billion or 5.4% while the ₱0.2 billion, or 18.3%, decrease in leasing income partially offset these gains.

Operating expenses

The following table sets out the components of the MBT Group's operating expenses for the years indicated:

	For the year ended December 31, 2009	2010	Percentage change
	(₱ millions)		%
Compensation and fringe benefits	10,370	11,452	10.4
Provision for credit and impairment losses	8,793	7,285	(17.2)
Taxes and licenses	4,005	4,391	9.6
Depreciation and amortization	1,852	2,061	11.3
Occupancy and equipment-related cost	1,497	1,758	17.4
Amortization of software costs	160	199	24.4
Miscellaneous	7,958	7,957	0.0
Total	**34,635**	**35,103**	**1.4**

The MBT Group recorded operating expenses of ₱35.1 billion in 2010, an increase of 1.4% from ₱34.6 billion in 2009. The main contribution to the increase was compensation and fringe benefits which was higher by ₱1.1 billion or 10.4% due to an overall increase in head count and wage increases set by the Government. Taxes and licenses, particularly gross receipts tax ("GRT"), increased ₱0.4 billion, or 9.6%, as a result of overall growth in the MBT Group's business. Occupancy and equipment-related costs also increased by ₱0.3 billion, or 17.4%, as a result of the increase in the number of leased premises and automated teller machines as part of the expansion program of the MBT Group. The increase in operating expenses was partially offset by a ₱1.5 billion, or 17.2%, decrease in provision for credit and impairment loss.

Share in net income of associates

The MBT Group recorded share in net income of associates of ₱1.6 billion in 2010, an increase of 76.1%, from ₱0.9 billion in 2009 primarily due to the improvement in operations of TMP in 2010.

Provision for income taxes

The MBT Group recorded provision for income tax of ₱3.7 billion in 2010, an increase of 65.9% from ₱2.2 billion in 2009, due to an increase in corporate income tax and lower deferred tax assets recognized in 2010.

Net income

As a result of the foregoing, net income increased to ₱9.3 billion in 2010, an increase of 36.4% from ₱6.8 billion in 2009.

Financial position

Assets

The following table sets out selected components of the MBT Group's assets as of the dates indicated:

	As of December 31, 2009	As of December 31, 2010	Percentage change
	(₱ millions)		%
Total Assets	**854,307**	**887,323**	**3.9**
Cash and Other Cash Items	19,727	20,201	2.4
Due from *Bangko Sentral ng Pilipinas*	71,981	168,402	134.0
Due from Other Banks	36,702	38,308	4.4
Interbank Loans Receivable and Securities Purchased Under Resale Agreements	79,554	26,507	(66.7)
Financial Assets at Fair Value Through Profit or Loss	17,046	12,580	(26.2)
Available-for-Sale Investments	156,735	126,467	(19.3)
Held-to-Maturity Investments	23,621	32,663	38.3
Loans and Receivables	362,327	392,659	8.4
Investments in Associates and a Joint Venture	21,651	15,575	(28.1)
Property and Equipment	13,086	13,119	0.3
Investment Properties	21,680	18,401	(15.1)
Deferred Tax Assets	8,476	7,496	(11.6)
Goodwill	6,449	6,449	0
Other Assets	15,272	8,496	(44.4)

The MBT Group had total assets of ₱887.3 billion as of December 31, 2010, an increase of 3.9% from total assets of ₱854.3 billion as of December 31, 2009. The net increase in total assets was a result of the factors discussed below.

Cash and other cash items, due from BSP, due from other banks and interbank loans receivable and SPURA are based on the liquidity requirements and investment mix for the years covered.

Due from BSP increased by ₱96.4 billion, or 134.0%, due to the increase in the balance of the special deposit account ("SDA") with BSP carried on the books of MBT, resulting from the shift of investments from Interbank Loans Receivable and SPURA and AFS investments to SDA.

Due from Other Banks increased by ₱1.6 billion, or 4.4%, due to the net effect of the increases in balances maintained by FMIC, PSBank and MBCL and the decline in the balance maintained by MBT in various accounts with foreign banks.

Interbank Loans Receivable and SPURA consists of interbank loans receivable and securities purchased under agreements to resell with the BSP of ₱42.7 billion and ₱36.9 billion, respectively, in 2009, and ₱25.5 billion and ₱1.0 billion, respectively, in 2010. The decrease of ₱53.0 billion, or 66.7% primarily came from the decline in the overnight placements of MBT and PSBank with the BSP.

Financial Assets at FVPL consists of held-for-trading and derivative assets of ₱13.5 billion and ₱3.6 billion, respectively, in 2009, and ₱9.1 billion and ₱3.5 billion, respectively, in 2010. The decline of ₱4.5 billion, or 26.2%, was attributable to the disposal of various government securities held for trading by MBT.

AFS Investments decreased by ₱30.3 billion, or 19.3%, as a result of the disposal of various government securities by MBT (due to the shift of investments to SDA), FMIC and PSBank.

HTM Investments consisted of government bonds, treasury notes and private bonds of 88.9%, 8.6% and 2.5%, respectively, of the total HTM investments in 2009, and 81.7%, 18.3%, and nil, respectively, in 2010. The acquisition of additional government securities of FMIC and PSBank contributed to the increase of ₱9.0 billion, or 38.3% for this account in 2010.

Loans and Receivables representing 42.4% and 44.3% of the MBT Group's total assets as of December 31, 2009 and 2010, respectively, increased ₱30.3 billion or 8.4% due to expansion in commercial and auto loans.

Investment in Associates decreased by ₱6.1 billion, or 28.1% resulting from the net effect of the sale of MBT's investment in GBH and the additional investment of FMIC in a power generating company.

Investment Properties decreased by ₱3.3 billion, or 15.1%, mainly due to disposal of various properties previously carried on MBT's books.

Deferred Tax Assets decreased by ₱1.0 billion, or 11.6%, resulted from the decline in the deferred tax assets recognized by the MBT Group on MCIT, net operating loss carry over ("NOLCO"), allowance for credit and impairment losses, and accumulated depreciation of investment properties, and the increase in the deferred tax asset recognized on unrealized losses on FVPL. In addition, MBT has fully utilized its NOLCO in 2010.

Other Assets consisted of among others, assets held under joint ventures, inter-office float items, creditable withholding tax, prepaid expenses, retirement asset, software costs, returned checks and other cash items and miscellaneous assets. The decrease of ₱6.8 billion (or 44.4%) was mainly due to the net carrying value of assets held by SPVs amounting to ₱4.0 billion. The 2009 consolidated financial statements include the accounts of Cameron Granville 3 Asset Management, Inc. ("CG3AMI") and LNC3 Asset Management, Inc. ("LNC3AMI"), both are SPVs, in which the MBT Group does not have equity interest. In 2010, however, the MBT Group did not include the accounts of said SPVs as the related accounts are not considered material to the consolidated financial statements.

Liabilities

The following table sets out the selected components of the MBT Group's liabilities as of the dates indicated:

	As of December 31,		Percentage
	2009	2010	change
	(₱ millions)		%
Total Liabilities	**773,989**	**794,306**	**2.6**
Deposit Liabilities	615,700	651,262	5.8
Bills Payable and Securities Sold Under Repurchase Agreements	95,868	85,513	(10.8)
Derivative Liabilities	2,384	3,161	32.6
Manager's Checks and Demand Drafts Outstanding	1,955	2,043	4.5
Income Taxes Payable	485	331	(31.8)
Accrued Interest and Other Expenses	4,847	5,174	6.7
Subordinated Debt	21,634	21,673	0.2
Deferred Tax Liabilities	165	137	(17.0)
Other Liabilities	30,951	25,012	(19.2)

The MBT Group had total liabilities of ₱794.3 billion as of December 31, 2010, an increase of 2.6%, from total liabilities of ₱774.0 billion as of December 31, 2009 sourced from higher deposit level in 2010.

Deposit liabilities, sourced mainly by MBT, PSBank and MBCL, increased by ₱35.6 billion or 5.8%, due to the growth in demand and savings deposits by ₱19.7 billion (40.5%) and ₱25.8 billion (10.6%), respectively, partially offset by the ₱9.9 billion (3.1%) decrease in time deposits.

Bills Payable and SSURA represented 12.4% and 10.8% of the MBT Group's total liabilities as of December 31, 2009 and 2010, respectively. The decrease of ₱10.4 billion or 10.8%, resulted from the decrease in the balance of SSURA by ₱26.6 billion and increases in interbank borrowings with local and foreign banks by ₱8.6 billion and ₱8.4 billion, respectively.

Derivative Liabilities, which include foreign currency forwards, interest rate swaps, credit default swaps, cross currency swaps, and interest rate derivatives embedded in structured debt instrument. The increase of ₱0.8 billion or 32.6% came from the increase in the fair values of derivative financial instruments of MBT particularly foreign currency forwards and interest rate swaps.

Manager's Checks and Demand Drafts Outstanding increased by ₱0.1 billion, or 4.5%, as a result of the overall increase in business of MBT and PSBank.

Income Taxes Payable decreased by ₱0.2 billion, or 31.8%, on account of the 2.0% MCIT accrued by MBT in 2009.

Accrued Interest and Other Expenses increased by ₱0.3 billion or 6.7%, due to the net effect of the increase in the accrual for other expenses by ₱0.7 billion and the decrease of ₱0.4 billion in accrued interest expense. Accrued other expenses include accruals for salaries and wages, fringe benefits, rentals, percentage and other taxes, insurance on deposits, professional fees, advertisements and information technology expenses.

Other Liabilities went down by ₱5.9 billion or 19.2%, due primarily due to the net effect of the decreases in bills purchased-contra account and liabilities of SPV by ₱5.3 billion and ₱3.7 billion, respectively, and the increases in marginal deposits and deferred revenues by ₱1.1 billion and ₱0.4 billion, respectively. As of December 31, 2009, liabilities of SPV account amounting to ₱3.7 billion represents the principal balance of the senior notes carried in the accounts of CG3AMI and LNC3AMI, net of the costs and expenses. In 2010, however, the MBT Group did not include the accounts of said SPVs as the related accounts are not considered material to the consolidated financial statements (see discussion under "– Financial position – Assets – Other Assets").

LIQUIDITY AND CAPITAL RESOURCES

The following table sets out the MBT Group's statements of cash flows:

	For the year ended December 31,			
	2009	2010	2011	2011
	(₱ millions)			(U.S.$ millions)
Net cash provided by (used in) operating activities	25,986	18,951	(17,635)	(401)
Net cash provided by (used in) investing activities	(48,693)	33,255	(18,956)	(432)
Net cash provided by (used in) financing activities	40,927	(7,294)	18,894	430
Net increase (decrease) in cash and cash equivalents	18,220	44,912	(17,697)	(403)
Cash and cash equivalents at beginning of year	187,554	205,774	250,686	5,707
Cash and cash equivalents at end of year	205,774	250,686	232,989	5,304

Cash flows from or used in operating activities

The MBT Group generated net cash inflows from operating activities of ₱26.0 billion and ₱19.0 billion in 2009 and 2010, respectively, and net cash used in operating activities of ₱17.6 billion in 2011. The main sources of cash, aside from the income from current operations, include net increases in deposit liabilities and other liabilities of ₱30.4 billion and ₱4.7 billion, respectively, in 2009; net increase in deposit liabilities of ₱35.6 billion in 2010; and net increases in deposit liabilities and other liabilities of ₱29.7 billion and ₱2.8 billion, respectively, in 2011. In addition, loans and receivables expanded by ₱10.5 billion, ₱32.7 billion and ₱69.2 billion in 2009, 2010 and 2011, respectively, while financial assets at FVPL increased by ₱7.8 billion in 2009 and decreased by ₱3.8 billion and ₱5.4 billion in 2010 and 2011, respectively.

Cash flows from or used in investing activities

The MBT Group experienced net cash outflows on investing activities of ₱48.7 billion and ₱19.0 billion in 2009 and 2011, respectively, while generated net cash inflows from investing activities of ₱33.3 billion in 2010. This was primarily due to net purchases of AFS investments, HTM investments and property and equipment amounting to ₱52.6 billion, ₱1.2 billion and ₱2.0 billion, respectively, in 2009; disposals of AFS investments (net of acquisitions) of ₱36.5 billion and net purchases of HTM investments and property and equipment of ₱9.0 billion and ₱1.5 billion, respectively, in 2010; and net purchases of AFS investments, HTM investments and property and equipment amounting to ₱6.4 billion, ₱14.8 billion and ₱2.5 billion, respectively, in 2011. In addition, the MBT Group's disposals of investment properties generated proceeds of ₱7.3 billion, ₱4.6 billion and ₱4.4 billion in 2009, 2010 and 2011, respectively, while disposals of investment in associates in 2010 generated ₱5.3 billion. The MBT Group also increased its investments in subsidiaries, associates and a joint venture by ₱1.5 billion, ₱1.9 billion and ₱1.7 billion in 2009, 2010 and 2011, respectively.

Cash flows from or used in financing activities

In 2009, the MBT Group experienced net cash inflows from financing activities of ₱40.9 billion, which was attributable to net availments of bills payable and SSURA and MBT's issuance of subordinated debt of ₱37.6 billion and ₱5.7 billion, respectively. During 2009, cash dividends paid by the MBT Group and coupon payments of hybrid capital securities of MBT amounted to ₱1.9 billion and ₱0.5 billion, respectively.

In 2010, the MBT Group experienced net cash outflows of ₱7.3 billion, which was primarily due to net settlements of bills payable and SSURA of ₱10.4 billion, payments of cash dividends by the MBT Group and coupon payments of hybrid capital securities of MBT amounting to ₱1.4 billion and ₱0.5 billion, respectively, and partially offset by the proceeds from the issuance of common shares of MBT of ₱4.9 billion.

In 2011, the MBT Group experienced net cash inflows from financing activities of ₱18.9 billion, which was primarily attributable to net availments of bills payable and SSURA and proceeds from MBT's issuance of shares of stock of ₱14.1 billion and ₱9.8 billion, respectively. In January 2011, PSBank exercised its call option and repaid its subordinated debt amounting to ₱2.0 billion. In addition, cash dividends paid by the MBT Group and coupon payments of hybrid capital securities of MBT amounted to ₱2.6 billion and ₱0.5 billion, respectively.

The following is a summary of the MBT Group's commitments and contingent liabilities at their equivalent Peso contractual amounts:

	As of December 31,			
	2009	2010	2011	2011
	(₱ millions)			(U.S.$ millions)
Trust department accounts	210,342	271,029	382,136	8,699
Unused commercial letters of credit	17,633	19,469	22,557	513
Inward bills for collection	513	459	387	9
Outward bills for collection	745	581	562	13
Others	52,683	53,503	66,347	1,510

Material commitments for capital expenditures

The MBT Group's commitments for capital expenditures will be funded out of cash flows from operations. This covers expenditures incurred for information technology, including electronic systems to comply with regulatory requirements, investments in other systems (e.g. credit evaluation system), upgrades of existing systems (e.g. telecommunications system), expansion of the MBT Group's electronic banking channels, ATM installation, renovation or relocation of branch premises and investments made for new branches.

The MBT Group's capital expenditures in 2009, 2010 and 2011 were, ₱2.2 billion, ₱1.6 billion and ₱2.8 billion, respectively. The MBT Group's primary capital expenditures during those years were mainly invested in the expansion and refurbishment of the branch network, including furniture, fixtures and equipments, land, buildings and leasehold improvements. The MBT Group also undertook technology-related investments in support of its business expansion.

Credit ratings

MBT's borrowing costs are affected directly by MBT's credit ratings. MBT's credit ratings as of December 31, 2011 are set forth below:

Moody's:

Financial strength: D
Outlook: stable
Long term foreign deposit: Ba2
Short term foreign deposit: Not prime
Long term local deposit: Ba1
Short term local deposit: Not prime
Sub-debt: Ba2

Capital Intelligence:

Financial strength: BB+
Outlook: stable
Long term foreign currency: BB
Short term foreign currency: B

A securities rating is not a recommendation to buy, sell or hold securities. A securities rating may be subject to withdrawal or revision at any time. Each rating should be evaluated separately of any other rating.

Capital Adequacy

The Philippines adopted capital adequacy requirements based on the Basel II Capital Accord through the issuance of BSP Circular 538 effective on July 1, 2007. As of December 31, 2011, the MBT Group's risk-weighted capital adequacy ratio (the ratio of total qualifying capital to risk-weighted assets), on a consolidated basis, was 17.4%. The BSP's minimum risk weighted capital adequacy ratio is 10.0%. The MBT Group's consolidated core Tier 1 capital adequacy ratio was 13.7% as of December 31, 2011.

The following table sets out details of capital resources and capital adequacy ratios of the MBT Group as of the dates indicated:

Consolidated	As of December 31, 2009	2010	2011	2011
	(₱ millions)			(U.S.$ millions)
Tier 1 (core) Capital:				
Common stock	36,145	38,228	42,228	961
Capital paid in excess par value	4,698	7,543	13,371	304
Surplus	22,808	29,053	37,850	862
Cumulative Foreign Currency translation	646	419	801	18
Undivided profit	–	–	–	–
Non-controlling interest	4,469	5,009	5,735	131
Hybrid Tier 1 Capital Securities	5,689	5,398	5,398	123
Deduction from Tier 1:				
Common stock treasury shares	10	21	–	–
Net unrealized loss on equity securities	94	–	–	–
Unsecured DOSRI	5,135	5,847	5,687	129
Deferred income tax	7,928	7,542	7,698	175
Goodwill	5,075	4,570	4,569	104
Net Tier 1 capital	56,213	67,670	87,429	1,990
Net Tier 2 capital	25,147	25,796	23,924	545
Gross qualifying capital	81,360	93,466	111,353	2,535
Deductions from gross qualifying capital	2,521	2,037	2,286	52
Total qualifying capital	78,839	91,429	109,067	2,483
Capital ratios:				
Tier 1 capital ratio	10.0%	12.0%	13.7%	13.7%
Total capital ratio	14.3%	16.4%	17.4%	17.4%

The following table sets out the MBT Group's consolidated assets according to risk weight as of the dates indicated:

Consolidated	As of December 31, 2009	2010	2011	2011
	(₱ millions)			(U.S.$ millions)
Risk-weighted on-balance sheet assets:				
20%	12,564	13,069	11,510	262
50%	25,800	22,757	20,212	460
75%	26,710	23,118	28,962	659
100%	329,252	347,919	381,896	8,694
150%	55,956	40,363	27,443	625
Risk-weighted off-balance sheet:				
20%	–	10	9	–
50%	39	55	253	6
75%	–	–	–	–
100%	14,190	10,373	14,056	320
150%	–	–	–	–
Risk-weighted interest rate and exchange rate-related	2,935	1,618	3,453	79
Risk-weighted securitization exposures	–	–	–	–
Risk-weighted assets covered by Mitigants	144	481	–	–
Total credit risk-weighted assets	467,590	459,763	487,794	11,104
Market risk-weighted assets	11,830	18,396	54,244	1,235
Operational risk-weighted assets	72,426	78,081	86,401	1,967
Total risk-weighted assets	551,846	556,240	628,439	14,306

Securities offerings

In 2006, MBT issued U.S.$125.0 million Hybrid Tier 1 notes in February and 173,618,400 common shares at ₱38.00 per common share in October. MBT issued subordinated notes in October 2007 for ₱8.5 billion (U.S.$193.5 million) with a coupon of 7.0%, in October 2008 for ₱5.5 billion (U.S.$125.2 million) with a coupon of 7.75% and in May 2009 for ₱4.5 billion (U.S.$102.4 million) with a coupon of 7.5%. In May 2010, MBT raised an additional ₱5.0 billion (U.S.$113.8 million) in capital through a private placement of common shares. In January 2011, MBT raised ₱10.0 billion through a rights offer for 200 million common shares at an offer price of ₱50.00 per rights share.

RELATED PARTY TRANSACTIONS

In the ordinary course of business, MBT has loan transactions with subsidiaries and with certain DOSRI. Under MBT's policies, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks. For more information, see the section titled "Related Party Transactions".

THE PHILIPPINE BANKING INDUSTRY

Under Republic Act No. 8791, "The General Banking Act of 2000" (the "General Banking Law"), the following are the classifications of banks: universal banks, commercial banks, thrift banks (comprising savings and mortgage banks, private development banks, and stock savings and loan associations), rural banks, and cooperative banks.

According to BSP, as of December 31, 2011, the commercial banking sector, comprising universal and commercial banks, consisted of 38 banks, of which 20 were universal banks and 18 were commercial banks. Of the 20 universal banks, 11 were private domestic banks, three were government banks and six were branches of foreign banks. Of the 18 commercial banks, eight were private domestic banks, two were subsidiaries of foreign banks and eight were branches of foreign banks.

Commercial banks have all the general powers incidental to corporations and, in addition, have all such powers as may be necessary to carry on the business of commercial banking, such as the power to accept drafts and to issue letters of credit, to discount and negotiate promissory notes, drafts, bills of exchange and other evidences of indebtedness, to accept and create demand deposits, to receive other types of deposits and deposit substitutes, to buy and sell foreign exchange and gold and silver bullion, to acquire marketable bonds and other debt securities and to lend money on a secured or unsecured basis. Universal banks are banks that have authority, in addition to commercial banking powers, to exercise the powers of investment houses and to invest in allowable allied and non-allied enterprises, all as provided for by law, rules and regulations. A publicly-listed universal or commercial bank may own up to 100.0% of the voting stock of only one other universal or commercial bank.

Thrift banks primarily accumulate the savings of depositors and invest them, together with their capital, in secured or unsecured loans, or in financing for home building and home development, in readily marketable debt securities, commercial paper and accounts receivable, drafts, bills of exchange, acceptances or notes arising out of commercial transactions. Thrift banks also provide short-term working capital and medium- and long-term financing for businesses engaged in agriculture, services, industry, housing and other financial and allied services for its chosen market and constituencies, especially for small-and-medium-enterprises ("SMEs") and individuals. According to BSP, as of December 31, 2011, there were 70 thrift banks in the Philippines.

Rural banks are organized primarily to make credit available and readily accessible in rural areas on reasonable terms. Loans and advances extended by rural banks are primarily for the purpose of meeting the normal credit needs of farmers and fishermen, as well as the normal credit needs of cooperatives and merchants. Cooperative Banks primarily provide financial, banking and credit services to cooperatives and their members, and may perform any or all of the banking services offered by other types of banks, subject to BSP approval. According to BSP, as of December 31, 2011, there were 622 rural and cooperative banks in the Philippines.

Each specialized government bank is organized to serve a particular purpose. The existing specialized banks are the Development Bank of the Philippines ("DBP"), Land Bank of the Philippines ("LBP") and Al-Amanah Islamic Investment Bank of the Philippines ("AAIIB"). DBP was organized primarily to provide banking services catering to the medium- and long-term needs of agricultural and industrial enterprises, particularly in rural areas and preferably for SMEs. LBP primarily provides financial support in all phases of the Philippines' agrarian reform program. In addition to their special functions, DBP and LBP are allowed to operate as universal banks. AAIIB was organized to promote and accelerate the socio-economic development of the Autonomous Region of Muslim Mindanao through banking, financing and investment operations and to establish and participate in agricultural, commercial and industrial ventures based on Islamic banking principles.

During the past decade, the Philippine banking industry has been marked by two major trends, liberalization of the industry and mergers and consolidation.

Foreign bank entry was liberalized in 1994 through the enactment of Republic Act No. 7721, which enabled foreign banks to invest in up to 60.0% of the voting stock of an existing bank or a new banking subsidiary, or to establish branches with full banking authority. This led to the establishment of ten new foreign bank branches in 1995. In 2000, Republic Act No. 8791, The General Banking Law of 2000, was enacted. This further liberalized the industry by providing that the Monetary Board may authorize foreign banks to acquire up to 100.0% of the voting stock of one domestic bank. Under the General Banking Law, any foreign bank, which prior to the effectiveness of the said law availed itself of the privilege to acquire up to 60.0% of the voting stock of a domestic bank, may further acquire voting shares of such bank to the extent necessary for it to own 100.0% thereof. According to BSP, as of December 31, 2011, there were 14 foreign banks with branches and two foreign banks with subsidiaries in the Philippines.

The BSP has also been encouraging mergers and consolidations in the banking industry, seeing this as a means to create stronger and more globally competitive banking institutions. To encourage this trend, the BSP offered various incentives to merging or consolidating banks. Based on BSP data, since the new package of incentives took effect in September 1998, there have been 32 mergers, acquisitions, and consolidations of banks. However, while recent mergers increased market concentrations, BSP studies showed that they were not enough to pose a threat to the overall competition levels since market share remained relatively well dispersed among the remaining players.

The following table sets out a comparison, based on consolidated quarterly reports filed with the Philippine SEC, of the five leading private domestic commercial banks in the Philippines as of September 30, 2011:

Name	Market Capitalization[1]	Total Capital[2]	Total assets	Gross loans	Customer deposits	No. of Branches
	(₱ millions)					(whole numbers)
Banco De Oro	132,979	90,410	1,048,733	620,846	820,617	740
Metrobank	139,352	110,277	916,084	427,112	656,385	774
Bank of the Philippine Islands	198,445	87,983	788,712	413,598	624,702	809
Rizal Commercial Banking Group	36,484	41,191	311,856	157,368	218,299	359
Philippine National Bank	30,861	34,717	318,715	116,362	238,675	331

Notes:

1 *Source: Company financials and number of branches are from Q3 2011 financial quarterly reports. Number of branches are from Company's Q3 2011 Results Presentations. Market data from Bloomberg. Based on closing prices as of September 30, 2011.*

2 *Includes interests in subsidiaries and allied undertakings.*

COMPETITION

Competition exists from both domestic and foreign banks, in part, as a result of the Government's efforts to liberalize the Philippine banking industry. Since 1994, several foreign banks, which have greater financial resources than MBT, have been granted licenses to operate in the Philippines. Such foreign banks have generally focused their operations on larger corporations and selected consumer finance products, such as credit cards. Foreign banks have not only increased competition in the corporate market, but have caused more domestic banks to focus on the commercial middle-market, placing pressure on margins in both markets.

In the domestic market, prior to 2000, many banks expanded their networks to tap low-cost retail deposits following the relaxation of restrictions on branch banking. As a result, the Philippine banking market is relatively fragmented as compared to other Asian countries, with the top ten banks accounting for 80.9% of total assets of universal and commercial banks as of December 31, 2011, according to published statements of condition reported to the BSP. Since September 1998, the BSP has been encouraging consolidation among banks in order to strengthen the Philippine banking system. Consolidation is expected to result in greater competition, as a smaller group of "top tier" banks compete for business.

In addition, certain factors arising from the recent economic downturn in 2011 are expected to result in greater competition and therefore exert downward pressure on margins. Since 2000, banks have instituted more restrictive lending policies as they focused on asset quality and tried to reduce their NPL exposure, increasing liquidity. As the Philippine economy recovers from the economic downturn and banks begin to apply such liquidity in the lending market, greater competition for corporate, commercial, and consumer loans may arise.

CERTAIN GOVERNMENT POLICIES AND REGULATIONS IN RELATION TO THE PHILIPPINE BANKING SYSTEM

The Philippine banking industry is highly regulated by the BSP and operates within a framework that includes requirements on capital adequacy, corporate governance, management, anti-money laundering and provisioning for NPLs. The BSP can alter any of these requirements and can introduce new regulations to control any particular line of business. Certain policies that MBT believes could affect its results of operations include the following:

- **Regulations Governing the Derivatives Activities of Banks.** In line with the policy of the BSP to support the development of the Philippine financial market by providing banks and their clients with expanded opportunities for financial risk management and investment diversification through the prudent use of derivatives, Circular No. 594 was issued by the BSP in January 2008 amending the existing regulations governing the derivatives activities of banks. MBT expects increased competition in the swaps and other derivative transactions allowed under the regulations. MBT has already obtained its limited dealer authority for Foreign Exchange Forwards (including non-deliverables), Foreign Exchange Swaps, Interest Rate Swaps, Cross Currency Swaps, Asset Swaps, Forward Rate Agreements, European Vanilla Foreign Exchange Options and Credit Default Swaps. Meanwhile, there are currently no changes in the application process.

- **Amendments to unit investment trust fund ("UITF") Regulations.** In September 2004, the BSP issued Circular No. 447 which provided guidelines for the launching and offering of new products to be known as UITFs, and was intended to completely phase out common trust funds or convert them into UITFs within two years from the date of the circular. UITFs are open-ended pooled trust funds denominated in any acceptable currency that are to be operated and administered by trust entities. Eligible assets of UITFs include bank deposits, securities issued by or guaranteed by the Government or the BSP, tradable securities issued by the government of a foreign country, exchange listed securities, marketable instruments that are traded in an organized exchange, loans traded in an organized market and such other tradable instruments as the BSP may allow. These assets are subject to mark-to-market valuation on a daily basis. The stated objective of the BSP is to align the operation of pooled funds with international best practices and enhance the credibility of pooled funds to investors. In January 2008, the BSP issued Circular No. 593 to improve risk disclosure on investing in UITFs, by requiring banks to conduct a client suitability assessment to profile the risk-return orientation and suitability of the client to the specific type of UITF that he wants to participate in, and to update the client's profile at least every three years. MBT has joined with the BSP in this endeavour to guide clients in choosing investment outlets that are best suited to their objectives, risk tolerance, preferences and experience.

- **Limit on Real Estate Loans of Universal Banks.** In February 2008, the BSP issued Circular No. 600 removing interbank loans from the total loan base to be used in computing the aggregate limit on real estate loans, and amending the inclusions and exclusions to be observed in the computation. Overall, the new provisions reduced MBT's limit on real estate loans.

- **Exemption of Paired ROP Warrants from Capital Charge for Market Risk.** In connection with the Government's Paired Warrants Program, the BSP issued Circular No. 605 in March 2008 exempting warrants paired with ROP Global Bonds from capital charge for market risk to the extent of a bank's holdings of bonds paired with warrants equivalent to not more than 50.0% of total qualifying capital. MBT holds such investments which give it additional flexibility for capital deployment.

- **Guidelines on Securities Borrowing and Lending Transactions.** Guidelines by the PSE on securities borrowing and lending ("SBL") govern SBL transactions between local/foreign borrowers and local/foreign lenders. BSP Circular No. 611, series of 2008, provides guidelines on SBL transactions in the PSE involving borrowings by foreign entities of PSE-listed shares from local investors/lenders. In May 2008, the BSP Monetary Board authorized the issuance of BSP Registration documents to cover the PSE-listed shares of stock borrowed by foreign entities from local investors and lenders. This will allow foreign borrowers to purchase foreign exchange from the banking system for remittance abroad using the Peso sales proceeds of the borrowed shares including the related income from the SBL transaction, such as rebates or shares in the income earned on the reinvestment of the cash collateral, interest and dividends earned on the Peso-denominated government securities and PSE-listed shares used as collateral.

- **Reclassification of Financial Assets between Categories.** The BSP issued Circular No. 628 dated October 31, 2008, amending Circular No. 626 dated October 23, 2008 and the Resolution of the Monetary Board No. 1423 dated October 30, 2008, which approved the guidelines governing the reclassification of financial assets between categories. Financial Institutions shall be allowed to reclassify all or a portion of their financial assets from "held for trading" or "available for sale" categories to the "held to maturity" or "unquoted debt securities classified as loans" categories effective July 1, 2008.

- **Taxes.** In addition, all banks are subject to certain tax rules specific to Financial Institutions. In November 2005, the Government increased the gross receipts tax, which is applied to MBT's non-interest income, from 5.0% to 7.0%. Any further changes in the regulatory or tax environment as pertaining to the Philippine banking industry could have a material impact on MBT's results of operations and financial position.

- **Increase in Statutory/Legal Reserve Requirements of Peso Deposits Liabilities and Deposit Substitutes Taxes.** The BSP issued Circular No. 726 dated June 23, 2011 increasing the reserve requirement on deposits and deposit substitutes of all banks and non-banks with quasi-banking functions by 1% effective as of June 24, 2011, and further increasing such reserve requirements by 1% effective as of August 5, 2011 per BSP issued Circular No. 732 dated August 3, 2011.

- **Rules and Regulations on the Mandatory Allocation for Agriculture and Agrarian Reform Credit.** In July 2011, the BSP issued Circular No. 736 as a component of the Implementing Rules and Regulations ("IRR") of the Republic Act No. 10000, otherwise known as the Agri-Agra Reform Credit Act. Aside from retaining the mandatory credit allocation, it also rationalizes the modes of compliance. In addition to direct compliance through loans to qualified borrowers, a list of alternative compliance mechanisms is also provided.

BUSINESS – MBT

OVERVIEW

MBT is a universal bank based in the Philippines which provides, through itself and other members of the MBT Group, a full range of banking and other financial products and services including corporate, commercial and consumer banking products and services as well as credit card, investment banking and trust services. As of September 30, 2011, the MBT Group was the second largest Philippine bank by asset size, net loans and receivables and total deposits, with total assets of ₱916.1 billion, net loans and receivables of ₱432.8 billion and total deposits of ₱656.4 billion. MBT is also the largest Philippine bank by book capitalization and controls 11.4% of the Philippine banking system's total asset base as of September 30, 2011, according to published statements of condition reported to the Philippine SEC.

The MBT Group offers corporate and commercial banking products and services throughout the Philippines. The MBT Group's corporate banking services consists of banking services provided to corporate customers (generally recognized by MBT as the top 1,000 Philippine companies, multinational companies and Government-owned and controlled companies). The MBT Group's commercial banking services consists of banking services provided to small and medium-sized businesses. As of December 31, 2009, 2010 and 2011, corporate and commercial loans represented 74.9%, 72.7% and 72.9% of the MBT Group's total loan portfolio, respectively.

The MBT Group, through MBT and PSBank (a 76.0% owned subsidiary of MBT), is also a leading provider of consumer banking products and services in the Philippines. Through its network of branches, the MBT Group offers a wide range of deposit, mortgage and vehicle finance products and services, targeted primarily at its existing customers. MBT offers a variety of products to high net worth individuals, which is a growing demographic group in the Philippines.

The MBT Group offers trust banking services, credit card services and investment banking services through subsidiaries of MBT, and is also engaged in other businesses, some of which are unrelated to the financial services sector. See "– Subsidiaries and Associates".

As of December 31, 2011, the MBT Group had a total of 785 branches in the Philippines, of which 585 were operated by MBT and 200 were operated by PSBank. MBT's international operations consist of branches in Taipei, New York, Guam, Tokyo, Seoul, Pusan and Osaka, together with representative offices in Beijing and Hong Kong. MBT also has an extensive network of remittance centers in Asia, Europe and North America which has enabled it to become a leading provider of remittance services to OFWs.

As of December 31, 2009, 2010 and 2011, the MBT Group's total assets amounted to ₱854.3 billion, ₱887.3 billion and ₱958.4 billion, respectively, while equity attributable to equity holders of MBT amounted to ₱75.2 billion, ₱87.6 billion and ₱109.8 billion, respectively. Consolidated net income attributable to equity holders of MBT for the years ended December 31, 2009, 2010 and 2011 amounted to ₱6.0 billion, ₱8.4 billion and ₱11.0 billion, respectively.

MBT has been listed on the PSE since February 1981 after its initial public offering. Its market capitalization as of December 31, 2011 was ₱143.5 billion. MBT was founded by Dr. George S.K. Ty. GT Capital is the single largest shareholder of MBT.

As of December 31, 2009, 2010 and 2011, the MBT Group's Tier 1 and total capital adequacy ratios were 10.0% and 14.3%, 12.0% and 16.4%, and 13.7% and 17.4%, respectively.

HISTORY

MBT was established on September 5, 1962 by a group of Filipino businessmen led by MBT Group Chairman, Dr. George S. K. Ty, principally to provide financial services to the Filipino-Chinese community. MBT has continuously sought to diversify its business and now provides a broad range of banking products and services to all sectors of the Philippine economy through an extensive domestic branch network and internationally through a network of foreign branches and representative offices.

MBT was one of the first banks in the Philippines to gain a universal banking license, which was granted by the BSP in August 1981. This license allows MBT to engage in finance-related businesses such as savings and consumer banking, credit card and leasing products and services as well as "non-allied undertakings", which currently include motor vehicle assembly (through TMP), travel and real estate.

Since the establishment of its first office in Manila, MBT's operations in the Philippines, and in particular its domestic branch network, have expanded organically and through a series of acquisitions and mergers, including its acquisition of PSBank in 1983. Increased expansion of MBT's domestic branch network occurred following a change in 1993 to the BSP's policy of restricting the opening of additional bank branches in the Philippines and the liberalization of the Philippine banking industry.

MBT's international network of foreign branches and representative offices has grown since the opening of its first international branch in Taipei in 1975. Such growth was principally in response to the increased volume of remittances by OFWs. As a result of the growth in MBT's international network, MBT has been able to augment its foreign exchange sources during periods of political instability in the Philippines in which access to foreign exchange has been otherwise limited.

COMPETITIVE STRENGTHS

The MBT Group believes that it has certain key strengths that provide competitive advantages over many of its competitors, including, among others:

Strong financial position

As of September 30, 2011, the MBT Group was the second largest Philippine bank by asset size, net loans and receivables and total deposits, with total assets of ₱916.1 billion, net loans and receivables of ₱432.8 billion and total deposits of ₱656.4 billion. MBT was also the largest Philippine bank by book capitalization and controls 11.4% of the Philippine banking system's total asset base as of September 30, 2011, according to published statements of condition reported to the Philippine SEC. As of December 31, 2010 and 2011, the MBT Group's total assets amounted to ₱887.3 billion and ₱958.4 billion, respectively, while equity attributable to the equity holders of MBT amounted to ₱87.6 billion and ₱109.8 billion, respectively. The consolidated net income attributable to equity holders of MBT for the years ended December 31, 2010 and 2011 amounted to ₱8.4 billion and ₱11.0 billion, respectively. MBT believes its financial strength contributes to its strong market position. MBT's strong financial position gives the MBT Group flexibility to invest in new products and services, information technology and other infrastructure required for the execution of its growth strategy.

Leading market position across diverse product segments

Each of MBT's product segments are among the leaders in the Philippine banking industry. In retail banking, the MBT Group has the largest car financing portfolio and the third largest housing portfolio. In addition, it is the third largest card issuer through MCC according to the CCAP based on its December 2011 report. The MBT Group has the third largest trust business with AUM of ₱382.1 billion based on publicly available reports submitted by Philippine banks to the BSP, as of December 31, 2011. MBT has been awarded Best Performing Government Securities Dealer from 2008 – 2010 by the Bureau of Treasury; Best Fund Manager for All Trustee Retirement Funds and Best Fund Management for Average Returns by Towers Watson Survey. In addition, the MBT Group is also a leading provider of trade finance services to large corporates and middle market companies and one of the leading providers of remittance services. With ₱78.7 billion in total assets as of December 31, 2011, MBT's subsidiary, FMIC, is the largest domestic investment bank and one of the leading Government securities eligible dealers according to the Investment Houses Association of the Philippines and the Philippine Dealing and Exchange Corporation based on their June 2011 reports. FMIC also believes that it is a leader in the domestic debt capital markets, having participated in a majority of the Peso-denominated debt issuances in 2011. MBT believes that its strong positions across diverse product segments allow it to cross-promote each segment to its customers to increase revenues and the flexibility to invest in new products and services.

Diversified franchise with large scale of operations

The MBT Group, through MBT and PSBank, operates one of the largest branch networks in the Philippines. It also derives significant synergies from the diversified MBT Group and affiliated franchises such as FMIC, the largest, according to IHAP, and only publicly listed Philippine investment bank; MCC, the third largest card issuer with a 13.8% market share in the Philippines according to the December 2011 report of CCAP; TMP, a market leader in the Philippine automobile industry with a 33.0% market share in the Philippines in 2011 based on data from CAMPI and AVID; and AXA, who was first in first year premium and single premium of variable life insurance as of December 31, 2010. MBT's scale of operations, together with the MBT Group's financial resources, allows the MBT Group to cross-sell a wider range of financial services to existing customers and potentially capture a broader range of new clients.

Strong management team

The MBT Group has assembled a strong management team, led by Dr. George S.K. Ty, the founder of MBT. Dr. Ty and MBT's senior executive officers (consisting of those officers at the executive vice-president level and above) have, on average, 20 years of experience in the banking sector. As of December 31, 2011, MBT had five banking industry leaders on its board of directors, including Antonio S. Abacan, Jr., Remedios L. Macalincag, Jesli A. Lapus, Robin A. King and Vicente P. Valdepeñas, while its other top executives have a broad range of experience in banking and finance. Management's extensive experience and financial acumen provide the MBT Group with a significant competitive advantage.

Well recognized brand

MBT believes that "Metrobank" is one of the most-widely recognized brands for financial services in the Philippines. This belief is supported by recent awards that MBT has received, including "Strongest Bank in the Philippines" and "20th Strongest Bank in Asia Pacific Region" by The Asian Banker, "Best Bank in the Philippines" for 2010 and 2011 by Euromoney, "Bank of the Year in the Philippines" for 2010 by The Banker and "First in Financial Reputation in the Philippines" for 2008 and 2009 by the Wall Street Journal Asia. MBT believes this brand recognition helps attract low-cost funding as depositors are more willing to place deposits with MBT, especially during economic downturns, than with some of its competitors. PSBank also actively brands itself as a subsidiary of "Metrobank".

STRATEGIES

MBT seeks to build on its recent successes by implementing a medium-term strategy focused on (a) increasing market share and business volumes through improved products and services, (b) increasing operational efficiency, and (c) becoming an employer of choice with continuous enhancements for its employees and organization.

Continue to improve product and service offerings and create new revenue streams across its product segments

MBT continues to focus on low-cost deposit growth and is exploring options to further promote cross-selling of its financial products. MBT's current strategy is to deploy more sales officers at MBT's branches and work on a list of targeted clients. Cash management solutions are being sold aggressively to support this effort.

MBT's corporate banking business was reorganized to encourage MBT's top 250 clients to maximize their existing credit lines and to acquire new clients for its lending activities. MBT also introduced its SME Lending Division for clients with assets below ₱10 million to better manage the requirements of SMEs and micro-industries. The "Great Rates" promotion for car financing was conducted for the third straight year, and a similar campaign for home loans was conducted in the third quarter of 2011.

To grow sales from its trust business, MBT has increased its investment desks, the number of account officers and frontline support employees in pursuit of higher AUM targets.

With the establishment of MBCL in Nanjing, the People's Republic of China (the "PRC"), MBT believes it is better equipped to grow its Chinese business by capturing remittance, trade and investment flows to and from the PRC, and has put itself in a position to initiate retail banking, including insurance as well as other business opportunities in the PRC.

For its foreign exchange and derivatives businesses, MBT plans to continue developing its trading, hedging and related financial solutions, principally through distribution through MBT's New York branch.

Rationalize costs and increase operational efficiencies

MBT seeks to remain competitive by rationalizing costs while increasing operational efficiencies that impact positively on the customer experience. MBT is working on maximizing existing investments on frontline systems, including treasury and cash management systems, and a re-tooling of the core banking system, and backroom systems, including risk, accounting and purchasing systems and related operating platforms that facilitate transaction turnaround or improve customer face time. MBT is also exploring outsourcing, particularly third-party service arrangements with subsidiaries or external parties for non-sensitive functions, such as pre-departure briefings for OFW target clients and cash sorting for old bills and coins.

MBT continues to invest in customer service enhancements, such as the one-stop shop for high transaction customers, and interconnection with electronic payment gateways, which complements lending and deposit taking that have traditionally driven business growth. Similar enhancements have helped various MBT units, such as the International Operations and Subsidiaries Group, to increase business volume.

MBT has required its various head office units to publish their respective service standards and uphold corresponding customer service pledges, so that its customers are served with a consistent level of integrity and professionalism throughout MBT.

Invest in human resources and enhanced organizational competencies

MBT's human resource initiatives are aimed at attracting top talent, in order to help transform MBT into an employer of choice. At present, the human resources management group is reviewing its rewards philosophy framework in an effort to strengthen its retention program, specifically by revising current employee scorecards to value more relevant performance metrics. Other enhancements are likewise being contemplated for its 360-degree feedback process, wherein each employee is scored based on inputs from his superiors, peers and subordinates.

MBT has taken further steps to develop a values and culture program, for which a trial run in 2010 yielded significant inputs from key executives. MBT has also improved module-based training, which has contributed to increasing employee accreditations or certifications by the Philippines' regulatory authorities in the fields of foreign exchange, securities trading, trust marketing, financial advisory, accountancy and audit.

A review of organizational competencies is currently under evaluation. This is primarily to prepare for segment and industry expertise and to identify tools that will drive a more efficient sales effort. In the future, MBT intends to promote constant organizational reviews to sustain change-readiness and cope with dynamic market conditions.

Develop the overseas Filipino remittances segment

MBT believes that overseas Filipinos have been one of the fastest growing segments in the Philippine banking sector, with remittance volume reaching U.S.$18.8 billion and U.S.$20.1 billion as of December 31, 2010 and 2011, respectively. MBT believes this is a business it can grow from its approximate 13.9% market share based on BSP reports for 2011. MBT is continuously looking to grow this segment by expanding its presence in the Middle East, Europe, Australia and Asia. In 2011, profits from its Asian and United States remittance businesses significantly contributed to MBT's revenue. MBT is currently expanding its remittance services in the Middle East, Australia and Asia, particularly the PRC, given the regions' growing economies and increasing number of overseas Filipinos working and residing there. Most recently, MBT strengthened its expansion efforts in the PRC, which remains one of the fastest growing economies in the world. It has been present in the PRC since the 1990s with branches and representative offices in Shanghai and Beijing. In early 2010, MBT inaugurated MBCL in Nanjing, which MBT believes to be the first foreign bank to establish its headquarters in the city. The new bank serves as the base for MBT's operations in the PRC.

In order to attain its goals for the remittance business, MBT has embarked on a strategy to focus on:

- *Enhancing product offerings* – by introducing new products and services and enhancing existing ones;

- *Expanding its presence* – particularly in Australia, the Middle East (Jordan), Asia (the PRC) and in Europe (the Netherlands and Ireland);

- *Extending distribution points* – with a key focus on covering payout channels in the Philippines in addition to its network of branches and ATMs. These include rural banks and pawnshops, which offer longer business hours and presence in rural areas; and

- *Efficient delivery of services* – through the implementation of a new remittance system.

Strengthen corporate governance

MBT recognizes that good risk management goes beyond regulatory compliance and must be part of its growth strategy and day-to-day business. With increasingly strict corporate governance requirements and compliance targets under Basel II, MBT aims to promote credit excellence, focus on market and operational risks, and account for other important risks.

To promote credit excellence, MBT has implemented the Achieving Credit Excellence Project to automate and accelerate credit processing as well as minimize attendant credit-related risks. To meet this goal, MBT has begun re-engineering all aspects of the lending process, from defining the client's credit appetite to loan origination, administration, monitoring, servicing and recovery. Supporting tools such as the Internal Credit Risk Rating System have been developed to rate the overall borrower and facility risk of a particular corporate or commercial counterparty. In terms of credit risk exposure in the consumer segment, a scorecard is utilized. Account risk management, terms of offering and pricing are guided by the credit risk rating of counterparties.

Furthermore, MBT is implementing an electronic credit approval and central liability system from Algorithmics Incorporated, a leading provider of enterprise risk management solutions, to facilitate better credit risk management through electronic data storage for credit modeling and to ensure the integrity of the credit process through system-based controls. This was a substantial investment on the part of MBT and is a concrete manifestation of its commitment to credit risk management. MBT is also developing a complementary Credit Risk Management System which will serve as its platform to develop and maintain automated quantitative and qualitative risk management tools requisite to the diversity and growth of MBT's business, as well as to enhance the portfolio and sub-portfolio analyses. These tools are expected to enable MBT to gain a more robust credit risk-based capital assessment and allocation.

To minimize market and operational risks, MBT has programmed the upgrade of its market risk management and asset-liability management systems, the refinement of all its market risk models, such as value-at-risk, interest rate repricing gap and earnings-at-risk, the implementation of risk documentation and a risk database to track loss events and fraud cases, and the tightening of its business continuity plan. To safeguard asset quality, the management of its NPAs remains a top priority.

Continue to improve the MBT Group's capital position

MBT plans to continue to improve on the group's strong capital position, which has benefited from significant recent capital markets transactions. In 2006, MBT issued U.S.$125.0 million Hybrid Tier 1 notes in February and 173,618,400 common shares at ₱38.00 per common share in October. MBT issued subordinated notes in October 2007 for ₱8.5 billion with a coupon of 7.0%, in October 2008 for ₱5.5 billion with a coupon of 7.75% and in May 2009 for ₱4.5 billion with a coupon of 7.5%. In May 2010, MBT raised an additional ₱5.0 billion in capital through a private placement of common shares. In January 2011 MBT raised approximately U.S.$220.0 million through a rights offer for 200 million common shares at the offer price of ₱50.00 per rights share. With a total capital adequacy ratio of 17.4% as of December 31, 2011, the MBT Group is well above the 10.0% level required by the BSP. In addition, the MBT Group's tier 1 CAR was 13.7% as of December 31, 2011.

Maintain superior asset quality through enhanced NPA management

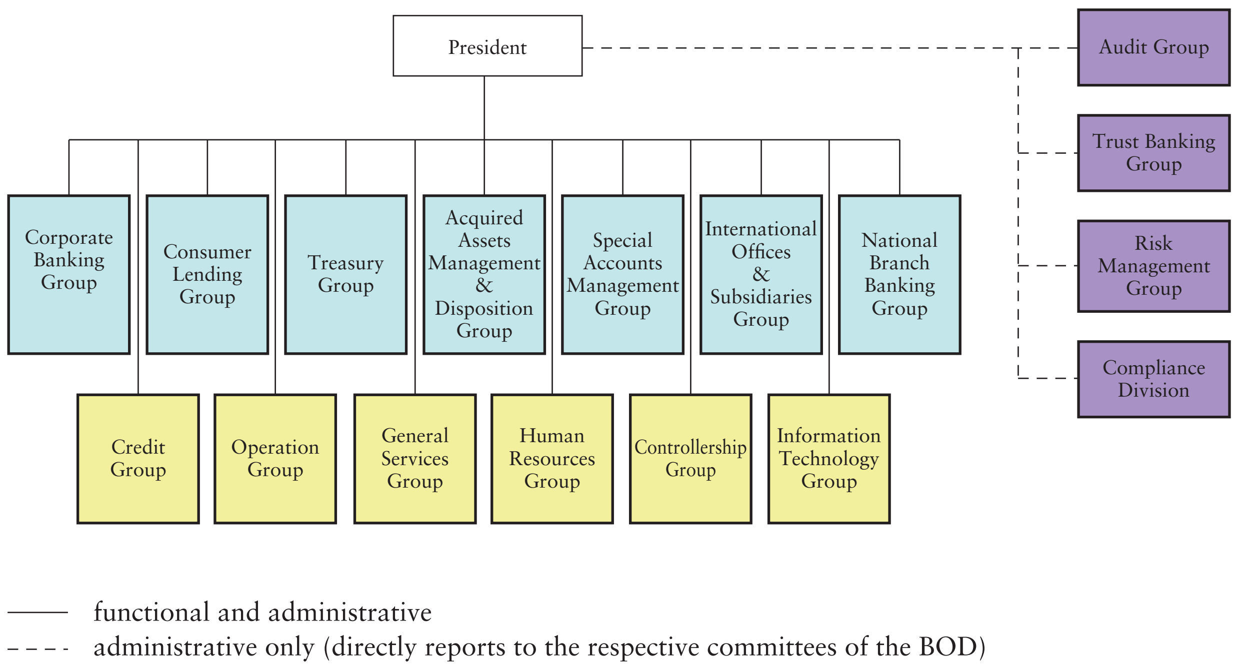
In conjunction with its growth strategy, the MBT Group continues to review opportunities for divestments of NPAs. Over the last five years, the MBT Group embarked on an aggressive campaign to dispose its ROPA. This resulted in a significant drop in the MBT Group's NPA ratio from 11.2% as of December 31, 2005 to 3.2% as of December 31, 2011. MBT has improved its early-intervention efforts to reduce the number of mortgages that need to be foreclosed. These efforts are supported by the SAMG which is tasked with remedial management including the sale of NPLs and to initiate foreclosures before these are turned over to the AAMDG, which was set up to actively manage and, where appropriate, sell properties acquired in connection with MBT's lending activities. The MBT Group is confident that it has the capability to execute its strategy of growing its loan portfolio, while maintaining a conservative provisioning policy for its NPAs.

The key strategies for continued NPA disposal include:

- direct sales with the help of real estate brokers;
- cross-selling of ROPA through MBT's nationwide branch network;
- volume sales with potential investors; and
- joint venture initiatives with reputable real estate companies, including Fed Land.

ORGANIZATIONAL STRUCTURE

The following chart sets forth an overview of the organizational structure of MBT and its principal activities:



Each of PSBank, FMIC and MCC has their own separate organizational structure in place.

PRINCIPAL BUSINESS ACTIVITIES

The MBT Group's principal areas of business are corporate and commercial banking, consumer banking, investment banking, treasury, branch banking and others. The following table sets out the amount and percentage of revenue net of interest expense generated by each of these businesses in 2009, 2010 and 2011:

	For the year ended December 31,						
	2009		2010		2011		
	(₱ millions, except for percentages)					(U.S.$ millions)	
Corporate and commercial banking	6,932	16.2%	6,247	13.4%	6,530	148	13.3%
Consumer banking	7,092	16.6%	7,740	16.7%	8,652	197	17.7%
Branch banking	13,478	31.5%	13,037	28.0%	12,778	291	26.1%
Investment banking	460	1.1%	602	1.3%	401	9	0.8%
Treasury	8,394	19.6%	12,198	26.3%	12,947	295	26.4%
Others(1)	6,404	15.0%	6,658	14.3%	7,672	175	15.7%
Total Revenue(2)	**42,760**	**100.0%**	**46,482**	**100.0%**	**48,980**	**1,115**	**100.0%**

Notes:
(1) *Others include remittances, leasing, account financing and other support services.*
(2) *Total revenue consists of net interest income before provision for credit losses, service charges, fees and commissions, leasing and rental income, profit on assets sold or exchanged, recovery on written-off assets and other miscellaneous income.*

In 2009, 2010 and 2011, 2.6%, 1.9% and 3.4%, respectively, of the MBT Group's consolidated net income was generated from its operations outside of the Philippines.

The MBT Group's core businesses are its corporate and commercial banking and consumer banking businesses. The following table sets out the gross amount and percentages of loans made by these businesses as of December 31, 2009, 2010 and 2011:

	As of December 31,						
	2009		2010		2011		
	(₱ billions, except for percentages)					(U.S.$ millions)	
Corporate loans(1)	199	56.5%	225	58.9%	272	6,203	60.0%
Commercial loans(2)	64	18.2%	53	13.8%	59	1,339	12.9%
Consumer loans	89	25.3%	104	27.3%	123	2,801	27.1%
Total Loans	**352**	**100.0%**	**382**	**100.0%**	**454**	**10,343**	**100.0%**

Notes:
(1) *Loans made to the top 1,000 Philippine corporations, multinational companies and Government-owned and controlled companies.*
(2) *Loans made to small- and medium-sized businesses.*

Corporate and commercial banking

The MBT Group provides corporate and commercial banking products and services to a significant number of large and middle market corporations and their subsidiaries, as well as to small- and medium-sized businesses in the Philippines, through a multi-channel distribution system, including its extensive branch network. MBT believes it is the leading bank in the Philippines for middle-market Filipino-Chinese businesses in terms of deposit-taking and lending.

The MBT Group's corporate and commercial banking business generated net interest income of ₱6.7 billion, ₱5.8 billion and ₱6.3 billion in 2009, 2010 and 2011, respectively. As of December 31, 2009, 2010 and 2011, loans to corporate and commercial customers represented 74.9%, 72.7% and 72.9%, respectively, of the MBT Group's total loan portfolio.

Corporate banking

The MBT Group offers a wide range of products and services to its corporate customers (classified by MBT as customers within the top 1,000 companies in the Philippines, multinational companies and Government-owned and controlled companies), including term loans, revolving credit lines, foreign currency loans, infrastructure loans, trade finance and cash management products and services. MBT also provides omnibus credit lines for its large corporate customers, allowing customers to use such lines for short-term loans, trade financing or other forms of credit.

As of December 31, 2009, 2010 and 2011, accounts of corporate customers of MBT represented 53.8%, 54.3% and 56.6% of the MBT Group's total loan portfolio, respectively. MBT believes that a majority of the top 1,000 Philippine companies are currently customers of MBT. Most of MBT's corporate lending is typically undertaken on a non-syndicated basis, although MBT does syndicate certain large transactions. Substantially all of MBT's corporate clients are based in the Philippines and are engaged in manufacturing, services, wholesale and retail trade, power generation and distribution, leasing and financing, tourism and real estate. Almost all of MBT's corporate lending activities support projects and businesses in the Philippines. Facilities offered to corporate customers include both secured and unsecured loan products, with pricing based on the credit risks associated with the customer and their business. The majority of MBT's current corporate lending consists of short- to medium-term term loans. MBT participates in syndicated loans and provides a limited amount of working capital funding by way of bills purchased and/or trade finance. MBT also offers deposit taking and cash management services for its corporate clients.

For MBT's corporate banking business, MBT has become increasingly market-focused and has established different sub-groups and desks to serve MNCs, conglomerates, Japanese corporations, large corporates, the public sector and entrepreneurial firms.

MBT offers both Peso-denominated and foreign currency (primarily U.S. dollar-denominated) loans. It is MBT's policy to extend foreign currency loans only to those customers who have U.S. dollar revenues or who are otherwise hedged. Most of MBT's corporate loans are made on a floating rate basis.

MBT has also obtained accreditation from various multinational export credit agencies and multilateral agencies to provide corporate clients with additional sources of medium- to long-term funding to finance imports of capital goods and equipment at fixed and floating rates for longer tenors. Accreditation is required for export credit agencies to determine credit-worthiness of the participating bank, as well as lay out the rules of engagement for all parties to a loan transaction. MBT may lend out the cash against an export credit agency guarantee, or the export credit agency may provide the funds for MBT to lend out to the corporate customer. Export credit agency programs provide longer-term funding and address tenor mismatches between long term loans and typical short-term funding.

MBT has a customer-focused strategy and has recruited qualified professionals, including relationship managers and other management personnel, to strengthen its business development and portfolio management capabilities. MBT aims to develop and maintain mutually beneficial relationships with institutional clients within its target market segments by providing wholesale banking services including, but not limited to, corporate finance, investment banking, cash management, trade services and structured finance. MBT's relationship managers are responsible for business generation, new product development, customer satisfaction and maintenance of a high-quality loan portfolio. Relationship managers are also focused on selling the MBT Group's wide range of financial products and services. The expanded line of non-lending services offered by the MBT Group, including investment and trust banking services, are actively promoted by MBT's relationship managers to existing and potential clients of MBT. As of December 31, 2011, the MBT Group's corporate loan portfolio was highly concentrated on manufacturing, wholesale and retail trade, real estate renting and business activities, private households and financial intermediaries. These sectors comprised 18.3%, 16.2%, 16.9%, 14.0% and 8.5% of the MBT Group's total loan portfolio as of December 31, 2011, respectively.

MBT has also directed its efforts toward increasing low-cost deposits, representing demand and regular savings deposits, from its corporate banking clients. Such deposits accounted for a substantial portion of MBT's total deposit business, contributing ₱278.7 billion, ₱321.5 billion and ₱344.0 billion, or 51.3%, 57.0% and 59.1%, of MBT's total deposits as of December 31, 2009, 2010 and 2011, respectively. MBT believes it is a major depository bank for many of its corporate banking customers.

Commercial banking

The MBT Group provides a wide range of banking products and services to its commercial "middle-market" customers. MBT classifies all customers engaged in business, other than corporate customers handled by its head office, as commercial banking customers. The Branch Lending Group was created in September 2006 to centralize efforts in the middle-market segment and is focused primarily on commercial lending for amounts in excess of ₱5.0 million. In addition to term loans and revolving credit facilities, the banking products and services offered by MBT to its commercial banking customers include deposit products, bills purchase facilities, trade finance, payment remittances and foreign exchange transactions. In addition, MBT cross-sells the other products and services of the MBT Group, including investment and trust banking services, to its commercial banking customers.

As of December 31, 2009, 2010 and 2011, MBT (not including PSBank) had 8,946, 9,517 and 10,987 commercial accounts, respectively, with a significant portion attributable to the Filipino-Chinese community, and outstanding loans to commercial customers constituted 16.4%, 11.1% and 11.2%, respectively, of the MBT Group's total loan portfolio. As of December 31, 2009, 2010 and 2011, accounts of MBT's small- to medium-sized commercial customers (consisting of all Philippine companies other than large corporate customers) represented 24.3%, 19.8% and 20.0% of the MBT Group's total loan portfolio, respectively. As of December 31, 2009, 2010 and 2011, the contribution of MBT's commercial banking business to the MBT Group's loan portfolio was ₱57.7 billion, ₱42.5 billion and ₱50.7 billion, respectively. Most of MBT's commercial customers are engaged in the manufacturing, wholesale and retail trade industries. The predominant needs of MBT's Filipino-Chinese commercial middle-market customers are trade financing facilities (such as letters of credit ("LCs"), trust receipts, export-financing and the discounting of commercial bills, as well as inventory financing) and term loans.

MBT offers both Peso-denominated and foreign currency (primarily U.S. dollar-denominated) loans. It is MBT's policy to extend foreign currency loans primarily to customers who have foreign currency revenues or who are otherwise hedged. Most of MBT's commercial loans are made on a floating rate basis.

MBT's strategy is to increase its small- and medium-market customer base by continuing to pursue a selective lending program that will ensure the quality of its loan portfolio and maintain a low loan delinquency ratio. MBT believes that there are many under-served customers within this market that have the asset base, cash flows, management and business plan necessary to become quality customers of MBT.

MBT has also directed its efforts towards increasing low-cost demand and savings deposits from commercial clients by increasing its market share of deposits for existing prime accounts and acquisition of new accounts. This is made possible through a program of providing cash management solutions for this client segment. Dedicated teams focused on product development, sales, implementation and customer care ensure the seamless set-up of the client's collections, payment and liquidity solutions. By doing so, MBT is able to capture the operating accounts of its key clients, as well as that of its client's own customers and suppliers.

Consumer banking

The MBT Group provides consumer banking services through MBT and PSBank. The MBT Group's principal consumer banking products and services include bank deposits, home mortgage loans, vehicle finance and consumer finance, including credit cards through MCC. Consumer loan applications are generally reviewed and pre-screened at the branches, as the MBT Group's primary distribution channel. Thereafter, applications are endorsed to the appropriate processing units for evaluation and approval.

The following table sets out consumer loans to individuals for the periods indicated:

	Group	MBT	PSBank	MCC
		(₱ billions)		
December 31, 2009	82.6	23.6	40.6	17.3
December 31, 2010	98.2	28.5	48.9	19.0
December 31, 2011	113.9	33.7	53.8	23.9

While the operations of MBT are largely run separately from those of PSBank, the two banks co-operate to ensure wider market coverage for the MBT Group. MBT focuses on its own customer base, while PSBank targets the general borrowing public. Since 1981, when MBT acquired PS Bank, MBT conducted a substantial proportion of its small personal deposit-taking and lending business for home purchases and vehicle finance through PSBank. In order to market consumer banking products and services to its own customer base more effectively, MBT established its own consumer lending group in 1996.

In recent years, both MBT and PSBank have focused on expanding their consumer banking business, principally through a directed marketing strategy, using their extensive domestic branch network, and by direct sales methods. In particular, MBT offers a wide range of consumer banking products to customers that are employees of MBT's corporate customers and to owners of small- and medium-sized businesses by using its branch network. To increase face-to-face contact with consumer banking clients, MBT is currently working to expand its branch network to be more accessible to its clients and to reach clients in areas that have previously been underserved. MBT, to a lesser extent, also utilizes traditional communication channels, such as print and advertising, to offer MBT's consumer loan products to the market. As part of its growth strategy, MBT has been developing a comprehensive database of target customers for its consumer banking products and services.

The MBT Group's consumer banking business generated net interest income of ₱4.9 billion, ₱5.1 billion and ₱5.7 billion in 2009, 2010 and 2011, respectively.

Home mortgage loans

Home mortgage loans issued by MBT and PSBank represented ₱33.2 billion, or 37.5% as of December 31, 2009, ₱37.3 billion, or 35.8% as of December 31, 2010, and ₱44.3 billion, or 36.0% as of December 31, 2011 of the MBT Group's consumer loan portfolio. The MBT Group is currently growing its home mortgage loan business through tie-ups with real estate developers and, to a lesser extent, advertising campaigns. In 2005, MBT spun-off the Wholesale Department of the Home Financing Division into its Wholesale Real Estate Division to focus on developer and corporate tie-ups. MBT offers a range of different home mortgage products under the "MetroHome Financing" brand and PSBank offers its home mortgage products under the "Home Loan" brand. MBT typically relies on existing customers for the majority of its home mortgage sales, while PSBank relies more on direct marketing activities to secure new customers.

The majority of the MBT Group's home mortgage loans are extended to property buyers in the Philippines who intend to occupy the premises, with a small proportion being extended to individuals purchasing residential units for investment purposes. Through tie-ups with housing developers, including Fed Land, the MBT Group also purchases home loans via contracts-to-sell ("CTS") from developers that directly finance sales to their buyers. These loans usually provide full recourse to the developer. These CTS transactions may be converted into regular end-buyer financing by the MBT Group upon loan application approval. All of the MBT Group's home mortgage loans are secured by a first ranking legal charge over the property. In the case of loans to certain corporate borrowers, the MBT Group often requires personal guarantees to be given by appropriate officers of the borrower as additional security. Traditionally, the MBT Group, as well as other lenders, have required home mortgage borrowers to have an equity interest equal to at least 30.0% of the value of the property. Due to an increase in competition in the mortgage industry, however, many borrowers are now able to secure mortgages for certain types of residential property from lenders, including MBT, with a 20.0% down payment.

The average maturity of the MBT Group's home mortgage loans is ten years. In accordance with industry practice in the Philippines, interest rates on the MBT Group's home mortgage loan portfolio are generally agreed with the relevant borrower at a fixed rate applicable for an initial period of between one and ten years, depending on the maturity of the loan. Following the expiry of this initial period, the interest rate is reset at a fixed rate applicable for succeeding periods. The MBT Group believes that the repayment term on the average mortgage loan issued by the MBT Group is shorter than the industry average due to the quality of its customers, which helps lower the default rates on its mortgage loans, while also promoting sustainable growth in its mortgage loan portfolio. As of December 31, 2011, 0.8% of MBT's mortgage loans were classified as NPLs, compared to 1.1% as of December 31, 2010.

When a borrower falls in arrears with its mortgage payments, it can either agree to a voluntary disposition of the property to the MBT Group or the MBT Group may commence foreclosure proceedings. It generally takes between six and 12 months to foreclose mortgaged collateral, which is then typically sold by public auction or through brokers on behalf of the MBT Group. However, the individual mortgagor or any of its creditors having a lien over the collateral continues to have the right to repurchase such collateral within one year of completing foreclosure in return for payment of principal and interest owed plus the MBT Group's out-of-pocket expenses.

MBT established the AAMDG to actively manage and, where appropriate, sell properties acquired in connection with its lending activities. In 2009, 2010 and 2011, the MBT Group sold ₱4.2 billion, ₱4.7 billion and ₱4.8 billion, respectively, worth of investment properties, which primarily consist of foreclosed real estate properties. Efforts to diversify methods for the disposal of investment properties have been actively pursued by the MBT Group and include public auctions, sales conducted through brokers and pursuant to employee referrals, as well as entering joint venture projects with property developers. The MBT Group has also increased its early-intervention efforts in order to reduce the number of mortgages that need to be foreclosed.

Vehicle finance

As of December 31, 2009, 2010 and 2011, loans advanced by MBT and PSBank for the purchase of vehicles amounted to ₱30.7 billion, ₱39.6 billion and ₱45.4 billion, respectively, or 34.7%, 38.0% and 36.9% of the MBT Group's consumer loan portfolio, respectively. Vehicle loans advanced by the MBT Group generally have maturities of between 12 and 60 months, and the MBT Group retains the right to repossess the vehicle in the event of payment default. The MBT's non-performing auto loans were 0.3% and 0.2% as of December 31, 2010 and 2011, respectively.

Philippine Savings Bank

The MBT Group offers a range of retail and consumer banking products and services through PSBank, a subsidiary which is managed and operated independently of MBT. PSBank is a savings bank authorized by the BSP to engage in savings and mortgage banking in the Philippines. PSBank was listed on October 4, 1994 and became the first publicly-listed savings bank in the Philippines and, as of December 31, 2011, was the second largest savings bank in the country in terms of total deposits and total assets according to BSP data. PSBank offers a wide range of products and services primarily to the consumer market, principally to individuals, but also to small- and medium-sized businesses in the form of support services such as vehicle financing. As of December 31, 2009, 2010 and 2011, PSBank had total assets of ₱93.1 billion, ₱104.1 billion and ₱120.3 billion, respectively, total deposits of ₱77.4 billion, ₱87.5 billion and ₱101.6 billion, respectively, and a total loans and receivables of ₱47.3 billion, ₱53.2 billion and ₱58.2 billion, respectively. PSBank's net income in 2009, 2010 and 2011 were ₱1.2 billion, ₱1.8 billion and ₱2.0 billion, respectively.

PSBank's branch network is operated separately from MBT's domestic network. However, to take advantage of MBT's brand recognition, PSBank also includes the phrase "a subsidiary of Metrobank" in its logo. As of December 31, 2011, PSBank had a total of 200 branches, 113 of which were located in Metro Manila. ATMs are installed in PSBank's branches, as well as a number of off-site locations. PSBank, like MBT, is a member of BancNet, a consortium of 89 banks whose ATMs have been pooled for the common use of their respective customers.

PSBank offers a wide range of consumer banking products and services to its customers. Its deposit products and services include a number of demand, savings and time deposit accounts, denominated in both Peso and U.S. dollars. PSBank's range of consumer loan products includes loans for vehicle financing, home loans and personal loans. Home loans and vehicle financing contribute the majority to PSBank's loan portfolio. For a discussion on PSBank's home mortgage and vehicle financing, see "– Home mortgage" and "– Vehicle finance" above. Personal loans are marketed to employees of MBT's corporate customers. PSBank's personal loans are offered either on the basis of payments being made directly by the borrower or, for employees of participating companies, by deduction of payments directly from the borrower's salary. Personal loans carry relatively higher interest rates, primarily due to the greater risk and higher operating and administrative expenses associated with these loans. Other services offered by PSBank include trust services, payment collection services, payroll services, and other consumer banking services. PSBank also offers certain products to a limited number of corporate banking customers.

PSBank undertakes a different customer acquisition strategy and has a different customer profile to that of MBT. PSBank's customer acquisition strategy involves sourcing new customers from the general borrowing public through various sales channels, including direct mailing and direct sales, whereas MBT principally cross-sells to its existing customers. MBT and PSBank focus on different customer segments and discourage cannibalization of each others' markets while co-operating to ensure wider market coverage. The average size of PSBank's deposits and loans is smaller than that of MBT, reflecting PSBank's focus on the "emerging mass-market" sector of the consumer banking market and its corresponding wider client base than that of MBT.

PSBank's principal source of funding is deposits from the general public. As of December 31, 2009, 2010 and 2011, PSBank's total deposits represented 12.6%, 13.4% and 14.9% of the MBT Group's total deposits, respectively. As of December 31, 2009, 2010 and 2011, PSBank had total loans and receivables of ₱47.3 billion, ₱53.2 billion and ₱58.2 billion, respectively, representing 13.1%, 13.6% and 12.7% of the MBT Group's total loan portfolio.

As of December 31, 2009, 2010 and 2011, home mortgage, vehicle finance and personal loans represented 80.2%, 82.4% and 82.9%, of PSBank's total loan portfolio, respectively.

As of December 31, 2009, 2010 and 2011, PSBank's total NPLs represented 5.5%, 4.1% and 3.1% of its total loan portfolio. PSBank's allowance for credit losses on receivables from customers as of December 31, 2009, 2010 and 2011 were ₱3.1 billion, ₱3.7 billion and ₱3.6 billion, respectively, representing 75.8%, 83.9% and 86.2%, respectively, of its total NPLs.

As of December 31, 2011, PSBank's Tier 1 capital adequacy ratio and total capital adequacy ratio were both at 13.9%, compared to 12.4% and 15.4% as of December 31, 2010, respectively, and 11.3% and 14.4% as of December 31, 2009, respectively. As of December 31, 2011, PSBank had a market capitalization of ₱20.4 billion.

The tables below set forth selected financial ratios of PSBank as of and for the years ended December 31, 2009, 2010 and 2011:

	As of and for the year ended December 31,		
	2009	2010	2011
	(%)		
Return on average assets[(1)]	1.5	1.8	1.8
Return on average equity[(2)]	12.7	16.0	14.9
Net interest margin on average interest earning assets[(3)]	6.4	5.6	5.5
Capital adequacy ratio[(4)]	14.4	15.4	13.9
Loans to deposits ratio[(5)]	62.0	63.0	59.2
Non-performing loans to total loans[(6)]	5.5	4.1	3.1
Non-accruing loans to total loans[(7)]	7.8	6.9	5.7
Allowance for credit losses to NPLs[(8)]	75.8	83.9	86.2
Allowance for credit losses to non-accruing loans[(9)]	70.6	84.8	86.3

Notes:

(1) *Net income divided by average total assets for the period indicated*

(2) *Net income divided by average total equity for the period indicated*

(3) *Net interest income divided by average interest-earning assets (including due from BSP, due from other banks, interbank loans receivable and SPURA, financial assets at FVPL, AFS and HTM investments, current gross receivables from customers, sales contract receivable, unquoted debt instruments and bills purchased)*

(4) *Total qualifying capital divided by total risk-weighted assets, as reported to the BSP*

(5) *Total loans divided by total deposits (excluding from other banks)*

(6) *Total NPLs divided by total loans (excluding interbank call loan)*

(7) *Total non-accruing loans divided by total loans*

(8) *Allowance for credit losses divided by total NPLs*

(9) *Allowance for credit losses divided by total non-accruing loans*

Metrobank Card Corporation

The MBT Group began its credit card operations in August 1985 through a wholly owned subsidiary of MBT, MCC. In October 2003, ANZ purchased 40.0% of MCC's shares. Under the joint venture agreement between ANZ and MBT, ANZ agreed to contribute its expertise in operating a credit card business to MCC. The president of MCC is an employee of ANZ, bringing to the MBT Group expertise to help streamline, modernize and grow MCC's operations in its card issuing and card acquiring business lines. In 2009, 2010 and 2011, MCC had net income of ₱816.8 million, ₱853.7 million and ₱1.39 billion, respectively, or a 63% year-on-year growth.

The current focus of MCC's operations is to continue its growth in the number of profitable cardholders and the development of robust policies and procedures to support the development of its network of merchants that accept MCC's credit cards as payment. MCC continues to leverage its relationship with ANZ to help strengthen its credit policies and its audit and control procedures. MCC has an established credit risk department which continues to modernize and streamline its credit risk management practices and processes. ANZ maintains direct oversight over MCC's credit function.

To ensure prudent expansion into new market segments, MCC conducts credit tests and is currently in the process of developing a robust application scorecard. MCC also focuses on delinquent account management through escalating collection strategies ranging from telephone follow-ups as soon as a payment date is missed to forwarding accounts to external collection agencies. As a result of these efforts, MBT believes MCC's past due ratio (the ratio of its past due accounts to its total receivables portfolio) is the second lowest in the credit card industry at 4.9% as of December 31, 2011.

MCC offers its credit card products through MBT's domestic branch network as a means of increasing cardholder growth and credit transaction volumes. Although the bulk of the credit card applications are branch-sourced, MCC recognizes the opportunity to expand into the non-depositor customer market through the use of other sales channels such as direct sales and telemarketing agencies. New products targeting different market segments such as the Femme Visa for the young female customers, M Lite and M Free for the price conscious market, and Go! MasterCard for the frequent shopper/traveler segment have also been introduced to differentiate MCC cards from other cards in the market and to strengthen MCC's product proposition. In March 2011, MCC launched its newest loyalty and discount card, the Toyota MasterCard. This gives Toyota owners benefits, rebates and privileges including discounts at all Toyota dealerships on genuine parts, accessories and labor. MCC has rewards programs in place, including mileage programs with Philippine Airlines, Singapore Airlines and Cathay Pacific to encourage card take-up and usage. As of December 31, 2011, MCC ranked third in the market with 963,000 cardholders-in-force according to the fourth quarter 2011 report of the Credit Card Association of the Philippines. As of December 31, 2009, 2010 and 2011, MCC's total gross credit cardholder receivables amounted to ₱17.3 billion, ₱19.0 billion and ₱23.9 billion, respectively.

MCC offers MasterCard and VISA credit cards. Most of MCC's revenues are derived from interest on revolving credit, interest on installment products, annual fees and interchange income. Interest charged on outstanding balances ranges between 2.5% and 3.5% per month. Due to increased competition in the market, annual fees are often waived for the first year for new credit cardholders. Funding for MCC's day-to-day operations is currently provided by internally generated funds and from borrowings through the issuance of retail promissory notes, as well as from local and foreign banks. After securing a quasi-banking license from the BSP in 2008, MCC also generates funding from retail promissory notes that are offered to customers referred by MBT. MCC's major competitors in the credit card business in the Philippines are MasterCard and VISA products offered by large foreign financial institutions and local universal or commercial banks.

MCC has not securitized its credit card receivables and all of its outstanding balances are stated on its statement of financial position. MCC may consider engaging in securitization in the future if attractive funding and pricing is available.

Branch banking

MBT's branch banking business offers a wide range of products and services from demand deposit accounts, savings and time deposits to lending facilities. In addition, dedicated trade finance and foreign exchange facilities are offered at certain branches where such services may be required. The branch banking business is different from the consumer banking group in that branch banking focuses primarily on deposit taking, branch related fee-based services and branch-based consumer lending (both home and auto), while consumer banking focuses both on individual depositors for their car and home loan needs as well as on corporate clients which require car fleet financing and large scale home developers.

In 2009, MBT launched Chinese Yuan-denominated products and services, making it the first bank in the country to do so. MBT believes these products put it in a strong position to capture business from both individual and corporate clients.

MBT introduced Versaload in the second half of 2010, one of the latest services under MBT Mobile Banking, which was enhanced and upgraded to run on all local telecommunication networks. Versaload enables customers to send Peso credits from their MBT account to any mobile phone regardless of the telecommunications provider. In addition to Versaload, the enhanced MBT Mobile Banking facility provides secure, comprehensive, and real-time mobile banking services, such as paying bills, transferring funds or checking account balances.

In 2010, MBT increased its sales force and rationalized the size and location of certain branches in order to maximize their efficiency. MBT also aimed to exploit strategic locations such as shopping malls for its range of products and services. In addition, MBT refurbishes its branch network on a continuous basis and has renovated 81 branches during 2010 and 88 branches as of December 31, 2011.

MBT has a regional branch control system with branches reporting to, and receiving support services from, their sub-regional offices ran by cluster heads, who themselves report to the area heads. This system ensures control at all levels and is complemented by each branch accountant also being required to report on significant matters directly to the Controllership Group at MBT's head office.

MBT has, as a matter of policy, endeavored to balance the responsibility given to its branches with the need for centralized control. Branch Credit Committees, for example, are permitted to process and approve bills, purchase accommodations and approve back-to-back loans (loans with deposits as collateral). MBT has established Business Lending Divisions and Credit Support Units at the regional level to centralize the branches' lending operations in order to improve efficiency and maximize cost-effectiveness. Following approval of a loan, these units are responsible for the documentation, bookkeeping, and administration of the loan.

The MBT Group, through MBT and PSBank, operates a total of 1,581 ATMs as of December 31, 2011. MBT is expanding the availability of its ATMs at its branches and off-site, principally in shopping malls and large factories. MBT has upgraded its ATM infrastructure to comply with the Triple Data Encryption System requirements of MasterCard and Visa.

Deposits

MBT offers corporates and consumers a range of deposit products, including current accounts, which are interest and non-interest bearing demand deposits, savings accounts and time deposits in Pesos, U.S. dollars and other foreign currencies. The MBT Group's principal depositors are individuals in the Philippines and customers using MBT's cash management services. As of December 31, 2009, 2010 and 2011, the MBT Group's total deposits were ₱615.7 billion, ₱651.3 billion and ₱681.0 billion, respectively. As of the same dates, 79.7%, 80.9% and 82.8% of the MBT Group's deposits were Peso-denominated, with the remainder denominated in foreign currencies, principally U.S. dollars.

Domestic branch network

As of December 31, 2011, the MBT Group had a total domestic branch network of 785 branches, comprising 585 branches of MBT and 200 branches of PSBank.

MBT believes its domestic branch network, including PSBank, is the second largest in both Metro Manila and the Philippines as a whole based on internal research. MBT's branches are divided into two principal groups, one covering Metro Manila and the other covering other areas in the Philippines. Each group is responsible for the management and operation of branches in its area. Staff are employed and trained at MBT's head office training center, which provides courses for new branch officers and staff.

The following table illustrates the expansion of MBT and PSBank's network in recent years and sets forth the number of domestic branches as of December 31, 2009, 2010 and 2011:

	As of December 31,		
	2009	2010	2011
Metro Manila branches of MBT	307	311	296
Countryside branches of MBT			
– Luzon	123	126	152
– Visayas	75	77	78
– Mindanao	57	58	59
Total MBT branches	562	572	585
PS Bank	170	180	200
Total MBT Group branches	732	752	785

Investment banking

First Metro Investment Corporation

The MBT Group's investment banking activities are principally undertaken through FMIC, a majority-owned subsidiary of MBT. FMIC is a leading underwriter and arranger of loan syndications and issues of debt equity and equity-linked securities in the Philippine capital markets. It is a leading dealer of Government securities and other fixed income securities which it trades for its own account or sells to its customers. FMIC also participates in stock market trading for its customers through its wholly owned subsidiary, First Metro Securities Brokerage Corporation, with proprietary trading carried out by FMIC. FMIC also provides investment advisory and research services to business units within the MBT Group and institutional funds.

FMIC was incorporated in 1972, making it one of the Philippines' oldest and most established investment banks. In September 2000, MBT acquired Solidbank Corporation, a listed Philippine commercial bank, and Solidbank Corporation's investment banking license was later transferred to FMIC. This merger resulted in FMIC becoming the first PSE-listed investment bank. Since that time, FMIC has become the largest Philippine investment banking institution in terms of total assets, as verified by the report of the Investment House Association of the Philippines in 2010.

In 2009, FMIC was among the top 11 Filipino companies in the ASEAN 100 Relative Wealth Added Index list, published by the New York-based management consulting firm Stern Stewart & Co. The index lists the 100 top performing companies in Southeast Asia in terms of creating wealth for their shareholders. In addition, FMIC received awards as the Best Bond House in the Philippines from Finance Asia and the Best Domestic Bond House in the Philippines from The Asset Triple A Country Awards. FMIC was a joint underwriter for the San Miguel Brewery's ₱38.8 billion bond issue which was awarded the International Financing Review Asia's Domestic Bond Deal of the Year and Philippines Capital Markets Deal of the year in 2009.

In 2010, FMIC was recognized as the Best Domestic Bond House in the Philippines by The Asset Magazine in Hong Kong. It was also determined by the Philippine Dealing System Group as one of the Top 5 Fixed-Income Dealing Participants and as one of the Top 5 Fixed-Income Brokering Participants. FMIC was also recognized by the Institute of Corporate Directors as one of the Silver Awardees in the 2010 ICD Corporate Governance Scorecard for publicly listed companies.

FMIC's core services are undertaken through the following three strategic business units: the Investment Banking Group, Treasury Group and Investment Advisory Group:

- *Investment Banking:* FMIC's Investment Banking Group conducts a range of investment banking activities such as debt and equity underwriting, loan syndication, project finance, private equity, and financial advisory for clients in the public and private sectors. FMIC is currently exploring opportunities to expand its investment banking activities in other Southeast Asian countries.

- *Treasury Group:* FMIC's Treasury Group performs various treasury functions which include fund raising and liquidity management, Government securities and corporate debt trading, fixed income distribution, and financial products structuring.

- *Investment Advisory Group:* FMIC's Investment Advisory Group provides investment advice to fund managers, including its own subsidiary, First Metro Asset Management Inc., the fund manager of the four Save and Learn mutual funds. Funds managed by FMIC stood at ₱4.2 billion, ₱ 6.3 billion and ₱9.6 billion, respectively, as of December 31, 2009, 2010 and 2011, respectively.

FMIC also offers non-traditional trust products and services, fund management, and wealth creation and management through its Trust Department. FMIC's venture into the trust business, which was meant to complement MBT's existing trust business, focuses primarily on a wide base of retail investors with longer-term investment solutions. MBT's trust business, on the other hand, offers more traditional trust products such as retirement fund management and estate planning. FMIC also offers Strategic Finance Services, which include mezzanine financing, standby letters of credit, securitization, vendor financing and leveraged buy-outs.

FMIC's total assets amounted to ₱59.8 billion, ₱64.0 billion and ₱78.7 billion as of December 31, 2009, 2010 and 2011, respectively. FMIC's total assets as of December 31, 2011 were 23.1% higher than as of December 31, 2010, while capital rose by 14.8% to ₱11.4 billion, which translates into a capital adequacy ratio of 19.0%. In 2009, 2010 and 2011, FMIC's net income was ₱1.0 billion, ₱1.7 billion and ₱2.2 billion, respectively. Year-on-year return on equity in 2011 was 20.6%. As of December 31, 2011, FMIC had 187 employees. FMIC's market capitalization was ₱24.5 billion as on December 31, 2011.

The table below sets forth selected financial ratios of FMIC as of and for each of the years ended December 31, 2009, 2010 and 2011:

	As of and for the year ended December 31,		
	2009	**2010**	**2011**
		(audited)	
Return on average assets[(1)]	1.95%	2.75%	3.07%
Return on average equity[(2)]	13.71%	18.25%	20.56%
Non-performing loans to total receivables from customers[(3)]	0.14%	0.06%	–
Allowance for credit losses to non-performing loans[(4)]	100%	10%	–

Notes:

(1) Net income divided by average total assets for the period indicated

(2) Net income divided by average total equity for the period indicated

(3) Total NPLs divided by total loans

(4) Allowance for credit losses divided by total NPLs

Treasury

MBT's Treasury Group is focused on servicing customer requirements through the sales and trading of global markets products as well as providing support for the core banking business through asset and liability management. MBT's Treasury Group derives its revenue primarily from fixed income, foreign exchange, derivatives and interest rate differential activities. The customers of MBT's Treasury Group include domestic and offshore banks, insurance companies, financial institutions, corporations, small and medium enterprises, high net worth individuals and retail companies.

MBT's Treasury Group is responsible for its treasury operations, managing its domestic liquidity and funding position in accordance with regulatory reserve requirements and the objective of MBT's management. As part of its liquidity management, the Treasury Group invests in sovereign and corporate debt instruments, commercial paper and other securities. The Treasury Group also manages MBT's foreign currency exposure, engaging in proprietary trading of currencies and offering foreign exchange and risk hedging derivative instruments to MBT's corporate customers such as forward contracts, interest rate swaps, currency swaps and foreign currency options.

Through its treasury operations, MBT manages its required regulatory reserves and investment portfolio with a view to maximizing efficiency and return on capital. MBT also seeks to optimize profits from its trading portfolio by taking advantage of market opportunities.

The Treasury Group engages in domestic and foreign exchange operations. As part of its treasury activities, MBT also maintains proprietary trading portfolios in domestic debt and equity securities and in foreign currency assets. During the fiscal year MBT undertakes foreign exchange sales and purchases on behalf of its corporate customers by engaging in back-to-back derivatives transactions. MBT also sells hedging products to large and medium-sized corporate customers. MBT offers derivative products to its clients including foreign exchange forward contracts, options, and currency and interest rate swaps.

MBT believes it is among the top interbank dealers in foreign exchange, interest rate and foreign currency swaps, government securities and euro bonds in the Philippine financial markets. MBT has received numerous awards and recognitions for its treasury activities: among these are the overall Best Performing Government Securities Dealer for the past three years (2008, 2009 and 2010) awarded by the Bureau of Treasury, the best provider of structured products and a top provider of FX services, innovative FX products, and structured ideas among domestic banks by Asiamoney in 2010.

MBT's Treasury Group generated revenue net of interest expense of ₱7.4 billion, ₱8.0 billion and ₱9.3 billion, respectively, in 2009, 2010 and 2011.

Other banking services

Trust banking
The Trust Banking Group's trust banking business offers a wide range of funds and asset management products and services catering to corporates, high net worth individuals (defined as individuals with liquid assets of over ₱20.0 million) and retail investors. As of December 31, 2009, 2010 and 2011, the MBT Group had ₱210.3 billion, ₱271.0 billion and ₱382.1 billion in AUM, respectively. The Trust Banking Group has, according to the Published Statement of Conditions, delivered one of the highest growth rates in the industry market over the past five years.

Revenue from the trust business is generated through trust fees from the management of UITFs and corporate and personal trust products and services, as well as from custody and other agency services. Increased market competition has compressed income from management of UITFs, leading MBT to refocus increasingly on trust banking services offered to private wealth clients.

The Trust Banking Group offers a broad range of trust banking products and services that address the needs of each of the market segments it serves, such as the management of retirement, corporate and pre-need funds, employee benefit trusts, and custody and facility agency services for corporate clients. Corporate clients contributed ₱75.0 billion, ₱99.8 billion and ₱140.2 billion in AUM in 2009, 2010 and 2011, respectively, which were principally invested in Government securities. Products and services offered to high net worth individuals include estate planning trusts, personal investment trusts and investment management arrangements. High net worth individuals contributed ₱124.9 billion, ₱159.9 billion and ₱228.3 billion in AUM as at December 31, 2009, 2010 and 2011, respectively.

The Trust Banking Group also offers other fiduciary services, such as escrow agency services, mortgage trust indenture services and transfer agency services for public offerings by Philippine corporations.

MBT's Trust Banking Group generated gross revenues of ₱841.4 million, ₱841.3 million and ₱1.05 billion, respectively, in 2009, 2010 and 2011.

Trade Finance

MBT offers corporate and commercial banking customers a range of trade finance products and services including LCs, standby LCs, export advances and the discounting of commercial bills.

MBT believes that it is a leading provider (by value and by volume) of commercial import LCs and bank guarantees in the Philippines. In addition, MBT provides documentary collections for exports by local and multinational companies in the Philippines. MBT's position as a market leader reflects its strategy to leverage the geographic reach of its international branch network in the provision of its trade finance products and services.

MBT also extends other trade finance-related services to its customers including advice on documentary credits and advances to exporters against export bills. Trade finance loans typically have short maturities and MBT's primary focus is on providing working capital trade finance.

Leasing

The MBT Group operates a leasing business through a 59.6%-owned subsidiary of MBT, ORIX Metro Leasing, a joint venture with Orix. ORIX Metro Leasing and its 100.0% owned subsidiaries, ORIX Auto Leasing Philippines Corporation and ORIX Rental Corporation, are principally involved in both financial and operating leases of motor vehicles, various types of equipment for manufacturing, materials handling, medical, telecommunications, office and other assets catering primarily to corporations as well as extending mortgage loans to small- and medium-sized entrepreneurs, particularly in provincial areas. ORIX Metro Leasing has a total branch network of 34 offices located in key cities throughout the country.

For the year ended December 31, 2011, ORIX Metro Leasing generated net income of ₱504.3 million.

The MBT Group, through its 34.0% ownership interest in Toyota Financial Services (Philippines) Corporation, also offers lease financing for Toyota vehicles. See "– Subsidiaries and Associates".

INTERNATIONAL BRANCH NETWORK AND REMITTANCE SERVICES

International Branch Network

MBT has a network of seven strategically located branches outside of the Philippines, which, together with its representative offices, subsidiaries, and a network of correspondent banks, complements the domestic activities of the MBT Group. MBT's network outside the Philippines can be summarized as follows:

Branches	Representative offices	Subsidiaries
Taipei	Hong Kong	Metropolitan Bank (China) Ltd.
New York	Beijing	Metro Remittance (Hongkong) Limited
New York		Metro Remittance Center, Inc. and Subsidiaries:
Seoul		Metro Remittance (Canada), Inc.
Pusan		MB Remittance Center (Hawaii), Ltd.
Tokyo		Metro Remittance (USA), Inc.
Osaka		Metropolitan Bank (Bahamas) Limited
		Metro Remittance (UK) Limited
		Metro Remittance (Italia), S.p.A.
		MBTC Services GmbH
		Metro-Remittance (Spain) S.A.
		Metro Remittance (Singapore) Pte. Ltd.

MBT's foreign branches deliver full banking operations and have been predominantly engaged in lending to local businesses, primarily those involved in trade finance. MBT channels a substantial part of its import LCs through this international network. In addition, MBT's international offices are licensed to handle remittances for OFWs and other nationalities. MBT's current strategy is to position its operations internationally to take advantage of trade flows with, and investment in, the Philippines and the presence of large Filipino populations overseas.

Each of MBT's international branches conducts commercial and trade-related lending operations within each of the jurisdictions in which it operates. The loan portfolio of MBT's overseas branches, including commercial loans and trade finance, amounted to ₱4.3 billion, ₱1.5 billion and ₱1.3 billion as of December 31, 2009, 2010 and 2011, respectively.

In 2009, 2010 and 2011, 2.6%, 1.9% and 3.4%, respectively, of the MBT Group's net income attributable to equity holders of MBT was generated from its operations outside of the Philippines.

Remittances

Reflecting the large market in OFW foreign currency remittances to the Philippines, the activities of the international branches of MBT, together with those of its subsidiaries and its associates which act as remittance centers, are geared towards the handling of remittances to the Philippines, as well as supporting the trade and capital flows of the Philippines. Income from the remittance business is generated from an administration fee and, more significantly, from the foreign exchange margin. In addition, MBT generates foreign currency holdings which can be utilized in meeting its import LC obligations. Remittances are now being distributed in the Philippines not only through the MBT Group's domestic branches and ATM network, but also through its local remittance payout partners, such as pawnshops, extending its remittance services well beyond banking hours. In 2009, 2010 and 2011, MBT provided remittance services for funds in the amount of U.S.$ 2.0 billion, U.S.$2.3 billion and U.S.$2.8 billion, respectively.

Remittances into the Philippines have consistently risen during recent years, growing from U.S.$10.7 billion in 2005 to U.S.$18.8 billion in 2010, representing a CAGR of 11.9%. The MBT Group believes that it is one of the largest providers in the Philippines of remittance services for OFWs. In addition, the MBT Group believes it is one of the fastest growing providers of remittance services in the Philippines. The MBT Group has achieved this by utilizing its international network of branches, subsidiaries, associates and representative offices and through its relationships with correspondent banks and other overseas providers of remittance services. The systems installed in the foreign branches and offices enable real-time remittances to be processed.

As a result of the liberalization of foreign exchange controls in the Philippines in the 1990s, the MBT Group continues to expand facilities for the handling of foreign currency remittances. The MBT Group intends to (i) expand its existing international presence by establishing partnerships with local and international remittance service providers in Europe, the United States, Australia and the Middle East, (ii) rationalize its correspondent banking relationships (which number more than 900, most of which are involved in trade finance transactions) and (iii) enhance its technology in electronic remittance processing to enable the quickest delivery of remittance services in the industry such as door-to-door delivery of remittance within hours and cash pick-up at MBT Group and local payout partner's branches in seconds.

As of December 31, 2011, the MBT Group had 32 subsidiaries and representative offices and seven branches in 27 countries and territories worldwide.

In addition to its network of branches and subsidiaries, the MBT Group has a number of remittance arrangements with banks and remittance tie-ups and agents in regions with high concentrations of OFWs. The MBT Group currently has a joint remittance agreement with PT Bank Central Asia, the largest private bank in Indonesia, which allows selected international branches of the MBT Group to process remittances for overseas Indonesian workers, as well as an arrangement with the United Overseas Bank (Thai Public Company Limited) in Thailand which caters to overseas Thai workers and with CIMB to cater to Filipinos working in Malaysia. In an effort to establish a stronger remittance business in Saudi Arabia, the MBT Group partnered with the Arab National Bank, one of the largest banks in that country. More recently, the MBT Group has established its presence in countries such as the Netherlands, Ireland, New Zealand and Jordan. As of December 31, 2011, the MBT Group had 97 remittance tie-ups and 161 remittance agents present in the United States, Europe, the Middle East, Asia and the Asia-Pacific as of December 31, 2011. The MBT Group is currently seeking to expand this type of relationship for other countries with large numbers of overseas workers and expects that this line of business will continue to increase the volume of remittances made by the MBT Group's international network.

The following table sets out the total volume and value of remittances made by the MBT Group's overseas operations in the periods indicated:

	For the year ended December 31,					
	2009		2010		2011	
	Volume	Value	Volume	Value	Volume	Value
Remittances	(number of transactions)	(U.S.$ millions)	(number of transactions)	(U.S.$ millions)	(number of transactions)	(U.S.$ millions)
Foreign Branches and Subsidiaries	1,974,752	1,223.7	2,099,584	1,299.3	2,091,140	1,454.0
Joint Remittance Arrangements	1,086,424	772.4	1,320,907	1,017.6	1,694,074	1,351.2
Total	**3,061,176**	**1,996.1**	**3,420,491**	**2,316.8**	**3,785,214**	**2,805.2**

The higher value per transaction of remittances by correspondent banks and other financial institutions, compared to MBT's foreign branches, reflects the practice of large foreign corporations, such as shipping companies, making large lump sum remittances for multiple beneficiaries in the Philippines using their regular banking providers.

INFORMATION TECHNOLOGY

The MBT Group's strategy for providing better customer services, improving operations management and enhancing operating efficiency is dependent upon its IT systems. The MBT Group generally uses off-the-shelf hardware and software to create complex applications and infrastructure for its operations. This modular approach allows the MBT Group to modify its systems to address changing needs and incorporate new technology as necessary. This approach also allows the MBT Group to make modifications and upgrades more cost effectively than if it employed a wholly proprietary systems architecture.

The MBT Group continues to undertake initiatives to combine, to the extent permitted by BSP regulations, the operating platforms of entities within the MBT Group, to develop common service systems and otherwise upgrade its centralized computing equipment, which now services all online requirements of MBT's branches, MBT's 24-hour point-of-sale facilities, MBT's ATM operations, PSBank's online system and MBT Card Corporation's credit card processing system. Recent major IT-based initiatives were undertaken as follows:

- In 2009, MBT implemented the ROPA manager, a system for better managing and facilitating the sale of its acquired assets.

- In 2010, MBT completed the upgraded of its wide area network, by increasing line speeds from head office to the branches. This upgrade accommodates the new online application processes at its branches, as well as improves network response times. In parallel, MBT is replacing its branch tellers' desktop computers with more current hardware and operating systems.

- In 2010, MBT replaced its legacy systems with new-generation core banking systems in its PRC and Japan offices.

- In 2011, MBT implemented a desktop computer refresh project to replace aging desktop computers. A new security suite was also implemented bank-wide to protect MBT's information assets.

- In 2011, MBT implemented an automated loans origination system, and an exposures management system to streamline commercial loans applications processing and improve risk management.

- In 2011, MBT implemented document imaging for branches and international trade operations.

MBT utilizes a disaster recovery system as part of its business contingency recovery plan. This system allows MBT to mirror and duplicate all critical operations and resume business during disaster situations. The disaster recovery system is provided through a third party. MBT maintains a backup ATM switch in its disaster recovery center which will enable uninterrupted ATM use even when the primary computer center is inaccessible or rendered inoperable due to a disaster. In addition, MBT uses an online disk replication system between MBT's corporate headquarters and MBT's business recovery data centers, thereby minimizing data loss during disaster scenarios and resulting in the capability to be online within three hours upon declaration of a disaster for all critical applications of MBT. Aside from the online disk replication system, MBT uses a virtual tape system to replace the slower conventional tape-based backup mechanisms.

Electronic banking

In 2001, MBT launched its electronic banking platform with the launch of its mobile banking facility, which allows customers of MBT to carry out banking activities using SMS text messaging via mobile telephones. MBT also offers the following electronic banking services:

- *Metrobank E.T. International Cards.* This refers to ATM cards that provide MBT's clients with access to more than 1,000,000 ATMs in approximately 210 countries.

- *Metrophonebanking.* Telephone banking is an automated transaction processing service available to all deposit holders of MBT and allows for electronic processing of banking transactions through a touch-tone phone.

- *Metrobankdirect-retail.* This internet banking facility allows MBT's consumer customers to conduct banking transactions and access MBT's products and services through the internet using their personal computers. In the third quarter of 2006, Metrobankdirect-retail was enhanced to allow pledging of funds for equities trading through an automated straight-thru-process to the stock trading website of the MBT Group's securities brokerage firm.

- *Metrobankdirect-corporate.* This internet banking facility is similar to Metrobankdirect-retail and is offered to MBT's corporate and commercial customers. In 2007, Metrobankdirect-corporate was enhanced to include the electronic invoice presentment and payment features. In 2008, Metrobankdirect-corporate was enhanced to include the comprehensive disbursement module.

  Metrobankdirect-retail and Metrobankdirect-corporate were launched in 2002. MBT considers these platforms to have significant growth potential. MBT also believes that its internet banking platform offers a strong competitive advantage as it enables a much wider range of banking services to be transacted via the internet compared to the platforms operated by many of MBT's competitors.

- *Tax Direct Facility.* This tax facility, in conjunction with the Bureau of Internal Revenue, allows MBT's corporate customers to file their tax returns and pay their taxes directly through the internet.

- *Mobile Phone.* In 2010, MBT re-launched its mobile banking channel, which was originally launched in 2001. Distinct from the traditional text-based mobile phone human interface, the new interface is more user friendly and graphical. MBT's customers are able to buy airtime credits for mobile phone usage. Common mobile banking functions are also supported, such as balance inquiry, funds transfer, and bills payment.

INTERNAL AUDIT

MBT's Internal Audit Group ("IAG") provides independent objective assurance and consulting services designed to add value and improve MBT's operations. IAG helps in achieving MBT's objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes, including the IT systems and applications. It is independent from the operating units and reports directly to the MBT's board of directors through the Audit Committee, chaired and co-chaired by independent directors. IAG's scope of work ensures that: risks are appropriately identified and managed; interaction with the various governance groups occurs as needed; significant financial managerial and operating information is accurate, reliable, and timely; employees' actions are in compliance with MBT's code of conduct, policies, standards, procedures and applicable laws and regulations; resources are acquired economically, used efficiently and adequately protected; programs, plans, and objectives are achieved; quality and continuous improvement are fostered in MBT's control process; and significant legislative or regulatory issues impacting MBT are recognized and addressed properly. IAG has authorized, unrestricted access to all functions, records/documents, property and personnel.

The internal audit activity is performed in accordance with the International Standards for the Professional Practice of Internal Auditing ("ISPPIA") and the Code of Ethics. An independent Quality Assurance Review ("QAR") of MBT's internal audit activity was conducted in 2011 by a reputable professional firm that confirmed in the QAR report that MBT's internal audit activities generally conform (the highest among three classifications) to the ISPPIA and the Code of Ethics and exceeds the global conformance rating. MBT's Quality Assessment and Improvement Program includes continuous independent quality assurance reviews benchmarked against ISPPIA, continuous implementation of process improvements (e.g. increased use of technology in audit engagements) and successful practices and ensures that IAG activities add value and meet stakeholder's expectations.

IAG's annual audit plan is developed based on MBT's strategic plan which reflects the overall business objectives and MBT's attitude toward risk. IAG employs integrated IT and operational audits and follows a risk-based approach in its internal audit programs and procedures. Using this approach, the nature, timing and scope of audit are based on the preliminary evaluation of the degree of risks and adequacy of risk management, mitigating factors and internal controls within each particular operating unit being audited. Business risks are assessed through discussions with management and review of management-accomplished risk measurement tools such as value at risk, earnings at risk and operational risk self assessment. IAG also advises project teams, internal departments, management and MBT's board of directors on key areas, such as governance, risk management and controls.

The effectiveness of an auditable units' implementation of controls and risk mitigation techniques is measured using a risk-based audit rating system which was developed in-house under the direction of MBT's senior management and approved by the Audit Committee. It is periodically updated to incorporate emerging risks. The audit rating result impacts the performance appraisal of auditable units. Monitoring of unresolved audit findings has been centralized in IAG to ensure the timely resolution of audit findings and to facilitate elevation of common and significant audit findings/observations to the Audit Committee and operating and senior management. Reports produced from the system's findings analyze areas where process enhancements may be instituted or risk tolerance levels in attaining business objectives may be re-evaluated.

IAG staff members are mostly Certified Public Accountants and some auditors hold global certifications such as Certified Internal Auditor, Certified Information Systems Auditor, Certified Internal Control Auditor, Certified Anti-Money Laundering Specialist, Certified Fraud Examiner and Certified Financial Services Auditor. To further strengthen MBT's internal audit capabilities and ensure continuing professional education, the IAG implements a training program to ensure that officers and staff obtain the necessary skills and are kept abreast with current developments to better discharge their responsibilities. In addition, IAG's officers and staff now include auditors from other disciplines, such as mathematics, statistics and information technology, to meet additional internal audit responsibilities as required by the BSP to regularly and independently perform risk model validations. The Special Audit Department assists the Management through fact-finding and investigation of fraud and irregularities, in close coordination with other units of MBT.

Based on the results of IAG's internal audit assurance and consulting services and the work of other control and monitoring functions within MBT, such as the Risk Management Group and the Compliance Division, the IAG renders an opinion on MBT's framework of control as to the adequacy and effectiveness in relation to MBT's business objectives and within limit of internal controls.

INSURANCE

The MBT Group's policy is to adequately insure all of its properties against fire and other usual risks. The MBT Group also maintains insurance for operational risks such as the loss of cash or securities through loss or theft, both through a program of self-insurance and by obtaining insurance from third party providers. The MBT Group does not have business interruption insurance covering loss of revenues in the event that its operations are affected by unexpected events. The MBT Group also has a policy of requiring appropriate insurance coverage for any collateral provided by its customers.

The MBT Group's insurance policies are subject to exclusions which are customary for insurance policies of the type held by MBT, including those exclusions which relate to war and terrorism-related events. The MBT Group believes that its insurance policies are appropriate for its business.

PROPERTIES

MBT's head office is located at Metrobank Plaza, Sen Gil J. Puyat Avenue, 1200 Makati City. MBT owns the premises occupied by its head office, including most of its branches. The following table provides a geographic breakdown of the Philippine branch network owned by MBT as of December 31, 2011:

Location	Number of owned branches
Metro Manila	128
Countryside	153

MBT holds clean titles to these properties except for one branch. MBT also lease premises occupied by the rest of its branches. Generally, lease contracts are for periods ranging from one year to 25 years and are renewable under certain terms and conditions. The following table provides a geographic breakdown of the Philippine branches that occupy leased premises:

Location	Number of leased branches
Metro Manila	168
Countryside	136

Currently, MBT has no plans for property acquisition, except where feasible, MBT may explore properties to set up branches to improve its network coverage.

INTELLECTUAL PROPERTY

The MBT Group has applied for, and received, intellectual property protection for its brand names with the Intellectual Property Philippines Office in Makati City. Specifically, these cover its new corporate logo, various e-banking channels, home and car loans, a children's savings deposit, cash management and various remittance services. The MBT Group has not been the subject of any disputes relating to its intellectual property rights.

LEGAL PROCEEDINGS

In September 2008, MBT filed petitions for rehabilitation against two Philippine subsidiaries of Lehman Brothers Holdings, Inc. ("Lehman") in connection with a combined ₱2.4 billion loan exposure. These came as a result of the declaration of bankruptcy filed by Lehman, a surety under the loan agreements. The rehabilitation plans were duly approved by the handling courts. A Management Committee was created for each of the two Lehman subsidiaries. These Management Committees are now overseeing and managing the company assets and will continue to do so during the term of the rehabilitation plans or until 2015 and 2017, respectively. In September 2010, the majority stockholder of Philippine Investment Two (SPVAMC), Inc. (PI Two) filed an Omnibus Motion to terminate the rehabilitation proceedings, dissolve the Management Committee, and remove the imposition of creditors' consent in the approved rehabilitation plan. Similarly, in October 2010, Philippine Investment One (SPV-AMC), Inc. (PI One) filed with the rehabilitation court an Omnibus Motion to terminate the rehabilitation proceedings and abolish the Management Committee. In January 2011, the rehabilitation court denied these Omnibus Motions. In February 2011, PI Two elevated the order denying its Omnibus Motion to the Court of Appeals (CA) which is still pending to date. On February 24, 2011, the Receiver recommended that the Rehabilitation Court (RC) hold in abeyance the resolution of pending incidents regarding the ownership of shares in PI One and PI Two.

As the pending incidents before the RC are being held in abeyance in view of the Receiver's recommendation, PI Two and MBT filed a joint motion to suspend proceedings on April 18, 2011, which motion is still pending resolution in the CA. Meanwhile, a third party's petition to exclude certain assets from the portfolio of the Lehman subsidiaries has been granted by the CA in May 2011. However, the said third party and the Lehman Philippine subsidiaries have subsequently entered into a compromise agreement in September 2011 wherein a portion of the third party's assets will be excluded in exchange for the refund of 60% of the down payment paid by the Lehman subsidiaries. In October 2011, PI Two received the 60% refund from the third party.

In addition, on October 17, 2011, a consortium of eight banks including the Parent Company filed a Petition for Certiorari, Prohibition and/or Mandamus (with Urgent Application for a Temporary Restraining Order (TRO) and/or Writ of preliminary Injunction) with the Supreme Court (SC) against respondents the Republic of the Philippines, BIR and its Commissioner, the Department of Finance and its Secretary and the Bureau of Treasury and the National Treasurer, asking that the Court annul BIR Ruling No. 370-2011 which imposes a 20% final withholding tax on the 10-year Zero-Coupon Government Bonds (also known as the PEACe bonds) that matured on October 18, 2011 and command the respondents to pay the full amount of the face value of the PEACe Bonds. On October 18, 2011, the SC issued the TRO enjoining the implementation of the said BIR ruling on the condition that the 20% final withholding tax be withheld by the petitioner banks and placed in escrow pending resolution of the Petition. However, to date, the respondents have not complied with the said TRO, i.e., they have not credited the banks' escrow accounts with the amount corresponding to the questioned 20% final tax. The case is still pending resolution with the SC.

Several suits and claims relating to the MBT Group's lending operations and labor-related cases remain unsettled. In the opinion of management, these suits and claims, if decided adversely, will not involve sums having a material effect on the MBT Group's financial statements.

As of December 31, 2011, the MBT Group was a party to various legal proceedings which arise in the ordinary course of its operations. None of such legal proceedings, either individually or in the aggregate, are expected to have a material adverse effect on the MBT Group or its consolidated financial position.

COMPETITION

The MBT Group faces competition in all its principal areas of business. Philippine and foreign banks are the MBT Group's main competitors, followed by finance companies, mutual funds and investment banks. The MBT Group may also face increased competition from foreign banks if the Philippine retail market is further liberalized or if regulations and restrictions upon branch network growth by foreign banks are simplified or reduced. The MBT Group seeks to gain a competitive advantage by offering innovative products and services, maximizing the functions of its extensive branch network, particularly in provincial areas, investing in technology, leveraging synergies within GT Capital and building on relationships with MBT's key customers.

Mergers, acquisitions and closures reduced the number of players in the industry from a high of 50 to 38 universal and commercial banks in 2011. Industry lending posted a growth of 16.4% in the year ended December 31, 2011 based on publicly available financial statements reported by banks to the BSP. Some corporations also decided to access the debt market instead of seeking funds from the financial institutions. Corporate lending thus remained competitive resulting in even narrower spreads especially under a low interest rate environment. Pockets of growth were, however, seen in the middle corporate market and SMEs.

The soft demand for corporate loans prompted banks to venture more extensively into consumer lending. MBT, being a well-entrenched, long-term player, enjoys the advantage of having experience that includes origination/credit selection, collection and asset recovery activities.

The MBT Group believes its principal competitors are Banco de Oro and Bank of the Philippine Islands. For a description of the MBT Group's principal competitors, see "The Philippine Banking Industry".

See "Risk factors – MBT – The Philippine banking industry is highly competitive and increasing competition may result in declining market share and margins in MBT's principal businesses".

EMPLOYEES AND LABOR RELATIONS

As of December 31, 2011, the MBT Group had a total of 13,859 employees (excluding MBT's foreign branches), of which 5,316 were engaged in a professional management capacity and classified as bank officers.

All of MBT's regular rank and file employees, other than those expressly excluded under the collective bargaining agreement, are represented by a union affiliated with the Associated Labor Union – Trade Union Congress of the Philippines (the "Union"). MBT successfully concluded a new Collective Bargaining Agreement for the years 2010-2012, where it granted a salary increase for each employee of ₱1,500.00 effective January 1, 2010, ₱1,300.00 effective January 1, 2011 and ₱1,200.00 effective January 1, 2012. These increases have considered industry developments and continue to ensure that its employees are properly compensated.

MBT has not experienced any labor strikes since 1989, and the management of MBT considers relations with its employees and the Union to be good.

The following table provides the total employee headcount for MBT, PSBank, MCC and FMIC, divided by function, as of December 31, 2011:

	Number of Employees
Executives	387
President and CEO	4
Senior Executive Vice President	1
Executive Vice Presidents	11
Senior Vice Presidents	31
First Vice Presidents	53
Vice Presidents	113
Assistant Vice Presidents	174
Managers:	1,674
Senior Managers	356
Managers	616
Senior Assistant Managers:	702
Junior Managers:	3,255
Assistant Managers	1,351
Junior Assistant Managers	1,904
General Staff	8,543
Total Headcount	**13,859**

The mandatory retirement age for an MBT employee is 55 years or on completion of 30 years of service, whichever comes first. Normal retirement benefit consists of a lump sum benefit equivalent to 210% of the basic monthly salary of the employee at the time of his retirement for each year of service if he has rendered at least ten years of service, or 145% of his basic monthly salary, if he has rendered less than 30 years of service.

Consistent with MBT's goal of being one of the Philippines' preferred employers, MBT has adopted a compensation policy that it believes is competitive with industry standards in the Philippines. Salaries and benefits are reviewed periodically and adjusted to retain current employees and attract new talent. Tied to this is a competency-based performance management system that calls for the alignment of individual key results, competencies, and development plans with MBT's overall business targets and strategy. Performance is reviewed annually and employees are rewarded based on the attainment of pre-defined objectives. MBT currently has no plans of hiring additional employees, except where necessary to complement its commercial lending, business intelligence, product development and customer service.

CORPORATE SOCIAL RESPONSIBILITY

On January 8, 1979, the Metrobank Foundation, Inc. (the "Foundation") was established by the MBT Group to contribute to social development efforts of the Government. As of December 31, 2011, the Foundation held 0.7% of the MBT Group's common shares. The current advisory board of the Foundation includes former President Gloria Macapagal Arroyo (represented by Diosdado Macapagal, Jr.), former Prime Minister Cesar Virata, former Supreme Court Chief Justice Antonio Panganiban, Washington SyCip and others. The Foundation seeks to foster a culture of excellence by funding and implementing programs in education, health services and the visual arts in the Philippines, primarily by honoring outstanding members of key professions, including teachers, artists, police and military personnel and blue-collar workers. The Foundation also provides scholarships for intellectually-gifted and disadvantaged students and provides grants in support of noteworthy programs in education, health care and the arts, among others. The Foundation also manages and helps operate the Manila Doctors Hospital and its educational arm, the Manila Doctors College, as part of its advocacy for excellent health care services.

SUBSIDIARIES AND ASSOCIATES

Subsidiaries

The following table sets out summary information in respect of the MBT Group's significant subsidiaries as of and for the year ended December 31, 2011:

Subsidiaries	MBT Group's effective ownership	Activity	Principal place of business	Issued capital stock(2)	Total assets	Total revenues	Net income (loss)
				(₱ millions)			
Philippine Savings Bank	76.0%	Savings Banking	Philippines	2,403	120,252	10,960	2,029
First Metro Investment Corporation and subsidiaries	98.1%	Investment Banking Holding Company	Philippines	4,209	78,695	6,905	2,192
First Metro Securities Brokerage Corporation(1)	100.0%	Stock Brokerage	Philippines	130	603	129	53
PBC Capital Investment Corporation(1)	100.0%	Investment House	Philippines	300	516	43	35
SBC Properties, Inc.(1)	100.0%	Real Estate	Philippines	130	140	10	4
Prima Ventures Development Corporation(1)	100.0%	Holding Company	Philippines	4	28	–	–
First Metro Save & Learn Money Market Fund, Inc.(1)	99.7%	Management of Mutual Funds	Philippines	20	206	7	4
First Metro Global Opportunity Fund, Inc.(1)	100.0%	Management of Mutual Funds	Philippines	1	57	2	1
First Metro Asset Management, Inc.(1)	70.0.%	Management of Mutual Funds	Philippines	24	61	75	19
FMIC Equities, Inc.(1)	100.0%	Holding Company	Philippines	13	13	–	–
Resiliency (SPC), Inc.(1)	100.0%	Financial Holding Company	Philippines	5	37	2	–
First Metro Save & Learn Fixed Income Fund, Inc.(1)	30.8%	Management of Mutual Funds	Philippines	295	1,071	120	91
First Metro Insurance Brokers Corporation	100.0%	Insurance Co.	Philippines	16	2	–	–
Metrobank Card Corporation (A Finance Company)	60.0%	Credit Card Services	Philippines	1,000	29,101	7,754	1,392
Metropolitan Bank (China) Ltd.	100.0%	Banking	PRC	8,655	19,663	707	104
ORIX Metro Leasing and Finance Corporation and Subsidiaries	59.6%	Leasing, Finance	Philippines	843	12,576	2,496	504
Circa 2000 Homes, Inc.	100.0%	Real Estate	Philippines	800	1,136	8	(28)
Metropolitan Bank (Bahamas) Limited	100.0%	Holding Company	Bahamas	46	912	69	40
First Metro International Investment Company Limited and Subsidiary	99.6%	Investments and deposit taking	Hong Kong	231	900	4	(10)
Metro Remittance (Hong Kong) Limited	100.0%	OFW Remittances	Hong Kong	26	155	120	4
Metro Remittance (Singapore) Pte. Ltd.	100.0%	OFW Remittances	Singapore	16	165	100	48
Metro Remittance Center, Inc.	100.0%	OFW Remittances	United States	64	138	116	(6)
Metro Remittance (USA), Inc.	100.0%	OFW Remittances	United States	117	115	54	10
Metro Remittance (Italia), S.p.A.	100.0%	OFW Remittances	Italy	88	147	103	(15)
Metro-Remittance (Spain), S.A.	100.0%	OFW Remittances	Spain	65	23	42	(2)
Metro Remittance (UK) Limited	100.0%	OFW Remittances	United Kingdom	31	40	41	2
MBTC Services GmbH	100.0%	OFW Remittances	Austria	44	8	12	(5)
MBTC Technology, Inc.	100.0%	Computer Services	Philippines	200	103	132	(82)
Data Serv. Inc.	100.0%	Computer Services	Philippines	63	70	2	2

Notes:

(1) *FMIC, directly or indirectly through its subsidiaries, holds the interests shown above in First Metro Securities Brokerage Corporation, Prima Ventures Development Corporation, FMIC Equities, Inc., PBC Capital Investment Corporation, SBC Properties, Inc., First Metro Asset Management, Inc., Resiliency (SPC), Inc., First Metro Global Opportunity Fund, Inc. and First Metro Save & Learn Money Market Fund, Inc. and First Metro Save & Learn Fixed Income Fund, Inc. The financial information relating to FMIC includes its equity investments in those subsidiaries and its own associates.*

(2) *Foreign currency denominated amounts have been translated into Philippine Pesos using the historical rate as of the transaction date for issued capital stock, Philippine Dealing System closing rate as of December 31, 2011 for total assets and Philippine Dealing System annual average rates for total revenue and net income (loss).*

Each of the MBT Group's subsidiaries listed above have been incorporated in the Philippines, other than Metropolitan Bank (China), Ltd., Metropolitan Bank (Bahamas) Limited, First Metro International Investment Company Limited ("First Metro International"), Metro Remittance (Hong Kong), Limited, Metro Remittance (Singapore) Pte. Ltd., Metro Remittance Center, Inc., Metro Remittance Center (USA), Inc., Metro Remittance (Italia), S.p.A., Metro Remittance (Spain) S.A., Metro Remittance (UK) Limited and MBTC Services GmbH. Set forth below is a brief description of the MBT Group's primary subsidiaries which have not been discussed above.

First Metro Securities Brokerage Corporation

First Metro Securities Brokerage Corporation ("FMSBC") (formerly Multi-Grade Securities Corporation), a wholly owned subsidiary of FMIC, is the stockbrokerage subsidiary of the MBT Group and a licensed Trading Participant of the PSE. It was incorporated in October 1987 and began its commercial operations in June 1994. The company services both retail and institutional investors and is in the business of buying, selling, or otherwise dealing in stocks, bonds, debentures and other securities or commercial papers and rendering financial advisory services. In 2010, FMSBC introduced its enhanced online stock trading platform, www.firstmetrosec.com.ph, which is optimized for PSETrade, the PSE's new trading system. This trading system enables clients to view real-time stock market related information and trade equities online.

PBC Capital Investment Corporation

PBC Capital Investment Corporation ("PCIC"), a wholly owned subsidiary of FMIC, was incorporated on March 1, 1996 and started commercial operations on March 8, 1996. The MBT Group initially acquired PCIC as part of the acquisition of the Philippine Banking Corporation. It was incorporated primarily to perform basic investment banking activities, such as equity and debt underwriting, loan arrangement and syndication, financial advisory services and other corporate finance work.

SBC Properties, Inc.

SBC Properties, Inc. ("SPI") is a wholly owned subsidiary of FMIC incorporated in the Philippines and was registered with the Philippine SEC on June 27, 1997 primarily to engage in the acquisition, development, lease and sale of real properties intended for residential, commercial or industrial use.

Prima Ventures Development Corporation

Prima Ventures Development Corporation (formerly Prima Estate Realty Corporation) is a wholly-owned subsidiary of FMIC and was registered with the Philippine SEC on January 11, 1979. On November 3, 2010, it sold 50.0% of its 60.0% ownership in First Metro Travel, Inc. (FMTI) (formerly Thomas Cook (Philippines), Inc.), which is engaged in the general business of travel services, both domestic and international, under a Share Purchase Agreement with a third party.

First Metro Save & Learn Money Market Fund, Inc.

First Metro Save & Learn Money Market Fund, Inc. ("SALMMF") is a 99.7% owned subsidiary of FMIC and was incorporated on November 4, 2008. SALMMF is an open-end mutual fund engaged in selling its capital to the public and investing the proceeds in selected high grade stocks and fixed-income securities.

First Metro Global Opportunity Fund, Inc.

First Metro Global Opportunity Fund, Inc. ("GOF") is a wholly owned subsidiary of FMIC and was incorporated on December 23, 2009. GOF is an open-end mutual fund engaged in selling its capital to the public and investing the proceeds in government and corporate fixed-income securities and equities denominated in major currencies issued by foreign and Philippine issuers.

First Metro Asset Management, Inc.

First Metro Asset Management, Inc. ("FAMI") was incorporated on April 21, 2005 to manage, provide and render management and technical advice/services for partnerships, corporations and other entities. Currently, FAMI is the investment manager, administrator and principal distributor of First Metro Save & Learn Fixed Income Fund, First Metro Save & Learn Equity Fund, First Metro Save & Learn Balanced Fund, First Metro Save & Learn Money Market Fund and First Metro Global Opportunity Fund, Inc. FAMI is 70% owned by FMIC, while 30% is shared equally by the Catholic Educational Association of the Philippine (CEAP) and by the Marist (Marist Brothers) Development Foundation.

FMIC Equities, Inc.

A wholly owned subsidiary of FMIC, FMIC Equities, Inc. was incorporated on November 9, 2001 to acquire, invest in, own, control, use, lease, sell or otherwise dispose of properties, businesses and enterprises.

Resiliency (SPC), Inc.

Resiliency (SPC), Inc., a wholly owned subsidiary of FMIC, was registered with the Philippine SEC as a financial holding company on June 22, 2009 to engage in the securitization of assets which shall include, but is not limited to, receivables, mortgage loans and other debt instruments.

First Metro Save & Learn Fixed Income Fund, Inc.

First Metro Save & Learn Fixed Income Fund, Inc. ("SALFIF") was incorporated in the Philippines on June 3, 2005 and subsequently registered under the Philippine Investment Company Act on September 6, 2005. SALFIF is an open-end mutual fund company engaged in selling its capital to the public and investing the proceeds in high grade fixed income generating instruments, such as bonds, commercial papers and other money market instruments.

Metropolitan Bank (China) Ltd.

MBCL commenced operations in March 2010. MBCL is wholly owned by the MBT Group and is a foreign enterprise bank established in Jiangsu province and headquartered in the city of Nanjing, PRC. MBCL provides customers with an extensive range of financial products and services to accommodate the unique requirements of different customer segments, focusing primarily on SMEs. MBCL absorbed the PRC operations of MBT's Shanghai branch. In addition to its head office in Nanjing, MBCL also has branches in Nanjing and Shanghai's Puxi and Pudong districts.

Circa 2000 Homes, Inc.

A wholly owned subsidiary of the MBT Group, Circa 2000 Homes, Inc. was incorporated on January 29, 1997 to engage in the business of home building and home development through the acquisitions of land and other assets, as well as the construction, sale and lease of management of houses, apartments, townhouses, apartelles, residential condominiums and other dwelling places.

Metropolitan Bank (Bahamas) Limited

Metrobank (Bahamas) Limited, which is a wholly owned subsidiary of the MBT Group, was incorporated as a private limited company in the Commonwealth of the Bahamas. It is licensed under the MBT Groups and Trust Companies Regulation Act (as amended) to conduct international banking.

First Metro International Investment Company Limited

First Metro International Investment Company Limited ("FMIIC") is an investment company established in Hong Kong in 1972 which also provides loans to local businessmen. FMIIC is 99.6% effectively owned by the MBT Group. As of December 31, 2011, the MBT Group directly owned 53.3%, with the balance being owned by Metropolitan Bank (Bahamas) Limited and FMIC, both wholly owned subsidiaries of the MBT Group.

Metro Remittance (Hong Kong) Limited

Metro Remittance (Hong Kong) Limited is a wholly owned subsidiary of the MBT Group and was incorporated in Hong Kong in October 1994. The company provides remittance services to OFWs in Hong Kong in conjunction with the MBT Group's own representative office and subsidiary in Hong Kong.

Metro Remittance (Singapore) Pte. Ltd.

Established in April 2004, Metro Remittance Singapore Pte. Ltd. is a wholly owned subsidiary of the MBT Group and started commercial operations on November 12, 2004. It is a remittance center conducting money-changing businesses and providing remittance services in Singapore.

Metro Remittance Center, Inc.

Metro Remittance Center, Inc. ("MRCI"), a wholly owned subsidiary of the MBT Group, was set up to facilitate the MBT Group's remittance services for Filipino communities in the United States. MRCI has branches in New York and Chicago.

Metro Remittance (USA), Inc.

Metro Remittance (USA), Inc., formerly Metro Remittance Center (California), Inc., was established August 8, 2007 to pursue the MBT Group's plan for expanding its remittance operations in California, U.S.A. Its Head Office is located at Artesia City (Southern California) and it has a branch in Union City (Northern California).

Metro Remittance (Italia), S.p.A.

Metro Remittance (Italia), S.p.A. was incorporated in November 28, 2002 and licensed by "Ufficio Italiano Dei Cambi" (Italian Office of Exchange) to perform payment and currency exchange brokerage services. The MBT Group acquired Metro Remittance (Italia), S.p.A. on March 3, 2005. The company's two offices in Rome and Milan cater to remittances by OFWs and Chinese clients.

Metro-Remittance (Spain), S.A.

Established on March 1, 2003 and licensed to operate in Madrid and Barcelona, Metro Remittance (Spain), S.A. was acquired by the MBT Group on March 31, 2005 to serve the remittance requirements of Filipinos and Chinese communities in Spain.

Metro Remittance (UK) Limited

Metro Remittance (UK) Limited, a wholly owned subsidiary of the MBT Group, was set up to facilitate the MBT Group's remittance services for Filipino communities in the UK and Ireland. This subsidiary has its office in London.

MBTC Services GmbH

MBTC Services GmbH (formerly MBTC Exchange Service GmbH, and MBTC Remittance GmbH) was established on March 28, 2003 and acquired by the MBT Group on March 3, 2005. It caters to the remittance requirements of Filipinos composed mostly of medical professionals in Vienna and neighboring cities and from Austrian residents.

Associates

The following table sets out summary information in respect of the MBT Group's significant associates as of and for the period ending December 31, 2011:

Associates	Effective ownership	Activity	Principal place of business	Issued capital stock	Total assets	Total revenues	Net income (loss)
				(audited)			
				(₱ millions)			
Philippine AXA Life Insurance Corporation	27.6%	Life Insurance	Philippines	350	38,943	9,975	941
Toyota Financial Services Philippines Corporation	34.0%	Motor Vehicle Financing	Philippines	1,000	21,211	1,869	257
Toyota Motor Philippines Corporation	30.0%	Motor Vehicle Manufacture	Philippines	1,549	15,920	5,567	2,178
Lepanto Consolidated Mining Company	16.6%	Mining	Philippines	4,332	11,753	1,731	215
Philippine Charter Insurance Corporation	32.7%	Non-life Insurance	Philippines	250	4,821	2,257	150
Global Business Power Corporation	29.4%	Power Generation	Philippines	240	57,025	16,986	1,648
Cathay International Resources Corporation	34.3%	Holding Company	Philippines	500	2,954	50	18
Northpine Land, Inc.	20.0%	Real Estate Developer	Philippines	1,225	1,948	122	28
Sumisho Motor Finance Corporation	30.4%	Financing of Motor Vehicles	Philippines	400	1,880	153	(140)
SMBC Metro Investment Corporation	30.0%	Investment House	Philippines	600	836	79	63
Taal Land, Inc.	35.0%	Real Estate	Philippines	510	44	2	1
First Metro Save & Learn Equity Fund	25.4%	Management of Mutual Funds	Philippines	802	3,098	177	105
First Metro Save & Learn Balanced Fund	25.8%	Management of Mutual Funds	Philippines	93	786	34	12
Aurora Towers, Inc.	49.0%	Real Estate	Philippines	37	12	(2)	(2)

Note:

FMIC holds interests in Global Business Power Corporation, Philippine AXA Life Insurance Corporation, Lepanto Consolidated Mining Company, Philippine Charter Insurance Corporation, Cathay International Resources Corporation, First Metro Save & Learn Equity Fund, First Metro Save & Learn Balanced Fund and Aurora Towers, Inc. The MBT Group holds interests in Toyota Financial Services (Philippines) Corporation, Toyota Motor Philippines Corporation, Northpine Land, Inc., SMBC Metro Investment Corporation and Taal Land, Inc. while PSBank holds interests in Toyota Financial Services (Philippines) Corporation and Sumisho Motor Finance Corporation.

Set forth below is a brief description of the MBT Group's significant associates.

Philippine AXA Life Insurance Corporation

AXA is 28.2% owned by FMIC. AXA was first in first year premium income and single premium of variable life insurance as of December 31, 2010. AXA is a joint venture between GT Capital, the MBT Group and the AXA Group, one of the world's largest insurance companies. See "Risk Factors – AXA – Risks Relating to AXA's Business", "Management's Analysis and Discussion of Results of Operations – AXA" and "Business – AXA".

Toyota Financial Services (Philippines) Corporation

In October 2002, the MBT Group and Toyota Financial Services Corporation of Japan established a joint venture financing business for Toyota vehicles, in which the MBT Group has a 34.0% effective interest as of December 31, 2011. Toyota Financial Services (Philippines) Corporation ("TFSPH") extends credit facilities to customers of Toyota vehicle dealers in the Philippines and to commercial or industrial enterprises, including distributors and dealers, who are engaged in the distribution of Toyota vehicles in the Philippines. In June 2008, TFSPH secured regulatory approval for its venture into quasi-banking, allowing the company to raise funds from the public for re-lending.

Toyota Motor Philippines Corporation

TMP is primarily engaged in the manufacture of Toyota passenger cars and commercial vehicles and the wholesale of Toyota parts and accessories. TMP is 30.0% owned by the MBT Group and 34.0% owned by TMC, with the balance owned by GT Capital (21.0%), Maximus (9.0%) and Mitsui (6.0%). See "Risk Factors – TMP – Risks Relating to TMP's Business", "Management's Analysis and Discussion of Results of Operations – TMP" and "Business – TMP".

Lepanto Consolidated Mining Company

Lepanto Consolidated Mining Company was incorporated and registered with the Philippine SEC on September 8, 1936 primarily to engage in the exploration and mining of gold, silver, copper, lead, zinc and various types of ores, metals, minerals, oil, gas and coal and their related by-products. On January 29, 1985, the Philippine SEC approved the extension of its corporate term for another 50 years after the expiration of its original term on September 8, 1986. As of December 31, 2011, the MBT Group had an effective voting interest of 16.6% through FMIC.

Philippine Charter Insurance Corporation

Philippine Charter Insurance Corporation ("PhilCharter") is 33.3% owned by FMIC. It was incorporated in December 1987 and has been a major player in the non-life insurance industry for over 50 years. PhilCharter offers a wide array of non-life insurance services, including packaged products for home security, automotive security, business security and condominium security. It currently ranks 8th in terms of gross premiums written and 5th in net premiums written among 87 Philippine non-life insurance companies according to to the Philippine Insurance Commission in its latest December 2010 report.

Cathay International Resources Corporation

Cathay International Resources Corporation ("CIR"), 35.0% owned by FMIC, was incorporated on April 26, 2005 primarily to acquire by purchase or exchange and use for investment or otherwise sell or transfer properties. It owns the Marco Polo Plaza Cebu Hotel. As of December 31, 2011, the MBT Group has an effective voting interest of 34.3% in CIR through FMIC's 35.0% ownership.

Northpine Land Inc.

The MBT Group holds a 20.0% interest in Northpine Land Inc. ("NLI"), formerly Jardine Land, Inc., which was established in April 1996 to acquire real estate and develop middle-income housing in the Philippines. The MBT Group's partners in NLI include Hong Kong Land (PPI) BV, San Miguel Properties Philippines, Inc. and Banco de Oro Unibank, Inc. The Philippine SEC approved the change in corporate name on August 29, 2006.

Sumisho Motor Finance Corporation

Sumisho Motor Finance Corporation ("SMFC") was incorporated on November 26, 2009 as a joint venture among PSBank, Philippine Savings Bank Retirement Fund, Sumitomo Corporation of the Philippines and Sumitomo Corporation to provide lending and leasing services for the purchase of motorcycles in the Philippines. As of December 31, 2011, the MBT Group had an effective voting interest of 30.4% through PSBank, which held 7,999,996 shares of SMFC.

SMBC Metro Investment Corporation

SMBC Metro Investment Corporation ("SMBC Metro") is a joint venture undertaking of the MBT Group (30% ownership), Sumitomo Mitsui Banking Corporation of Japan (40% ownership) and a third party investment vehicle, Gemland International Holdings, Inc. (30% ownership). Established in January 1995 as an investment house, SMBC Metro engages in investment and underwriting of securities without quasi-banking authority. Other services include lending, arranging U.S. dollar-denominated syndicated loans for various multinational companies and referral of Japanese clients to the MBT Group. SMBC Metro's clientele includes Philippine-based top-tier Japanese corporations.

Taal Land, Inc.

Taal Land, Inc. ("TLI") was incorporated and registered with the SEC on March 16, 1998. The principal activities of TLI are to purchase, subscribe to or otherwise acquire and own, hold, use, invest in, sell, assign, transfer, mortgage, pledge, exchange, and in all ways deal with real property, and personal properties of every kind and description, or interest therein, including shares of the capital stock of corporations engaged in the business of real estate, real estate construction, development, homebuilding and home development within the general vicinity of Tagaytay, Taal and Laurel, Batangas or in activities permitted by regulations of the BSP. As of December 31, 2011, the MBT Group owned 35.0% of TLI's shares.

Aurora Towers, Inc.

Aurora Towers, Inc., 50% owned by FMIC, was incorporated on May 12, 1982. It is a joint venture company with Progressive Development Corporation. ATI owns condominium and real estate properties in Cubao.

SELECTED STATISTICAL DATA OF MBT

The following unaudited information should be read together with MBT's consolidated financial statements included in this Prospectus as well as "Management's Discussion and Analysis of Financial Position and Results of Operations – MBT" and "Banking Risk Management". All amounts presented in this section except for Average Daily Balance and Average Yield/Cost have been prepared in accordance with PFRS.

AVERAGE STATEMENTS OF FINANCIAL POSITION AND RELATED INTEREST

Average Statements of Financial Position and Related Interest

The following table shows MBT's average balances, interest earned/incurred and average interest rates for the three years ended December 31, 2009, 2010 and 2011. Average balances are generally based on a daily rate.

	For the years ended December 31,								
	2009			2010			2011		
	Average Daily Balance	Interest Income/ Expense	Average Yield/Cost (%)	Average Daily Balance	Interest Income/ Expense	Average Yield/Cost (%)	Average Daily Balance	Interest Income/ Expense	Average Yield/Cost (%)
	(₱ millions, except for percentages)								
Due from BSP and other banks....	108,888	3,082	2.8%	112,938	2,965	2.6%	178,571	4,404	2.5%
Interbank loans receivables and securities purchased under resale agreements .	46,028	901	2.0%	49,860	726	1.5%	16,430	312	1.9%
Trading and investment securities	110,320	6,219	5.6%	118,370	5,540	4.7%	108,219	5,222	4.8%
Loans and receivables	258,940	18,390	7.1%	267,852	15,662	5.9%	306,018	15,664	5.1%
Total assets..............	**524,176**	**28,592**	**5.5%**	**549,020**	**24,893**	**4.5%**	**609,238**	**25,602**	**4.2%**
Deposit liabilities	489,552	8,868	1.8%	510,711	7,054	1.4%	548,055	7,017	1.3%
Subordinated debt, bills payable and SSURA and other borrowings	35,243	2,032	5.8%	32,005	1,860	5.8%	25,773	1,456	5.7%
Total liabilities..........	**524,795**	**10,900**	**2.1%**	**542,716**	**8,914**	**1.6%**	**573,828**	**8,473**	**1.5%**

Analysis of Changes in Interest Income and Interest Expense – Volume and Rate Analysis

The following table provides an analysis of changes in interest income, interest expense, and net interest income between changes in volume (average daily balances) and changes in rates for the year ended December 31, 2009 compared with the year ended December 31, 2010, the year ended December 31, 2010 compared with the year ended December 31, 2011. Volume and rate variances have been calculated on the movement in average daily balances and the change in the interest rates on average interest earning assets and average interest bearing liabilities in proportion to absolute volume and rate change. The variance caused by the change in both volume and rate has been allocated in proportion to absolute volume and rate change.

	For the year ended December 31, 2009 compared with the year ended December 31, 2010		
		Increase (Decrease) Due to	
	Net Change	Change in Average Volume	Change in Average Rate
		(₱ millions)	
Interest income on:			
Trading and Investment Securities	(679)	454	(1,133)
Loans and Receivables	(2,728)	(267)	(2,461)
Interbank Loans, Receivables and Securities Purchased Under Resale Agreements	(175)	75	(250)
Deposit with BSP and Other Banks	(117)	115	(232)
Interest expense on:			
Deposit Liabilities	(1,814)	384	(2,198)
Subordinated Debt, Bills Payable and SSURA and Other Borrowings	(172)	(187)	15
Net Interest Income	(1,713)	983	(2,696)

	For the year ended December 31, 2010 compared with the year ended December 31, 2011		
		Increase (Decrease) Due to	
	Net Change	Change in Average Volume	Change in Average Rate
		(₱ millions)	
Interest income on:			
Trading and Investment Securities	(318)	(475)	157
Loans and Receivables	2	2,232	(2,230)
Interbank Loans, Receivables and Securities Purchased under Resale Agreements	(414)	(487)	73
Deposit with BSP and Other Banks	1,439	1,723	(284)
Interest expense on:			
Deposit Liabilities	(37)	516	(553)
Subordinated Debt, Bills Payable and SSURA and Other Borrowings	(404)	(362)	(42)
Net Interest Income	1,150	2,220	(1,070)

Yields, Spreads and Margins

The following table sets out, for the periods indicated, the yields, spreads and interest margins on the MBT Group's interest-earning assets for the years ended December 31, 2009, 2010 and 2011.

	Year ended December 31,		
	2009	2010	2011
	(₱ in millions, except percentages)		
Interest income on interest-earning assets	43,715	41,464	45,037
Interest expense on interest-bearing liabilities	17,036	15,074	15,630
Average interest-earning assets	697,806	769,812	831,380
Average interest-bearing liabilities	696,329	745,825	779,416
Average total assets	809,558	870,815	922,853
Average interest-earning assets as a percentage of average total assets	86.2%	88.4%	90.1%
Average interest-bearing liabilities as a percentage of average total assets	86.0%	85.6%	84.5%
Average interest-earning assets as a percentage of average interest-bearing liabilities	100.2%	103.2%	106.7%
Yield(2)	6.3%	5.4%	5.4%
Cost of funds(3)	2.5%	2.0%	2.0%
Spread	3.8%	3.4%	3.4%
Net interest margin(4)	3.8%	3.4%	3.5%

Notes:

(1) *Average is current balance plus previous year balance divided by 2.*

(2) *Yield is interest income on interest-earning assets divided by average interest-earning assets.*

(3) *Cost of funds is interest expense on interest-bearing liabilities divided by average interest-bearing liabilities.*

(4) *Net interest margin is the difference between interest earned and interest expended divided by the average interest-earning assets.*

Financial Ratios

The following table sets out certain key financial indicators of the MBT Group as of and for the years ended December 31, 2009, 2010 and 2011.

	As of and for the year ended December 31,		
	2009	2010	2011
Dividend payout ratio(1)	30.0%	13.0%	19.1%
Cost to average assets(2)	6.2%	5.5%	5.2%
Tier I capital adequacy ratio	10.0%	12.0%	13.7%
Tier II capital adequacy ratio	4.3%	4.4%	3.7%
Total capital adequacy ratio	14.3%	16.4%	17.4%
Net non-performing assets ratio(3)	3.7%	2.8%	2.1%
Allowance as percentage of gross non-performing assets(4)	30.3%	37.3%	41.5%

Notes:

(1) *Dividend payout ratio is the ratio of dividend to net income after tax (excluding non-controlling interest).*

(2) *Cost to average assets is the ratio of the operating expenses (including interest expense but excluding depreciation and amortization) to the average total assets.*

(3) *Net non-performing assets ratio is the ratio of net non-performing assets divided by total assets.*

(4) *Allowance as a percentage of gross non-performing assets is the ratio of NPA provisions made to the gross NPAs.*

Return on Equity and Assets

The following table presents selected financial ratios for the periods indicated.

	As of and for the year ended December 31,		
	2009	2010	2011
	(₱ in millions, except percentages)		
Net income[(1)]	6,029	8,366	11,031
Average total assets	809,558	870,815	922,854
Average shareholders' equity[(1)]	70,159	81,430	98,716
Net profit as a percentage of average total assets	0.7%	1.0%	1.2%
Net profit as a percentage of average shareholders' equity	8.6%	10.3%	11.2%
Average shareholders' equity as a percentage of average total assets	8.7%	9.4%	10.7%

Note:

(1) Attributable to the equity holders of MBT.

Investment Portfolio

As of December 31, 2011, the MBT Group's investments comprised 20.5% of its total assets. The MBT Group carries out its investment activities according to various investment and trading policies. These policies set forth delegation of powers, types of instruments, maximum limits on investments in different types of securities, position limits, stop loss limits, duration limits, and minimum acceptable credit spreads.

AFS Investments

The following table sets forth, as of the dates indicated, information related to the MBT Group's AFS investments.

	As of December 31,					
	2009		2010		2011	
	Book/Market Value	Net Unrealized Gain (Loss)	Book/Market Value	Net Unrealized Gain	Book/Market Value	Net Unrealized Gain
	(₱ in millions)					
Debt Securities						
Government	149,970	231	102,610	769	126,955	4,139
Private	2,438	53	21,770	292	14,093	60
BSP	1,761	55	–	–	–	–
Total debt securities	154,169	339	124,380	1,061	141,048	4,199
Equity securities	2,566	(109)	2,087	177	2,009	259
Total	**156,735**	**230**	**126,467**	**1,238**	**143,057**	**4,458**

HTM Investments

The following tables set forth, as of the dates indicated, information related to the MBT Group's HTM investments.

	As of December 31,								
	2009			2010			2011		
	Book Value	Market Value	Net Unrealized Gain (Loss)	Book Value	Market Value	Net Unrealized Gain	Book Value	Market Value	Net Unrealized Gain
	(₱ in millions)								
Government bonds...	21,003	22,074	1,071	26,701	30,477	3,776	35,496	41,594	6,098
Treasury notes..........	2,038	2,148	110	5,962	6,908	946	8,066	9,787	1,721
Private bonds............	580	696	116	–	338	338	3,895	3,909	14
Total.........................	**23,621**	**24,918**	**1,297**	**32,663**	**37,723**	**5,060**	**47,457**	**55,290**	**7,833**

Financial Assets at FVPL

Financial assets at FVPL are recorded at fair value. Changes in fair value relating to the held for trading positions are recognized in profit or loss under trading and securities gain – net. As of December 31, 2009, 2010 and 2011, the MBT Group's financial assets at FVPL amounted to ₱17.0 billion, ₱12.6 billion, and ₱6.2 billion, respectively.

The following table sets out an analysis of the MBT Group's total investment portfolio by maturity as of December 31, 2011:

	As of December 31, 2011				
	Due within one year	Due more than 1 to 5 years	Due more than 5 to 10 years	Due more than 10 years	Total
	(₱ in millions)				
Financial Assets at FVPL	2,593	1,376	1,252	967	6,188
HTM Investments...	5,153	5,791	19,713	16,800	47,457
AFS Investments	25,259	34,582	65,556	17,660	143,057

Cash Flow Mismatch Analysis

The MBT Group manages its liquidity risk by analyzing net funding requirements under alternative scenarios, diversification of funding sources and contingency planning. Specifically for MBT, it utilizes a diverse range of sources of funds, although short-term deposits made with its network of domestic branches comprise the majority of such funding. To ensure that funding requirements are met, MBT manages its liquidity risk by holding what it believes to be a sufficient amount of liquid assets of appropriate quality. It also maintains a balanced loan portfolio that is re-priced on a regular basis. Deposits with banks are made on a short-term basis.

The following table sets forth the MBT Group's structural liquidity gap position as of December 31, 2011 (the maturity profile of financial instruments and gross-settled derivatives based on contractual undiscounted cash flows):

	December 31, 2011						
	On demand	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 Year	Total
	(₱ millions)						
Financial Assets							
Cash and other cash items	20,954	–	–	–	–	–	20,954
Due from BSP	43,620	111,274	1,810	–	–	–	156,704
Due from other banks	24,542	5,874	106	1,594	4	–	32,120
Interbank loans receivable and SPURA	18,797	5,131	439	–	–	–	24,367
Financial assets at FVPL							
Held-for-trading	–	1,490	–	2,386	–	–	3,876
Derivative assets							
Trading:							
Pay	–	21,138	12,458	5,952	3,162	308	43,018
Receive	55	21,429	12,805	6,138	3,597	711	44,735
	55	291	347	186	435	403	1,717
AFS investments	–	221	978	16,706	2,643	152,949	173,497
HTM investments	–	347	1,987	3,220	4,273	99,435	109,262
Loans and receivables:							
Receivables from customers	5,540	81,586	62,847	38,992	33,824	291,521	514,310
Unquoted debt securities	–	–	–	1,299	40	21,577	22,916
Accounts receivable	3,499	462	1	1	5	259	4,227
Accrued interest receivable	6,152	275	250	102	19	253	7,051
Sales contract receivable	36	–	1	7	29	687	760
Other receivables	69	6	–	–	42	177	294
Other assets							
Returned checks and other cash items	–	–	67	–	–	–	67
Residual value of leased property	–	13	15	22	60	307	417
Miscellaneous	–	–	–	–	–	917	917
	123,264	206,970	68,848	64,515	41,374	568,485	1,073,456

	December 31, 2011						
	On demand	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 Year	Total
	(₱ millions)						
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities							
Demand	77,589	–	–	–	–	–	77,589
Savings	283,011	–	–	–	–	–	283,011
Time	–	230,556	54,232	12,415	8,905	14,778	320,886
	360,600	230,556	54,232	12,415	8,905	14,778	681,486
Bills payable and SSURA	–	51,186	30,358	5,865	4,808	9,917	102,134
Manager's checks and demand drafts outstanding	2,610	–	–	–	–	–	2,610
Accrued interest payable	355	342	446	11	27	839	2,020
Accrued other expenses	4,295	116	58	–	70	43	4,582
Subordinated debt	–	255	84	340	9,179	12,226	22,084
Other liabilities							
Bills purchased – contract	10,695	–	–	–	–	–	10,695
Accounts payable	892	3,710	754	–	259	339	5,954
Bonds payable	–	–	–	–	–	4,875	4,875
Outstanding acceptances	–	303	620	86	55	–	1,064
Marginal deposit	276	–	98	–	–	–	374
Deposits on lease contract	–	6	18	34	101	438	597
Dividends payable	–	31	–	–	–	–	31
Miscellaneous	–	–	–	–	–	488	488
	379,723	286,505	86,668	18,751	23,404	43,943	838,994
Derivative liabilities							
Trading:							
Pay	–	23,511	21,009	11,874	5,713	6,939	69,046
Receive	–	23,124	20,643	11,716	5,504	5,729	66,716
	–	387	366	158	209	1,210	2,330
Loan commitments and financial guarantees	51,541	2,429	7,299	3,996	6,290	2,422	73,977
	431,264	289,321	94,333	22,905	29,903	47,575	915,301
Liquidity Gap	(308,000)	(82,351)	(25,485)	41,610	11,471	520,910	158,155
Liquidity Gap as % of Total Liabilities	(33.6%)	(9.0%)	(2.8%)	4.5%	1.3%	56.9%	17.3%

Notes:

(1) *Financial assets – analysis of equity securities at FVPL and AFS equity securities into maturity groupings is based on the expected date on which these assets will be realized. For other financial 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.*

(2) *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 MBT Group may be required to pay.*

(3) *Derivative assets and liabilities do not include derivatives embedded in financial and non-financial contracts.*

BANKING REGULATION AND SUPERVISION

BANKING REGULATION AND SUPERVISION

The General Banking Law provides that the operations and activities of banks are subject to the supervision of the BSP. Likewise, Republic Act No. 7653 or the New Central Bank Act which creates the BSP provides that the BSP shall have supervision over the operations of banks and exercise such regulatory powers over the operations of finance companies and non-bank financial institutions performing quasi-banking functions. The BSP exercises its powers through the Monetary Board.

The supervisory power of the BSP under Republic Act No. 7653 (the "New Central Bank Act") extends to the subsidiaries and affiliates of banks and quasi-banking institutions engaged in allied activities. A subsidiary is defined as a corporation with more than 50% of its voting stock is owned by a bank or quasi-bank. An affiliate is defined as a corporation whose voting stock, to the extent of 50% or less is owned by a bank or quasi-bank or which is related or linked or such other factors as determined by the Monetary Board.

The power of supervision of the BSP under the General Banking Law includes the issuance of rules of conduct or standards of operation for uniform application, conduct examination to determine compliance with laws and regulations, to oversee compliance with such rules and regulations and inquire into the solvency and liquidity of the covered entities. Section 7 of the General Banking Law provides that the BSP in examining a bank shall have the authority to examine an enterprise which is owned or majority-owned or controlled by a bank.

As a general rule, no restraining order or injunction may be issued by a court to enjoin the BSP from exercising its powers to examine any institution subject to its supervision. The refusal of any officer, owner, agent, manager or officer-in-charge of an institution subject to the supervision or examination of the BSP to make a report or a permit examination is criminally liable under Section 25 of the New Central Bank Act.

In addition to the general laws such as the General Banking Law and the Anti-Money Laundering Act of 2001, Republic Act No. 9160, as amended, among others, banks must likewise comply with letter, circulars and memoranda issued by the BSP some of which are contained in the BSP Manual of Regulations for Banks (the "BSP Manual").

The BSP Manual is the principal source of rules and regulations to be complied with and observed by banks in the Philippines. The BSP Manual contains regulations that include those relating to the organization, management and administration, deposit and borrowing operations, loans, investments and special financing program, and trust and other fiduciary functions of the relevant bank. Supplementing the BSP Manual are rules and regulations promulgated in various circulars, memoranda, letters and other directives issued by the Monetary Board.

All regulations pertaining to banks are then implemented by the Supervision and Examination Sector ("SES") of the BSP. The SES is responsible for ensuring the observance of applicable laws and rules and regulations by banking institutions operating in the Philippines (including Government credit institutions, their subsidiaries and affiliates, non-bank financial intermediaries, and subsidiaries and affiliates of non-bank financial intermediaries performing quasi-banking functions, non-bank financial intermediaries performing trust and other fiduciary activities under the General Banking Law, non-stock and savings loans associations under Republic Act No. 3779, and pawnshops under Presidential Decree No. 14).

Regulation relating to Capital Structure

Pursuant to the General Banking Law, no entity may operate as a bank without the permit of the BSP through the Monetary Board. The Philippine SEC will not register the incorporation documents of any bank or any amendments thereto without a Certificate of Authority issued by the Monetary Board.

A bank can only issue par value stocks and it must comply with the minimum capital requirements prescribed by the Monetary Board. A bank cannot purchase or acquire its own capital stock or accept the same as security for a loan, except when authorized by the Monetary Board. All treasury shares must be sold within six months from the time of purchase or acquisition thereof.

Under the BSP Manual, universal banks are required to have capital accounts of at least ₱5.4 billion. Commercial banks are required to have capital accounts of at least ₱2.8 billion. Thrift banks with a head office in Metro Manila are required to have capital accounts of at least ₱400.0 million. These minimum levels of capitalization may be changed by the Monetary Board from time to time. Currently, the BSP requires only minimum capital accounts of ₱4.95 billion for universal banks, ₱2.4 billion for commercial banks, and ₱1.0 billion for thrift banks with a head office in Metro Manila.

For purposes of these requirements, the BSP Manual states that the term capital shall be synonymous to unimpaired capital and surplus, combined capital accounts and net worth and shall refer to the total of the unimpaired paid-in capital, surplus and undivided profits, less:

a. Unbooked valuation reserves and other capital adjustments as may be required by the BSP;

b. Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI granted by the bank;

c. Unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates;

d. Deferred income tax;

e. Appraisal increment reserve (revaluation reserve) as a result of appreciation or an increase in the book value of bank assets;

f. Equity investment of a bank in another bank or enterprise, whether foreign or domestic, if the other bank or enterprise has a reciprocal equity investment in the investing bank, in which case, the investment of the bank or the reciprocal investment of the other bank or enterprises, whichever is lower; and

g. In the case of rural banks, the government counterpart equity, except those arising from conversion of arrearages under the BSP rehabilitation program.

Foreign individuals and non-bank corporation may own or control up to 40% of the voting stock of a domestic bank. The percentage of foreign-owned voting stock in a bank shall be determined by the citizenship of the individual stockholders in that bank. The citizenship of the corporation which is a stockholder in a bank shall follow the citizenship of the controlling stockholders of the corporation, irrespective of the place of incorporation. However, under the BSP Manual, a foreign bank may with prior approval of the Monetary Board operate in the Philippines through any one of the following modes:

a. By acquiring, purchasing or owning up to 60% of the voting stock of an existing domestic bank (including banks under receivership or liquidation, provided no final court liquidation order has been issued);

b. By investing in up to 60% of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or

c. By establishing branches with full banking authority.

Section 73 of the General Banking Law provides that within seven years from the effectivity of such law and subject to guidelines issued pursuant to the Foreign Banks Liberalization Act, the Monetary Board may authorize a foreign bank to acquire up to 100% of the voting stock of only one bank organized under the laws of the Republic of the Philippines. Within the same period, the Monetary Board may authorize any foreign bank, which prior to the effectivity of such law availed itself of the privilege to acquire up to 60% of the voting stock of a bank under the Foreign Banks Liberalization Act and the Thrift Banks Act, to further acquire voting shares of such bank to the extent necessary for it to own 100% of the voting stock thereof. In the exercise of this authority, the Monetary Board shall adopt measures as may be necessary to ensure that at all times the control of 70% of the resources or assets of the entire banking system is held by banks which are at least majority-owned by Filipinos.

The stockholders of individuals related to each other within the fourth degree of consanguinity or affinity, legitimate or common-law, shall be considered family groups or related interests and must be fully disclosed in all transactions by such an individual with the bank. Moreover, two or more corporations owned or controlled by the same family group or same group of persons shall be considered related interests, which must be fully disclosed in all transactions with the bank.

A bank cannot declare dividends greater than its accumulated net profits then on hand deducting therefrom its losses and bad debts. A bank cannot also declare dividends if at the time of declaration:

a) It is clearing account with BSP is overdrawn;

b) It is deficient in the required liquidity floor for government deposits for five or more consecutive days;

c) It does not comply with the liquidity standards/ratio prescribed by BSP for purposes of determining funds available for dividend declaration; or

d) It has committed major violation as determined by BSP.

Regulations with respect to Management of Banks

The board of directors of a bank must have at least five and a maximum of 15 members, two of whom shall be independent directors. In case of merged or consolidated banks, the number of directors shall not exceed 21.

An independent director is a person who is not an officer or employee of a bank, its subsidiaries or affiliate or related interests.

Foreigners are allowed to have board seats to the extent of the foreign equity in the bank.

The Monetary Board shall issue shall regulations that provides for the qualifications and disqualifications to become a director or officers of a bank. After due notice to the board of directors of a bank, the Monetary Board may disqualify, suspend or remove any bank director or officer who commits or omits act which renders him unfit for the position.

The Monetary Board may regulate the payment by the bank of compensation, allowances, bonus, fees, stock options and fringe benefits to the bank officers and directors only in exceptional cases such as when a bank is under conservatorship, or is found by the Monetary Board to be conducting business in an unsafe or unsound manner or when the Monetary Board deems it to be in unsatisfactory condition.

Except in cases allowed under the Rural Bank Act, no appointive or elective public official, whether full time or part time, may serve as officer of any private bank, except if the service is incidental to financial assistance provided by government or government owned and controlled corporation or when allowed by law.

Regulations with respect to Bank Operations

A universal bank, such as MBT, may open branches or offices within or outside the Philippine subject to the prior approval by the BSP. A bank and its branches and offices shall be treated as one unit. A bank, with prior approval of BSP, may likewise use any of its branches and as outlets for presentation and/sale of financial products of its allied undertakings or investment house units.

The Monetary Board shall prescribe the minimum ratio which the net worth of a bank must bear to its total risk assets which may include contingent accounts. In connection thereto, the Monetary Board may require that the ratio be determined on the basis of the net worth and risk assets of a bank, its subsidiaries, financial or otherwise and prescribe the composition and the manner of determining the net worth and total risk assets of bank and their subsidiaries. To ensure compliance with the set minimum ratio, the Monetary Board may limit or prohibit the distribution of net profits by such bank and require that such net profit be used to increase the capital accounts of the bank until the minimum requirement has been met. It may also restrict or prohibit acquisition of major assets and the making of new investments by the bank.

A universal bank has the authority to exercise and perform i) activities allowed for commercial banks; ii) powers of an investment house; iii) to invest in non-allied enterprise.

Capital Adequacy Requirements and Reserve Requirements
The Philippines adopted capital requirements based on the Basel Capital Accord in July 2001.

On July 1, 2007, the BSP issued Circular No. 538 which is the implementing guidelines of the revised International Convergence of Capital Measurement and Capital Standards known as Basel II. Basel II is the new international capital standards set by the Basel Committee on Banking Supervision (BCBS). It aims to replace Basel I, which was issued in 1988 with an amendment in 1996, to make the risk-based capital framework more risk-sensitive.

Under the New Central Bank Act, the BSP requires banks to maintain cash reserves and liquid assets in proportion to deposits in prescribed ratios. If a bank fails to meet this reserve during a particular week on an average basis, it must pay a penalty to BSP on the amount of any deficiency.

A universal bank is required to maintain regular reserves of 10% against Philippine Peso demand, savings and time deposits, negotiable order of withdrawal accounts, deposit substitutes and certain managed funds, a universal bank is likewise required to set up liquidity reserves against Philippine Peso demand, savings, time deposit and deposit substitutes liabilities equivalent, trust and other fiduciary accounts equivalent to 11%.

Limitations on Operations

The Single Borrower's Limit
Except as prescribed by Monetary Board for reasons of national interest, the total amount of loan, credit accommodations and guarantees (determined on the total credit commitment) that may be extended by a bank to any person or entity shall at no time exceed 20% of the net worth of the bank (or 30.0% of the net worth of the bank in the event that certain types and levels of security are provided). This ceiling may be adjusted by the Monetary Board from time to time. As of December 31, 2011, the ceiling applicable to MBT was 25.0%.

The limitations shall not apply to secured obligations of the BSP or the Republic of the Philippines, those covered by assignment of deposits maintained in the lending bank and held in the Philippines, those under letters of credit to the extent covered by margin deposits and those which the Monetary Bank may from time to time prescribe as non-risk items.

Limitation on DOSRI Transactions
No director or officer of any bank shall directly or indirectly, for himself or as the representative or agent of others, borrow from such bank nor shall he become a guarantor, indorser or surety for loans from such bank to others, or in the manner be an obligor or incur any contractual liability to the bank except with the written approval of the majority of all the directors of the bank, excluding the director concerned.

After due notice to the Board of Directors of the bank, the office of any officer or director who violates the DOSRI limitation may be declared vacant and such erring officer or director shall be subject to the penal provisions of the New Central Bank Act. The DOSRI account shall be limited to an amount equivalent to their respective unencumbered deposits and book value of their paid-in capital contribution in the bank. The limitation excludes loans, credit accommodations and guarantees secured by assets which the Monetary Board considers as non-risk.

As a general rule, loan and other credit accommodation against real estate shall not exceed 60% of the appraised value of the real estate security plus appraised value of the insured improvements, except for (a) residential loans not exceeding ₱3.5 million to finance the acquisition or improvement of residential units; and (ii) housing loans extended by or guaranteed under the Government's "National Shelter Program", such as the Expanded Housing Loans Program of the Home Development Mutual Fund and the mortgage and guaranty and credit insurance program of the Home Insurance and Guaranty Corporation. Prior to lending on an unsecured basis, a bank must investigate the borrower's financial position and ability to service the debt and must obtain certain documentation from the borrower, such as financial statements and tax returns. Any unsecured lending should be only for a time period essential for completion of the operations to be financed. Likewise, loans against chattels and intangible properties shall not exceed 75% of the appraised value of the security and such loan may be made to the title-holder of the chattels and intangible properties or his assignee.

Limitation on Investments

The total investment of a universal bank in equities of allied and non-allied enterprises shall not exceed 50% of the net worth of the said universal bank. Moreover, the equity investment in any one enterprise whether allied or non allied, shall not exceed 25% of the net worth of the universal bank. Net worth for this purpose is defined as the total unimpaired paid-in capital including paid-in surplus, retained earnings and undivided profit, net of valuation reserves and other adjustments as may be required by BSP. The Monetary Board must approved such acquisition of equities.

A universal bank can own up to 100% of the equity in a thrift bank, a rural bank or a financial or non financial allied enterprise. A publicly listed universal bank, such as MBT, may own up to 100% of the voting stock of only one other universal or commercial bank. However, with respect to non-allied enterprise, the equity investment in such enterprise by a universal bank shall not exceed 35% of the total equity in the enterprise nor shall it exceed 35% of the voting stock in that enterprise.

A bank's total investment in real estate and improvement including bank equipment shall not exceed 50% of the combined capital accounts. Further, the bank's investment in another corporation engaged primarily in real estate shall be considered as part of the bank's total investment in real estate, unless otherwise provided by the Monetary Board.

The limitation stated above shall not apply with respect to real estate acquired by way of satisfaction of claims. However, all these properties must be disposed of the bank within a period of five years or as may be prescribed by the Monetary Board.

Prohibition to act as Insurer

A bank is prohibited from directly engaging in insurance business as the insurer.

Permitted Services

In addition to the operations incidental to its banking functions, a bank may perform the following services:

a) Receive in custody funds, documents and valuable objects;

b) act as financial agent and buy and sell, by order of and for the account of their customers, shares evidences of indebtedness and all types of securities;

c) upon prior approval of the Monetary Board, act as the managing agent, adviser, consultant or administrator of investment management/advisory/consultancy accounts; and

d) rent out safety deposit boxes.

Anti-Money Laundering Act 2001

Republic Act No. 9160 or the Anti-Money Laundering Act of 2001, as amended, requires covered institutions such as banks including its subsidiaries and affiliates, to provide for customer identification, record keeping and reporting of covered and suspicious transactions.

Covered transactions are single transactions in cash or other equivalent monetary instrument involving a total amount in excess of ₱500,000.00 within one Banking Day.

Suspicious transactions are transactions with covered institutions such as a bank, regardless of the amount involved, where any of the following circumstances exists:

a) there is no underlying legal or trade obligation, purpose or economic justification;

b) the customer or client is not properly identified;

c) the amount involved is not commensurate with the business or financial capacity of the client;

d) the transaction is structured to avoid being the subject of reporting requirements under the AMLA;

e) there is a deviation from the client's profile or past transaction;

f) the transaction is related to an unlawful activity or offense under the AMLA;

g) similar or analogous transactions to the above.

Failure by any responsible official or employee of a bank to maintain and safely store all records of all transactions of the bank, including closed accounts, for five years from date of transaction/closure of account shall be subject to a penalty of six months to one year imprisonment and/or fine of ₱500,000.00

Malicious reporting of a completely unwarranted or false information relative to money laundering transaction against any person is punishable by six months to four years imprisonment and a fine of not less than ₱100,000.00 and not more than ₱500,000.00.

In compliance with the law, banks, their officers and employees are prohibited from communicating directly or indirectly to any person or entity the fact that a report was made to the Anti-Money Laundering Council and any information relating to such report. A violation of this rule is deemed a criminal act.

The following are considered as money laundering activities:

a) knowingly transacting or attempting to transact any monetary instrument or property which represents, involves or relates to the proceeds of an unlawful activity as defined under the law;

b) knowingly performing or failing to perform an act in relation to any monetary instrument or property involving the proceeds of any unlawful activity as a result of which he facilitated the offense of money laundering;

c) knowingly failing to disclose and file with AMLC any monetary instrument or property required to be disclosed and filed.

TAXATION FOR BANKS

Banks are subject to regular corporate income tax, based on their taxable income at a tax rate of 30%.

Taxable net income refers to items of income specified under Section 32 A of Republic Act No. 8424, otherwise known as the Tax Reform Act of 1997, as amended (the "Tax Code") less the items of allowable deductions under Section 34 of the Tax Code or those allowed under special laws.

A MCIT of 2% of the gross income of a bank is payable beginning on the fourth year of operations of the bank only if the MCIT is greater than the regular income tax of 30% computed computed on net taxable income. Any excess MCIT paid over the computed regular tax can be carried forward as tax credit for the three immediately succeeding years. For purposes of MCIT, gross income for those engaged in the sale of service means gross receipts less sales returns, allowances, discounts and cost of services. In case of banks, cost of services includes interest expense but income derived from other businesses of the banks are included in the gross income subject to MCIT but the necessary expense incurred for the said income are not allowed as deduction.

An Improperly Accumulated Earning Tax (IAET) equivalent to 10% of improperly accumulated taxable income of a corporation is not applicable to banks.

Since banks are in the regular business of lending, interest income derived by banks which is generally considered passive income by non-banks, is considered an ordinary income of banks subject to 30% income tax so long as it complies with the requirements as laid down in Revenue Regulation No. 13-00. However, the amount of interest expense shall be reduced by a value equal to 33% of the interest income subject to final tax to derive the interest expense that may be allowed as deduction from gross income.

The Tax Code does not allow the deduction of interest expense arising from transactions with related parties wherein:

a) The borrower is an individual directly or indirectly owing more than 50% in value of the outstanding capital stock of the bank;

b) More than 50% in value of the outstanding stock of both the borrower and the bank is owned directly or indirectly, by or for the same individual, if the borrower is a personal holding company or a foreign personal holding company.

Similarly, section 36 (B) of the Tax Code disallows the deduction of bad debts in the case of related party transactions as mentioned in the case of interest expense.

Pursuant to Revenue Regulation 05-99 as amended by Revenue Regulation 25-02 in order for a bank to be able to claim bad debts as an allowable deduction, it must secure a certification from the BSP that the accounts are worthless and can be written off subject to the final determination by the BIR that bad debts being claimed by the banks are worthless and uncollectible.

However, its passive income such an interest income earned on its bank deposits is subject to final withholding tax.

Banks are subject to GRT, which is a tax levied on the gross receipts of financial institutions.

An exception to the rule that those not habitually engaged in real estate business shall be subject to final tax on the sale of capital asset, is a sale of real property of banks which is considered as an ordinary asset, the income from the sale of which is subject to regular corporate income tax of 30%. Thus, the gain in the sale of land and/or building is subject to creditable withholding tax of 6% based on the zonal value or selling price, which shall be withheld by the buyer and can be used as a credit against the bank's taxable income in the year that the gain is realized.

The Tax Code provides for a final tax at fixed rates for the amount of interest, yield or benefit derived from deposit substitutes which shall be withheld and remitted by the payor of the said interest, yield or benefit. This rule does not apply to gains derived from trading, retirement or redemption of the debt instrument which is subject to regular income tax rates, except those instruments with maturity of more than five years.

To be considered as a deposit substitute, the debt instrument must have been issued or endorsed to 20 or more individuals at any one time at the time of the original issuance in the primary market or at the issuance of each tranche in the case of instruments sold or issued in tranche.

Interbank call loans with a maturity period of not more than five days and used to cover deficiency in reserves against deposit liabilities are not considered deposit substitutes. The interbank call loans are not subject to documentary stamp tax ("DST") except if they have a maturity of more than seven days.

BANKING RISK MANAGEMENT

MBT is exposed to risks that are particular to its lending and trading businesses and the environment within which it operates. MBT's goal with respect to risk management is to ensure that it identifies, measures, controls and monitors the various risks that arise from its business activities, and that it strictly adheres to the policies and procedures which are established to address these risks.

RISK MANAGEMENT

Risk management is firmly embedded in MBT as evidenced by its policies and procedures and automated risk management systems to identify monitor and address the various risks facing its banking activities, particularly market, credit and operational risks. The Risk Management Group ("RSK") is an independent business function within MBT that identifies, analyzes and measures risks from MBT's trading, position-taking, lending, borrowing and other transactional activities. The RSK analyzes exposures and reviews and evaluates limits for approval by the Risk Management Committee ("RMC"). The RSK is also responsible for establishing standards to monitor and report compliance with MBT's limits.

MBT continues to upgrade its risk management structure, processes and systems in order to further improve its capability to evaluate and monitor risks and returns, and to help produce sustainable revenue, reduce earnings volatility and increase shareholder value.

MBT has established the following executive committees and operational groups to deal with risk policy and management:

Risk Management Committee

The RMC of MBT's board is responsible for the creation and oversight of MBT's corporate risk policy. The RMC has been tasked to articulate and convey the risk management expectations of the MBT board to management. The board has also delegated the development and oversight of MBT's risk management framework to the RMC. RMC's responsibilities include, but are not limited to, the following:

- Consider whether the risk infrastructure and operating policies are congruent with corporate policies on prudent risk management, and conform to regulatory, industry and technological standards, trends and best practices. On an ongoing basis, identify and assess the external risks that may affect the business plans and directions of MBT.

- Establish, in consultation with MBT's management and subject to board approval, corporate policies and guidelines for risk measurement, reporting and management.

- Review MBT's fiduciary and asset management activities, including oversight structure for fiduciary activities, general policies and reports.

- Review the steps that management has taken to monitor and control risk exposures. Review management's performance against these policies and benchmarks.

- Promote the continuous development of risk programs and infrastructure; ensure that business units provide for ongoing review of the adequacy and soundness of policies, assumptions and practices.

- Create and promote a risk culture that requires and encourages the highest standards of ethical behavior by risk managers and risk-taking personnel.

- Periodically review the RMC Charter to reassess its adequacy, implement best practices and propose necessary changes to the board for approval.

MBT's board, through the RMC, has delegated the responsibility of approving limit violations to MBT's president, which limit violations, including any covering approvals or temporary limit adjustments given by the president, are subject to review at the regular RMC meetings.

Executive Committee

The Executive Committee ("EXCOM") of MBT's board is responsible for reviewing and approving credit proposals that may pose material risks to MBT's business strategy or reputation and working closely with the RMC in managing the overall credit risk of MBT. In addition, the EXCOM is responsible for approving the sale of investment properties as recommended by the Acquired Assets Committee.

Credit Committee

The Credit Committee of the board is responsible for executing and managing the credit strategy of MBT as defined by the board and the EXCOM, by:

- Maintaining a sound and effective credit risk management system;
- Participating in portfolio planning;
- Reviewing and approving exceptions to standard credit policies up to its authority limit;
- Keeping aggregate credit risk levels within established limits;
- Reviewing the effectiveness of credit training policies across MBT;
- Ensuring the completeness and validity of information contained in all credit media presented to the EXCOM for approval or ratification;
- Approving and reviewing credit proposals within its authority as established by MBT's board of directors; and
- Reviewing large or complex exposures and potential transactions and advising on matters of policy.

Asset and Liability Committee

MBT's ALCO is composed of the chairman, the president, and certain of MBT's executive vice-presidents. It meets daily to assess the financial position of MBT in the light of current economic factors to ensure that MBT maintains adequate liquidity, sufficient capital and appropriate funding to meet all business requirements and comply with all regulatory requirements. In particular, ALCO manages the balance sheet and ensures that MBT's strategies are in accordance with adequate liquidity, capital and diversified funding.

In reviewing compliance with existing MBT policies and formulating new strategies, ALCO's role is to ensure that MBT's exposure to interest rate, credit, operational, market risks, and liquidity risks is within prudent limits determined from time to time by the RMC to be acceptable.

Treasury Group

The Treasury Group is principally responsible for managing MBT's funding and liquidity requirements as well as its investment and trading portfolio. Under the supervision of ALCO, it engages in money market and foreign exchange dealing and oversees MBT's funding requirements. The Treasury Group also engages in derivative transactions for hedging and trading purposes as applicable.

Special Accounts Management Group

MBT's SAMG manages and administers problem loan accounts. The relationship managers or account officers from the Corporate Banking Group, Business Lending Group and branches identify and transfer accounts that, in their assessments, exhibit early warning signs of deteriorating credit or have been classified as substandard or worse.

SAMG seeks to maximize the recovery of the loan through continued payments, rehabilitation of the problem account or through alternative means of payment. In cases of accounts involving a credit consortium of banks, the SAMG strives to take a lead role in the recovery efforts.

In instances where the remedial action implemented provides for payment via *dacion en pago* or other actions such as foreclosure, management of the resulting investment property is conducted by MBT's Property Leasing and Sales Division ("PLSD"). The Legal Services Division provides PLSD with any legal assistance that may be required for investment property management. SAMG also provides case-by-case assistance to the PLSD in cases where investment property management may require account management approaches and solutions.

LIQUIDITY RISK

ALCO is responsible for formulating MBT's liquidity risk management policies, whereas the RSK is responsible for monitoring such risks. Liquidity management is among the most important activities conducted within MBT. MBT manages its liquidity risk through analyzing net funding requirements under alternative scenarios, diversification of funding sources and contingency planning. MBT utilizes a diverse range of sources of funds where short-term deposits from MBT's network of domestic branches comprise the majority of such funding.

MBT manages its liquidity risk with short-term funding requirements by holding sufficient liquid assets of appropriate quality. The Treasury Group uses liquidity forecast models that estimate MBT's cash flow needs based on MBT's actual contractual obligations and under normal circumstances and extraordinary circumstances. RSK also prepares a weekly and monthly "Maximum Cumulative Outflow" report through MBT's data warehouse. The report measures MBT's liquidity mismatch risk and thereby provides ALCO and senior management with timely data and information relating to MBT's liquidity and interest rate risk profile.

CREDIT RISK

Credit risk is the risk stemming from a borrower's potential failure to repay a loan or otherwise meet a contractual obligation. It arises from lending, trade finance, treasury, derivatives and other activities undertaken by MBT. Credit risks, on an account-by-account basis, are evaluated and monitored by the Credit Group for both corporate borrowers and retail accounts. The Consumer Lending Group, on the other hand, keeps track of the consumer financing loans available via Metrohome and Metrocar credit facilities for individual borrowers. MBT manages its credit risk by evaluating the creditworthiness of counterparties, carrying out detailed cash flow analyses, setting credit limits for counterparties and industry sectors, and obtaining collateral where appropriate. MBT assigns a credit risk rating to each corporate counterparty after reviewing the financial position of the counterparty, conducting an industry analysis and assessing the quality of the obligor's management. MBT's credit risk rating process is intended to provide management with:

- a means of dividing the credit portfolio into standard levels of quality;
- a process of uniformly assessing the entire corporate portfolio; and
- a means to determine a portfolio's potential for default and loss.

Although the application of MBT's credit approval systems includes a valuation of the collateral to be provided in the case of secured lending, the financial review carried out by MBT focuses, in particular, on a detailed analysis of the current and projected cash flows of the borrower. MBT uses an Internal Credit Risk Rating System ("ICRRS") on corporate accounts. This particular model used by MBT is endorsed by the Bankers Association of the Philippines as it conforms to the minimum requirements of the BSP. Some enhancements were employed on the system using a wider range of factors that were more compatible to and could more effectively rate accounts under MBT's loan portfolio structure. Internal credit risk rating is performed for all new loan applications as well as on existing loans on an annual basis.

The components of the ICRRS are (1) Borrower Risk Rating ("BRR"), (2) Facility Risk Factor ("FRF"), (3) Adjusted Borrower Risk Rating ("ABRR"), and (4) Composite Risk Rating ("CRR").

The BRR is an assessment of the creditworthiness of the borrower without considering the type or amount of the facility or security arrangement. The Corporate Banking Group and MBT's other client management divisions are responsible for assessing the counterparty's management quality through regular meetings with their management. MBT has a conservative approach to the granting of credit, especially in its use of collateral. Specific to real estate, it values collateral at below market values and generally, only lends up to 60.0% of its appraised value. The BRR is derived by adding up the net scores of the three segments of the credit risk rating system, namely, financial, industry and management quality.

The recommended credit rating factor weights are given below:

Component	Description	Credit factor weight
Financial Condition	Evaluation of the financial position and profitability of the borrower using financial ratios	40.0%
Industry Analysis	Analysis of the industry and its prospects, and the position of the company in the industry	30.0%
Management Quality	Ability of management to run business successfully	30.0%

FRF, on the other hand, is primarily determined through the terms of the facility and security arrangements in place. These risk factors could either be upgraded or downgraded based on the quality and position of the collateral, after which, the BRR and the FRF are combined to arrive at the ABRR. In cases where a borrower is entitled to multiple facilities, a CRR is computed to give proportional weights on the facilities measured to arrive at the most accurate default probability. The final internal credit risk rating grades and the mandatory reserves are specified below:

ICRRS grades	Description	Mandatory reserves
1	Excellent	–
2	Strong	–
3	Good	–
4	Satisfactory	–
5	Acceptable	–
6	Watchlist	–
7	Especially Mentioned	5.0%
8	Substandard	10.0 – 25.0%
9	Doubtful	50.0%
10	Loss	100.0%

More stringent and strict evaluation processes are implemented on accounts with lower credit ratings from 6 to 10. Other requirements that can mitigate risks such as marginal deposits, loan covenants, guarantees and sureties, insurance and bonds may be required. Higher pricing considerations and spreads can be imposed if the perceived risk is greater. Conversion of existing accommodations to amortizing loans may also be considered. The MBT Group also stringently sets ceilings on its exposures to these accounts. The counterparty's audited financial statements and collateral data information, as well as macroeconomic conditions and assumptions are all considered. Relationship managers and other client management officers initially rate qualified borrowers in accordance with the ICRRS. They manually perform the financial factor evaluation and conduct industry analysis and management quality evaluation. Credit Group on the other hand validates the rating results of applications for credit accommodations of qualified borrowers, based on actual account performance and BSP-prescribed criteria. The MBT Group's IAG, on the other hand, reviews the ICRRS and its operations, including the operations of the credit risk control function annually.

MBT has ongoing initiatives to eventually replace the ICRRS with statistical credit rating models and systems.

Actual credit exposures, limits, and asset quality are regularly monitored and controlled by MBT's senior management. MBT's policy runs consistent with BSP's prohibition of any bank incorporated in the Philippines from maintaining a financial exposure to any single person or group of connected persons in excess of 25.0% of its net worth.

CREDIT APPROVAL AND ADMINISTRATION

MBT has a uniform credit approval system that is applied throughout its lending operations. The credit approval process is initiated by the branch or marketing unit to which the application and preparation of loan proposals are made. Loan proposals emanating from the head office are referred to the Credit Group in the head office for financial analysis and evaluation, collateral appraisal and credit investigation. For middle market lending by the regional lending offices and branches, the financial evaluation, collateral appraisal, credit investigation and documentation review functions are being handled by the Credit Support Units ("CSUs") and Centralized Credit Units ("CCUs") in the relevant regions. Loan proposals within the approving authority of the area supervisor or region head are evaluated by the CSUs and CCUs in the relevant region.

PSBank and First Metro apply similar credit approval systems to those of MBT.

As of December 31, 2011, MBT's head office credit group had a total of 405 regular personnel, of whom 45 were involved in credit investigation and appraisal, 115 in credit evaluation and analysis, 148 in credit control and administration, 74 in centralized credit units, 19 in strategic support, and four in the Office of the Group Head. In May 2006, the centralization of the loan releasing and administration functions under Operations Group with the evaluation and documentation functions of the former Loans Processing Hubs ("LPH") was approved and implemented. The LPH evolved into the Credit Support Units with their main responsibilities being preparation and evaluation of the loan applications worth ₱5.0 million and below, evaluation of loan proposals from the Branch Lending Group as well as the documentation and safekeeping of all collateral documents. Once evaluated, all proposals are referred to the appropriate approving authority for credit approval. Limits are aggregated per borrower and affiliated borrowers and, if exceeded, a loan proposal must be forwarded to the appropriate authority with the requisite credit approval level comprising a majority of the votes. A majority of the members of a particular committee must approve the credit. Each credit approval is valid for a period pertaining to the term of the proposed facility. Lines and term loans are reviewed on an annual basis unless a more frequent review is prescribed by the approving authority based on account rating.

The following table sets forth the principal limits of approving authorities within MBT as of December 31, 2011:

	Type of loan				
	Unsecured	DBP	Secured on real estate	Consumer home mortgage	Secured on Peso or U.S.$ deposits
	(₱ millions)				
Branch Credit Committee – listed	None	2,000.0		2,000.0	
Cluster Head	None	1,000.0	6,000.0	6,000.0	
Area Head	200.0	10,000.0	8,000.0	8,000.0	10,000.0
NBBS Head/BLG Head	1,000.0	40,000.0	20,000.0	20,000.0	60,000.0
NBBS Region Head/BLG Center Head	500.0	20,000.0	10,000.0	10,000.0	20,000.0
CRG Head/CRG DSO	1,000.0	30,000.0	20,000.0	20,000.0	25,000.0
President	3,000.0	60,000.0	25,000.0	25,000.0	75,000.0
Head Office, Downtown or Grace Park Center Credit Committee	10,000.0		60,000.0		100,000.0
Executive Committee	Over 10,000.0 up to 100,000.0		Over 60,000.0 up to 100,000.0		Over 60,000.0
Senior Executive Committee	Over 100,000.0		Over 100,000.0		

Note: Unlisted branches are new branches which do not have the requisite experience to have higher credit approval limits.

Once credit has been approved, examination of documents as to completeness is conducted by CRG-Collateral and Documentation Dept. (for head office accounts) and the CSUs (for Branch and Branch Lending Group accounts). Loan releasing, booking and loan administration are handled by the Domestic Operations Division for head office accounts and the Branch Loans Operations Department for branch accounts. Each loan transaction is subject to evaluation in terms of compliance with credit policies and the completeness and accuracy of the documentary requirements for types of loans and collateral. The Credit Group reviews individual accounts at least every year to ensure the quality of credit. In addition, MBT's Non-performing Asset Committee has been reorganized to provide close monitoring of potential problem and past due loan accounts below ₱20.0 million while the Senior Non-Performing Assets Committee was created to review and evaluate MBT's past due loan accounts amounting to ₱20.0 million and above. Both committees evaluate and act on proposed collection programs and oversee the implementation of the disposal of acquired assets. The committees regularly meet once a week on separate sessions at the head office for the purpose of reviewing problem loans to be restructured. In order to improve its management of NPLs, MBT has also established regional Non-performing Asset Committees which meet at least once a month to review NPLs.

In the ordinary course of business, MBT and its subsidiaries enter into loans with affiliates and DOSRI. MBT ensures that such loans are on fair, commercial terms. The General Banking Act and BSP regulations generally limit the amount of such loans to 100.0% of MBT's combined capital accounts or 15.0% of MBT's total loan portfolio, whichever is the lower. The amount of any loan to a director, officer or shareholder, of which 70.0% must be secured, may not exceed the aggregate amount of their deposits with MBT and the book value of their investments in MBT. MBT is required to report the level of DOSRI loans to the BSP on a weekly basis. DOSRI loans accounted for 3.3%, 3.8% and 4.1% of total loans as of December 31, 2009, 2010 and 2011, respectively.

MBT's board of directors has the sole authority to approve loans to DOSRI. In addition, the board of directors must approve the restructuring of all DOSRI loans and non-DOSRI loans that were originally approved by the Executive Committee/Senior Executive Committee.

MARKET RISK

Market risk is the risk of loss to future earnings, fair values or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes. MBT's market risk originates from its holdings in its foreign exchange instruments, debt securities, equities and derivatives transactions.

MBT manages market risk by segregating its balance sheet into a trading book and a banking book. ALCO, chaired by MBT's Chairman, is the senior review and decision-making body for MBT's management of all related market risks. The risk limits are approved by the RMC, which is a subcommittee of MBT's board.

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

The Treasury Group manages asset/liability risks arising from both normal banking operations and from trading operations in financial markets. The Treasury Group is assigned risk limits by the RMC.

In measuring the potential loss in its trading portfolio, the bank uses Value-at-Risk ("VaR") as a primary tool. The VaR method is a procedure for estimating portfolio losses exceeding some specified proportion based on a statistical analysis of historical market price trends, correlations and volatilities. VaR estimates the potential decline in the value of a portfolio, under normal market conditions, for a given "confidence level" over a specified holding period. In calculating VaR, MBT uses a 99.0% confidence level and a one-day holding period for foreign exchange and a holding period of ten days for fixed income trading portfolios. This means that, statistically, losses on trading operations will exceed VaR on one out of 100 trading banking days. The validity of the VaR model is verified through back testing, which examines how frequently actual daily losses exceed daily VaR. MBT measures and monitors the VaR and profit and loss on a daily basis.

INTEREST RATE RISK

MBT follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates is kept within acceptable limits.

A substantial proportion of MBT's total loan portfolio has a repricing term of less than one year, and the majority of the balance of its medium-term portfolio is on a floating rate basis. As a result of these factors, MBT's exposure to interest rate fluctuations and other market risks is significantly reduced. MBT maintains a large portion of its deposit base in short-term deposits. No interest is paid on regular demand accounts, while rates on savings accounts are set by different criteria. The interest rate of time deposit accounts are set by reference to prevailing market rates.

One method by which MBT measures the sensitivity of its assets and liabilities to interest rate fluctuations is by way of gap analysis. This analysis provides MBT with a static view of the maturity and repricing characteristics of its balance sheet positions. An interest rate gap report is prepared by classifying all assets and liabilities into various time period categories according to contracted maturities or repricing dates, whichever is earlier. The difference in the amount of assets and liabilities maturing or being repriced in any time period category gives MBT an indication of its exposure to the risk of potential changes in net interest income.

A gap is considered negative when the amount of interest rate-sensitive liabilities exceeds the amount of interest rate-sensitive assets. A gap is considered positive when the amount of interest rate-sensitive assets exceeds the amount of interest rate-sensitive liabilities. Accordingly, during a period of rising interest rates, MBT would be better positioned with a positive gap than being in a negative gap position. When this occurs, MBT should be able to reprice or reinvest in higher yielding assets at an earlier rate than it would need to refinance its interest-bearing liabilities. During a period of falling interest rates, a positive gap would lend to assets repricing earlier than one with a negative gap. This may restrain the growth of its net income or result in a decline in net interest income.

MBT also monitors its exposure to fluctuations in interest rates by measuring the effect of interest rate movements on net interest income. This is done by modeling the impact of various changes in interest rates to MBT's interest-related income and expenses.

FOREIGN CURRENCY RISK

Foreign currency liabilities generally consist of foreign currency deposits in MBT's foreign currency deposit unit ("FCDU") account. Foreign currency deposits are generally used to fund MBT's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency assets with the foreign currency liabilities held through FCDUs. In addition, the BSP requires a 30.0% liquidity reserve on all foreign currency liabilities held through FCDUs. Outside the FCDU, MBT has additional foreign currency assets and liabilities in its foreign branch network. MBT actively manages its foreign currency assets and liabilities.

MBT's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines.

DERIVATIVES

Under existing regulations, banks in the Philippines are allowed to engage in authorized financial derivatives. To capitalize on the opportunities to offer its clients additional banking products, MBT obtained the Type 2 Limited Dealer Authority for FX Forwards, Non-deliverable Forwards, FX Swaps, Interest Rate Swaps, Forward Rate Agreements, Cross-Currency Swaps and Credit Default Swaps in 2008, and for European Vanilla FX Options in 2011 with some conditions.

SYSTEMS RISK

MBT has designed systems to minimize the threat of disruption and has implemented procedures for passive recovery. Key components of MBT's system have multiple back-ups, including an independent back-up site outside of its Head Office in Makati City. In addition, critical data is replicated. As a result, loss of part or all of any portion of the systems should not result in a major disruption in service and will allow restoration and recovery of these systems in the event of a malfunction. MBT continuously monitors system security as well as its continuity of business to maintain readiness. MBT introduces new systems and changes in a controlled manner and designs new systems to run in parallel with old ones, minimizing the risk of incompatibility.

LEGAL RISK

MBT's Legal Group and Compliance Group are responsible for planning, implementing and promoting MBT's compliance measures. The Compliance Group administers MBT's Compliance System to ensure (i) that MBT complies with applicable banking laws and BSP rules and regulations and (ii) that banking operations are carried out in accordance with established policies of MBT. The Legal Group is in charge of legal affairs, including compliance with corporate and transactional law, as well as litigation.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems and external events. MBT's operational risks are managed through bank-wide or line of business specific policies, procedures, and risk and control monitoring tools.

In keeping with MBT's operational risk management governance structure, everyone is responsible for managing the operational risks within their respective operations and businesses. MBT recognizes three levels of defense in mitigating operational risk exposures. The first level of defense is everyone in the organization. Each employee is a fundamental part of operational risk management since they are in the best position to identify and manage risk. The second line of defense is the risk team, who support the business by ensuring that people are given the right tools to help identify and manage operational risk while the Internal Audit Group, as the third line of defense, conducts independent reviews of the business and operating units' adherence to risk policies.

RSK continued to support the management of MBT's operational risks by enhancing its existing Operational Risk Management Tools. Continuous refinement of these tools are performed to assist business and operating units in increasing their awareness of risks, management of their identified operational risks and the evaluation of existing controls.

In 2011, MBT consolidated the RCSA (Risk and Control Self-Assessment) and ORSA (Operational Risk Self-Assessment) tools for a more efficient identification and measurement of risks and to glean a comprehensive view of MBT's control environment and effectiveness of the internal controls.

In line with the consolidation, an E-Learning Module was created to further enhance risk awareness of business and operating units and for full appreciation of the said tool. MBT aims to institutionalize a risk conscious environment through robust risk awareness programs.

To improve data collection activities, the risk incident reporting is enhanced to ensure immediate capturing and effective management of risks. MBT continues to maintain/enhance/develop its Risk Event Database for an expanded view of the MBT's risk profile. MBT continues to lay the foundation for advanced approaches in the capital calculation for operational risk.

BUSINESS CONTINUITY PROGRAM

MBT is committed to safeguarding its business operations and stakeholders' interests. MBT has a board approved Business Continuity Program ("BCProg") to ensure that the risks of potential and unexpected business disruptions to MBT's critical business functions are addressed and may resume at acceptable levels of operations and service capabilities after the onset of an identified/disruptive event or crisis scenario. The BCProg is periodically updated and cleared with the Emergency Management Committee ("EMCOM") and tested in accordance to the requirements of the BSP. It is also approved by the board of directors through the RMC.

MBT's BCProg currently identifies the disaster recovery strategy which shall determine and document the pre-recovery, point of recovery and post recovery procedures prior to an actual incident/business disruption depending on the disruption alert level (i.e. Alert Levels Blue, Yellow, Red and Black).

MBT's BCProg also serves as a reference and guide in the formulation, updating or maintenance and review of specific business unit's Business Impact Analysis ("BIA") and Business Continuity Plan ("BCPlan"). The BCPlans may be activated in order to quickly recover and resume business operations.

The BCPlans are tested to ensure the bank's readiness for probable business disruptions. Results of the latest bank-wide BCP exercise were considered successful. Although the test may not be able to replicate the actual extreme conditions that MBT may experience in a real emergency (e.g. control over the various entities that MBT must rely upon in the event of an emergency, unpredictability of significant business disruption scenarios), MBT is committed to continue enhancing its BCProg to address potential disruptive events.

SUMMARY – Fed Land

You should read the following summary together with the more detailed information about Fed Land and Fed Land's financial information included elsewhere in this Prospectus. Fed Land's summary also should be read together with the matters set forth under "Risk Factors – Fed Land". Additional information on Fed Land, including corporate structure and segment information, can be found in Fed Land's consolidated financial statements found in this Prospectus.

OVERVIEW

With 40 years of industry experience, Ty family companies have become established leaders in the Philippine real estate sector having completed more than 50 residential and commercial projects throughout their combined operating history. Having established Federal Homes in 1972 in Binondo, the Ty family's real estate business grew rapidly and as its pace of growth accelerated, additional entities were established to undertake the family's expanding property operations. In an effort to rationalize this growing exposure to the segment, the Ty family elected to consolidate its real estate development interests within GT Capital under its subsidiary, Fed Land. Fed Land today is the dedicated Philippine real estate development company of the Ty family. This consolidation exercise, which brought together the human resources and best practices of all the Ty family real estate companies, was intended to initiate the next phase of growth for the real estate business and further facilitate leveraging on synergies with other operating divisions within GT Capital.

Leveraging on the strong track record of the Ty family companies established over the years in the residential segment, Fed Land's principal focus remains in the residential space, particularly in condominium developments in key urban and suburban communities. In addition, Fed Land also benefits from the Ty family's experience as a retail and commercial project developer, having developed distinctive properties in Metro Manila's Makati central business district, including GT Tower International and Philippine AXA Life Center.

In line with its strategic plan, Fed Land has exhibited very strong growth across key operating and financial metrics. The table below summarizes the growth achieved in reservation sales, developed area and net profit for the period 2009 to 2011.

	2009	2010	2011	% growth (CAGR) (2009-11)
Reservation sales (₱ billions)	2.30	4.23	9.05	98.4%
Reservation sales (no. of units)	479	941	2,168	112.7%
Developed residential area (sq. m.)	21,203	35,750	114,105	132.0%
Net income (₱ millions)	152	530	601	98.7%

As of December 31, 2011, Fed Land's land bank comprised 100.8 hectares of land (including 3.4 hectares held through joint ventures), primarily in prime locations such as Manila, Makati, Fort Bonifacio, Marikina, Biñan Laguna and Cavite. Fed Land also has access to additional substantial land that is owned by other entities of the Ty family and their locations are adjacent to Fed Land's properties.

Currently, Fed Land has 19 ongoing projects in various stages of completion. Fed Land's high quality residential projects include Bay Garden Residences, Oriental Garden Makati, The Grand Midori Makati, Marco Polo Residences and The Capital Towers, among others, and are largely focused on the middle/high income segment. In addition to standalone residential and commercial developments, Fed Land's key integrated township projects include Bonifacio North CBD (including the landmark Metrobank/Grand Hyatt Project), projects in Metropolitan Park and Tropicana Garden City.

Going forward, Fed Land plans to continue to acquire, and develop prime land from independent third party sources as well as from affiliated entities. In line with its development focus, Fed Land, through the cumulative efforts of its subsidiaries, expects to drive its development income by focusing on developing high quality residential properties in prime locations, while organically increasing the proportion of its recurring revenue through the continued development of integrated townships and leasing out of commercial facilities within these developments.

COMPETITIVE STRENGTHS

Fed Land believes that its competitive strengths are the following:

- Dedicated real estate developer of the Ty family with a 40-year operational track record
- Strong and diversified project portfolio to support sustained and profitable growth
- Large, quality land bank in strategic locations throughout the Philippines
- Synergies with affiliates under the GT Capital group

STRATEGIES

Fed Land's principal strategies are the following:

- Deliver on strong project pipeline with a diversified product offering to middle and high-end markets
- Increasing focus on master-planned communities and recurring income base
- Develop in-house financing capabilities
- Leverage off synergies of the GT Capital companies

RISK FACTORS – Fed Land

RISKS RELATING TO FED LAND'S BUSINESS

Substantially all of Fed Land's business activities are conducted in the Philippines and all of its assets are located in the Philippines, which exposes Fed Land to risks associated with the Philippines, including the performance of the Philippine economy.

Historically, Fed Land has derived substantially all of its sales and operating profits from its property development projects in the Philippines and its business is highly dependent on the state of the Philippine economy and the Philippine property market. Demand for, and prevailing prices of, developed residential and commercial properties are directly related to the strength of the Philippine economy (including overall growth levels and interest rates), the overall levels of business activity in the Philippines and the amount of remittances received from OFWs. Demand for Fed Land's residential developments is also affected by social trends and changing spending patterns in the Philippines, which in turn are influenced by economic, political and security conditions in the Philippines. The Philippine residential market is cyclical and is sensitive to changes in general economic conditions in the Philippines such as levels of employment, consumer confidence and income, availability of financing for property acquisitions, construction and mortgages, interest rate levels, inflation and demand for housing.

There is still a degree of uncertainty regarding the economic and political situation in the Philippines. This uncertainty could have adverse effects on the demand for real estate and residential housing, construction costs, availability of materials and other factors affecting Fed Land and its businesses. Significant expenditures associated with investment in real estate, such as real estate taxes, maintenance costs and debt payments, generally cannot be correspondingly reduced if changes in the Philippine property market or the Philippine economy cause a decrease in revenues from Fed Land's properties, which could materially and adversely affect Fed Land's business, financial condition and results of operations.

Fed Land's focus on residential property development exposes Fed Land to sector-specific risks.

Because Fed Land's business is concentrated in the Philippine residential property market, reduced levels of economic growth, adverse changes in the country's political or security situation, or weaker performance of the country's property development market generally, could materially adversely affect Fed Land's profitability. Even when taking into consideration Fed Land's rental properties, real estate sales (and related interest income from installment contract receivables) accounted for 75% of Fed Land's total consolidated revenues in 2010 and 66% of total consolidated revenues in 2011. Fed Land's results of operations are therefore dependent, and are expected to continue to be dependent, on the continued success of its residential development projects.

Additionally, the Philippine residential real estate industry is highly competitive. Fed Land's income from, and market values of, its residential development projects are largely dependent on these projects' popularity when compared to similar types of projects in their areas, as well as on the ability of Fed Land to correctly gauge the market for its projects. Important factors that could affect Fed Land's ability to effectively compete include a project's relative location versus that of its competitors, particularly to transportation facilities and commercial centers, as well as the quality of the housing and related facilities offered by Fed Land and the overall attractiveness of the project. The inability to develop attractive projects could materially and adversely affect Fed Land's business, financial condition and results of operations.

Fed Land faces risks relating to its commercial and residential property development business, including risks relating to project cost and completion.

Fed Land's principal businesses are (i) the development and sale of new residential properties and (ii) the development, lease and sale of new commercial properties. The property development business involves significant risks distinct from those involved in the ownership and operation of established properties, including the risk that Fed Land may invest significant time and money in a project that may not attract sufficient levels of demand in terms of anticipated sales and which may not be commercially viable. In addition, obtaining required Government approvals and permits may take substantially more time and resources than anticipated or construction of projects may not be completed on schedule or within budget.

In addition, the time and the costs involved in completing the development and construction of development projects can be adversely affected by many factors, including shortages of materials, equipment and labor, adverse weather conditions, Peso depreciation, natural disasters, labor disputes with contractors and subcontractors, accidents, changes in laws or in Government priorities and other unforeseen problems or circumstances. Any of these factors could result in project delays and cost overruns, which could negatively affect Fed Land's margins. This may also result in sales and resulting profits from a particular development not being recognized in the year in which it was originally expected to be recognized, which could adversely affect Fed Land's results of operations for that year. Further, the failure by Fed Land to complete construction of a project to its planned specifications or schedule may result in contractual liabilities to purchasers and lower returns. Furthermore, orders of the Philippine Department of Agrarian Reform ("DAR") allowing conversion of agricultural land for development may require a project to begin by a prescribed deadline. If Fed Land fails to complete construction of a project by the stated deadline, the land may not be used for Fed Land's intended purpose.

Fed Land cannot provide any assurance that such events will not occur in a manner that would materially and adversely affect Fed Land's business, financial condition or results of operations.

Fed Land faces certain risks related to the cancellation of sales involving its residential projects and if Fed Land were to experience a material number of sales cancellations, Fed Land's historical revenues would be overstated.
As a developer and seller of residential real estate, Fed Land's business, financial condition and results of operations could be adversely affected in the event a material number of condominium units, subdivision lot or house and lot sales are cancelled.

- Fed Land's transactions are subject to Republic Act No. 6552 (the "Maceda Law"), which applies to all transactions or contracts involving the sale or financing of real estate through installment payments, including residential condominium units (but excluding industrial and commercial lots). Under the Maceda Law, buyers who have paid at least two years of installments are granted a grace period of one month for every year of paid installments to cure any payment default. A buyer is given such a right only once every five years during the life of the contract and its extensions, if any. If the contract is cancelled, the buyer is entitled to receive a refund of at least 50% of the total payments made by the buyer, with an additional 5% per annum in cases where at least five years of installments have been paid (but with the total not to exceed 90% of the total payments). However, the buyer is given the above right only once in every 15 years of the life of the contract and its extensions, if any. Buyers who have paid less than two years of installments and who default on installment payments are given a 60-day grace period to pay all unpaid installments before the sale can be cancelled, but without right of refund.

  While Fed Land historically has not experienced a material number of cancellations to which the Maceda Law has applied, there can be no assurance that it will not experience a material number of cancellations in the future, particularly during slowdowns or downturns in the Philippine economy, periods when interest rates are high or similar situations. In the event Fed Land does experience a material number of cancellations, it may not have enough funds on hand to pay the necessary cash refunds to buyers or it may have to incur indebtedness in order to pay such cash refunds. In addition, particularly during an economic slowdown or downturn, there can be no assurance that Fed Land would be able to re-sell the same property or re-sell it at an acceptable price. Any of the foregoing events would have a material adverse effect on Fed Land's business, financial condition and results of operations.

- In the event Fed Land experiences a material number of sales cancellations, investors are cautioned that Fed Land's historical revenues would have been overstated because such historical revenues would not have accurately reflected subsequent customer defaults or sales cancellations. Investors are also cautioned not to rely on Fed Land's historical income statements as indicators of Fed Land's future revenues or profits. As discussed in more detail in "Management's Discussion and Analysis of Financial Condition and Results of Operations" once a customer has paid the required down payment, Fed Land recognizes the total purchase price as part of its real estate sales and gross profit is recognized on such sales, subject to certain adjustments in the case of sales accounted for using the "percentage of completion method". If a customer defaults on its payment obligations, or a sale is otherwise cancelled after the customer has paid the required down payment and Fed Land is unable to find another purchaser for such property, receivables from the cancelled sale booked in the balance sheet and the corresponding revenue or gross profit booked in the profit and loss statement will be reversed.

- For sales of condominium and housing units in Fed Land's middle-income and high-end projects, from time to time Fed Land commences construction of a condominium project or house even before the full amount of the required down payment is made, and thus, before the sale is recorded as revenue. Fed Land therefore risks having expended cash to begin construction of the condominium project or the house before being assured that the sale will eventually be booked as revenue, particularly if the buyer is unable to complete the required down payment and Fed Land is unable to find another purchaser for such property.

There can be no assurance that Fed Land will not suffer from substantial sales cancellations and that such cancellations will not materially and adversely affect Fed Land's business, financial condition or results of operations.

Fluctuations in interest rates, changes in Government borrowing patterns and Government regulations could have a material adverse effect on Fed Land's and its customers' ability to obtain financing.

Interest rates, and factors that affect interest rates, such as the Government's fiscal policy, could have a material adverse effect on Fed Land and on demand for its products. For example:

- In connection with Fed Land's property development business, higher interest rates make it more expensive for Fed Land to borrow funds to finance ongoing projects or to obtain financing for new projects.

- Insofar as Fed Land's core residential development business is concerned, because Fed Land believes that a substantial portion of its customers procure financing to fund their property purchases, higher interest rates make financing, and therefore purchases of real estate, more expensive, which could adversely affect demand for Fed Land's residential projects.

- If the Government significantly increases its borrowing levels in the domestic currency market, this could increase the interest rates charged by banks and other financial institutions and also effectively reduce the amount of bank financing available to both prospective property purchasers and real estate developers, including Fed Land.

- Fed Land's access to capital and its cost of financing are also affected by restrictions, such as single borrower limits, imposed by the BSP on bank lending. If Fed Land were to reach the single borrower limit with respect to any bank, Fed Land may have difficulty obtaining financing with reasonable rates of interest from other banks.

The occurrence of any of the foregoing events, or any combination of them, or of any similar events, could materially and adversely affect Fed Land's business, financial condition and results of operations.

Titles over land owned by Fed Land may be contested by third parties.

While the Philippines has adopted a system of land registration which is intended to conclusively confirm land ownership, and which is binding on all persons (including the Government), it is not uncommon for third parties to claim ownership of land which has already been registered and over which a title has been issued. There have also been cases where third parties have produced false or forged title certificates over land. In particular, Quezon City, Metro Manila and the province of Cavite, have been known to experience problems with syndicates of squatters and forged or false title holders. Although Fed Land conducts extensive title searches before it acquires any parcel of land, from time to time Fed Land has defended itself against third parties who claim to be the rightful owners of land which has been either titled in the name of the persons selling the land to Fed Land or which has already been titled in the name of Fed Land. Although historically these claims have not had a material adverse effect on Fed Land and its business, in the event a greater number of similar third-party claims are brought against Fed Land in the future or any such claims involve land that is material to Fed Land's residential development projects, Fed Land's management may be required to devote significant time and incur significant costs in defending Fed Land against such claims. If any such claims are successful, Fed Land may have to either incur additional costs to settle such third-party claims or surrender title to land that may be material in the context of Fed Land's residential development projects. In addition, title claims made by third parties against Fed Land or its joint venture partners may have an adverse effect on Fed Land's reputation. Any of the foregoing circumstances could materially and adversely affect Fed Land's business, financial condition or results of operations, as well as its business reputation.

Fed Land's reputation will be adversely affected if projects are not completed on time or if projects do not meet customers' requirements.

Over the years, Fed Land believes it has established an excellent reputation and brand name in the property development business. If any of Fed Land's projects experience construction or infrastructure failures, design flaws, significant project delays, quality control issues or otherwise, this could have a negative effect on Fed Land's reputation and make it more difficult to attract new customers to its new and existing residential development projects. Any negative effect on Fed Land's reputation or its brand could also affect Fed Land's ability to pre-sell its residential development projects. This would impair Fed Land's ability to reduce its capital investment requirements. Fed Land cannot provide any assurance that such events will not occur in a manner that would not materially and adversely affect Fed Land's business, financial condition or results of operations.

Independent contractors may not always be available, and once hired by Fed Land, may not be able to meet Fed Land's quality standards or may not complete projects on time and within budget.

Fed Land relies on independent contractors to provide various services, including land clearing and infrastructure development, various construction projects and building and property fitting-out works. Fed Land selects independent contractors principally by conducting tenders and taking into consideration factors such as the contractors' experience, its financial and construction resources, any previous relationship with Fed Land, its reputation for quality and its track record. There can be no assurance that Fed Land will be able to find or engage an independent contractor for any particular project or find a contractor that is willing to undertake a particular project within Fed Land's budget, which could result in cost increases or project delays. Further, although Fed Land's personnel actively supervise the work of such independent contractors, there can be no assurance that the services rendered by any of its independent contractors will always be satisfactory or match Fed Land's requirements for quality. Contractors may also experience financial or other difficulties, and shortages or increases in the price of construction materials may occur, any of which could delay the completion or increase the cost of certain residential development projects, and Fed Land may incur additional costs as a result thereof. Any of these factors could materially and adversely affect Fed Land's business, financial condition and results of operations.

Fed Land operates in a highly-regulated environment and it is affected by the development and application of regulations in the Philippines.

The Philippines' property development industry is highly regulated. The development of condominium projects, subdivision and other residential projects is subject to a wide range of government regulations, which, while varying from one locality to another, typically include zoning considerations as well as the requirement to procure a variety of environmental and construction-related permits. In addition, projects that are to be located on agricultural land must get clearance from the DAR so that the land can be re-classified as non-agricultural land and, in certain cases, tenants occupying agricultural land may have to be relocated at Fed Land's expense.

Presidential Decree No. 957, as amended, ("PD 957"), Republic Act No. 4726, as amended, ("RA 4726"), the Maceda Law and *Batas Pambansa Blg.* 220 ("BP 220") are the principal statutes which regulate the development and sale of real property as part of a condominium project or subdivision. PD 957, RA 4726 and BP 220 cover subdivision projects for residential, commercial, industrial and recreational purposes and condominium projects for residential or commercial purposes. The Maceda Law deals with the sale of property on installment. The Housing and Land Use Regulatory Board ("HLURB") is the administrative agency of the Government which enforces these statutes. Regulations applicable to Fed Land's operations include among others, the following standards:

- the suitability of the site;
- road access;
- necessary community facilities;
- open spaces/common areas;
- water supply;
- sewage disposal systems;
- electricity supply; and
- unit/lot sizes.

All condominium and subdivision development plans are required to be filed with and approved by the local government unit ("LGU") with jurisdiction over the area where the project is located. Approval of development plans is conditioned on, among other things, completion of the acquisition of the project site and the developer's financial, technical and administrative capabilities. Alterations of approved plans that affect significant areas of the project, such as infrastructure and public facilities, also require the prior approval of the relevant government unit. There can be no assurance that Fed Land, its subsidiaries or associates or partners will be able to obtain governmental approvals for its projects or that, when given, such approvals will not be revoked.

In addition, developers, owners of or dealers in real estate projects are required to obtain licenses to sell before making sales or other dispositions of condominium units, subdivision lots and housing units. Project permits and any license to sell may be suspended, cancelled or revoked by the HLURB based on its own findings or upon complaint from an interested party and there can be no assurance that Fed Land, its subsidiaries, associates or partners will in all circumstances, receive the requisite approvals, permits or licenses or that such permits, approvals or licenses will not be cancelled or suspended. Any of the foregoing circumstances or events could affect Fed Land's ability to complete projects on time, within budget or at all, and could materially and adversely affect Fed Land's business, financial condition and results of operations.

Environmental laws applicable to Fed Land's projects could have a material adverse effect on its business, financial condition and results of operations.

In general, developers of real estate projects are required to submit project descriptions to regional offices of the Philippine Department of Environment and Natural Resources ("DENR"). For environmentally-sensitive projects or at the discretion of the regional office of the DENR, a detailed Environmental Impact Assessment may be required and the developer will be required to obtain an Environmental Compliance Certificate ("ECC") to certify that the project will not have an unacceptable environmental impact. There can be no assurance that current or future environmental laws and regulations applicable to Fed Land will not increase the costs of conducting its business above currently projected levels or require future capital expenditures. In addition, if a violation of an ECC occurs or if environmental hazards on land where Fed Land's projects are located cause damage or injury to buyers or any third party, Fed Land may be required to pay a fine, to incur costs in order to cure the violation and to compensate its buyers and any affected third parties. Fed Land cannot predict what environmental legislation or regulations will be amended or enacted in the future, how existing or future laws or regulations will be enforced, administered or interpreted, or the amount of future expenditures that may be required to comply with these environmental laws or regulations or to respond to environmental claims. See "Regulation – Fed Land – Environmental Laws". The introduction or inconsistent application of, or changes in, laws and regulations applicable to Fed Land's business could materially and adversely affect Fed Land's business, financial condition and results of operations.

A growing portion of the demand for Fed Land's products is expected to come from OFWs, expatriate Filipinos and former Filipino residents who have returned to the Philippines ("Balikbayans"), which exposes Fed Land to risks relating to the performance of the economies of the countries where these potential customers are based.

A portion of Fed Land's sales of residential development projects are to OFWs, expatriate Filipinos and Balikbayans. While Fed Land has historically generated the majority of its revenue from upper middle and high-end market projects, increasing sales of middle-income projects to OFWs and expatriate Filipinos is a key part of Fed Land's strategy for the future. A number of factors could lead to, among other effects, reduced remittances from OFWs, a reduction in the number of OFWs or a reduction in the purchasing power of expatriate Filipinos and Balikbayans. These include:

- a downturn in the economic performance of the countries and regions where a significant number of these potential customers are located, such as the United States, Italy, the United Kingdom, Hong Kong, Japan, Korea, Taiwan and the Middle East;

- a change in Government regulations that currently exempt the income of OFWs from taxation in the Philippines;

- the imposition of restrictions by the Government on the deployment of OFWs to particular countries or regions, such as the Middle East; and

- restrictions imposed by other countries on the entry or the continued employment of foreign workers.

Any of these events could adversely affect demand for Fed Land's projects from OFWs, expatriate Filipinos and Balikbayans, which could materially and adversely affect Fed Land's business, financial condition and results of operations.

Given the current geographic concentration of Fed Land's real estate sales, Fed Land's results of operations would suffer if the residential development industry in Fed Land's current markets should decline.

Fed Land's residential development business is presently concentrated in the Metro Manila area and the immediately surrounding province of Cavite. In 2009, 2010, and 2011, approximately 100%, 91% and 90%, respectively, of real estate sales were from Fed Land's projects in these areas. Although in recent years Fed Land has diversified the areas in which it does business, because Fed Land's real estate sales are concentrated in the geographic areas described above, a prolonged economic downturn in these markets could materially and adversely affect Fed Land's business, financial condition and results of operations.

The interests of joint venture partners in Fed Land's development projects may differ from Fed Land's and they may take actions that adversely affect Fed Land.

In recent years, Fed Land has entered into joint venture agreements as part of its overall land acquisition strategy and intends to continue to do so in the future. Under the terms of many of its joint venture agreements, Fed Land takes responsibility for project development and project sales, while its joint venture partner typically supplies the project land. A joint venture involves special risks where the joint venture partner may have economic or business interests or goals inconsistent with or different from those of Fed Land's. The joint venture partner may also take actions contrary to Fed Land's instructions or requests, or in direct opposition to Fed Land's policies or objectives with respect to the real estate investments, or the joint venture partner may not meet its obligations under the joint venture arrangement. The joint venture partner may also terminate the joint venture agreement if Fed Land fails to complete a development project by the deadline set forth in the joint venture agreement. Disputes between Fed Land and its joint venture partner could arise after significant capital investments in a project have been made, which could result in the loss of some or all of Fed Land's investment in the project. Fed Land's reliance on its joint venture arrangements could materially and adversely affect Fed Land's business, financial condition and results of operations.

Fed Land is subject to significant competition in connection with the acquisition of land for residential real estate projects and in connection with its investment properties and leasing business.

Fed Land's future growth and development are dependent, in part, on its ability to acquire or enter into agreements to develop additional tracts of land suitable for the types of residential real estate projects Fed Land has developed over the years. As Fed Land and its competitors attempt to locate sites for development, Fed Land may experience difficulty locating parcels of land of suitable size in locations and at prices acceptable to Fed Land, particularly parcels of land located in areas surrounding Metro Manila and in other urban areas throughout the Philippines. Fed Land may also have difficulty in attracting land owners to enter into joint venture agreements with Fed Land that will provide it with reasonable returns. In the event Fed Land is unable to acquire suitable land at acceptable prices, or at all, or to enter into agreements with joint venture partners to develop suitable land with reasonable returns, or at all, its growth prospects could be limited and its business and results of operations could be adversely affected.

For Fed Land's commercial investment properties, Fed Land competes with a number of commercial developers, some of which have greater financial and other resources and may be perceived to have more attractive projects. Competition from other developers of neighboring shopping malls and office space, may adversely affect Fed Land's ability to successfully operate its investment properties or attract and retain tenants, and continued development by these and other market participants could result in saturation of the market for office and retail space. In addition, Fed Land's major competitors may have greater experience and more expertise in residential and commercial leasing operations. Consequently, the competition that Fed Land faces could materially and adversely affect Fed Land's business, financial condition and results of operations.

Natural or other catastrophes, including severe weather conditions, may materially disrupt Fed Land's operations, affect its ability to complete projects and result in losses not covered by its insurance.

The Philippines has experienced a number of major natural catastrophes over the years, including typhoons, droughts, volcanic eruptions and earthquakes. There can be no assurance that the occurrence of such natural catastrophes will not materially disrupt Fed Land's operations. These factors, which are not within Fed Land's control, could potentially have significant effects on Fed Land's residential development projects, many of which are large, complex estates with infrastructure, such as buildings, roads and perimeter walls, that are susceptible to damage. Damage to these structures resulting from such natural catastrophes could also give rise to claims against Fed Land from third parties or from customers, for example for physical injuries or loss of property. As a result, the occurrence of natural or other catastrophes or severe weather conditions may adversely affect Fed Land's business, financial condition and results of operations.

Further, although Fed Land carries insurance for certain catastrophic events, of types, in amounts and with deductibles that Fed Land believes are in line with general real estate industry practice in the Philippines, there are losses for which Fed Land cannot obtain insurance at a reasonable cost or at all. Neither does Fed Land carry any business interruption insurance. Should an uninsured loss or a loss in excess of insured limits occur, Fed Land could lose all or a portion of the capital invested in a property, as well as the anticipated future turnover from such property, while remaining liable for any project construction costs or other financial obligations related to the property. Any material uninsured loss could materially and adversely affect Fed Land's business, financial condition and results of operations.

Fed Land is exposed to risks associated with its in-house financing activities customers, including the risk of customer default, and it may not be able to sustain its in-house financing program.

Fed Land is seeking to expand its in-house financing activities in the near term. In 2009, 2010 and 2011, 1.1%, 1.9% and 2.0%, respectively, of Fed Land's customers availed themselves of in-house financing. Fed Land's default rates for in-house financing over the same periods were 8.0%, 14.3% and 7.8%, respectively. In cases where Fed Land provides in-house financing, it charges customers interest rates that are substantially higher than comparable rates for bank financing and which also provide for upward adjustments to the interest charged if bank financing rates also move upward. As a result, and particularly during periods when interest rates are relatively high, Fed Land faces the risk that a greater number of customers who utilize Fed Land's in-house financing facilities will default on their payment obligations, which would require Fed Land to incur expenses, such as those relating to sales cancellations, foreclosures and eviction of occupants. There is also no assurance that Fed Land can re-sell any property once a sale has been cancelled. Therefore, the inability of its customers who obtain in-house financing from Fed Land to meet their payment obligations and a decline in the number of customers obtaining such in-house financing could materially and adversely affect Fed Land's business, financial condition and results of operations.

Fed Land has used funds obtained from a combination of medium- and long-term debt and from receivables rediscounting facilities with commercial banks to balance its liquidity position and to meet its customers' in-house financing requirements. There can be no assurance that Fed Land will continue to be able to arrange financing on acceptable terms, if at all, to cover any negative operating cash flows or to fund its in-house financing activities. In the event Fed Land is unable to obtain such financing, it may be compelled to scale back or even discontinue its in-house financing activities. This, in turn, could result in reduced sales as potential customers either may choose to purchase products from competitors who are able to provide in-house financing or may be unable to obtain mortgage financing from banks and other financial institutions. Furthermore, if customers choose to obtain financing from other sources, such as banks and other financial institutions, this would result in a decline in the income Fed Land derives from interest due on in-house financing.

Property development in the Philippines is capital intensive, and Fed Land may be unable to readily raise necessary amounts of funding.

The real estate industry in the Philippines is capital intensive, and market players are required to incur significant capital expenditures to complete existing projects and commence construction on new developments. In 2011, Fed Land spent ₱4.2 billion on capital expenditures for its real estate development projects. For 2012, Fed Land has budgeted capital expenditures to be approximately ₱4.3 billion.

Historically, while Fed Land has funded a significant portion of its capital expenditure requirements internally from its real estate revenues, it has periodically utilized external sources of financing. However, there can be no assurance that, to complete its planned projects or satisfy its other liquidity and capital resources requirements, Fed Land will be able to continue funding its capital expenditure requirements internally, or that it will be able to externally obtain sufficient funds at acceptable rates to fund its capital expenditure budgets, or at all. Failure to obtain the requisite funds could delay or prevent completion of projects and materially and adversely affect Fed Land's business, financial condition and results of operations.

Construction defects and other building-related claims may be asserted against Fed Land, and Fed Land may be subject to liability for such claims.

Philippine law provides that property developers, such as Fed Land, warrant the structural integrity of houses that were designed or built by them for a period of 15 years from the date of completion of the condominium project or house. Fed Land may also be held responsible for hidden (i.e. latent or non-observable) defects in a house sold by it when such hidden defects render the house unfit for the use for which it was intended or when its fitness for such use is diminished to the extent that the buyer would not have acquired it or would have paid a lower price had the buyer been aware of the hidden defect. This warranty may be enforced within six months from the delivery of the house to the buyer. In addition, Republic Act No. 6541, as amended, or the National Building Code of the Philippines (the "Building Code"), which governs, among others, the design and construction of buildings, sets certain requirements and standards that must be complied with by Fed Land. Fed Land or its officials may be held liable for administrative fines or criminal penalties in the case of any violation of the Building Code.

There can be no assurance that Fed Land will not be held liable for damages, the cost of repairs, and/or the expense of litigation surrounding possible claims or that claims will not arise out of uninsurable events, such as landslides or earthquakes, or circumstances not covered by Fed Land's insurance and not subject to effective indemnification agreements with Fed Land's contractors. Neither can there be any assurance that the contractors hired by Fed Land will be able to either correct any such defects or indemnify Fed Land for costs incurred by Fed Land to correct such defects. In the event a substantial number of claims arising from structural or construction defects arise, this could materially and adversely affect Fed Land's business, financial condition and results of operations.

Fed Land has a number of related-party transactions with affiliated companies.
The companies controlled by the Ty family and GT Capital have a number of commercial transactions with Fed Land. Fed Land expects that it will continue to enter into transactions with companies directly or indirectly controlled by or associated with the Ty family and GT Capital. These transactions may involve potential conflicts of interest which could be detrimental to Fed Land. Conflicts of interest may also arise between the Ty family, GT Capital and Fed Land in a number of other areas relating to its businesses, including:

- major business combinations involving Fed Land;
- plans to develop the businesses of Fed Land; and
- business opportunities that may be attractive to the Ty family, GT Capital and Fed Land.

Fed Land can provide no assurance that its related-party transactions will not materially and adversely affect Fed Land's business, financial condition or results of operations.

Fed Land is highly dependent on certain directors and members of senior management.
Fed Land's directors and members of its senior management have been an integral part of its success, and the experience, knowledge, business relationships and expertise that would be lost should any such persons depart could be difficult to replace and may result in a decrease in Fed Land's operating efficiency and financial performance. Members of the Ty family also fill certain key executive positions and Fed Land may not be successful in attracting and retaining executive talent to replace these family members should they depart. Such executives include: George S. K. Ty, Honorary Chairman; Alfred Ty, President; Jose Mari H. Banzon, General Manager, Executive Vice President and Corporate Secretary; Anjanette Dy Buncio, Senior Vice President, Treasurer and Division Head; and Antonio T. Tan, Executive Vice President. If Fed Land loses the services of any such person and is unable to fill any vacant key executive or management positions with qualified candidates, this could materially and adversely affect Fed Land's business, financial condition and results of operations.

Fed Land may be unable to attract and retain skilled professionals, such as architects and engineers.
Fed Land's ability to plan, design and execute current and future projects depends on its ability to attract, train, motivate and retain highly skilled personnel, particularly architects, engineers and project managers. Fed Land believes that there is significant demand for such personnel not only from its competitors but also from companies outside the Philippines, particularly companies operating in the Middle East. Any inability on the part of Fed Land in hiring and, more importantly, retaining qualified personnel could impair its ability to undertake project design, planning and execution activities in-house and could require Fed Land to incur additional costs by having to engage third parties to perform these activities.

Fed Land is exposed to risks associated with the operation of its commercial and retail leasing businesses.
The operations of Fed Land's commercial and retail leasing businesses are subject to risks relating to the ownership of properties for lease and the management of commercial and retail tenants. Fed Land received 7.3%, 5.8% and 5.3% of its consolidated revenues from its commercial and residential leasing businesses in 2009, 2010, and 2011, respectively. The performance of Fed Land's commercial and retail properties could be affected by a number of factors, including:

- the national and international economic climate;
- trends in the Philippine commercial and retail industry;
- non-renewal of expiring tenancies;
- amount of disposable income and consumer preference;
- competition for tenants;
- changes in market rental rates;

- the need to periodically renovate, repair and re-let space and the costs thereof;
- the quality and strategy of the management services provided; and
- Fed Land's ability to provide adequate maintenance and insurance.

Fed Land could also be adversely affected by the failure of tenants to comply with the terms of their leases or commitments to lease, or declining sales turnover. If Fed Land is unable to lease its commercial and retail properties in a timely manner or collect rent at profitable rates or at all, this could materially and adversely affect Fed Land's business, financial condition and results of operations.

Infringement of Fed Land's intellectual property rights would have a material adverse effect on Fed Land's business.

Fed Land has applications pending for the registration of intellectual property rights in the names of certain of its real estate products and for trademarks relating to the "Federal Land" brand. There can be no assurance that such applications will be approved or that the actions Fed Land has taken will be adequate to prevent third parties from using the "Federal Land" name or Fed Land's corporate brands and logos or from naming their products using the same brands Fed Land uses. In addition, there can be no assurance that third parties will not assert rights in, or ownership of, Fed Land's name, trademarks and other intellectual property rights. Because Fed Land believes that the reputation and track record it has established under the "Federal Land" and "Fed Land" names is a key to its future growth, Fed Land's business, financial condition and results of operations may be materially and adversely affected by the use of the "Federal Land" name and of any associated trademarks by third parties or if Fed Land were restricted from using such marks.

Adoption of new accounting rules on revenue on construction of real estate may result in a restatement of Fed Land's financial statements for prior fiscal years which could be materially different from the audited consolidated financial statements of Fed Land included in this Prospectus.

Under PFRS, real estate companies such as Fed Land are allowed to recognize revenues from construction of real estate based on a percentage of completion method, wherein portions of the sales price is recognized as revenue once a certain percentage of payment has been received from buyers, but before the real estate project's construction has been completed. The International Financial Interpretations Committee's ("IFRIC") Interpretation No. 15 on Agreements for the Construction of Real Estate ("IFRIC 15"), which will take effect in 2015 with retroactive effect for one year, will require real estate companies to recognize, subject to certain exceptions, revenue from real estate only when construction of the real estate asset has been completed. Once Fed Land begins to account for revenues from its real estate sales under IFRIC 15, amounts recorded for certain items in its financial statements, such as gross and net income, as well as receivables, may be materially different from Fed Land's consolidated financial statements included elsewhere in this Prospectus, and potentially provide a different view of Fed Land's financial condition and results of operations.

The adoption of IFRIC 15 will also result in restatements to certain of Fed Land's historical financial statements. As a result, there may be significant differences between the financial statements included in this Prospectus and any restated financial statements that will be prepared by Fed Land from 2015 and succeeding years. There can be no assurance that Fed Land's current and historical results of operations will not be materially and adversely changed upon the adoption of IFRIC 15. These changes would adversely affect the comparability of Fed Land's future financial statements with those relating to prior periods.

SELECTED FINANCIAL INFORMATION – Fed Land

The following tables present Fed Land's selected consolidated financial information and should be read in conjunction with the auditors' reports and with Fed Land's consolidated financial statements and notes thereto contained in this Prospectus and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations – Fed Land". The selected consolidated financial information presented below as of and for the years ended December 31, 2009, 2010 and 2011 was derived from the consolidated financial statements of Fed Land, prepared in compliance with PFRS and audited by SGV & Co. in accordance with PSA. The information below is not necessarily indicative of the results of future operations. For additional information regarding financial information presented in this Prospectus, see "Presentation of Financial Information".

SELECTED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the years ended December 31,			
	2009	2010	2011	2011
		(₱ millions)		(U.S.$ million)
REVENUE				
Real estate sales	1,148.0	2,160.7	2,512.2	57.2
Sale of goods and services	584.2	644.7	764.7	17.4
Interest income	180.6	174.6	195.9	4.5
Rent income	176.9	198.0	238.0	5.4
Commissions	–	47.1	96.0	2.2
Interest income from banks	1.7	4.0	58.0	1.3
Equity in net earnings of an associate and a jointly controlled entity	–	41.2	87.6	2.0
Other income	146.4	123.0	526.2	12.0
	2,237.8	3,393.3	4,478.6	102.0
COSTS AND EXPENSES				
Cost of real estate sales	636.7	1,364.8	1,553.8	35.4
Cost of goods and services	497.6	584.6	709.7	16.2
General and administrative expenses	738.1	788.7	1,023.0	23.3
Interest expense	154.3	55.9	443.5	10.1
Equity in net losses of associate and jointly controlled entity	0.2	–	–	–
	2,026.9	2,794.0	3,730.0	85.0
INCOME BEFORE INCOME TAX	210.9	599.3	748.6	17.0
PROVISION FOR INCOME TAX	58.7	69.0	147.5	3.4
NET INCOME	152.2	530.3	601.1	13.6
OTHER COMPREHENSIVE INCOME	–	–	–	–
TOTAL COMPREHENSIVE INCOME	152.2	530.3	601.1	13.6
Total comprehensive income attributable to:				
Equity holders of Fed Land	156.8	524.9	589.7	13.4
Non-controlling interests	(4.6)	5.4	11.4	0.2
	152.2	530.3	601.1	13.6

See accompanying notes to Fed Land's consolidated financial statements.

SELECTED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As of December 31,			
	2009 (As restated January 1, 2010)	2010	2011	2011
	(₱ millions)			(U.S.$ million)
ASSETS				
Current Assets				
Cash and cash equivalents	198.1	496.8	382.5	8.7
Receivables	755.0	1,175.6	2,104.0	47.9
Inventories	6,927.6	7,889.2	11,338.4	258.1
Due from related parties	872.1	478.0	938.9	21.4
Prepayments and other current assets	563.2	723.6	955.4	21.7
Total Current Assets	9,316.0	10,763.2	15,719.2	357.8
Non-current Assets				
Noncurrent installment contracts receivables	284.5	908.9	1,114.9	25.4
Long-term cash investment	–	–	2,440.1	55.5
Deposits	–	–	4,085.0	93.0
Investments in associate and a jointly controlled entity	460.9	359.4	446.9	10.2
Investment properties	3,906.2	5,299.2	5,227.4	119.0
Property and equipment	373.0	430.9	394.2	9.0
Deferred tax assets	0.8	6.7	3.8	0.1
Other noncurrent assets	95.8	94.5	112.0	2.5
Total Non-current Assets	5,121.2	7,099.6	13,824.3	314.7
	14,437.2	17,862.8	29,543.5	672.5
LIABILITIES AND EQUITY				
Current Liabilities				
Accounts and other payables	566.6	1,854.5	4,498.6	102.4
Current portion of:				
Liabilities on purchased land	112.3	119.0	–	–
Loans payable	2,993.3	3,847.2	4,557.0	103.7
Customers' deposits	615.4	417.5	457.6	10.4
Due to related parties	498.2	320.6	403.6	9.2
Dividends payable	–	0.2	0.2	–
Income tax payable	2.0	2.0	–	–
Other current liabilities	29.5	23.8	57.9	1.3
Total Current Liabilities	4,817.3	6,584.8	9,974.9	227.0
Noncurrent Liabilities				
Noncurrent portion of:				
Liabilities on purchased land	516.8	397.9	–	–
Loans payable	1,638.9	–	8,600.0	195.8
Pension liabilities	24.9	24.4	28.1	0.6
Deferred tax liabilities	35.2	7.3	80.6	1.8
Other noncurrent liabilities	38.4	52.6	63.0	1.4
Total Noncurrent Liabilities	2,254.2	482.2	8,771.7	199.6
Total Liabilities	7,071.5	7,067.0	18,746.6	426.6
Equity				
Capital stock	5,000.0	10,000.0	10,000.0	227.7
Deposits for future stock subscriptions	2,000.0	–	–	–
Retained earnings	305.5	730.4	720.2	16.4
Equity attributable to equity holders of Fed Land	7,305.5	10,730.4	10,720.2	244.1
Non-controlling interests	60.2	65.4	76.7	1.7
Total Equity	7,365.7	10,795.8	10,796.9	245.8
	14,437.2	17,862.8	29,543.5	672.4

See accompanying notes to Fed Land's consolidated financial statements.

SELECTED CONSOLIDATED STATEMENTS OF CASH FLOW

	For the years ended December 31,			
	2009	2010	2011	2011
	(₱ millions)			(U.S.$ million)
Net cash provided by (used in) operating activities	(404.2)	730.0	(1,309.3)	(29.8)
Net cash provided by (used in) investing activities	(755.2)	(2,270.1)	(7,511.1)	(171.0)
Net cash provided by (used in) financing activities	1,233.3	1,839.5	8,706.3	198.2
Cash and cash equivalents at beginning of the year	124.4	198.1	496.8	11.3
Cash and cash equivalents at end of the year	198.1	496.8	382.5	8.7

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – Fed Land

The following discussion of Fed Land's recent financial results should be read in conjunction with the auditors' reports and Fed Land's consolidated financial statements and notes thereto contained in this Prospectus and the section entitled "Selected Financial Information – Fed Land". Fed Land's audited consolidated financial statements as of December 31, 2009, 2010 and 2011 prepared in compliance with PFRS and audited by SGV & Co. in accordance with PSA.

This discussion contains forward-looking statements and reflects the current views of Fed Land with respect to future events and financial performance. Actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors such as those set forth in the section entitled "Risk Factors" and elsewhere in this Prospectus.

FACTORS AFFECTING RESULTS OF OPERATIONS

Fed Land's results of operations are affected by a variety of factors. Set out below is a discussion of the most significant factors that have affected Fed Land's results in the past and which Fed Land expects to affect its financial results in the future. Factors other than those set forth below could also have a significant impact on Fed Land's results of operations and financial condition in the future.

General economic conditions in the Philippines and the condition of the Philippine property market
Fed Land has derived substantially all of its revenue from its real estate development activities in the Philippines, including interest income from in-house financing provided by Fed Land to certain of its customers. Fed Land is heavily dependent on the state of the Philippine economy generally and specifically the Philippine property market. The Philippine property market has in the past been cyclical and property values have been affected by supply of and demand for comparable properties, the rate of economic growth in the Philippines and political and social developments. Demand for new residential projects in the Philippines, in particular, has also fluctuated in the past as a result of prevailing economic conditions (including overall growth levels, the value of the Philippine Peso and interest rates), the strength of overseas markets (as a substantial portion of demand comes from OFWs and expatriate Filipinos), the political and security situation in the Philippines and other related factors. Fed Land expects this trend to continue, which means that Fed Land's results of operations are expected to continue to vary from period to period in accordance with fluctuations in the Philippine economy and the Philippine property market.

In addition, demand for and prevailing prices of, shopping mall and office leases are directly related to the strength of the Philippine economy and overall levels of business activity in the Philippines. The amount of revenue generated from Fed Land's retail properties will also be directly affected by social trends, changing spending patterns and consumer sentiment in the Philippines, which are heavily influenced by economic, political and security conditions in the Philippines.

Demand for residential property ownership and for Fed Land's products
For its residential housing and land development business, Fed Land has benefited from greater demand for residential homes resulting from, among other factors, the growth of the Philippine economy, the increasing number of Filipinos investing in the Philippine real estate market and strong levels of OFW remittances and increasing demand from expatriate Filipinos. In response to these developments, Fed Land has increased the number of its housing and land development projects, particularly projects geared towards the middle-income segment favored by first-time home buyers, OFWs and expatriate Filipinos. It is not clear whether these trends will continue, whether new trends affecting the market will emerge and what these trends might be, or whether the demand for residential developments in the Philippines will continue to remain strong. It is unclear whether the demand for Fed Land's new products will reach the levels anticipated by Fed Land. Fed Land expects to continue to have to adapt its businesses to respond to changing conditions within the Philippine market and expects that its business and results of operations will continue to be affected by demand for home ownership in the Philippines and the popularity of its products, which in turn is affected by design, location, price, facilities and various other factors.

Consumer tastes and trends in the Philippine retail sector

With its Blue Wave malls, Fed Land is subject to risks relating to the Philippine shopping mall business and to the Philippine retail sector, including risks relating to adverse changes in the Philippine economy. The shopping mall business in the Philippines is dynamic and success requires an ability to identify and quickly react to market changes. Consumer preferences, changing lifestyles and consumption trends require shopping mall operators to continuously modify their formats, introduce new products and maintain the appropriate tenant mix to satisfy this demand.

Competition

Fed Land faces significant competition in the Philippine property development market. In particular, Fed Land competes with other developers in locating and acquiring, or entering into joint venture arrangements to develop, parcels of land of suitable size in locations and at attractive prices. This is particularly true for land located in Metro Manila and its surrounding areas, as well as in urbanized areas throughout the Philippines. Fed Land's continued growth also depends in large part on its ability either to acquire quality land at attractive prices or to enter into joint venture agreements with land-owning partners under terms that can yield reasonable returns. Based on Fed Land's current development plans, Fed Land believes that it has sufficient land reserves for property developments for approximately the next 20 years. If the Philippine economy continues to grow and if demand for residential properties remains relatively strong, Fed Land expects that competition among developers for land reserves that are suitable for property development (whether through acquisitions or joint venture agreements) will intensify and that land acquisition costs, and its cost of sales, will increase as a result. Competition from other developers may adversely affect Fed Land's ability to develop and sell its products, and continued development by other market participants could result in saturation of the residential real estate market.

With regard to Fed Land's office space leasing and retail properties, Fed Land competes with property companies that have greater experience and more expertise in commercial leasing operations. In office space leasing, Fed Land competes with companies such as Robinsons Land Corporation, Ayala Land, Inc. and Megaworld Corporation. In terms of retail malls, Fed Land's competitors are Robinsons Land Corporation, Ayala Land, Inc. and SM Prime Holdings, Inc. Each of these competitors has significantly more leasable office space, retail space and greater experience in these business segments. As a result, the competition that Fed Land faces could have a material adverse effect on Fed Land's results of operations or financial condition.

Access to and cost of financing for Fed Land and its customers

The ability of Fed Land and its customers to obtain financing, as well as the cost of such financing, affects Fed Land's business and demand for its products. For example:

- As a property developer, Fed Land has a relatively significant level of debt, which it uses to fund its property developments and in-house financing program, and which is subject to fluctuations in interest rates. Higher interest rates make it more expensive for Fed Land to borrow funds to finance its business expansion and increase the cost of Fed Land's existing debt.

- Fed Land's access to capital and its cost of financing are affected by restrictions, such as single borrower limits, imposed by the BSP on bank lending in the Philippines.

- A substantial portion of Fed Land's customers procure financing to fund their purchases, whether from banks or by using Fed Land's in-house financing facilities. Increased interest rates make financing, and therefore purchases of real estate, more expensive, which could adversely affect demand for Fed Land's residential projects.

- If interest rates charged by banks and other financial institutions increase or the amount of bank financing available to prospective property purchasers and to real estate developers such as Fed Land decreases, Fed Land's plans to expand and develop its business and the ability of potential customers to obtain financing for property purchases at reasonable interest rates or at all could be negatively impacted.

Timing of project completion and of customer payments

Fed Land's results of operations may fluctuate from period to period. A reason for this fluctuation is Fed Land does not book a sale as income until a buyer has paid the required down payment, which, depending on the type of property involved, ranges from 10% to 50% of the total purchase price. In addition, revenue is not recognized until at least 15% of a project is completed. Because a buyer is generally given anywhere from one to 50 months to complete his/her down payment, the amount of sales Fed Land can recognize as income during any given accounting period will depend on when buyers complete their down payments and how quickly Fed Land can construct a project. The period during which a buyer enters into a purchase agreement with Fed Land will also have an impact on Fed Land's real estate sales. For example, in Fed Land's experience, buyers who enter into purchase agreements during the fourth quarter of the year generally do not complete their down payments until the succeeding year. As a result Fed Land's results of operations in a given year may not reflect the actual number of purchase agreements entered into during such year. See "– Description of Key Line Items – Real Estate Sales".

Sales made prior to commencement of project development

Sales of residential units before site development and construction commence, which are referred to as pre-sales, constitute an important source of Fed Land's operating cash inflow. Fed Land uses cash from pre-sales to finance site development and construction costs. The amount and timing of cash inflows from pre-sales are affected by a number of factors, including market demand for pre-sale properties and the number of properties available for pre-sale. Reduced cash flow from pre-sales will require Fed Land to increase its reliance on external financing, increase Fed Land's cost of sales and impact Fed Land's ability to finance its future property developments.

Regulatory and tax framework

The Philippine property development industry is highly regulated. Regulations applicable to Fed Land's operations include those pertaining to:

- the suitability of building sites;
- land classification and zoning;
- government incentives;
- tax holidays and other tax incentives;
- road access;
- necessary community facilities;
- open spaces;
- water supply;
- sewage disposal systems;
- electricity supply;
- environmental suitability;
- lot sizes;
- size of housing and condominium units; and
- house and condominium construction.

Approval of development plans is conditioned on, among other things, completion of the acquisition of the project site and the developer's financial, technical and administrative capabilities. Approvals must be obtained at both the national and local levels, and Fed Land's results of operations are expected to continue to be affected by the nature and extent of the regulation of its business, including the relative time and cost involved in procuring approvals for each new project, which can vary from project to project.

The Government's decision in 2009 to suspend the conversion of agricultural land to commercial and residential use has been reviewed by the new Aquino administration, which has expressed its intention to continue the previous administration's policy. Fed Land believes this suspension of land conversion will, at least in the short term, have a positive impact on Fed Land due to its sizeable land bank as well as its access to MBT's land bank. Should the new administration discontinue this policy, Fed Land may face increasing competition in the markets in which it operates as additional land becomes available for residential and commercial development. On the other hand, if the current freeze were to continue for an extended period of time, Fed Land may experience difficulty finding land for future development projects.

Fed Land is also subject to the application of the Maceda Law, which gives purchasers of real property purchased on an installment basis certain rights regarding cancellations of sales and obtaining refunds from developers. See "Risk Factors – Fed Land – Risks Related to the Fed Land's Business – Fed Land operates in a highly-regulated environment and it is affected by the development and Fed Land's application of regulations in the Philippines".

In addition, significant changes in the Philippine tax framework may also affect Fed Land's results of operations. In 2005, the Philippine corporate income tax rate was increased from 32% to 35% and certain other tax changes were introduced (although this has been reduced to 30% in 2009). These changes, and expected future tax changes, will directly affect Fed Land's net income while other changes, such as the increase in the rate of value added tax or additional exemptions granted by tax authorities, are expected to have indirect effects on Fed Land's financial condition and results of operations by affecting general levels of spending in the Philippines. Fed Land expects that changes in regulatory and tax policy and applicable tax rates will continue to affect Fed Land's results of operations.

Price volatility of construction materials

Fed Land's cost of sales is affected by volatility in the price of construction materials such as timber, steel and cement. While Fed Land, as a matter of policy, attempts to fix the cost of materials component in its construction contracts, in cases where demand for steel, timber and cement are high or when there are shortages in supply, the contractors Fed Land hires for construction or development work may be compelled to raise their contract prices. As a result, rising costs for any construction materials will impact Fed Land's construction costs, cost of sales and the price for its products. Any increase in prices resulting from higher construction costs could adversely affect demand for Fed Land's products and the relative affordability of such products as compared to competitors' products. This could reduce Fed Land's real estate sales.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those that are both (i) relevant to the presentation of Fed Land's financial condition and results of operations and (ii) require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increase, those judgments become even more subjective and complex. In order to provide an understanding of how Fed Land's management forms its judgments about future events, including the variables and assumptions underlying its estimates, and the sensitivity of those judgments to different circumstances, Fed Land has identified certain critical accounting policies. For a complete discussion of Fed Land's critical accounting policies and significant accounting judgments and estimates, see Note 2 and Note 3 to Fed Land's financial statements included in this Prospectus.

DESCRIPTION OF KEY LINE ITEMS

Revenue

Real estate sales
Real estate sales in a given accounting period reflect the amount for which down payments have been paid based on the percentage of completion method. Required down payments range from 10% to 50% of the total contract price, depending on the type of property being purchased, and buyers are given anywhere from one to 50 months to complete the down payment, depending on the project involved. Revenue recognition begins once 10% of the down payment is collected from a buyer and 15% of the project is completed. Revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

Sale of goods and services
Sale of goods consists of oil, petroleum and ancillary goods and services at the Blue Wave Malls.

Interest income
Interest income on real estate sales is derived partly from interest paid by customers who have obtained in-house financing from Fed Land. Interest rates on these customer loans currently range from 15.0% to 18.0% per annum, depending on the term of the loan. This line item also reflects accretion of interest on deferred sales using the effective interest rate method.

Rent income
Rent income consists of income from various properties rented out by Fed Land, including the Blue Wave Malls, several units at the Phil AXA Life Centre and one floor of the GT Tower International.

Commissions
Commissions consists of commissions earned from selling units pertaining to FLOC and joint venture partners.

Interest income from banks
Interest income from banks consists of interest earned at the prevailing bank deposit rate. Interest is recognized as it accrues using the effective interest method.

Equity in net income (loss) of associate
Equity in net income of associate consists of Fed Land's share in the results of operations of its associate, CIRC and its joint venture, FLOC.

Other income
Other income primarily consists of real estate forfeitures, interest and penalty charges and sale of services, including management fees for managing Fed Land's joint venture projects and reimbursements of interest expense.

Costs and expenses

Cost of real estate sales
Cost of real estate sales reflects the cost of residential units sold and the sales of which have been recorded as real estate sales. The cost of residential units sold before project completion is determined based on, among other factors, the cost of land, expenses for regulatory approvals, project personnel costs, site development costs, construction costs and other project cost estimates. Cost of real estate sales are recognized in line with sales.

Cost of goods and services
Cost of goods and services consists of costs associated with oil and petroleum products as well as ancillary goods and services sold at the Blue Wave Malls.

General and administrative expense
General and administrative expense consists of salaries, wages and employee benefits, commissions, advertising and promotions, light, water and other utilities, depreciation and amortization, taxes and licenses, outside services, rent, professional fees, office supplies, transportation and travel, royalty and service fees, entertainment, amusement and recreation, retirement expense, repairs and maintenance and miscellaneous expense.

Interest expense
Fed Land's interest expenses relate primarily to interest due on its debt obligations.

RESULTS OF OPERATIONS

Year ended December 31, 2011 compared with year ended December 31, 2010

Real estate sales
Fed Land recorded revenues from real estate sales of ₱2,512.2 million in 2011, an increase of 16.3% from ₱2,160.7 million in 2010, due to an increase in the percentage of completion of the following ongoing projects: Bay Garden Club and Residences 1 (Banyan), Riverview, The Capital Tower 2 – Beijing, Peninsula Garden Midtown Homes Tower 1 and Four Seasons Riviera.

Sale of goods and services
Fed Land recorded revenues from sales of goods of ₱764.7 million in 2011, an increase of 18.6% from ₱644.7 million in 2010, due to an increase in sales of petroleum at the Blue Wave Malls caused by higher volumes and increased prices. The higher volumes were also attributable to the increased traffic in the area in and around the Mall of Asia.

Interest income
Fed Land recorded revenues from interest income on real estate sales of ₱195.9 million in 2011, an increase of 12.2% from ₱174.6 million in 2010, due to higher accretion of interest income from certain projects.

Rent income
Fed Land recorded revenues from rent income of ₱238.0 million in 2011, an increase of 20.2% from ₱198.0 million in 2010, due primarily to higher occupancy and increased rental rates at the Blue Wave Malls, both at Macapagal and Marikina. The higher rent income was primarily a result of the full year recognition of rent from a call center anchor tenant that began its tenancy in May 2010, as well as the acquisition of a floor in the GT Tower International in November 2010.

Commissions
Fed Land recorded commission income of ₱96.0 million in 2011, an increase of 103.8% from ₱47.1 million in 2010, due to more commissions earned in units owned by FLOC. The Grand Midori, a project of FLOC, sold and recognized more revenue in 2011 as compared to 2010.

Interest Income from banks
Fed Land recorded interest income from banks of ₱58.0 million in 2011, an increase of 1,357.0% from ₱4.0 million in 2010, due to the substantial increase in money market placements during the year.

Equity in net earnings of an associate and a jointly controlled entity
Fed Land recorded equity in net earnings of an associate and a jointly controlled entity of ₱87.6 million in 2011, an increase of 112.6% from ₱41.2 million in 2010, due to the substantial increase in earnings of FLOC. Please refer to the reasons discussed above under "Commissions".

Other Income
Fed Land recorded other income of ₱526.2 million in 2011, an increase of 327.8% from ₱123.0 million in 2010. The reason for the increase is mainly due to the reimbursements of interest expense from option money granted to affiliates.

Cost of real estate sales
Fed Land recorded cost of real estate sales of ₱1,553.8 million in 2011, an increase of 13.8% from ₱1,364.8 million in 2010, due to the increase in real estate sales discussed above.

Cost of goods and services
Fed Land recorded cost of goods and services of ₱709.7 million in 2011, an increase of 21.4% from ₱584.6 million in 2010, due to an increase in the volume of petroleum sold at the Blue Wave Malls as well as higher prices paid for the petroleum.

General and administrative expenses
Fed Land recorded general and administrative expenses of ₱1,023.0 million in 2011, an increase of 29.7% from ₱788.7 million in 2010, due to the net effect of (i) the increase in head count in 2011 due to an increase in ongoing projects, (ii) general wage increases in 2011, (iii) increase in commissions paid due to higher sales volumes and (iv) an increase in advertising costs in 2011 due to the greater number of projects launched during the year as compared to 2010.

Interest expense
Fed Land recorded interest expense of ₱443.5 million in 2011, an increase of 693.4% from ₱55.9 million in 2010, due to the substantial increase in loan and notes balances in 2011 which were used for land bank acquisition.

Provision for income tax
Fed Land recorded provision for income tax of ₱147.5 million in 2011, an increase of 113.8% from ₱69.0 million in 2010, due to the substantial increase in net income before tax during the year.

Net income
As a result of the foregoing, net income increased to ₱601.1 million in 2011, an increase of 13.3% from ₱530.3 million in 2010.

Year ended December 31, 2010 compared to year ended December 31, 2009

Real estate sales
Fed Land recorded revenues from real estate sales of ₱2,160.7 million in 2010, an increase of 88.2% from ₱1,148.0 million in 2009, due to an increase in the percentage of completion of Cordova, Athens, Peninsula Gardens, Bay Garden Residences, The Oriental Place, Toledo, Bell Flower, Beijing and Riverview Mansion.

Sale of goods and services
Fed Land recorded revenues from sales of goods of ₱644.7 million in 2010, an increase of 10.4% from ₱584.2 million in 2009, due to an increase in sales of petroleum at the Blue Wave Malls caused by higher volumes and increased prices.

Interest income
Fed Land recorded revenues from interest income on real estate sales of ₱174.6 million in 2010, a decrease of 3.3% from ₱180.6 million in 2009, due to lower accretion of interest income from certain projects.

Rent income
Fed Land recorded revenues from rent income of ₱198.0 million in 2010, an increase of 11.9% from ₱176.9 million in 2009, due to the net effect of (i) higher occupancy and increased rental rates at the Blue Wave Malls, (ii) the acquisition of two floors in the GT Tower International for rental in the fourth quarter of 2010, (iii) space rented out at the Blue Wave Mall to a call center in 2009, with 2010 being the first full year of revenue recognition from the call center tenant and (iv) additional office space rented out in the Phil AXA building.

Commissions
Fed Land recorded revenues from commissions of ₱47.1 million in 2010, as compared to nil in 2009, due to commission earned in selling units of FLOC.

Interest income from banks
Fed Land recorded interest income from banks of ₱4.0 million in 2010, an increase of 135.3% from ₱1.7 million in 2009, due to increase in money market placements as a result of higher sales.

Equity in net earnings of an associate and a jointly controlled entity
Fed Land recorded revenues from equity in net earnings of an associate and a jointly controlled entity of ₱41.2 million in 2010, as compared to nil in 2009, due to an increase in earnings of FLOC.

Other income
Fed Land recorded other income of ₱123.1 million in 2010, a decrease of 16.0% from ₱146.4 million in 2009, primarily due to lower management fees relating to lower collections resulting from one-time service contracts entered into in 2009 that expired in the middle of 2010.

Cost of real estate sales
Fed Land recorded cost of real estate sales of ₱1,364.8 million in 2010, an increase of 114.4% from ₱636.7 million in 2009, due to the increase in real estate sales discussed above.

Cost of goods and services
Fed Land recorded cost of goods and services of ₱584.6 million in 2010, an increase of 17.5% from ₱497.6 million in 2009, due to an increase in the volume of petroleum sold at the Blue Wave Malls as well as higher prices paid for the petroleum.

General and administrative expenses
Fed Land recorded general and administrative expenses of ₱788.7 million in 2010, an increase of 6.9% from ₱738.1 million in 2009, due to the net effect of (i) the increase in head count in 2010 (ii) general wage increases in 2010, (iii) increase in commissions paid due to higher sales volumes in 2010 and (iv) an increase in advertising costs in 2010 due to a greater number of projects launched during the year.

Interest expense
Fed Land recorded interest expense of ₱55.9 million in 2010, a decrease of 63.8% from ₱154.3 million in 2009, due to a decrease in loan balances in 2010.

Equity in net losses of an associate and a jointly controlled entity
Fed Land recorded equity in net losses of an associate and a jointly controlled entity of nil in 2010 as compared to ₱0.2 million in 2009.

Provision for income tax
Fed Land recorded provision for income tax of ₱69.0 million in 2010, an increase of 17.5% from ₱58.7 million in 2009, due to an increase in revenue recognition in 2010. Fed Land availed of certain tax holidays in 2010, as a result, their effective tax rate dropped from 27.5% in 2009 to 11.5% in 2010.

Net income
As a result of the foregoing, net income increased to ₱530.3 million in 2010, an increase of 248.4% from ₱152.2 million in 2009.

LIQUIDITY AND CAPITAL RESOURCES

In 2009, 2010, and 2011, Fed Land's principal source of liquidity were increases in capitalization and loan availment. As of December 31, 2011, Fed Land had cash and cash equivalents totaling ₱382.5 million. Fed Land expects that its principal uses of cash for 2012 will be payment of short term loans and project development.

Cash Flows
The following table sets forth selected information from Fed Land's statements of cash flows for the periods indicated:

	As of December 31,			
	2009	2010	2011	2011
	(₱ millions)			(U.S.$ millions)
Net cash provided by (used in) operating activities	(404.2)	730.0	(1,309.3)	(29.8)
Net cash provided by (used in) investing activities	(755.2)	(2,270.1)	(7,511.1)	(171.0)
Net cash provided by (used in) financing activities	1,233.3	1,839.5	8,706.3	198.2
Net increase in cash and cash equivalents	73.7	298.7	(114.3)	(2.6)
Cash and cash equivalents at beginning of period	124.4	198.1	496.8	11.3
Cash and cash equivalents at end of period	198.1	496.8	382.5	8.7

Net cash used in operating activities was ₱404.2 million in 2009, ₱730.0 million was provided in 2010, and ₱1,309.3 million was used in 2011. In 2009, the primary source of cash was ₱259.5 million from operations, while cash from operations was used for a ₱374.0 million increase in inventories, primarily relating to land purchased in Fort Bonifacio, and ₱111.2 million for prepayments and other current assets. In 2010, the primary source of cash was ₱512.7 million from operations, while cash from operations was used for a ₱1,253.7 million increase in receivables and a ₱197.9 million decrease in customers' deposit. In 2011, the primary source of cash was ₱939.3 million from operations while cash from operations was used for a ₱1,608.3 million increase in receivables, a ₱3,221.4 million increase in inventories, which was partially offset by an increase in accounts and other payables of ₱2,644.1 million.

Net cash used in investing activities was ₱755.2 million in 2009, ₱2,270.1 million in 2010, and ₱7,511.1 million in 2011. Net cash used in investing activities in 2009 was primarily the result of additional investments made in associate and jointly controlled entity of ₱240.0 million. Net cash used in investing activities in 2010 was primarily the result of the acquisition of additional investment properties, including two floors in the GT Tower International and land at Metropolitan Park. Net cash used in investing activities in 2011 was primarily the result of deposits on properties for future developments of ₱4,085.0 million and long-term cash investments of ₱2,440.1 million.

Net cash provided by financing activities was ₱1,233.3 million in 2009, ₱1,839.4 million in 2010, and ₱8,706.3 million in 2011. Net cash provided by financing activities in 2009 was primarily the result of proceeds from deposits for future stock subscriptions of ₱2,000.0 million, partially offset by payments of loans payable of ₱338.4 million. Net cash provided by financing activities in 2010 was primarily the result of issuance of capital stock amounting to ₱5,000.0 million, partially offset by payments of loans payable of ₱785.0 million and deposit for future subscription applied on the capital stock issuance of ₱2,000.0 million. Net cash provided by financing activities in 2011 was provided primarily by loan availments of ₱17,305.0 million, partially offset by payments of loans payable of ₱7,995.2 million and payments of liabilities on purchased land of ₱516.8 million.

CAPITAL EXPENDITURES

The table below sets out Fed Land's capital expenditures in 2009, 2010 and 2011, together with its budgeted capital expenditures for 2012 and 2013.

Year ended December 31,	Expenditure (₱ millions)
2009 (actual)	340.0
2010 (actual)	1,533.4
2011 (actual)	4,167.7
2012 (budgeted)	4,250.0
2013 (budgeted)	9,310.6

Fed Land has historically sourced funding for capital expenditures through internally-generated funds and long-term borrowings.

Components of Fed Land's capital expenditures for 2009, 2010, and 2011 are summarized below:

	For the years ended December 31,			
	2009	2010	2011	2011
	(₱ millions)			(U.S.$ millions)
Investment in Properties	57.6	1,411.6	57.7	1.3
Investment in Associates and jointly controlled entity	240.0	–	–	–
Property and Equipment	34.8	117.6	16.4	0.4
Software Costs	7.6	4.2	6.9	0.2
Deposits for future development	–	–	4,085.0	93.0
Total	340.0	1,533.4	4,167.7	94.9

Fed Land has budgeted ₱8,417.7 million for capital expenditures for 2011-12 (of which ₱4,167.7 million had been spent as of December 31, 2011) and ₱4,250 million is projected to be spent for 2012. The planned capital expenditures for 2012 are summarized below:

Capital Projects	Expenditure (₱ millions)	(U.S.$ millions)
High End	₱2,291.2	$52.2
Middle Segment Projects	895.6	20.4
Low-middle Segment Projects	40.7	0.9
Retail and Others	1,019.7	23.2
Other Capex or Other Assets	2.8	0.1
Total	₱ 4,250	$96.8

Fed Land expects to fund its budgeted capital expenditures principally through pre-sales and funds from operations, as well as through borrowings and the use of proceeds from this Offer. See "Use of Proceeds – Financing for Fed Land Projects". The figures in Fed Land's capital expenditure plans are based on management's estimates and have not been appraised by an independent organization. In addition, Fed Land's capital expenditure plans are subject to a number of variables, including: possible cost overruns; construction/development delays; the receipt of critical Government approvals; availability of financing on acceptable terms; changes in management's views of the desirability of current plans; the identification of new projects and potential acquisitions; and macroeconomic factors such as the Philippine's economic performance and interest rates. There can be no assurance that Fed Land will execute its capital expenditure plans as contemplated at or below estimated costs.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following table sets forth Fed Land's contractual obligations and commitments as of December 31, 2011:

	Contractual Obligations and Commitments Payments Due by Period			
	Total	2012	2013-2015	After 2015
	(₱ millions)			
Long-term debt obligations	8,600.0	–	–	8,600.0
Total	8,600.0	–	–	8,600.0

DEBT OBLIGATIONS AND FACILITIES

Fed Land's total amount of long-term debt was ₱8,600.0 million as of December 31, 2011, with a current portion of ₱4,557.0 million. Fed Land's long-term debt was comprised of notes payable of ₱6,600.0 million and loans payable of ₱2,000.0 million.

The following table sets forth Fed Land's total indebtedness as of the periods indicated:

	As of January 1, 2010	As of December 31, 2010	2011	2011
	(₱ millions)			(U.S.$ millions)
Affiliated loans from local banks	–	–	2,000.0	45.5
Non-affiliated loans from local banks	4,632.2	3,847.2	4,557.0	103.7
Notes facility	–	–	6,600.0	150.3
Total	4,632.2	3,847.2	13,157.0	299.5

OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2011, Fed Land did not have any off-balance sheet arrangements.

KEY PERFORMANCE INDICATORS

The following are the major performance measures used by Fed Land for 2009, 2010 and 2011.

	As of and for the years ended December 31,		
	2009	2010	2011
	(₱ millions, except ratios)		
Revenues	2,237.8	3,393.3	4,478.6
Net income after tax	152.2	530.3	601.1
Net income attributable to equity holders	156.8	524.9	589.7
Total assets	14,437.2	17,862.8	29,543.5
Total liabilities	7,071.5	7,067.0	18,746.6
Total equity	7,365.7	10,795.8	10,796.9
Current ratio(1)	1.9	1.6	1.6
Debt-to-equity ratio(2)	1.0	0.7	1.7

Notes:

(1) *Current assets over current liabilities.*

(2) *Total liabilities over total equity.*

QUALITATIVE AND QUANTITATIVE DISCLOSURE OF MARKET RISK

Fed Land's principal financial instruments consist of its long-term debt, cash on hand and in the bank, receivables from installment sales, short-term investments and receivables from and payables to affiliated companies. These are used to provide funding for Fed Land's business operations. Fed Land does not enter into hedging transactions or engage in speculation with respect to financial instruments.

Fed Land believes that the principal risks arising from its financial instruments are interest rate risk, liquidity risk, credit risk, foreign exchange risk and commodity risk.

Interest Rate Risk

Fed Land's exposure to interest rate risk relates primarily to its interest-bearing loans. As of December 31, 2011, ₱4,557.0 million of Fed Land's loans bear interest at rates ranging from 3.09% to 9.50%, and ₱8,600.0 million of its loans bear interest at fixed rates. Increases in interest rates would have the effect of increasing the interest due on Fed Land's outstanding debt and increases in such rates could make it more difficult for Fed Land to procure new debt on attractive terms, or at all. Fed Land currently does not, and has no plans to engage in, interest rate derivative or swap activity to hedge its exposure to increases in interest rates.

Fluctuations in interest rates also have an effect on demand for Fed Land's products. As most of Fed Land's customers obtain some form of financing for their real estate purchases, interest rate levels could affect the affordability and desirability of Fed Land's subdivision lots and residential units.

Liquidity Risk

Fed Land bears the risk that it will not have sufficient cash flows to meet its operating requirements and its financing obligations when they become due. Fed Land manages this risk by regularly reviewing its cash flow position, debt maturity profiles, availability of credit facilities and overall liquidity position to mitigate the effects of fluctuations in cash flow.

Fed Land manages its liquidity profile by pre-selling residential and land development projects and by obtaining long-term credit facilities. Fed Land may avail of receivables rediscounting lines with banks and other financial institutions under the terms of which Fed Land may sell installment contract receivables, on both a "with recourse" and "without recourse" basis although they have not utilized these lines in the past.

Going forward, and to the extent it is able to do so, Fed Land intends to primarily use internally generated funds and proceeds from pre-sales, borrowings, and additional equity offerings to meet its financing requirements.

Credit Risk

Fed Land is exposed to credit risk from its in-house financing activities. Credit risk is the risk of loss that may occur from the failure of a customer to abide by the terms and conditions of such customer's financial contract with Fed Land, principally the failure to make required payments on amounts due to Fed Land. Fed Land attempts to mitigate credit risk by measuring, monitoring and managing the risk for each customer seeking to obtain in-house financing. Fed Land has a structured and standardized credit approval process, which includes conducting background and credit checks on prospective buyers using national credit databases and, where feasible, conducting physical verification of claims regarding residences and properties owned. Fed Land retains ownership of the properties being acquired which allows them to cancel and reprocess and, if necessary, resell the property.

Foreign Exchange Risk

Fed Land is exposed to the risk that increases in the Peso exchange rate for U.S. dollars will decrease the value of its only foreign-currency-denominated assets, which are cash and cash equivalents amounting to ₱0.32 million as of December 31, 2010 and ₱10.08 million as of December 31, 2011. In addition, Fed Land is exposed to the risk that certain construction materials that are priced in U.S. dollars, such as steel and cement, will be exposed to exchange rate fluctuations between the Peso and the U.S. dollar.

Commodities Risk

Fed Land is exposed to the risk that prices for construction materials used to build its properties (including, among others, timber, cement and steel) will increase. These materials are global commodities whose prices are cyclical in nature and fluctuate in accordance with global market conditions. Fed Land is exposed to the risk that they may not be able to pass increased commodities costs to their customers, which would lower Fed Land's margins. Fed Land does not engage in commodity hedging, but attempts to manage commodity risk by requiring their construction and development contractors to supply raw materials for the relevant construction and development projects (and bear the risk of price fluctuations) or by fixing the price for raw materials for one year. See "– Factors Affecting Results of Operations – Price volatility of construction materials."

Seasonality and inflation

Seasonality has some impact on Fed Land's results of operations due to the seasonality of its real estate sales. Sales reservations for Fed Land's properties are generally higher during the fourth quarter of each year, when remittances from OFWs typically increase in amount in anticipation of the Christmas holiday season. However, the required down payments for such sales are usually not paid in full until the next calendar year. As a result, a substantial amount of recorded sales during each calendar year may relate to sales reservations from the immediately preceding year. In addition, Fed Land attempts to undertake and complete as much site development and construction work during the Philippine's dry season, which usually extends from November to mid-May. As a result, Fed Land may capitalize more construction and development expenses during this period.

Fed Land does not believe that inflation has had a significant effect on its results of operations to date.

THE PHILIPPINE REAL ESTATE INDUSTRY

See the industry study prepared by Colliers attached as Appendix A to this Prospectus.

BUSINESS – Fed Land

OVERVIEW

With 40 years of industry experience, Ty family companies have become established leaders in the Philippine real estate sector having completed more than 50 residential and commercial projects throughout their combined operating history. Having established Federal Homes in 1972 in Binondo, the Ty family's real estate business grew rapidly and as its pace of growth accelerated, additional entities were established to undertake the family's expanding property operations. In an effort to rationalize this growing exposure to the segment, the Ty family elected to consolidate its real estate development interests within GT Capital under its subsidiary, Fed Land. Fed Land today is the dedicated Philippine real estate development company of the Ty family. This consolidation exercise, which brought together the human resources and best practices of all the Ty family real estate companies, was intended to initiate the next phase of growth for the real estate business and further facilitate leveraging on synergies with other operating divisions within GT Capital.

Leveraging on the strong track record of the Ty family companies established over the years in the residential segment, Fed Land's principal focus remains in the residential space, particularly in condominium developments in key urban and suburban communities. In addition, Fed Land also benefits from the Ty family's experience as a retail and commercial project developer, having developed distinctive properties in Metro Manila's Makati central business, district including GT Tower International and Philippine AXA Life Center.

In line with its strategic plan, Fed Land has exhibited very strong growth across key operating and financial metrics. The table below summarizes the growth achieved in reservation sales, developed area and net profit for the period 2009 to 2011.

	2009	2010	2011	% growth (CAGR) (2009-11)
Reservation sales (₱ billions)	2.30	4.23	9.05	98.4%
Reservation sales (no. of units)	479	941	2,168	112.7%
Developed residential area (sq. m.)	21,203	35,750	114,105	132.0%
Net income (₱ millions)	152	530	601	98.7%

As of December 31, 2011, Fed Land's land bank comprised 100.8 hectares of land (including 3.4 hectares held through joint ventures), primarily in prime locations such as Manila, Makati, Fort Bonifacio, Marikina, Biñan Laguna and Cavite. Fed Land also has access to additional substantial land that is owned by other entities of the Ty family and their locations are adjacent to Fed Land's properties.

Currently, Fed Land has 19 ongoing projects in various stages of completion. Fed Land's high quality residential projects include Bay Garden Residences, Oriental Garden Makati, The Grand Midori Makati, Marco Polo Residences and The Capital Towers, among others, and are largely focused on the middle/high income segment. In addition to standalone residential and commercial developments, Fed Land's key integrated township projects include Bonifacio North CBD (including the landmark Metrobank/Grand Hyatt Project), projects in Metropolitan Park and Tropicana Garden City.

Going forward, Fed Land plans to continue to acquire, and develop prime land from independent third party sources as well as from affiliated entities. In line with its development focus, Fed Land, through the cumulative efforts of its subsidiaries, expects to drive its development income by focusing on developing high quality residential properties in prime locations, while organically increasing the proportion of its recurring revenue through the continued development of integrated townships and leasing out of commercial facilities within these developments.

HISTORY

The Ty family began its real estate development business in 1972 through Federal Homes and continued to develop real estate projects through other companies. Fed Land was incorporated in the Philippines in 1997 as Tal

Holdings Corporation. Tal Holdings Corporation changed its name in 2002 when the Ty family reorganized its real estate businesses and consolidated its real estate interests in Fed Land. As part of its consolidation in Fed Land, the Ty family brought the top business, technical and operations personnel from the various Ty family real estate companies together within one entity. Federal Homes' real estate operations are now limited to landholdings as development activities have been transferred to Fed Land. Through Fed Land and other companies, the Ty family has completed more than 50 residential buildings and commercial properties. The following are some of the key residential and commercial projects completed by the Ty family real estate companies, including Fed Land:

Property	Developer	Completion Date
Residential Condominiums		
Bayview International Towers	Granview Realty	1989
Skyland Plaza	Skyland Realty	1991
Escolta Twin Tower	City Tower Realty	1992
Valencia Hills	Topsphere Realty	2002
Bayview Garden Homes	Granview Realty	2002
Ocean Tower	Ocean Park Realty	2003
Oriental Garden Makati (2 Towers)	Fed Land	2005
Marquinton Residences Barcelona	Fed Land	2006
Marquinton Residences Alicante	Fed Land	2007
Bay Garden Residences (5 Towers)	Fed Land/Baywatch Realty	2009
The Capital Towers	Fed Land	2010
Florida Sun Estate – Oriental Garden Residences and Commercial Area	Fed Land	2010
The Oriental Place	Fed Land	2011
Marquinton Residences Cordova	Fed Land	2011
Office Buildings/Retail Centers		
PSBank Tower	Matsuda Property Devt. Corp	1980
Philippine AXA Life Centre	Heritage Consolidated Assets Inc.	1996
GT Tower International	Philippine Securities Corporation	2000
Blue Wave – Marquinton	Federal Brent Retail Inc.	2003
Blue Wave – Macapagal Blvd.	Federal Brent Retail Inc.	2005
BPO at Metropark	Fed Land	2010

COMPETITIVE STRENGTHS

Fed Land believes that its principal strengths are the following:

Dedicated real estate developer of the Ty family with a 40-year operational track record

Fed Land is the dedicated vehicle of the Ty family for real estate development in the Philippines. Fed Land benefits from the Ty family's strong track record of real estate development spanning 40 years. During this time, Fed Land and other Ty family companies have completed more than 50 projects in various sectors, including residential, office, retail and hotel properties. By ensuring rigorous quality control processes across its projects, Fed Land has developed a reputation for high quality developments. The Ty family's extensive track record has also enabled Fed Land to develop a strong network of reliable construction companies, architects, designers and both domestic and international sales and leasing agents to contribute to the optimal execution of its development cycle, from raw land acquisition to sales and leasing. Fed Land believes that having an established track record as a reliable developer is a key driver in its ability to attract buyers for its development projects as well as to procure the best personnel and third party contractors.

Strong and diversified project portfolio to support sustained and profitable growth

Fed Land in recent years has shown very strong growth across key operational and financial metrics. Over the period 2009 to 2011, reservation sales values have increased at a CAGR of 98.4%, developed residential area has increased at a CAGR of 132.0%, and net income has increased at a CAGR of 98.7%. Furthermore, Fed Land has a strong and diversified portfolio of current projects, as well as a high-quality pipeline of projects which it believes will support sustained growth going forward. As of December 31, 2011, Fed Land had 19 ongoing residential developments with a total of 7,473 units. These residential developments are frequently part of master-planned communities where additional residential developments can be launched in short order, and which are complemented by office, retail and hotel developments.

For example, in the Fort Bonifacio, Taguig area, Fed Land is developing a ten-hectare master-planned project known as Bonifacio North CBD that features high-rise condominiums, retail establishments, offices and hotel amenities. This project will contain, as its centerpiece, a luxury hotel-office-residential building which will house the Grand Hyatt Hotel and the Grand Hyatt Residences. In General Trias, Cavite, Fed Land is developing 12 mid-rise condominiums, as well as houses, lots and apartments that will be complemented by retail and commercial establishments. In Cebu, Fed Land is developing the high-end Marco Polo Residences, comprising a five tower development project, which is complemented by the Marco Polo Plaza, Cebu, the only five-star hotel in the city.

Large, quality land bank in strategic locations throughout the Philippines

Fed Land has an extensive land bank in attractive and high-quality locations, including major cities and central business districts. For example, Fed Land's Bonifacio North CBD project is located in Fort Bonifacio, which is commonly referred to as the new central business district in Metro Manila. In addition, Fed Land's land bank in the Manila Bay area should stand to benefit from the increased investment in that area due to large scale development projects such as casinos and integrated resorts. As of December 31, 2011, Fed Land had an available land bank for development of approximately 100.8 hectares, of which 97.4 hectares was owned while 3.4 hectares was its attributable interest under joint venture partnerships. In addition to its own land bank, Fed Land continues to have access, through Federal Homes and other Ty family companies, to prime land that often is located adjacent to Fed Land properties (e.g. in Metropolitan Park or Bonifacio North).

Although Fed Land continues to consider strategic land banking either through additional joint venture partnerships or property purchases, it expects that its existing land bank will be sufficient for development projects for approximately 20 years. Fed Land's land bank consists of land located primarily within Metro Manila, including in the prime areas of Fort Bonifacio, Makati City, Pasay City, Marikina and Manila. Fed Land also has substantial land holdings in Biñan, Laguna, Sta. Rosa, Laguna, General Trias, Cavite and Cebu. Fed Land believes that it has one of the highest-quality land banks among Philippine real estate developers, and that its current projects and strategic land bank consisting of lots in prime locations will allow it to benefit from continued strong demand for residential projects and retail amenities. For details relating to Fed Land's land bank, see "– Land Bank".

Synergies with affiliates under the GT Capital group

In addition to real estate development, the Ty family has several other business interests with their most significant and recognized business being MBT. As a member of GT Capital, Fed Land continues to benefit from this affiliation in several ways. In terms of marketing, Fed Land is marketed as part of the GT Capital group of companies, which increases Fed Land's profile and exposure to potential customers as well as with potential development partners. In terms of financing, Fed Land is able to leverage on the MBT Group as a key retail banking channel to provide financing solutions for its customers. Both MBT and PSBank offer preferential rates to Fed Land's residential real estate customers. In addition, MBT Group customers are exposed to Fed Land's product portfolio through a variety of channels. Fed Land also benefits from its affiliation with GT Capital and the Ty family in terms of land for development. A significant portion of Fed Land's current land bank is comprised of properties that once belonged to Ty family companies, including MBT. Ty family companies, including MBT, have partnered with Fed Land on several projects by contributing land for development.

In terms of management, Fed Land is able to draw upon the breadth of resources across GT Capital to enhance its management's resources.

STRATEGIES

Fed Land's strategy is to capitalize on its expertise, track record and large high-quality land bank to significantly accelerate development of its residential and commercial properties, supported by the strong underlying economic growth and favorable social trends in the Philippines. Fed Land considers its key strategies to be the following:

Deliver on strong project pipeline with a diversified product offering to middle and high-end markets

Having consolidated the other Philippines real estate development business of the Ty family into Fed Land, Fed Land is currently executing a comprehensive growth plan to fully capitalize on the company's land bank, expertise and market recognition. As part of this growth plan, Fed Land intends to increase its coverage of the growing middle market while retaining its strong position in the high-end market. Historically, a majority of Fed Land's revenue was derived from sales of upper middle and high-end residential projects. While Fed Land intends to continue strengthening its leadership in these markets, it plans to expand sales to the broader middle market. Fed Land believes this is a significant market that includes groups such as OFWs, BPO workers and small business owners, all of which are groups that stand to benefit from the strong growth in the Philippine economy. In order to achieve this revenue diversification, Fed Land plans to offer stand-alone residential high rise condominiums in key central business districts such as Makati, Fort Bonifacio and Ortigas that are attractive to young professionals and OFWs. Fed Land's "Horizon Land" brand, which targets the broader middle-market, will play a key role in increasing sales of units under ₱3.2 million, which qualify for VAT elimination.

Increasing focus on master-planned communities and recurring income base

Fed Land and its affiliates own substantial parcels of land in prime areas of Metro Manila and its periphery. Fed Land develops these properties into master-planned communities consisting of residential condominium towers, supporting amenities, and complementing commercial and retail establishments. Fed Land intends to increasingly focus on its master-planned communities because it believes that self-sustaining communities with a full suite of amenities are attractive to buyers due to their ease, comfort and safety. Fed Land believes that by building such self-sustaining communities, they are able to broaden their revenue stream from recurring retail and office income as well as increase sales prices for residential properties as the community becomes increasingly vibrant.

Fed Land plans to accelerate development of its current portfolio of master-planned communities. These developments include the Metropolitan Park in the Bay Area, Bonifacio North CBD in Bonifacio Global City, Tropicana Gardens in Marikina, Peninsula Garden Midtown Homes in Manila and Florida Sun Estates in Cavite. As Fed Land accelerates construction, it is able to increase residential sales to complement its office and retail projects within the same township, which helps build critical mass of residents and workers in the master-planned developments. As the community offers more retail, office and transportation amenities, real estate values are expected to increase and Fed Land expects to command higher sales prices for its residential products.

In addition, Fed Land intends to focus on developing BPO office facilities within its master-planned communities. The BPO sector in the Philippines has experienced significant growth in recent years, due to the country's young, educated and English speaking work force. Fed Land believes that the BPO sector will continue to grow in the near future. In response, Fed Land intends to cater to this growing market and have it play a key role in creating dynamic master-planned communities where people come to work, live and enjoy recreational activities.

Develop in-house financing capabilities

Fed Land plans to further develop its in-house financing capabilities in order to increase its real estate sales volumes and revenue from financing activities. Interest rates charged for in-house financing are generally higher than rates charged by traditional banks and can provide a significant stream of high-margin income for companies that are able to support such financing activities with a strong balance sheet. The risk associated with in-house financing is mitigated due to the fact that property is not turned over to the buyer until the property is fully paid for. Given its significant financial resources and access to bank financing and the capital markets through its association with GT Capital, Fed Land believes it is in a strong position to increase its revenues from developing its in-house financing capabilities.

Fed Land benefits from its association with the MBT Group, which provides many of its customers with financing for their purchases. However, many of Fed Land's key customers, including OFWs, entrepreneurs and self employed individuals, do not qualify for MBT Group or other bank financing because they cannot provide the salary documentation typically required under Philippine banking regulations. Thus, while Fed Land believes that they are financially safe debtors, they are unable to access traditional bank financing. By expanding its in-house financing capabilities, Fed Land is able to expand its customer base by reaching out to groups, such as OFWs, that are typically underserved by the banking community. Fed Land's decision to increase its in-house financing capabilities is directly related to its strategy to target OFWs through its Horizon Land brand.

Leverage off synergies of the GT Capital companies

Fed Land plans to continue to leverage its reputation as a Ty family company and a subsidiary within the GT Capital group of companies to enable it to expand its market reach and land bank. In particular, Fed Land intends to consider land bank opportunities presented by the MBT Group as it considers site development plans and engages in market studies for future development projects. In addition, Fed Land intends to strengthen its ties with MBT and PSBank for developing financing solutions for its real estate customers. Fed Land believes that it will be able to enhance its competitive strengths by continuing to leverage off of its synergies with the MBT Group, in particular through pro-active land bank management, asset enhancement and expansion, and by capitalizing on MBT's extensive real estate lending experience, brand and access to financial resources.

PROPERTY DEVELOPMENT PROJECTS

Fed Land has a diverse portfolio of property development projects that focus on master-planned communities and residential developments. Many of Fed Land's residential development projects are components of Fed Land's master-planned communities. However, Fed Land also develops stand-alone residential projects. Residential properties are developed and sold while commercial and retail properties are generally developed and leased to generate recurring income. Prior to its formation, the Ty family real estate companies were historically focused on developing stand alone residential condominiums and commercial properties. The table below shows how many square meters of development have been completed by Fed Land in each year since 2005.

	Area developed
	(sq. m.)
2005	32,803
2006	52,006
2007	19,203
2008	21,203
2009	21,203
2010	35,730
2011	114,105
Total	296,253

Planned future projects include stand alone residential condominiums and office buildings as well as projects located within master planned townships. Planned projects also include subdivision communities consisting of lots only and house and lot projects.

The following table sets out the contribution of residential and commercial developments as a percentage of Fed Land's total revenue.

	Year ended December 31,		
Category	**2009**	**2010**	**2011**
Real Estate Sales	59%	69%	60%
Commercial Operations			
Retail	26%	19%	17%
Rental	8%	6%	5%
Services and others	7%	6%	18%

Master-planned Community Developments

Fed Land and its affiliates own substantial tracts of land in prime areas in Metro Manila and its periphery. Fed Land develops these properties into fully master-planned communities consisting of residential condominium towers, supporting amenities and complementing commercial, retail and institutional establishments. Fed Land believes that by creating a core mix of residential and commercial properties, it can create self-sustaining communities that are attractive places in which to live, work and enjoy recreational activities.

Metropolitan Park

Metropolitan Park is a 38-hectare, mixed use township project located in Pasay City, Metro Manila. Fed Land owns 6.98 hectares while the remainder is held by various other companies also owned by the Ty family. Metropolitan Park is adjacent to Manila Bay and two major highways, Roxas Boulevard and EDSA, as well as The Mall of Asia, the largest shopping mall in the Philippines in terms of area. Manila Bay has recently experienced significant investment due to the development of casinos and integrated resorts in the area. Fed Land's first residential development in the area is the five-tower Bay Garden Residences, which has been fully sold out, built and turned over to buyers. This project was followed by Bay Garden Club and Residences, a cluster of three residential condominium towers with commercial establishments at the podium ground level and amenities at the podium roof deck. The first tower has been completed and is in the process of being turned over to buyers while the remaining two towers are currently under construction. For more information, see "– High-End Market Projects – Bay Garden Residences" and "– High-End Market Projects – Bay Garden Club and Residences". In addition, Metropolitan Park includes the Blue Wave Mall, a retail project developed by Fed Land in 2003. See "– Commercial Real Estate – Retail Buildings".

Of the 38 hectares within Metropolitan Park, approximately 8.5% is built-up, approximately 1.5% is currently under construction and 90% is earmarked for future development.

GT Capital Holdings intends to allocate a portion of the net proceeds from the Primary Offer to both on-going and future development projects within the Metropolitan Park area. For a detailed discussion on the application of the net proceeds, refer to the section titled "Use of Proceeds" in this Prospectus.

Bonifacio North CBD

The Bonifacio North CBD project is a 10-hectare community development project on the northern boundary of Fort Bonifacio in Metro Manila. Under a joint venture land development agreement executed between Fed Land and MBT, Fed Land owns 20% of the saleable land while MBT owns the remaining 80%. Fed Land believes that Fort Bonifacio is quickly becoming a second central business district in Metro Manila as companies and residents look for an alternative to the current Makati central business district. Bonifacio North CBD's prime location is directly linked to the cities of Makati, Mandaluyong, Pasig and Taguig. The two developments currently being undertaken are the upscale Metrobank/Grand Hyatt Project, which is a mixed-use development, and the Parkwest Tower, a residential condominium. The Metrobank/Grand Hyatt Project will include two towers that will share a common high-end retail podium. The first tower will be a prime 66-storey building and will comprise a luxury Grand Hyatt Hotel and premium office floors, with MBT expected to be the primary occupant. The second tower will comprise of a 45-storey premium residential condominium known as The Grand Hyatt Manila Residences. The Metrobank/Grand Hyatt Project is being developed by a subsidiary of Fed Land under a joint venture with ORIX Risingsun Properties II, Inc. ("Orix Risingsun II") where Fed Land owns 70% and Orix Risingsun II owns 30% of the joint venture subsidiary. Orix Risingsun II is controlled by Orix.

Parkwest Tower is the first of a planned cluster of condominiums designed for the middle to upper-mid market. The first tower, which was launched in mid-2011, will comprise of a 41-storey residential condominium tower with 716 units. For more information, see "– Residential Developments – Middle-Market Projects – Parkwest Tower" and "– Commercial Developments – Metrobank/Grand Hyatt Project".

Of the 10-hectare community development project in Bonifacio North CBD, approximately 11% is currently under construction and approximately 89% is earmarked for future development.

GT Capital Holdings intends to allocate a portion of the net proceeds from the Primary Offer to both on-going and future development projects within the Bonifacio North CBD area. For a detailed discussion on the application of the net proceeds, refer to the section titled "Use of Proceeds" in this Prospectus.

Marikina

Fed Land's Marikina master-planned community development is situated on a 17-hectare property owned by Fed Land and located on the eastern boundary of Marikina City, Metro Manila. Fed Land's master plan is to develop three clusters of medium-to-high rise residential condominiums. The first cluster developed was the Marquinton Residences. This development consists of a three-tower medium rise mixed use project targeting middle income families, and includes the Alicante, Barcelona and Cordova towers. Fed Land is also developing the nine-tower residential complex called Tropicana Garden City Residences in the area. For more information, see "– Middle-Market Projects – Tropicana Garden City". A third development, the eight-tower Savana, is also envisioned for development. In addition, the 17-hectare Marikina property includes the Blue Wave Mall, a retail project developed by Fed Land in 2003, a Toyota automobile dealership and a MBT bank branch. See "– Commercial Real Estate – Retail Buildings".

Of the 17 hectares within Marikina, approximately 25% is built-up, approximately 2% is currently under construction and approximately 73% is earmarked for future development.

Florida Sun Estate

Florida Sun Estate is an 18-hectare property owned by Fed Land and located in the General Trias, Cavite area. Florida Sun Estate was designed and developed as a Florida, USA-themed residential community. It is conveniently located along Governor's Drive, the main thoroughfare in General Trias, Cavite. The master-plan for the development contemplates offering 580 lots and house and lot packages, and 800 apartment units in 12 mid-rise condominium buildings. The first phase of development will involve four residential buildings developed under the project name Oriental Garden Residences. Two buildings, Bellflower and Cypress, were completed in 2010 and 2011, respectively. The remaining two towers are scheduled for completion in 2012 and 2013. The second phase of development will involve eight residential buildings and a retail plaza. The project is targeted at the mid-market segment.

Of the 18 hectares within Florida Sun Estate, approximately 6% is built-up, approximately 3% is currently under construction and approximately 91% is earmarked for future development.

Residential Developments

Fed Land has historically focused on the development of upper-middle and high end market residential condominiums. Taking into consideration factors such as location, competitive landscape and target market in the areas where a project will be located, Fed Land's current and future planned residential projects focus on three types of residential developments: township condominium, stand alone condominium and house and lot subdivision.

Set out below are details of Fed Land's recently completed and ongoing residential projects as of December 31, 2011.

Recently Completed

	Target Market	GFA (sq. m.)	GFA Attributable to Fed Land (sq. m.)	Location	Master Planned Community	Total no units	Construction Commencement/ Completion Date
Bay Garden Residences (5 towers)	High-end	90,965	74,591	Pasay City	Metropolitan Park	582	2000 / 2009
Bay Garden Club and Residences 1 (Banyan)	High-end	20,927	20,297	Pasay City	Metropolitan Park	130	2010 / 2011
Marquinton Residences 3 (Cordova)	Mid-market	27,284	27,284	Marikina	Marikina	536	2008 / 2011
Peninsula Garden Midtown Homes 1 (Molave)	Mid-market	15,555	15,555	Manila	–	236	2009 / 2011
The Capital Towers 1 (Athens)	Mid-market	33,033	29,234	Quezon City	–	445	2008 / 2010
The Oriental Place	Mid-market	30,076	27,068	Makati	–	662	2009 / 2011
Tropicana Garden City 1 (Toledo)	Mid-market	11,532	11,532	Marikina	Marikina	264	2009 / 2011
Oriental Garden Residences 1 (Bellflower)	Mid-market	2,697	2,697	Cavite	Florida Sun Estate	64	2009 / 2010
Oriental Garden Residences 2 (Cypress)	Mid-market	2,979	2,979	Cavite	Florida Sun Estate	84	2010 / 2011

Ongoing Developments

	Target Market	GFA	GFA Attributable to Fed Land	Location	Master Planned Community	Total no of units	% complete	Construction Commencement/ Expected Completion Date
		(sq. m.)	(sq. m.)					
Bay Garden Club and Residences 2 (Royal Palm)[#]	High-end	23,485	23,485	Pasay City	Metropolitan Park	171	60%	2010 / 2012
Bay Garden Club and Residences 3 (Mandarin)[#]	High-end	17,139	17,139	Pasay City	Metropolitan Park	188	0%	2013 / 2015
Four Season – Riviera 1 (Plum Blossom)	High-end	30,590	27,164	Manila	–	179	50%	2011 / 2013
Riverview Mansion	High-end	31,480	31,480	Manila	–	253	60%	2010 / 2013
Marco Polo Residences 1[#]	High-end	23,936	16,755	Cebu	–	171	8%	2011 / 2013
Marco Polo Residences 2[#]	High-end	32,559	22,791	Cebu	–	277	5%	2011 / 2014
The Grand Midori Makati 1	High-end	39,180	19,433	Makati	–	369	80%	2009 / 2012
The Grand Midori Makati 2	High-end	38,621	19,156	Makati	–	445	25%	2010 / 2013
Parkwest Tower	High-end	60,903	60,903	Fort Bonifacio, Taguig	Bonifacio North CBD	716	20%	2011 / 2015
Oriental Garden Makati 3 (Lilac)	Mid-market	27,817	27,817	Makati	–	576	45%	2011 / 2013
Paseo de Roces 1 (Legaspi)	Mid-market	28,285	25,456	Makati	–	512	0%	2012 / 2015
Peninsula Garden Midtown Homes 2 (Maple)	Mid-market	11,114	11,114	Manila	–	253	0%	2012 / 2013
Peninsula Garden Midtown Homes 3 (Narra)	Mid-market	13,458	13,458	Manila	–	303	0%	2012 / 2014
The Capital Towers 2 (Beijing)	Mid-market	35,892	31,764	Quezon City	–	669	75%	2010 / 2013
Tropicana Garden City 2 (Valderamma)	Mid-market	12,719	12,719	Marikina	Marikina	372	20%	2011 / 2013
Tropicana Garden City 3 (Ibiza)	Mid-market	5,314	5,314	Marikina	Marikina	154	0%	2012 / 2014
Oriental Garden Residences 3 (Acacia)	Mid-market	1,790	1,790	Cavite	Florida Sun Estate	33	0%	2011 / 2012
Axis Residence (Phase 1)	Mid-market	57,607	28,880	Mandaluyong	–	1,832	0%	2012 / 2015
Jacksonville	Mid-market	*	*	Cavite	Florida Sun Estate	*	0%	2011/2012

*Note: * Horizontal development lots only.*
[#] Offer proceeds targeted for use on this project.

High-End Market Projects

Bay Garden Residences

Bay Garden Residences is one of the two residential developments in Metropolitan Park. The Bay Garden Residences are composed of five towers, with a total of 582 residential units. The towers are called Anchor, Boardwalk, Crystal, Mactan and Palawan Towers. The first three towers, Anchor, Boardwalk and Crystal, were developed under a joint venture partnership with Mitsui Japan and Baywatch Realty, while the other two towers, Mactan and Palawan, were 100% owned by Fed Land. Baywatch Realty was acquired by Fed Land in 2006 and was merged into Fed Land in 2010. The residential project includes amenities such as a pool facility, barbeque area, community function rooms and 24-hour security. The Bay Garden Residences is also conveniently located near the shops of Fed Land's Blue Wave Mall. For more information, see "– Commercial Real Estate – Retail Buildings".

Bay Garden Club and Residences

Bay Garden Club and Residences is the second residential development project in Metropolitan Park, the construction of which is currently ongoing. The Bay Garden Club and Residences is comprised of three new towers, the Banyan, Royal Palm and Mandarin Towers, with a total of 489 residential units. Construction of the

Banyan Tower was completed in 2011 while construction of the other two towers is currently on-going. The project is expected to be fully completed by 2015. The residential project includes amenities such as a pool facility, barbeque area, community function rooms and 24-hour security. This project will also feature indoor and outdoor leisure facilities to be made available through club memberships. The clubhouse, daycare center and other common areas were designed by the Gettys Group of Chicago, a leading design firm with expertise in hotel and resorts design. The Bay Garden Club and Residences is also conveniently located near Fed Land's Blue Wave Mall. For more information, see "– Commercial Real Estate – Retail Buildings".

GT Capital Holdings intends to allocate a portion of the net proceeds from the Primary Offer to on-going development activities related to the Bay Garden Club and Residences. For a detailed discussion on the application of the net proceeds, refer to the section titled "Use of Proceeds" in this Prospectus.

Four Season Riviera

The Four Season Riviera is a four-tower residential condominium project situated in the country's China Town, in Binondo, Manila. It is located near commercial institutions, famous landmarks and transportation hubs. The project targets the affluent Filipino-Chinese community as well as Chinese nationals from the mainland who do business in the Philippines. The four towers will share a common podium that will accommodate commercial establishments, parking and amenities. The first tower, Plum Blossom, began selling in 2010 and is scheduled for completion by 2013. The project is adjacent to the Pasig River and features a view of the river. Project amenities on the podium floor include a swimming pool, children's pool, gym and fitness center, jogging path, and multi-purpose hall surrounded by a landscaped garden area. This four-tower project will include approximately 700 residential units. Four Seasons Riviera is a joint venture between Fed Land and Central Realty, the land owner, with ownership interests of 88.8% and 11.2%, respectively.

Riverview Mansion

Riverview Mansion is a stand alone 253-unit residential condominium building located in Binondo, Manila. Fed Land believes that its close proximity to the Binondo central business district makes it an ideal home for second and third generation China Town residents seeking to live close to their families and businesses. The project is conveniently located next to Escolta Street, a major business thoroughfare in Metro Manila. The 32-storey building project overlooks the Pasig River offering residents unobstructed views of the river. This project began construction in 2010 and is scheduled for completion by 2013.

Marco Polo Residences

The Marco Polo Residences will consist of a high-end, five-tower residential complex in Cebu City situated beside the Marco Polo Plaza Hotel, Cebu's only five-star hotel, which is owned and operated by a company belonging to the Ty family. Together with the hotel, this residential complex sits atop a hill, 800 feet above sea level, overlooking Cebu City. It will enjoy a view of the sea, mountains and cityscape. The Marco Polo Residences is the first Marco Polo branded residential development in the Philippines and is designed with five-star hotel-like amenities. Plans for the project include the residents of the development being able to avail themselves of certain hotel services such as food and beverage signing privileges, concierge, laundry services and apartment cleaning services. Excavation for the first two towers began in 2011, with a total of 448 residential units available for sale. This project is a joint venture between Fed Land and Cathay International Resources Corp. with ownership interests of 70.0% and 30.0%, respectively. The first two towers are scheduled for completion by 2013 and 2014.

GT Capital Holdings intends to allocate a portion of the net proceeds from the Primary Offer to on-going development activities related to the Marco Polo Residences. For a detailed discussion on the application of the net proceeds, refer to the section titled "Use of Proceeds" in this Prospectus.

The Grand Midori Makati

The Grand Midori Makati project is a two-tower residential project in Legaspi Village, Makati City, the hub of business, commerce and leisure in Metro Manila. Positioned as a luxury condominium development, The Grand Midori Makati is a Zen-inspired residential enclave with common areas designed by the distinguished Japanese architectural firm Tange Associates. The two towers will have a combined total of 814 high-end residential condominium units. The building will have state-of-the-art amenities and facilities including a Zen garden on every floor and a liquified petroleum gas supply system. This project is a joint venture among Fed Land, ORIX

Risingsun Properties, Inc. ("Orix Risingsun") through FLOC and MBT. FLOC has an ownership interest of 82.7% (effectively, 49.6% for Fed Land and 33.1% for Orix Risingsun) and MBT has a 17.3% interest. The first tower began construction in 2009 and is scheduled for completion by 2012. The second tower began construction in 2010 and is scheduled for completion by 2013.

Parkwest Tower

Parkwest Tower is one of two current developments in Bonifacio North CBD (the other being the Metrobank/Grand Hyatt Project). It is a 41-storey residential tower that had its pre-selling launch in 2011. Parkwest Tower's theme is based on the contemporary elegance of a New York lifestyle. Its location in the fast-growing and progressive Bonifacio Global City, and proximity to the future Grand Hyatt Hotel, have made Parkwest Tower the most successful residential project of Fed Land in terms of sales velocity. This building comprises 716 residential units with commercial and retail facilities at the lower levels. Amenities include a library, game room and swimming pool, among others. The project is situated on a 4,538 sq. m. property owned by Fed Land. The project is scheduled for completion by 2015.

Middle-Market Projects

Tropicana Garden City

Tropicana Garden City is a nine-tower condominium development occupying 27,378 sq. m. of land along Sumulong highway in Marikina City, Metro Manila. This is the second residential cluster in the Marikina master-planned development, the other being the Marquinton Residences. These two residential projects are complemented by a Blue Wave Mall, a supermarket and a BPO office. The Tropicana Garden City development is influenced by Spanish architectural styles. The first three towers, Toledo, Valderamma and Ibiza, began construction in 2009, 2011 and 2012, respectively. Toledo tower finished construction in 2011 and the other two towers are scheduled to be completed by 2013 and 2014, respectively. These three towers will offer 790 of the planned total of 3,095 residential units. Tropicana Garden City will be a mixed-use community that targets middle-market families with features designed to appeal to both children and adults, such as a clubhouse, gym, jogging path, swimming pools, daycare, game room, picnic area, social hall and garden.

The Capital Towers

The Capital Towers is a three tower mixed-use development located on an 8,809 sq. m. property in Quezon City, Metro Manila. Each residential tower comprises a commercial arcade of retail outlets and offices on the lower floors, with residential units on the upper floors. The residences feature amenities such as a swimming pool, jogging path and community function room. The community is located near a major medical center and other commercial and retail outlets in Quezon City. The first tower, the 35-story Athens tower, began construction in 2008 and was completed in 2010. The second tower, Beijing, began selling in 2010 and is scheduled for completion by 2013. The first two towers have a total of 1,114 residential units. This project is a joint venture between Fed Land and MBT with ownership interests of 88.5% and 11.5%, respectively.

Peninsula Garden Midtown Homes

The Peninsula Garden Midtown Homes is a nine-tower, garden-inspired, gated, residential condominium development located in Paco, Manila. The project targets families with children. Its main selling points are safety and security, large open spaces and proximity to schools and places of work. The amenities being offered include swimming pools, garden, day care, library, indoor fitness and game room, multipurpose court, multipurpose hall and clubhouse. The first three towers, Molave, Maple and Narra, began selling in 2009 and 2011, respectively and comprise 792 residential units for sale. Molave was completed in 2011 while Maple and Narra are scheduled for completion by 2013 and 2014, respectively. This project is a joint venture between Fed Land and Fed Land's wholly owned subsidiary, Horizon Land, with ownership interests of 92.8% and 7.2%, respectively.

Marquinton Residences

Marquinton Residences is the first residential cluster developed by Fed Land in Marikina. It comprises three mid-rise residential towers, namely Alicante, Barcelona and Cordova, having a total of 1,136 units. Barcelona and Alicante were completed in 2006 and 2007, respectively, while Cordova was turned over to customers in 2011. The project is a joint venture between Fed Land and Heritage Consolidated Assets, Inc., a company owned by the Ty family, with ownership interests of 90% and 10%, respectively.

The Oriental Place

The Oriental Place is a 35-storey high-rise condominium project located in Makati City, one of Metro Manila's central business districts. The tower comprises 662 units and targets office workers and young families. The project began construction in 2009 and was completed in 2011. This project is a joint venture between Fed Land and MBT with ownership interests of 90.0% and 10.0%, respectively.

Oriental Garden Makati

The Oriental Garden Makati is a three-tower residential condominium project located in Makati City, one of Metro Manila's central business districts. The first two towers, Lotus and Orchid, were completed in 2005 and comprise 767 residential units. Fed Land believes that its proximity to the offices and leisure facilities of Makati has made the project popular with young families and expatriates. Sales for the third tower, Lilac, began in 2009. The Lilac tower comprises 576 residential units and is scheduled for completion by 2013.

Oriental Garden Residences

The Oriental Garden Residences is part of Fed Land's first, master-planned, mixed-use development project in General Trias, Cavite, known as the Florida Sun Estates. Florida Sun Estates community is designed to include commercial establishments, condominiums, townhouses and house and lot packages. The Oriental Garden Residences comprises four low-rise residential condominium buildings with a total of 214 residential units. Bellflower Building was launched in 2008 and was completed in 2010. The second building, Cypress, began selling in 2010 and was completed in 2011. Acacia was launched in 2011 and is expected to be completed by 2012. The fourth building, Aspen, is scheduled for launch in 2012.

Jacksonville

Jacksonville is in the horizontal zone of Florida Sun Estates, the community development project of Fed Land in General Trias, Cavite. It offers 580 lots and house and lot packages targeting the middle income market in Cavite. A typical cut of a lot is 120 square meters. Jacksonville was launched in 2011 and is the first of three phases of the horizontal subdivision segment of the project. The entire subdivision area covers 11.7 hectares of the 18- hectare General Trias development.

Paseo de Roces

Paseo de Roces is a twin-tower development, with approximately 1,044 residential units. It is situated along Chino Roces Avenue in Makati City, Metro Manila. Each residential tower sits on a common podium designed to provide future residents amenities suitable for rest and recreation such as a meditation garden, theater and entertainment room, garden, outdoor fitness station, reflexology walk, swimming pool, gym and day care center. The project is being marketed as a residential development that provides buyers with the option to convert units into small offices such as health clinics or law firm offices. Its proximity to the Makati central business district is another key feature of the project. The project is a joint venture between Fed Land and MBT, with 90% and 10% ownership interests, respectively.

The first tower, Legaspi Tower, began pre-sales in 2011 and is expected to be completed by 2015.

Axis Residences

The Axis Residences project is located in Mandaluyong, along Edsa, the main road artery of Metro Manila. The total lot area for the project is 21,600 sq. m. with plans for six towers to be developed in two phases. Phase I will include two 42-storey towers occupying an estimated lot area of 12,600 sq. m. The two towers will have 1,832 units combined. Phase II will comprise four towers. The project is located at Pioneer St. Mandaluyong City, near Robinson's Cybergate Complex and Robinson's Forum. Axis Residences is based on a contemporary architectural design and targets office workers and young families. Its key features are its proximity to the business districts of Makati and Ortigas and easy access to transportation hubs. Both residential towers of Phase I will sit on a common podium designed to provide future residents with amenities such as adult and kids' pools with pool deck, function rooms, fitness center and gym, playground, basketball and multipurpose covered court, pavilion, landscaped garden and game room. The first tower of Phase I was launched for pre-selling in 2011. The project is a tri-partite joint venture among Fed Land, Harbour Land Realty & Development Corp. ("HLRDC") and Robinson's Land Corporation, based on a ratio of 25%, 25% and 50%, respectively. HLRDC is a fully-owned subsidiary of Fed Land.

Commercial Developments

Fed Land's commercial developments tend to complement Fed Land's residential offerings by providing a commercial element to its master-planned communities.

Metrobank/Grand Hyatt Project

Fed Land's current commercial development project is the Metrobank/Grand Hyatt Project. The project will occupy 12,984 sq. m. of land located at the 10-hectare property jointly owned by Fed Land and MBT in the fast-growing and progressive Bonifacio Global City. See "– Master-planned Community Developments – Bonifacio North CBD". The Metrobank/Grand Hyatt Project is a mixed-use development which is expected to consist of premium office floors, a luxury Grand Hyatt Hotel, and first-class branded residential apartments sharing a common podium that will be occupied by high-end retail establishments. The project will have two towers. The first tower will be a 66-storey structure and is envisioned to be the country's tallest mixed-use building. The building's lower half will be dedicated to office floors for sale or long-term lease. A significant number of floors are currently being offered for sale to MBT. The upper half of the building is expected to be occupied by the Grand Hyatt Hotel. The hotel will have 441 rooms, a coffee shop and specialty restaurants, a large ballroom and function rooms and fitness facilities including a pool, gym and spa. Fed Land has entered into a management services agreement with Grand Hyatt Hotel to manage the hotel for a period of 20 years.

The second tower is expected to comprise a 45-storey first class residential building that will offer 248 apartment units, with a total saleable area of 39,271 sq. m. Fed Land is currently in discussions with a leading international hotel group to use its brand name for the residential building. The Metrobank/Grand Hyatt Project is being developed by Fed Land in a joint venture with Orix Risingsun II, a company controlled by Orix. The joint venture development is being undertaken by Bonifacio Landmark Realty and Dev. Corp. (formerly Morano Holdings Corporation) which is the joint venture entity that is owned by Fed Land and Orix Risingsun II, based on an ownership interest of 70% and 30%, respectively. Fed Land has assigned to Bonifacio Landmark Realty and Development Corporation the management services agreement executed with Grand Hyatt Hotel.

GT Capital Holdings intends to allocate a portion of the net proceeds from the Primary Offer to both on-going and future development activities related to the Metrobank/Grand Hyatt Project. For a detailed discussion on the application of the net proceeds, refer to the section titled "Use of Proceeds" in this Prospectus.

Commercial Real Estate

Fed Land has a portfolio of commercial buildings and properties that include office properties and retail outlets that Fed Land leases to tenants. Fed Land is also the property manager for these projects. The leases and management fees provide Fed Land with recurring income that enhances its revenues and strengthens its cash flows. Fed Land intends to increase its recurring income with the leasing and management of its ongoing commercial developments once they are completed.

Retail Buildings

Fed Land has developed, owns and operates retail properties in Pasay City and Marikina City under the "Blue Wave" brand name. These malls were developed by Federal Brent Retail, Inc., a joint venture between Fed Land and Mr. Edward William Tan, a businessman involved in petroleum distribution, with ownership interests of 51.66% and 48.34%, respectively.

Details for these retail properties are set out in the table below.

	Leasable area	Revenue for the year ended December 31, 2011	No. of tenants in 2011
	(sq. m.)	(₱ millions)	
Blue Wave – Metropolitan Park	6,272	59.6	48
Blue Wave – Marikina City	12,956	60.6	71

Blue Wave – Metropolitan Park started operations in September 2003. It is a complex of one and two storey buildings that house retail and dining facilities and a major Petron Corporation ("Petron") gasoline station. The complex occupies 27,000 sq. m. of land that is leased from a company owned by the Ty family. It houses 48 retail and dining establishments catering to the mid-market. The complex was, as of December 31, 2011, 99% occupied. Its tenants include Starbucks, Kentucky Fried Chicken, Jollibee, Pizza Hut, Pancake House and Gerry's Grill. The retail and dining establishments are built around a center courtyard that offers music and entertainment in the evenings.

Blue Wave – Marikina City started operations in May 2005. It comprises two buildings. The first building is a three-storey mall that houses 77 retail and dining establishments, an events venue and four cinemas with a capacity of 300 persons each and was, as of December 31, 2011, 93% occupied. Its current tenants include Starbucks, Kentucky Fried Chicken, Shakey's Pizza Parlor, Mang Inasal, Yellow Cab, Max's Chicken, Jollibee and Watson's department store. The complex has a Petron gasoline station. The second building is a two-storey structure located across the road from the first building. The ground floor is being leased to Robinsons' Supermarket while the second floor is being leased to a BPO Office. In addition, it has seven retail stalls at street level.

Leases at the Blue Wave Malls are typically for periods ranging from two to five years, covered by lease agreements that generally require tenants to supply a three-month security deposit. Rent is based on a percentage of sales in addition to a fixed minimum base. As of December 31, 2011, 30% of Blue Wave Malls' retail leases were scheduled to expire within one year and most of these leases are currently being reviewed. The following table sets out the lease expiration profile for the Blue Wave retail spaces.

	% of total number of leases		% of total leasable area	
Expiration term (from December 31, 2011)	Blue Wave – Metropolitan Park	Blue Wave – Marikina City	Blue Wave – Metropolitan Park	Blue Wave – Marikina City
0-12 months	52%	67%	14%	52%
13-24 months	13%	23%	3%	44%
25-36 months	4%	6%	32%	3%
Over 36 months	31%	4%	50%	1%

As of December 31, 2011, the vacancy rates for Blue Wave – Metropolitan Park and Blue Wave – Marikina City were 1% and 7%, respectively.

Office buildings

The major office properties that generate lease income for Fed Land are the GT Tower International and the Philippine AXA Life Centre, in which Fed Land owns two floors and eight floors, respectively. Both are high rise office buildings located in Metro Manila's Makati central business district.

Fed Land owns two floors at the GT Tower International, with a total floor area of 2,415 sq. m. One floor is used as Fed Land's principal headquarters, measuring 1,168 sq. m. The other floor is rented to FMIC, a 98.1% subsidiary of MBT, on an arm's length basis, based on a floor area of 1,247 sq. m. The total annual revenue from the GT Tower International in 2011 amounted to ₱17.0 million.

The office property at Philippine AXA Life Centre measures 7,479 sq. m. of floor area, comprising of 26 units. The units are owned by Horizon Land, a wholly owned subsidiary of Fed Land. As of December 31, 2011, there are 21 tenants generating annual lease revenue of ₱27.3 million.

Leases at the Philippine AXA Life Centre are typically for periods ranging from three to five years and generally require tenants to supply a three-month security deposit. Rent is paid on a fixed per sq. m. basis. Lease contracts also provide for a pre-agreed annual increase over the term of the lease. As of December 31, 2011, approximately 60% of Fed Land's office leases at the Philippine AXA Life Centre were scheduled to expire within one year and most are currently being reviewed for contract renewal. Fed Land believes there is a high demand in the market for office space in the Makati central business district. The following table sets out the lease expiration profile for office spaces at the Philippine AXA Life Centre.

Expiration term (from December 31, 2011)	% of total number of leases	% of total leasable area
0-12 months	60%	32%
13-24 months	15%	8%
25-36 months	10%	4%
Over 36 months	15%	56%

As of December 31, 2011, the vacancy rate for the Philippine AXA Life Centre was 2%.

Future Developments

Bonifacio Global City, Taguig

Fed Land believes the Parkwest Tower in Bonifacio North CBD was a success, so Fed Land intends to proceed with a follow-up tower, the One Bloomberg Place in 2012. This will be followed by the third tower of the series to be called One Liberty Place. Both towers are currently envisioned to be 50-storey buildings offering 896 residential condominium units each. The planned saleable area of each building is 37,665 sq. m.

GT Capital Holdings intends to allocate a portion of the net proceeds from the Primary Offer to both on-going and future development projects within the Bonifacio North CBD area. For a detailed discussion on the application of the net proceeds, refer to the section titled "Use of Proceeds" in this Prospectus.

Cebu

Fed Land believes the first two towers under the Marco Polo Residences brand were a success, so Fed Land has scheduled to launch the third tower in the first half of 2012. The tower, to be named Marco Polo Parkview, is expected to have 28 floors and offer 290 units with a total saleable area of 20,940 sq. m. The fourth and fifth towers will be named Marco Polo Seaview and Marco Polo Parkplace, respectively, and are expected to be launched when the preceding towers have achieved a certain pre-determined sales level. Marco Polo Seaview is expected to be a 28-story building and offer 276 units with a total saleable area of 17,550 sq. m. Marco Polo Parkplace, the fifth and last tower, is expected to be a 25-storey building and offer 270 residential units with a total saleable area of 18,800 sq. m. As in the case of the first two towers, the last three towers are expected to enjoy views of metropolitan Cebu and Cebu Harbor.

GT Capital Holdings intends to allocate a portion of the net proceeds from the Primary Offer to on-going and future development activities related to the Marco Polo Residences. For a detailed discussion on the application of the net proceeds, refer to the section titled "Use of Proceeds" in this Prospectus.

Biñan, Laguna

Ty family companies own a 108-hectare parcel of undeveloped land in Biñan, Laguna, of which 43.5 hectares is owned by Fed Land and its subsidiaries. The property is located across the fully operational Laguna Technopark in a fast-growing area that is being developed as an integrated community comprising residential, commercial and institutional establishments. The more prominent projects in the area are Nuvali and Ayala Westgrove Heights developed by Ayala Land, Inc., South Forbes developed by Cathay Land, Inc. and Greenfield City developed by the Greenfield Development Corp. These developments offer residential lots and house and lot packages to the high and mid-markets. Fed Land is preparing a master plan to develop the 108-hectare parcel into an integrated community that will complement the surrounding developments. Fed Land envisions a community that comprises high and middle income subdivisions, complemented by commercial and institutional establishments such as schools and health care facilities. The residential subdivisions are expected to offer lots only as well as house and lot packages, and provide vast open spaces and extensive recreational amenities for residents. The project is currently targeted to be launched in 2013.

Multinational, Parañaque

Ty family companies own 19 hectares of land in Multinational Subdivision, Parañaque City. The Multinational subdivision is a sprawling, gated residential subdivision located ten minutes from the Ninoy Aquino International Airport Terminal One. Its residents are typically middle-income and are organized in the form of a residents' association that oversees the maintenance, security and upkeep of the subdivision. The 19-hectare undeveloped property of the Ty family is situated inside this subdivision. Fed Land is currently preparing a master plan to develop the property into residential lots, house and lots and mid-rise condominiums that will complement the existing residential structures in the subdivision. The timetable for launch has been tentatively scheduled for 2014.

Quezon City/San Juan City/Marikina City

The third and last tower of the Capital Towers in Quezon City is expected to be launched in 2012. This tower, named Rio, is expected to offer 538 condominium units with a total saleable area of 19,854 sq. m.

Fed Land is expected to launch a residential condominium tower in N. Domingo Street, San Juan City. The land is currently owned by Topsphere Realty Dev't. Company, Inc., one of the property holding companies of the Ty family. The building, to be named One Xavier Mansion, is expected to have 34 floors and offer 250 residential condominium units with a saleable area of 15,800 sq. m. The project is expected to target the upper middle market and is expected to be launched in 2013.

Tropicana Garden City in Marikina is designed to offer nine residential condominium towers, of which three have already been launched, namely Toledo, Valderama and Ibiza. The next six towers are expected to be named Zaragosa, Madrid, Andalucia, Segovia, Catalonia and Seville and are expected to be launched when the preceding towers have attained a certain pre-determined level of pre-sales. These last six towers are expected to offer a total of 1,947 residential condominium units with total saleable area of 54,994 sq. m.

Manila Area

Peninsula Garden Midtown Homes, located in Paco, Manila, is envisioned to be a nine-tower residential community. The first tower, Molave, has already been completed and is in the process of being turned over to buyers. The second tower, Maple, is currently under construction while the third tower, Narra, is currently in the pre-selling stage. The fourth tower, to be named Mandarin, is expected to be launched in the first half of 2012 while the last four towers, to be named Tamarind, Magnolia, Mimosa and Mahogany, are expected to be launched when the preceding towers have attained a certain pre-determined level of pre-sales. The last five towers are expected to offer a total of 1,239 condominium units with a total saleable area of 45,883 sq. m.

The Four Season Riviera in Binondo, Manila is designed to be a four-tower residential development sitting on a common retail podium. The first tower, Plum Blossom, is currently under construction. The succeeding three towers are expected to be named Lil, Cher and Moi, and have a total of 179 residential units per tower for a total of 537 units with total saleable area of 61,053 sq. m. The second tower, Lil, is expected to be launched in 2012.

Cavite

Florida Sun Estate, Fed Land's 18-hectare community development in General Trias, Cavite is planning to launch the second phase of its three-phase residential lot and house and lot subdivision within 2012. Continuing on the success of Jacksonville, Fed Land plans to launch Miami in 2012. Miami is designed to offer 163 residential lots with a total saleable area of 22,141 sq. m. The third and final phase of the subdivision project is expected to be named Tampa and is expected to be launched when Miami has attained a certain pre-determined sales level. Tampa is designed to offer 227 residential lots and house and lot packages with a total saleable area of 30,828 sq. m.

Fed Land believes Oriental Garden Residences was a success, so it expects to launch another condominium project in the Florida Sun Estates community to be named Sarasota Garden Villas. This cluster of condominiums is designed to comprise eight low-rise buildings – two 2-storeys, two 3-storeys and four 4-storeys, with a total of 502 residential condominium units. This project is expected to be launched in 2013.

Bay Area, Pasay City

Six Senses Resort ("SSR") is expected to be Fed Land's next landmark undertaking in Metropolitan Park in Pasay City, following what Fed Land believes to be the success of its Bay Garden project. SSR is expected to comprise of six 18-storey buildings with a total of 864 residential condominium units. Surrounding the SSR project will be a plaza with cafes, restaurants and al fresco dining, offering a relaxing natural environment.

SSR residents are expected to be given the privilege to enjoy the facilities of Club Le Pav, an exclusive membership club to be located on the amenity deck of SSR. Club Le Pav is expected to offer a wide array of both indoor and outdoor amenities.

Fed Land also expects to construct the Blue Wave Stripmall along Edsa in Metropolitan Park. The mall is expected to have two floors with a saleable area of 3,000 sq. m. that is expected to house a supermarket, restaurants, cafes and retail shops. This will complement the residential components of Metropolitan Park.

GT Capital Holdings intends to allocate a portion of the net proceeds from the Primary Offer to future development activities within the Metropolitan Park area. For a detailed discussion on the application of the net proceeds, refer to the section titled "Use of Proceeds" in this Prospectus.

LAND BANK

Fed Land's land bank consists of vacant or undeveloped land owned by Fed Land, most of which is in Metro Manila and Biñan, Laguna. As of December 31, 2011, Fed Land directly owned a land bank of approximately 97.4 hectares. In addition to directly acquiring land for future projects, Fed Land has also adopted a strategy of entering into joint venture arrangements with land owners for the development of raw land into future project sites for property development projects. Fed Land has access to additional land owned by the Ty family that frequently is located adjacent to Fed Land properties and that it may acquire directly or develop by future joint venture arrangements.

	Area in hectares		
Location	Total Lot Area	Fed Land Owned	Attributable to Fed Land under Joint Venture
Metro Manila			
Macapagal, Pasay City	7.0	7.0	–
Fort Bonifacio	1.8	1.8	–
Marikina	15.4	15.4	–
Mandaluyong	2.1	2.1	–
Paco, Manila	2.2	2.2	–
Ermita, Manila	0.6	0.6	–
Binondo, Manila	0.9	0.9	–
Makati City	0.4	0.1	0.3
Quezon City	0.5	0.2	0.3
Biñan Laguna	43.5	43.5	–
Sta Rosa Laguna	5.3	5.3	–
Cavite	18.3	18.3	–
Cebu	2.8	0.0	2.8
Total	**100.8**	**97.4**	**3.4**

LAND ACQUISITION

Fed Land sources land for its projects either through direct purchase or through joint venture arrangements primarily with land owners that belong to the Ty family group of companies, most notably, the MBT Group. Fed Land believes that its land bank is sufficient to meet its medium term development plan, but it is constantly looking for opportunities to make strategic land purchases.

PROJECT DEVELOPMENT AND CONSTRUCTION

After Fed Land does a site evaluation and decides to develop a piece of property, Fed Land begins the project development process. The first step in the process is for Fed Land to obtain regulatory approvals and clearances from various Government departments, including the DENR and the DAR, as well as the LGU having jurisdiction over the area where the project will be located. For more information, see "Regulation – Fed Land".

The site development process involves planning the potential project, determining the suitable market segment, master planning and design. Development timetables vary by project, depending on scale and design. Detailed plans require Government approvals and permits. Once a project has received a development permit from the HLURB or the relevant local government unit, Fed Land obtains a certificate of registration and a permit to sell from the HLURB and then pre-sales of residential units as well as initial development work on the project site can begin. Expansion of the project will depend on the sales level. Typically, as one phase is sold, a new phase will begin construction and the process is repeated until project completion.

Fed Land finances project development through a combination of pre-sales, internally-generated funds and borrowings. Fed Land maintains some degree of flexibility in timing the progress of its development projects to match the progress of pre-sales. As a result, the progress of a development is greatly influenced by the level of pre-sales.

To supplement its in-house architects and designers, Fed Land contracts with third-party architects and design experts, including international designers, to help plan its developments.

Site development and construction work for Fed Land's projects is contracted out to various independent contractors. Fed Land retains relationships with approximately 15 to 20 independent contractors. Fed Land is not and does not expect to be dependent on any single or a limited number of suppliers or contractors. Typically, Fed Land enters into fixed price contracts with its contractors, with the cost of materials typically included as part of the contract price. Site development work typically takes three to 12 months depending on the scale and size of the project, while building construction takes 12 to 48 months.

Construction material is usually provided by the contractors in accordance with their contracts and supplier's credit is normally for 60 to 90 day terms.

SALES AND CUSTOMER FINANCING

Buyers of Fed Land's residential projects pay for their purchases in cash or through bank financing or in-house financing.

Cash acquisitions are typically discounted by negotiation to allow for accelerated payment schedules and other bulk payments. This is to encourage buyers to pay upfront for their property acquisition.

Bank financing through mortgage loans is a more typical means of payment than cash purchases. Bank financing is available to buyers who qualify under a particular commercial bank's credit risk criteria. Fed Land has arrangements with several banks for the provision of financing for their purchases. Banks usually take security over the property and sometimes seek repayment guarantees from the Home Guaranty Corporation ("HGC"), a government-owned and controlled corporation that operates as a credit guaranty program in support of the Government's efforts to promote home ownership.

In-house financing refers to Fed Land's internal financing procedures. This is available to select buyers of middle market projects who do not qualify for bank financing because of limited documentation, such as low income workers, OFWs and entrepreneurs. Under its in-house financing program, Fed Land typically finances 70%-80% of the total purchase price of the residential unit being sold. The loans are then repaid through equal monthly installments over periods ranging from five to ten years. The interest rates charged by Fed Land for in-house financing are typically set at approximately 18% per annum, depending on the term of the loan entered into, with the financing agreement providing for an escalation of the interest rate in the event of a general rise in interest rates charged by banks and other financial institutions. Fed Land retains the title to the property until full payment of the loan. If the buyer defaults on payment of its monthly installments, Fed Land has the right to cancel the sale and retain payments made by the buyers, subject to grace periods and refunds, as required by Philippine law. Fed Land plans to further develop its in-house financing capabilities in order to increase its customer base and sales volumes in the low-income, OFW and entrepreneur market.

Fed Land considers a buyer's credit quality by taking reference from the buyer's payment history during the period prior to enrollment in the in-house facility. Delinquencies are controlled by current and existing collection policies and activities implemented to all accounts incurring defaults on their scheduled payments. Delinquency rates, or accounts that are more than 90 days past due, are limited to a maximum of only 15% of the total accounts that availed Fed Land's in-house financing facility.

MARKETING AND SALES

Residential sales

Fed Land's projects are marketed domestically through two subsidiaries, Omni-Orient Marketing Network, Inc. and Fedsales Marketing, Inc. These companies are staffed by a trained group of property consultants and sales specialists that exclusively market Fed Land's projects. There were approximately 473 active property sellers and specialists, with 295 from Fedsales and 178 from Omni, as of December 31, 2011.

Fed Land also engages accredited independent brokers for the Florida Sun Estates project.

International sales and marketing, which primarily target overseas Filipinos, are handled by Fed Land's in-house international sales division based in Manila. Sales in overseas markets are likewise assisted by representative offices in Rome, Italy and Guam, USA. In addition, Fed Land maintains marketing agreements with accredited brokers based in Japan, Korea, Canada, USA, Italy, Spain, U.K. and France to sell Fed Land projects in these areas.

Fed Land has recently instituted a strategy of selling to overseas Chinese, most notably in the cities of Nanjing and Shanghai. Fed Land believes that rising real estate prices in China over the last several years has caused Chinese investors to seek real estate investment opportunities in other Asia-Pacific countries. Given the Philippines' close proximity to China, favorable visa programs and large Filipino-Chinese population, Fed Land believes the Philippines is uniquely positioned to take advantage of this growing demand.

Fed Land conducts advertising and promotional campaigns through the internet and print media, including billboards, flyers, and brochures designed specifically for the target market. Fed Land also maintains a website at www.federalland.com.ph that provides descriptions of, and updates on, current projects. Advertising and promotional campaigns are conceptualized and conducted by Fed Land's marketing personnel and by third party advertising companies.

Local sales account for approximately 90%-95% of Fed Land's total sales, while international sales account for the remaining 5%-10%.

The age range of Fed Land's customers is generally between 31 to 60 years old. Up to 72% of total buyers are professionals or executives who hold middle to upper-middle management positions according to internally generated statistics. The remaining buyers are non-executive employees, OFWs or entrepreneurs.

Commercial leasing

Fed Land relies primarily on professional, multinational commercial real estate leasing agents (including, but not limited to Jones Lang LaSalle, CB Richard Ellis and Colliers) to find tenants for its retail and office space.

PROPERTY MANAGEMENT AND AFTER SALES SERVICES

Fed Land attends to its clients' and unit owners' needs through its property management department. The department handles the timely turnover of units to buyers and maintains a customer care hotline for receiving queries and addressing concerns regarding the purchased units. Fed Land's goal is to provide "value for investment" by providing high levels of customer satisfaction and quality service within 24-hours of receipt of customer calls.

In the past, Fed Land has typically appointed professional property management companies to manage individual buildings and handle its maintenance and upgrades, if any. This applies to condominium buildings that Fed Land has completed and are in the process of turning over to the buyers as well as buildings owned by Ty family companies that are for lease. In 2011, Fed Land established its own property management company called Top Leader Property Management Corp. ("TLC") as a fully-owned subsidiary. The intention is to gradually transfer the property management contracts of all Fed Land projects to TLC. This is expected to allow Fed Land to have better control in managing its buildings and ensure that high standards are maintained with respect to service to residents and building maintenance and upgrades. A team of experienced and well-trained building managers, engineers and technicians are deployed in every project from the beginning of the turnover process. Their functional task is to manage day-to-day operations, ensure proper maintenance of the common areas, supervise improvements and provide assistance to the building-related needs of the residents.

In addition to providing property management services, Fed Land also assists condominium buyers by assigning members of its management team to the initial board of directors of the newly set-up condominium association. As soon as the association is prepared to set-up its own board of directors, a general membership meeting is called to conduct an election for the new set of directors to be elected among qualified homeowners. TLC will then report to the newly elected board of directors.

COMPETITION

The Philippine real estate development industry is highly competitive. With respect to township developments in Metro Manila and high rise condominiums, Fed Land's major competitors are Ayala Land, Inc., Megaworld Corporation, Century Properties Group, Inc., SM Development Corporation and DMCI. Fed Land believes that it is a strong competitor in the mid-high end market due to the quality of its products and the materials used in construction and finishing. Fed Land also believes that its association with the MBT Group allows it to reach a wide network of potential customers, including the lucrative overseas-based investor market. For more information, see "– Competitive Strengths – Synergies with affiliates under the GT Capital group".

RESEARCH AND DEVELOPMENT

Fed Land's research and development activities focus on construction materials, engineering and sales and marketing research. Fed Land does not consider the expense for such research and development activities to be material.

INSURANCE

During construction and development, each project is insured under the policies of the primary contractor. When Fed Land assumes control of the development following the completion of the project, it will insure the project until it is transferred to the control of the managing condominium corporation. Fed Land insurance covers both real and personal property, as required under Philippine law. Its policies are subject to customary deductibles and exclusions and include coverage for, among other things, buildings and improvements, machinery and equipment, furniture, fixtures and fittings against damage from fire and natural perils, machinery breakdown, third-party liability to the public and construction works. Fed Land does not carry business interruption insurance.

PROPERTIES

Land Bank

Fed Land Owned Land	(in hectares)	Location	Condition	Lien/Encumbrance/Restrictions
Macapagal	6.0	Pasay City	Real Estate	6.0 has Clean Title; with ATO height restrictions
Macapagal	1.0	Pasay City	Real Estate	1.0 has with encumberance; with ATO height restrictions; under MTI mortgaged to secure the loan with MBTC
Fort Boni Taguig	1.8	Taguig	Real Estate	Clean Title; with Floor Area Ratio of 10
Marikina	15.4	Marikina	Real Estate	Clean Title
Mandaluyong	2.1	Mandaluyong	Real Estate	Clean Title
Paco Manila	2.2	Paco Manila	Real Estate	Clean Title
Ermita, Manila	0.6	Ermita, Manila	Real Estate	Clean Title
Binondo, Manila	0.9	Binondo, Manila	Real Estate	Clean Title
Makati City	0.1	Makati City	Real Estate	Clean Title
Quezon City	0.2	Quezon City	Real Estate	0.2 has with encumberance; under MTI mortgaged to secure the loan with Chinabank
Biñan Laguna	43.5	Biñan Laguna	Real Estate	Clean Title
General Trias Cavite	18.3	General Trias Cavite	Real Estate	Clean Title
Sta Rosa Laguna	5.3	Sta Rosa Laguna	Real Estate	Clean Title
Total (in hectares) – Owned	97.4			
With Option Purchase Agreement				
Pasay City	7.8	Pasay City	Real Estate	
Biñan, Laguna	63.6	Biñan, Laguna	Real Estate	
Mandaluyong City	3.4	Mandaluyong City	Real Estate	
Lease Option Purchase	74.8			

Office Properties

The major office properties that generate lease income for Fed Land are the GT Tower International and the Philippine AXA Life Centre, in which Fed Land owns two floors and eight floors, respectively. Both are high-rise office buildings located in Metro Manila's Makati central business district.

Fed Land owns two floors at the GT Tower International, with a total floor area of 2,415 sq. m. One floor is used as Fed Land's principal headquarters, measuring 1,168 sq. m. The other floor is rented to FMIC, a 98.1% subsidiary of MBT, on an arm's length basis, based on a floor area of 1,247 sq. m.

The office property at Philippine AXA Life Centre measures 7,479 sq. m. of floor area, comprising 26 units. The units are owned by Horizon Land, a wholly owned subsidiary of Fed Land. Leases at the Philippine AXA Life Centre are typically for periods ranging from three to five years and generally require tenants to supply a three-month security deposit. Rent is paid on a fixed per sq. m. basis. Lease contracts also provide for a pre-agreed annual increase over the term of the lease. As of December 31, 2011, approximately 60% of Fed Land's office leases at the Philippine AXA Life Centre were scheduled to expire within one year and most are currently being reviewed for contract renewal.

The office property at Philippine AXA Life Centre is included in the Mortgage Trust Indenture ("MTI") agreement with MBTC Trust Banking Group and is used to secure a Horizon Land loan with China Bank.

Currently, there is no plan to acquire new property outside of the current landbank. Any additional land which may be added to the inventory will be the result of joint ventures with other members of the GT Capital group or through the execution of existing option agreements.

INTELLECTUAL PROPERTY

Fed Land has intellectual property rights on the use of the various trademark and names for its development projects, including Oriental Garden Residences, Oriental Gardens Makati, Marquinton Residences, Bay Gardens, Blue Wave at Metropolitan Park and Blue Wave at Marikina City. Most of Fed Land's projects have been issued a Certificate of Registration by the Intellectual Property Office. Fed Land believes that its trademark and the names of its development projects play a significant role in its effort to create brand recall and strengthen its position in the real estate industry.

Fed Land has applications pending for intellectual property rights relating to its various development and projects. Several applications have already been processed but await the release of the certificate of registration from the Philippine Intellectual Property Office. Among the project names currently submitted for certification include: FEDS City, Four Season Riviera, Shanghai Gardens, The MET, Embarcadero, my HOBS, Six Senses Resort, The Big Apple, One Xavier Mansion, Marco Polo Parkview and Very Town Fort, among others.

EMPLOYEES

The following table provides a breakdown of Fed Land's employees for the periods indicated. Operational employees include project managers and designers. Technical employees include engineers and architects. Administrative employees include human resources, accounting and information technology staff.

	As of December 31,		
	2009	2010	2011
Operations	65	71	76
Technical	15	27	32
Administrative	75	83	94
Total	**155**	**181**	**202**

Fed Land does not expect a significant increase in the number of its employees in 2012, despite the increasing number of projects being undertaken.

Fed Land has no collective bargaining agreements with its employees and none of its employees belong to a labor union. Fed Land does not have employee stock option plans.

Fed Land recruits its employees through on-campus recruitment, job-fairs, and job-posting through newspaper ads and internet postings. Staff and office managers receive skills development through in-house development training programs, as well as professional training. The training programs are designed to increase their effectiveness at their current assignments and prepare them for future roles. Fed Land also identifies candidates with leadership potential for executive and leadership training programs, for the enhancement of functional, behavioral, and technical expertise. Annual employee performance and appraisal reports are conducted at the end of every year. Fed Land currently has no plans of hiring additional employees, except where necessary to complement its commercial lending, business intelligence, product development, customer service, sales, administration, business development, and for expansion and diversification.

LEGAL PROCEEDINGS

Fed Land is not involved in legal actions which would have a material adverse effect in its operations and financial position, operating results or cash flows.

REGULATION – Fed Land

As a general rule, ownership of private lands in the Philippines is reserved for Filipinos. The 1987 Constitution of the Republic of the Philippines limits ownership of land to Filipino citizens or corporations where at least 60% of the capital stock is owned by Filipino citizens, with the exception of:

(a) a natural-born citizen of the Philippines who has lost Philippine citizenship may be the transferee of private land subject to limitations as provided by law; and

(b) in case of hereditary succession.

Real estate developments in the Philippines are governed primarily by these laws: Presidential Decree No. 957 otherwise known as "The Subdivision and Condominium Buyers' Protective Decree", as amended; BP 220; Republic Act No.4726 or the "Condominium Act", as amended; Republic Act No. 6552 and relevant provisions of the Civil Code. These laws primarily cover the rights, obligations and regulates the relationship of buyers, sellers and developers.

PD 957 mandates that the National Housing Authority ("NHA") shall have the exclusive jurisdiction to regulate real estate trade and business in the Philippines. At present, NHA is the government agency mandated to engage in housing production for low income families. The HLURB is the government agency tasked to ensure the "rational land use and sustainable urban and regional development" and to implement laws and regulations with respect to real estate service. The HLURB exercises a quasi-judicial function as it can investigate and adjudicate complaints filed before it for violation of regulations issued by HLURB.

The Implementing Rules and Regulation for PD 957 provides that application for approval of subdivision plans shall be filed with the HLURB or the LGU concerned and all condominium plans must be submitted with the HLURB for approval. Approval of such plans is conditional on, among other things, the developer's financial, technical and administrative capabilities. Alterations of approved plans which affect significant areas of the project, such as infrastructure and public facilities, also require the prior approval of the relevant government body or agency.

The development of subdivision and condominium projects can commence only after the relevant government bodies have issued the required development permit. The issuance of a development permit is dependent on, among other things: (i) compliance with required project standards and technical requirements which may differ depending on the nature of the project and (ii) issuance of the barangay clearance, the locational clearance, DENR permits and DAR conversion or exemption orders, if required.

A registered owner or developer of a parcel of land who wishes to convert the same into a subdivision project shall apply with the LGU concerned for the approval of subdivision Development Permit ("DP"). The owner/developer shall subsequently apply for a Certificate of Registration ("CR") and License to Sell ("LS") with HLURB prior to the selling of units/house or lots.

An owner/developer of a condominium project is required to apply for a DP, CR and LS with the HLURB prior to actual development and selling of units therein.

As a requisite for the issuance of a license to sell by the HLURB, developers are required to file with the HLURB, HLURB-accepted forms to guarantee the construction and maintenance of the roads, gutters, drainage, sewerage, water system, lighting systems, and full development of the subdivision or condominium project and compliance with the applicable laws, rules and regulations. Approval of the above permits requires compliance with all relevant laws and regulations, including the Building Code with respect to buildings covered by the condominium plans and securing the necessary permits such as building permit, locational clearance and an ECC.

Real estate dealers, brokers and salesmen are also required to register and secure a certificate of registration with the HLURB before they can sell lots or units in a registered subdivision or condominium project. The certificate of registration will expire on the first day of December of each year.

Project permits and licenses to sell may be suspended, cancelled or revoked by the HLURB, by itself or upon a verified complaint from an interested party, for reasons such as involvement in fraudulent transactions, misrepresentation about the subdivision project or condominium project in any literature which has been distributed to prospective buyers. A license or permit to sell may only be suspended, cancelled or revoked after a notice to the developer has been served and all parties have been given an opportunity to be heard in compliance with the HLURB's rules of procedure and other applicable laws.

There are essentially two different types of residential subdivision developments, which are distinguished by different development standards issued by the HLURB. The first type of subdivision, aimed at low-cost housing, must comply with BP 220 which regulates the development and sale of real property as part of a condominium project or subdivision, which allows for a higher density of building and relaxes some construction standards. Other subdivisions must comply with PD 957, which sets out standards for lower density developments. Both types of development must comply with standards regarding the suitability of the site, road access, necessary community facilities, open spaces, water supply, the sewage disposal system, electrical supply, lot sizes, the length of the housing blocks and house construction.

Under current regulations, a developer of a residential subdivision, with an area of one hectare or more, is required to reserve at least 30% of the gross land area of such subdivision for open space for common uses, which include roads, parks, playgrounds and recreational facilities.

If the owner or dealer is a corporation, it is sufficient cause for cancellation of registration certificate or license to sell if any officer or director of such corporation has been guilty of any act or omission which would be cause for refusing the registration of an individual dealer, broker, salesman as provided in P.D. 957.

Section 18 of PD 957 prohibits the owner or developer to mortgage on any unit or lot without prior written approval by NHA, which approval shall be granted if it is shown that the mortgage loan shall be used for the development of the project and effective measures are in place to ensure such utilization.

The law requires that title to the lot or unit shall be delivered to the buyer upon full payment thereof.

Relief under the law in favor of buyer:

(1) PD 957 prohibits forfeiture in favor of owner or developer of any installment made by the buyer in a project, when the buyer after due notice to owner or developer desists from further payment due to the failure of the owner or developer to pursue the approved project plans within the time limit for complying the same. The buyer in this case has the option to be reimbursed the total amount paid including amortization interest but excluding delinquency interests, with interest at the legal rate.

(2) Republic Act No. 6552 provides in cases of transactions involving the purchase of residential real estate on installment basis where the buyer has paid at least two years of installments, the buyer is entitled to the following rights, in case he defaults in the payment of succeeding installments:

(a) to pay, without additional interest, the unpaid installments due within the total grace period for every one year of installment payments made; provided, that this right shall be exercised by the buyer only once in every five years of the life of the contract and its extensions, if any;

(b) if the contract is cancelled, the seller shall refund to the buyer the cash surrender value of the payments on the property equivalent to 50% of the total payments made and, after five years of installments, an additional 5% every year but not to exceed 90% of the total payments made; provided that the actual cancellation of the contract shall take place 30 days after receipt by the buyer of the notice of cancellation or the demand for rescission of the contract by a notarial act and upon full payment of the cash surrender value to the buyer.

Down payments, deposits or options on the contract shall be included in the computation of the total number of installment payments made.

In addition to the foregoing, the law provides that in case less than two years of installments were paid, before the seller can cancel the contract, it must first give the buyer not less than 60 days grace period from the date the unpaid installment became due and provide 30 days' prior written notice to buyer of the cancellation of contract for failure to pay despite the grace period provided. The buyer is likewise given the option to assign the contract to another person or to reinstate the contract by updating the account during the grace period and before cancellation of contract.

Condominium Act

Republic Act No. 4726, as amended, defines a condominium as an interest in real property consisting of separate interest in a unit in a building and an undivided interest in common in the land on which it is located and in other common areas of the building. Title to the common areas and in the land may be held by a corporation specifically formed for the purpose, called the "condominium corporation" in which those who have separate interest shall automatically be members of such corporation, exclusively, in proportion to the appurtenant interest of their respective units in the common areas.

Thus, any transfer of a unit or space in a condominium shall include the transfer of such undivided interest in the common areas.

However, if the common area in the project are owned by owners of separate units as co-owners, no condominium unit shall be conveyed to persons other than Filipino citizens or corporation at least 60% of the capital stock belongs to Filipinos, except in cases of hereditary succession. In case of a corporation-owner of a unit, no transfer of a unit can be valid if the transfer of the membership shall result in an increase in foreign equity in excess of limits provided by law.

Socialized Housing

Republic Act No. 7279 or the Urban Development and Housing Act of 1992 mandates that developers of proposed subdivision projects develop an area for socialized housing equivalent to at least 20% of the total subdivision area or total subdivision project cost, at the option of the developer, within the same city or municipality, whenever feasible, and in accordance with the standards set by the HLURB and other existing laws.

The requirement by law for developers may also be complied through any of the following: "(a) development of new settlement; (b) slum upgrading or renewal of areas for priority development either through zonal improvement programs or slum improvement and resettlement programs; (c) joint-venture projects with either the LGUs or any of the housing agencies; or (d) participation in the community mortgage program.

The law provides for the following incentives to the private sector who participates in socialized housing:

(a) tax credit equivalent to the actual non-recoverable expenses incurred by those who voluntarily provided resettlement sites to illegal occupants.

(b) exemption from the payment of the following: (i) project-related income taxes; (ii) capital gains tax on raw lands use for the project; (iii) value-added tax for the project concerned; (iv) transfer tax for both raw and completed projects; and (v) donor's tax for both lands certified by the LGUs to have been donated for socialized housing purposes.

The law likewise provided for "socialized housing tax" by giving authority to all LGUs to impose an additional 0.5% tax on the assessed value of all lands in urban areas in excess of ₱50,000.

Certain low-income housing or projects are financially assisted by the Government. These policies and programs may be modified or discontinued in the future. The Government may also adopt regulations which may have the effect of increasing the cost of doing business for real estate developers. Under current law, income derived by domestic corporations from the development and sale of socialized housing which currently, among other things, must have a basic selling price of no more than ₱400,000.00, is exempt from project-related income taxes. In addition, pursuant to BIR Revenue Regulations No. 16-2011, sales of residential lots with a gross selling price of ₱1,919,500 or less, and residential house and lots with a gross selling price of ₱3,199,200 or less, where the instrument of sale, transfer or disposition was executed on or after July 1, 2005 are not subject to VAT (See "– Taxation"). Under the 2010 Investment Priorities Plan issued by the Philippine Board of Investments ("BOI") and approved by the President on April 30, 2010, mass housing projects including development and fabrication of housing components, are eligible for government incentives subject to certain policies and guidelines.

Executive Order No. 45 prescribes a specific period for a government agency and the LGUs to act on application for certifications, clearances and permits for housing projects. It also provides an option for the applicant-developer where the government agency or LGU refuses or fails to dispose an application for said housing permit, in which case an affidavit may be submitted with supporting technical studies and documents, in lieu of the certification, clearance or permit.

Shopping malls

Shopping mall centers are regulated by the LGU of the city or municipality where the establishment is located. In line with this, mall operators must secure the required mayor's permit or municipal license before operating. In addition, no mall shall be made operational without complying first with the provisions of Republic Act No. 9514, otherwise known as the Fire Code and other applicable local ordinances. Furthermore, shopping malls with food establishments must obtain a sanitary permit from the Department of Health. It is also compulsory for shopping malls discharging commercial wastewater to apply for a wastewater discharge permit from the DENR and to pay the fee incidental to the permit.

As a tourism-related establishment, shopping malls may obtain accreditation from the Department of Tourism. A shopping mall can only be accredited upon conformity with the minimum physical, staff and service requirements promulgated by the Department of Tourism.

Zoning and Land Use

Under the agrarian reform law currently in effect in the Philippines and the regulations issued thereunder by the DAR, land classified for agricultural purposes as of or after June 15, 1988 cannot be converted to nonagricultural use without the prior approval of DAR.

Land use may be also limited by zoning ordinances enacted by LGUs. Once enacted, land use may be restricted in accordance with a comprehensive land use plan approved by the relevant LGU. Lands may be classified under zoning ordinances as commercial, industrial, residential or agricultural. While a procedure for change of allowed land use is available, this process may be lengthy and cumbersome.

Environmental Laws

Development projects that are classified by law as environmentally critical or projects within statutorily defined environmentally critical areas are required to obtain an ECC prior to commencement. The DENR through its regional offices or through the Environmental Management Bureau ("EMB"), determines whether a project is environmentally critical or located in an environmentally critical area. As a requisite for the issuance of an ECC, an environmentally critical project is required to submit an Environmental Impact Statement ("EIS") to the EMB while a project in an environmentally critical area is generally required to submit an Initial Environmental Examination ("IEE") to the proper DEN Regional office. In the case of an environmentally critical project within an environmentally critical area, an EIS is required. The construction of major roads and bridges are considered environmentally critical projects for which EISs and ECCs are mandatory.

The EIS refers to both the document and the study of a project's environmental impact, including a discussion of the direct and indirect consequences to human welfare and ecological as well as environmental integrity. The IEE refers to the document and the study describing the environmental impact, including mitigation and enhancement measures, for projects in environmentally critical areas.

While the EIS or an IEE may vary from project to project, as a minimum, it contains all relevant information regarding the project's environmental effects. The entire process of organization, administration and assessment of the effects of any project on the quality of the physical, biological and socio-economic environment as well as the design of appropriate preventive, mitigating and enhancement measures is known as the EIS System. The EIS System successfully culminates in the issuance of an ECC. The issuance of an ECC is a Government certification that the proposed project or undertaking will not cause a significant negative environmental impact, that the proponent has complied with all the requirements of the EIS System and that the proponent is committed to implement its approved Environmental Management Plan in the EIS or, if an IEE was required, that it shall comply with the mitigation measures provided therein.

Project proponents that prepare an EIS are required to establish an Environmental Guarantee Fund ("EGF") when the ECC is issued for projects determined by the DENR to pose a significant public risk to life, health, property and the environment or where the project requires rehabilitation or restoration. The EGF is intended to meet any damages caused by such a project as well as any rehabilitation and restoration measures. Project proponents that prepare an EIS are required to include a commitment to establish an Environmental Monitoring Fund ("EMF") when an ECC is eventually issued. In any case, the establishment of an EMF must not be later than the initial construction phase of the project. The EMF shall be used to support the activities of a multi-partite monitoring team which will be organized to monitor compliance with the ECC and applicable laws, rules and regulations.

Aside from the EIS and IEE, engineering geological and geo-hazard assessment are also required for ECC applications covering subdivisions, housing and other land development and infrastructure projects.

All development projects, installations and activities that discharge liquid waste into and pose a threat to the environment of the Laguna de Bay Region are also required to obtain a discharge permit from the Laguna Lake Development Authority.

Property Registration and Nationality Restrictions

The Philippines has adopted the Torrens System of land registration which conclusively confirms land ownership which is binding on all persons, including the Government. Once registered, title to registered land becomes indefeasible after one year from the date of entry of the decree of registration except with respect to claims noted on the certificate of title. Title to registered lands cannot be lost through adverse possession or prescription. Presidential Decree No. 1529, as amended, codified the laws relative to land registration and is based on the generally accepted principles underlying the Torrens System.

After proper surveying, application, publication, service of notice and hearing, unregistered land may be brought under the system by virtue of judicial or administrative proceedings. In a judicial proceeding, the Regional Trial Court within whose jurisdiction the land is situated confirms title to the land. Persons opposing the registration may appeal the judgment to the Court of Appeals within 15 days from receiving notice of judgment. After the lapse of the period of appeal, the Register of Deeds may issue an Original Certificate of Title. The decree of registration may be annulled on the ground of actual fraud within one year from the date of entry of the decree of registration. Similarly, in an administrative proceeding, the land is granted to the applicant by the DENR by issuance of a patent and the patent becomes the basis for issuance of the Original Certificate of Title by the Register of Deeds. All land patents (i.e. homestead, sales and free patent) must be registered with the appropriate registry of deeds since the conveyance of the title to the land covered thereby takes effect only upon such registration.

Any subsequent transfer of encumbrance of the land must be registered in the system in order to bind third persons. Subsequent registration and a new Transfer Certificate of Title in the name of the transferee will be granted upon presentation of certain documents and payment of fees and taxes.

All documents evidencing conveyances of subdivision and condominium units should also be registered with the Register of Deeds. Title to the subdivision or condominium unit must be delivered to the purchaser upon full payment of the purchase price. Any mortgage existing thereon must be released within six months from the delivery of title. To evidence ownership of condominium units, a Condominium Certificate of Title is issued by the Register of Deeds.

While the Philippine Constitution prescribes nationality restrictions on land ownership, there is generally no prohibition against foreigners owning buildings and other permanent structures. However, with respect to condominium developments, the foreign ownership of units in such developments is limited to 40%.

Taxation

Income Tax

As a domestic corporation, Fed Land is subject to the RCIT equivalent to 30% of its taxable income. Taxable income is the company's gross income minus the allowable deductions, exclusions or income exempt from income tax.

In the alternative, a domestic corporation such as Fed Land may be imposed with the MCIT equivalent to 2% of its gross income, when the computed MCIT is greater than the computed RCIT.

However, MCIT may only be imposed on the fourth taxable year immediately following the year in which such corporation commenced its business operation. For this purpose, the commencement of business operation shall be deemed to be the date the company was registered with the BIR.

Value-Added Tax ("VAT")

The sale or lease of subdivision lots and condominium units by Fed Land are subject to the 12% VAT, except for the following transactions which are exempt therefrom:

(a) sale of real properties classified as capital assets (i.e. real property not primarily held for sale or lease to customers in the ordinary course of trade or business);

(b) sale of real properties utilized for low-cost housing as wherein the unit selling price is within the selling price ceiling per unit of ₱750,000 under R.A. 7279 and other related laws;

(c) sale of real properties utilized for socialized housing, as defined under R.A. 7279 and other related laws, wherein the price ceiling per unit is ₱225,000 or as may from time to time be determined;

(d) sale of residential lot valued at ₱1,919,500 and below or house and lot and other residential dwellings valued at ₱3,199,200 and below where the instrument of sale/transfer/disposition was executed on or after January 1, 2012;

(e) lease of residential units with a monthly rental per unit not exceeding ₱12,800, regardless of the amount of aggregate rentals received by the lessor during the year.

Furthermore, Fed Land's real properties initially acquired by a taxpayer engaged in the real estate business shall not result in its conversion into a capital asset even if the same is subsequently abandoned or becomes idle. (BIR Ruling (DA-(C-130) 413-08) dated November 11, 2008).

Local Transfer Tax

Sale, donation, barter or any other mode of transferring ownership or title to real property by Fed Land may be subject to the Local Transfer Tax ("LTT") imposed by the Local Government Code. The rate depends on the province or city tax ordinance. For provinces, the rate shall not exceed 50% of 1% of the higher of the total consideration or FMV. For cities, the rate shall not exceed 75% of 1% of the higher of the total consideration or FMV. *(Sec. 135 & 151, LGC)*

Documentary Stamp Tax

Sale of Fed Land's properties may be subject to DST at the rate of ₱15.00 for each ₱1,000 or fractional part thereof in excess of ₱1,000, or 1.5% of the consideration or fair market value of the properties, whichever is higher, pursuant to Section 196, of the Tax Code.

Real Property Tax

Real properties owned or leased by Fed Land may be subject to the real property tax ("RPT") 2% of the property's assessed value, if imposed by the province and not more than 2%, if imposed by the city based on the city tax ordinance.

Tax relating to Joint Ventures

In specific occasions, the BIR clearly ruled that joint ventures for construction projects would not be subject to the corporate income tax under Section 27 of the Tax Code. However, in the event that the joint venturers would subsequently sell any floors or portions of the floors designated to them to third parties the gain that may be realized by any of them from such sale would be subject to the regular 30% corporate income tax of the seller under Section 27 of the Tax Code and to the appropriate creditable/expanded withholding tax under Revenue Regulations No. 6-85, as amended. (BIR Ruling No. 328-94, November 22, 1994).

SUMMARY – GBP

You should read the following summary together with the more detailed information about GBP and GBP's financial information included elsewhere in this Prospectus. GBP's summary also should be read together with the matters set forth under "Risk Factors – GBP". Additional information on GBP, including corporate structure and segment information, can be found in GBP's consolidated financial statements found in this Prospectus.

OVERVIEW

GBP is a holding company that, through its subsidiaries, is a leading power producer in the Visayas Region and Mindoro Island, with a combined gross dependable capacity of 627 MW (480 MW attributable to GBP, net of minority interests in its subsidiary) comprising 619.5 MW of power supplied to the Visayas grid and 7.5 MW of power supplied to Mindoro Island. GBP is a joint venture among several companies, including FMIC, a subsidiary of MBT, and GBH, a non-affiliated company. GT Capital Holdings holds a 39.0% direct share of GBP, assuming the exercise by GT Capital Holdings of an option to acquire from GBH an additional 4.6% in GBP held by GBH. In consideration of a loan that was granted by GT Capital Holdings to GBH, GBH granted GT Capital Holdings the right, but not the obligation, to acquire additional common shares of GBP held by GBH corresponding to approximately 4.6% of the outstanding capital stock of GBP. The option granted to GT Capital Holdings by GBH may be exercised up to one year from the execution of the Memorandum of Agreement, dated December 27, 2011, which set forth the terms of the option. A portion of the proceeds from the Offer will be used by GT Capital Holdings to exercise the option (see "Use of Proceeds"). GT Capital Holdings is currently in discussions with a third-party for the purchase of additional GBP shares. It is expected that these discussions will result in the increase of the direct holdings of GT Capital Holdings in GBP up to 51% by the end of 2012.

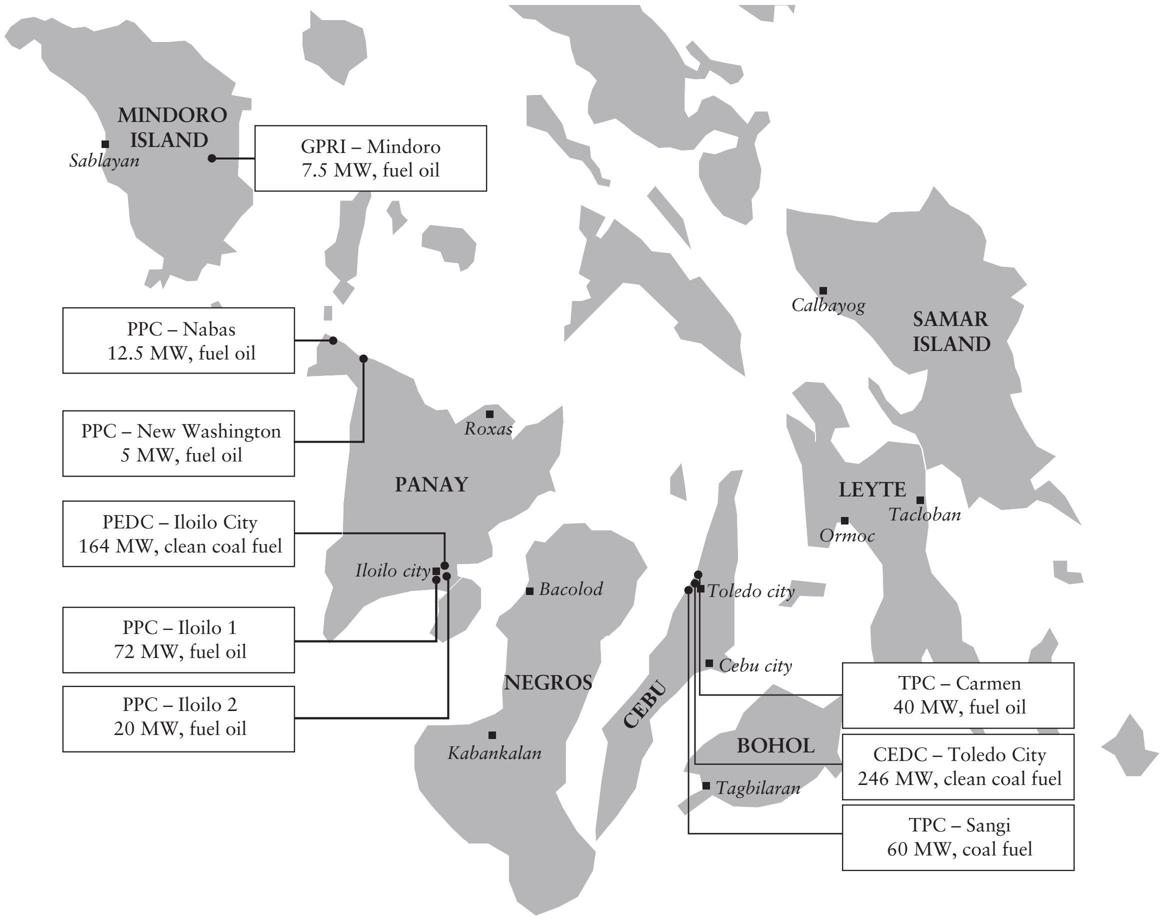
GBP owns nine power generation facilities in the Visayas and Mindoro Island. The largest is the 246 MW-rated clean coal-fired power plant in Toledo City, Cebu, which is operated by CEDC. CEDC is a joint venture between GBP and the Aboitiz Vivant Group, in which GBP holds a 52.1% beneficial interest. This facility is the first commercial clean coal power plant in the Philippines. The second largest power generation facility is the 164 MW-rated, clean coal-fired power plant in Iloilo City, Panay, which is operated by PEDC, in which GBP holds a 89.3% beneficial interest. The CEDC and PEDC projects began commercial operations on February 26 and March 26, 2011, respectively. Both the CEDC and PEDC plants utilize circulating fluidized bed boiler technology that produces very low levels of sulfur dioxide and nitrogen oxide and captures most solid emissions. In 2011, CEDC and PEDC contributed 44.8% and 26.5%, respectively, of GBP's total revenues.

GBP's other power generation facilities consist of a 60 MW coal facility and a 40 MW fuel oil facility operated by TPC, a 72 MW fuel oil facility, a 20 MW fuel oil facility, a 12.5 MW fuel oil facility and a 5 MW fuel oil facility operated by Panay Power Corporation ("PPC"), and a 7.5 MW fuel oil facility operated by GBH Power Resources, Inc. ("GPRI"). TPC is an indirectly wholly owned subsidiary of GBP.

To capitalize on the projected power demand growth in the Visayas and across the Philippines, GBP is considering several new projects, including projects in Luzon and renewable energy projects. In the Visayas, GBP has signed a letter agreement for two additional power projects which are expected to come online in 2014 and 2015. See "Use of Proceeds" and "Management's Discussion and Analysis of Financial Condition and Results of Operations – GBP – Capital Expenditure".

GBP is one of the largest independent power producers in the Visayas region. According to the DOE, the Visayas region has been the fastest growing power grid in the Philippines and annual demand growth is expected to be 4.6% from 2011 to 2030. Due to the increasing demand and the long lead-time of building new facilities, the region is expected to require 350 MW of additional power supply by 2018 according to the DOE's projections. For further information on the power situation in the Visayas, see "Philippine Power Industry Overview".

The map below shows the location of the current power plant operations of CEDC, PEDC, TPC, PPC and GPRI ("the Generation Subsidiaries") in the Visayas and Mindoro Island:



Company/Plants	Effective GBP Ownership (%)	Gross/Net Capacity(1) (MW)	Effective GBP Gross/Net capacity	Contracted Net Capacity (%)
CEDC	52.1	246/216	128/113	83.3
PEDC	89.3	164/144	146/129	77.4
TPC – Sangi	100.0	60/50	60/50	100.0
TPC – Carmen	100.0	40/36	40/36	0.0
PPC – Iloilo 1	89.3	72/69	64/62	21.7
PPC – Iloilo 2	89.3	20/18	18/16	44.4
PPC – Nabas	89.3	13/11	11/10	100.0
PPC – New Washington	89.3	5/4.5	4.5/4	100.0
GPRI	100.0	8/7	8/7	88.2
Total		**627/556**	**480/426**	

Note:

(1) Based on 100% of plants.

GBP's revenues (net fees) were ₱3,876.5 million, ₱4,655.7 million and ₱16,786.1 million in 2009, 2010 and 2011, respectively, with net income of ₱229.6 million, ₱487.2 million and ₱2,229.5 million, respectively. Its total assets amounted to ₱35,517.7 million, ₱55,709.8 million and ₱56,840.8 million as of December 31, 2009, 2010 and 2011, respectively. GBP's principal source of revenue are fees from power.

COMPETITIVE STRENGTHS

GBP believes that its competitive strengths are the following:

- Leading power producer in the Visayas with strategically located generation facilities
- High quality, new and competitive generation assets
- Strong partnerships with key industry leaders
- Diversified power generation facilities
- Long-term power purchase agreements providing stable and predictable earnings
- Synergies with other GT Capital businesses

STRATEGIES

GBP's principal strategies are the following:

- Continue sustainable growth in capacity through greenfield development, plant expansion and acquisitions
- Optimize existing generation assets
- Participate in retail open access

RISK FACTORS – GBP

RISKS RELATING TO GBP'S BUSINESS

If the power off-takers experience financial difficulties or regulatory constraints and are unable to meet, or are late in meeting, their payment obligations to the Generation Subsidiaries, GBP would be materially and adversely affected.

GBP earned 100% of its total revenues in 2010 and approximately 90% of its total revenues in 2011 from its contracted power off-taker customers. These off-takers are committed to pay the Generation Subsidiaries for availability and energy under their respective off-take agreements. GBP expects to continue to receive the majority of its revenues from these off-takers at least until the expiration of their existing off-take agreements.

In addition, the Generation Subsidiaries incur various costs and obligations under contracts with third parties in order to meet their obligations to supply power to the off-takers under the existing electric power purchase agreements ("EPPAs"). These costs and obligations include operations and maintenance costs, costs of fuel and debt service payments. While the EPPAs provide for mechanisms by which these costs and obligations are "passed through" to the off-takers or are otherwise recovered as part of the tariff, and take into account fluctuations in foreign exchange rates that may affect these costs and obligations, the Generation Subsidiaries are still directly obligated to pay for these costs and obligations regardless of whether the off-takers pay under the EPPAs. As these off-takers are the primary source of revenue for the Generation Subsidiaries, they depend entirely on the off-takers' timely payments under the EPPAs to be able to pay for such costs and obligations.

In addition, the off-takers' ability to pay the Generation Subsidiaries in accordance with the terms of their respective off-take agreements depends, in large part, on the distribution utilities' ability to pass on generation costs to customers which are regulated by the ERC. The rates that the distribution utilities charge their customers are intended to cover their generation costs (i.e. the cost of power previously paid by the distribution utilities to their suppliers, IPPs and the National Power Corporation ("NPC"), which includes fuel cost increases, capacity fees, operations and maintenance fees and foreign currency adjustments), transmission costs (i.e., the cost of wheeling power paid to the grid) and distribution costs (i.e., the costs incurred in operating their distribution and supply businesses), as well as a specified return on their distribution and supply businesses. The ability of the distribution utilities to set rates that would allow them to recover the portion of total costs relating to distribution, as well as their ability to earn a specified return on their distribution and supply businesses may be restricted, resulting in the distribution utilities being required to either rollback their rates or maintain existing rates. Insofar as generation costs are concerned, the Generation Subsidiaries have terms built into their EPPAs to adjust their rates for changes in foreign exchange rates and inflation. Changes to rates due to other factors must be approved by the ERC. Distribution utility off-takers are generally able to pass on the generation costs and distribution costs to their customers. If, due to regulatory constraints, off-takers are unable to pass on generation costs in a manner sufficient to cover their obligations under their respective off-take agreements, GBP may be adversely affected.

Although GBP's off-takers have historically met their payment obligations under the off-take agreements, there can be no assurance that they will continue to do so in the future or that they will continue to do so in a timely manner. Any difficulty, inability or delay on the part of the off-takers to meet their payment obligations under the off-take agreements, including payments intended to cover costs for operation and maintenance and debt service, would require each of the Generation Subsidiaries to obtain funds from other sources to meet these obligations. There can be no assurance that such alternative funding would be available, or, if the funding were available, that it would be on commercially reasonable terms. This could materially and adversely affect GBP's business, financial condition and results of operations.

The failure by the Generation Subsidiaries to meet their payment obligations under their contracts with third parties could also lead to the termination of such agreements or constitute an event of default under their loans. This may lead to an acceleration of such loans, which in turn could materially and adversely affect GBP's business, financial condition and results of operations.

For more information, see the sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations – GBP" and "Regulation – GBP" in this Prospectus.

Increased competition in the power industry, including competition resulting from legislative, regulatory and industry restructuring efforts, could have a significant adverse impact on GBP's future operations and financial performance.

In recent years, the Government has sought to implement measures designed to establish a competitive energy market. These measures include the planned privatization of substantially all NPC-owned power generation facilities and all Government-owned and operated transmission facilities. In addition, renewable energy is provided priority dispatch as well as Government incentives, making such forms of energy a competitor against non-renewable forms of energy such as coal and fuel oil. The move towards a more competitive environment could result in the emergence of new competitors. Some of these competitors may have greater financial resources and have more extensive operational experience than GBP, giving them the ability to respond to operational, technological, financial and other challenges more quickly than GBP. These competitors may therefore be more successful than GBP in acquiring existing power generation facilities or in obtaining financing for and the construction of new power generation facilities. The varying types of fuel used by GBP's competitors could allow them to sell electricity at a lower price or, as compared to certain of GBP's existing or future power generation facilities, produce electricity at a lower cost. The impact of this ongoing restructuring of the Philippine power industry may affect GBP's financial position, results of operations and cash flows in a variety of ways. GBP may not be able to compete effectively against its competitors or maintain its market share and profit margins. Failure by GBP to maintain its competitive position could materially and adversely affect GBP's business, financial condition and results of operations.

GBP faces risks relating to its future greenfield development projects, including risks relating to project cost, completion time frame and development rights.

GBP's future plans for the power generation business involve significant risks distinct from those involved in the ownership and operation of established power generation facilities, including the risk that GBP may invest significant time and money in a greenfield power project that may take substantially more time and resources than anticipated or construction of the projects may not be completed on schedule or at all and/or within budget. In addition, GBP may face difficulties obtaining the required government permits and approvals.

The time and costs involved in completing the development and construction of power generation projects can be adversely affected by many factors, including but not limited to shortages of materials, equipment and labor, such as a limited supply of skilled labor, adverse weather conditions, Peso depreciation, natural disasters, labor disputes with contractors and subcontractors, accidents, changes in laws or in government priorities and other unforeseen problems or circumstances. Where land to be used for a project is occupied by tenants and/or squatters, GBP may have to take steps, and incur additional costs, to remove such occupants and, if required by law, to provide relocation facilities for them. Any of these factors could result in project delays and cost overruns, which could negatively affect GBP's business and financial condition. This may also result in sales and resulting profits from a particular power project not being recognized for the year. GBP cannot provide any assurance that such events will not occur in a manner that could materially and adversely affect GBP's business, financial condition or results of operations.

GBP may not successfully implement its growth strategy for the power generation business.

The implementation of GBP's growth strategy for the power generation business may involve: (i) entering into new strategic alliances and partnerships for power projects; (ii) substantial investments in new power generation facilities; and (iii) acquisitions of power generation facilities. GBP's success in implementing this strategy will depend on, among other things, its ability to identify and assess potential partners, investments and acquisitions, successfully finance, close and integrate such investments and acquisitions, and control costs and maintain sufficient operational and financial controls. Historically, the expansion of GBP's business has not resulted in a commensurate increase in the numbers of senior management and officers and, as a result, GBP's growth strategy has placed and will continue to place significant demands on GBP's existing management and other resources, particularly because GBP's power generation business is located in disparate and geographically diverse locations in the Visayas Region and Mindoro Island. GBP's future growth may be adversely affected if it is unable to make these investments or pursue these acquisitions, or if these investments and acquisitions prove unsuccessful.

With regard to potential acquisitions, GBP may not identify suitable investment opportunities, partners or acquisition candidates. Even if GBP does identify suitable investment opportunities, strategic partners or acquisition candidates, it may be unable to negotiate commercially acceptable terms or complete those transactions at all. In addition, GBP may not be successful in the event it attempts to bid for generation facilities being privatized by the Power Sector Assets and Liabilities Management Corporation ("PSALM") or, even if it does submit a winning bid, may not be able to comply with the conditions imposed by PSALM to complete any such acquisition. With respect to GBP's recent and future acquisitions, GBP could have difficulty in integrating these companies' businesses, including personnel, operations, technology and software, with GBP's existing business. In addition, the key personnel of an acquired company may decide not to work for GBP. Any potential acquisition, alliance or joint venture could involve a number of specific risks, including diversion of management's attention, higher costs, unanticipated events or circumstances, legal liabilities, failure of the business of the acquired company, a fall in the value of investments and amortization of acquired intangible assets, some or all of which could materially and adversely affect GBP's business, financial condition and results of operations.

Further, if general economic and regulatory conditions or market and competitive conditions change, or if operations do not generate sufficient funds or other unexpected events occur, GBP may decide to delay, modify or forego some aspects of its growth strategies, and its future growth prospects could be adversely affected.

Significant and unpredictable price fluctuations and other market factors beyond GBP's control could have a material and adverse effect on the future financial performance of GBP.

The operating results of GBP are expected to fluctuate once GBP's existing EPPAs expire and GBP's future power plant projects become operational. Unlike most other commodities, electric power cannot be stored and must be used concurrently with its generation. As a result, power prices are subject to significant volatility from supply and demand imbalances, especially in the forward and spot markets. Long-term and short-term power prices may also fluctuate substantially due to other factors outside of GBP's control, including:

- increases and decreases in generation capacity in GBP's markets, including the addition of new supplies of power from existing competitors or new market entrants as a result of the development of new generation plants or the expansion of existing plants;
- constraints or inefficiencies relating to fuel transportation capacity;
- electricity supply disruptions, including but not limited to plant outages and transmission disruptions;
- weather conditions;
- changes in the demand for power or in patterns of power usage, including but not limited to the potential development of demand-side management tools and practices;
- changes in fuel prices for power generation;
- availability of competitively priced alternative power sources;
- development of new fuels and new technologies for the power generation;
- weather conditions, including natural disasters, wars, embargoes, terrorist attacks and other catastrophic events; and
- changes in regulations and legislation.

GBP cannot be certain that its future power plants and existing power plants, after the expiration of existing EPPAs, will be able to sell any or all of the generated power at commercially attractive rates or that its power plants will be able to operate profitably, resulting in economic losses and liabilities, which could materially and adversely affect GBP's business, financial condition and results of operations.

GBP's financial performance depends on the successful operation of its power generation facilities, which are subject to various operational risks.

Both the cost of operations and the operating performance of GBP's power generation facilities may be adversely affected by a variety of operating factors. For example, the facilities may require unexpected maintenance or replacement, thereby requiring substantial capital expenditure. GBP is exposed to the risk of malfunctions and interruptions in service resulting from events outside of its control, including accidents, natural disasters, defects or failures in machinery or control systems and transmission related disturbances. Any such events could result in economic losses or an increase in GBP's cost of operations. Additionally, service interruptions, malfunctions or other significant events could result in GBP being exposed to litigation, which could result in obligations to pay damages.

There is no assurance that GBP's key equipment or processes will not break down or fail, which may result in the suspension of operations or a shutdown of any of GBP's facilities. GBP may experience a breakdown or failure of power generation equipment, pipelines, transmission lines or other equipment or processes and performance below expected levels of output or efficiency. For example, CEDC's generation was reduced in the first half of 2011 due to transmission line constraints as a result of actions by the National Grid Corporation of the Philippines ("NGCP").

Some of the equipment that GBP uses in its operations are sufficiently large and project-specific so that replacement units may not be readily available. Any extended period of time needed to obtain, manufacture or transport replacement units could give rise to delays in replacement beyond that for which GBP may have purchased insurance coverage for lost revenues. The occurrence or continuance of any of these risks could increase GBP's cost of operating the facilities, reduce the payments due from its customers under the off-take agreements or otherwise materially and adversely affect GBP's business, financial condition and results of operations.

GBP's ability to increase future revenues from power generation depends to a certain extent on the existence of transmission infrastructure with sufficient capacity to transmit the generating capacity of its power plants.

As of the date of this Prospectus, the Philippines' electric transmission infrastructure continues to experience constraints on the amount of electricity that can be transmitted (or "wheeled") from power plants to off-takers. The lack of improvements in transmission infrastructure has primarily been caused by a delay in the privatization of the concession to operate the grids as required under the Electric Power Industry Reform Act of 2001 ("EPIRA"), which in turn has delayed the implementation of projects to be undertaken by the NGCP, the concessionaire, which is responsible for maintaining and ensuring the sufficiency of the power transmission infrastructure in the Philippines. If these transmission constraints continue, the amount of electricity that off-takers, such as NPC, distribution utilities and other large purchasers, dispatch from IPPs could be adversely affected. These transmission constraints could have a negative impact on GBP's ability to increase revenues from its future generation facilities and the Generation Subsidiaries after the expiration of their respective off-take agreements.

Payments by the bilateral off-takers to the Generation Subsidiaries, which have historically accounted for most of GBP's revenues, will cease at the expiration or pre-termination of the Generation Subsidiaries' respective EPPAs, and GBP may be unable to sign new off-take agreements or generate income from its other projects to offset the decline in income at the expiration of these agreements.

In 2009, 2010 and 2011, approximately 100%, 100% and 90%, respectively, of GBP's total revenue came from payments by bilateral off-takers to the Generation Subsidiaries. Under the terms of the respective EPPAs, VECO, PECO and MEPZ provided the largest component of the payments from the off-takers to the Generation Subsidiaries. The EPPAs may be pre-terminated by the off-taker in the event of (i) unexcused or willful failure of the Generation Subsidiary to comply with its obligations under the EPPA; (ii) inability of the power facility to generate electricity for a period of 180 consecutive days; or (iii) prolonged force majeure affecting the ability of the generation facility to deliver power. There are a limited number of potential off-takers available in the Generation Subsidiaries' markets and there can be no assurance that GBP will be able to secure new off-takers if the existing EPPAs are pre-terminated or expire. The elimination of the Generation Subsidiaries' off-take agreements, either through expiration or pre-termination, could materially and adversely affect GBP's business, financial condition and results of operations.

The failure of the Generation Subsidiaries and GBP's future power plants to obtain fuel in the future at commercially reasonable prices may materially increase costs and adversely affect GBP's business.

Under the existing off-take agreements of the Generation Subsidiaries, fuel costs are passed through to the off-takers under specific arrangements of the off-take agreements or through the tariff, resulting in no net effect on GBP's net income. However, once the existing off-take agreements expire, the Generation Subsidiaries' arrangements for fuel prices may change. GBP intends to secure long-term supply contracts for the procurement of fuel after the expiration of the existing off-take agreements and to pass through such fuel costs to customers. GBP has not yet secured any long-term supply contracts for the Generation Subsidiaries after the expiration of the off-take agreements. To the extent GBP is unable to secure long-term fuel supply contracts and pass through features in its off-take agreements, GBP may have to secure fuel or coal (as the case may be) on the open market, which could materially and adversely affect GBP's business, financial condition and results of operations.

The fuel supply contracts for the Generation Subsidiaries are for a shorter duration than their EPPAs. If, upon the expiration of the fuel supply contracts, the Generation Subsidiaries are unable to secure fuel for their power generation facilities, the Generation Subsidiaries' ability to supply power under the existing EPPAs may be affected, which could have a material and adverse effect on GBP's business, financial condition and results of operations.

Certain Generation Subsidiaries are dependent on a single source of fuel that is among the most expensive sources of energy.

The operations of the PPC fuel oil facilities and TPC's Carmen fuel oil facility are dependent on the availability of Bunker-C fuel, which is a major component of their operations. Although Bunker-C fuel is currently available in sufficient quantities, any shortage in Bunker-C fuel or any significant interruption or delay in the supply of Bunker-C fuel to the Generation Subsidiaries or the inability of suppliers to supply Bunker-C fuel in the required amounts or in a timely manner, would affect the ability of the PPC fuel oil facilities and the TPC's Carmen fuel oil facility to generate sufficient electricity on a timely basis to meet the obligations under their off-take agreements. Bunker-C fuel is among the most expensive forms of fuel for energy production, which makes the Generation Subsidiaries' energy production relatively more expensive compared to those using lower cost fuel sources such as coal, hydroelectric, geothermal and other renewable forms of energy. Crude oil prices have been the subject of volatile price swings in the past, making it difficult for GBP to predict its cost structure after the expiration of the off-take agreements. In addition, the certain Generation Subsidiaries are required to use low sulphur fuel oil. If such low sulphur fuel oil becomes unavailable in the market, these Generation Subsidiaries may be required to make certain capital investments in equipment in order to comply with prevailing sulphur emissions standards. Any of the foregoing events could materially and adversely affect GBP's business, financial condition and results of operations.

Certain Generation Subsidiaries are reliant upon a small number of suppliers for their supply of coal and any decrease in the availability, or increase in the cost, of raw materials could materially affect their production output and earnings.

The operations of the Generation Subsidiaries depend heavily on the availability of various raw materials, including coal. The CEDC facilities, PEDC facilities and TPC's Sangi coal facility depend on the availability of coal to fuel the facilities. CEDC and PEDC depend on PT Adaro Indonesia ("PT Adaro"), PT Sion Anugrah Mandiri ("PT Sion"), Coal Orbis AG ("Coal Orbis") and Samtan Co. Ltd. ("Samtan"), all of which supply coal from Indonesia, and Semirara Mining Corporation ("Semirara"), a supplier of coal from the Philippines, for its supply of coal, while TPC depends on Semirara for its supply of coal. In the past, certain of the Generation Subsidiaries' coal suppliers have not been able to meet all of the Generation Subsidiaries' coal requirements. In the future, if any or all of the coal suppliers are unable to provide CEDC, PEDC and TPC with sufficient amounts of coal and as per specified quality standards, such Generation Subsidiaries may encounter delays in securing or may be unable to secure alternative supplies of coal on favorable terms or at all. As a result, such Generation Subsidiaries may not be able to maximize their production capacity at the CEDC facilities, PEDC facilities and TPC's Sangi plant, which could materially and adversely affect GBP's business, financial condition and results of operations.

The availability of raw materials and energy resources may decrease. Raw materials and energy resources prices are likely to be volatile as a result of, among other things, changes in overall supply and demand levels and new laws or regulations. Disruption in the supply of the Generation Subsidiaries' raw materials or energy resources could temporarily impair their ability to generate power or require them to pay higher prices in order to obtain these raw materials or energy resources from other sources. In the event that raw material and energy costs increase and the Generation Subsidiaries are unable to pass on these higher costs to their customers in full or at all, any increase in the prices for raw materials or energy resources could materially increase GBP's costs and therefore lower GBP's earnings.

The operation of power generation facilities is subject to many hazards and GBP may not be able to obtain or maintain adequate insurance.

The generation of electricity involves significant hazards that could result in fires, explosions, spills, discharge, leaks, release of hazardous materials, and other unexpected or dangerous conditions, accidents and environmental risks. In addition, many of these events may cause personal injury and loss of life, severe damage to or destruction of GBP's properties and the properties of others and environmental pollution, and may result in suspension of operations and the imposition of civil or criminal penalties. The risk of occurrence of any of the foregoing events is higher than many other power generation facilities due to GBP's use and storage of flammable fuel. Among other risks, spills and other discharges of the fuel used to operate GBP's fuel oil power plants could result in significant environmental damage to immediately surrounding areas and, as a result, significant liability to both the Government and to private parties.

Any significant interruption to GBP's operations resulting from the occurrence of such hazards or from severe weather and natural disasters, such as earthquakes, floods and typhoons, could materially and adversely affect GBP's business, financial condition and results of operations.

Power generation facilities are also subject to mechanical failure and equipment shutdowns. In such situations, undamaged units may be dependent on or interact with damaged sections or units and, accordingly, are also subject to being shut down. Certain of the Generation Subsidiaries have experienced non-scheduled maintenance shutdowns in the past three years. If such events occur in the future, the ability of the Generation Subsidiaries to supply electricity to their respective off-takers may be materially and adversely impacted. Although the Generation Subsidiaries maintain insurance against many of these hazards, they do not insure against all of them. There can be no assurance that the Generation Subsidiaries will be able to obtain such coverage or that they will obtain such coverage at a reasonable cost in the future. As a result, there can be no assurance that insurance proceeds received under these policies would adequately cover all liabilities that may be incurred or any direct or indirect costs and losses that may be suffered, including liabilities to and losses claimed by third parties. If any of GBP's power generation facilities suffer a large uninsured loss or any insured loss suffered significantly exceeds available insurance coverage, GBP's business, financial condition and results of operations may be adversely affected.

In addition, the insurance coverage for GBP's facilities is subject to periodic renewal. Numerous factors outside GBP's control can affect market conditions, which in turn can affect the availability of insurance coverage as well as premium levels for the policies. GBP's insurance coverage is also subject to certain exclusions, limitations and deductibles. If the availability of insurance coverage is reduced significantly, GBP may become exposed to certain risks for which it is not and/or could not be insured. Also, if premium levels for the insurance coverage required for these facilities increase significantly, GBP could incur substantially higher costs for such coverage or may decide to reduce the coverage amount, either of which could materially and adversely affect GBP's business, financial condition and results of operations.

For more information on the insurance coverage for GBP's facilities, see the section of this Prospectus entitled "Business – GBP – Insurance".

Construction and rehabilitation of GBP's power generation facilities and equipment involve significant risks that could lead to increased expenses and lost revenues.
GBP intends to construct greenfield projects in the future as well as perform rehabilitation on certain facilities after their acquisition. The construction, rehabilitation and operation of facilities and equipment for power generation involves many risks, including but not limited to:

- the breakdown or failure of power generation equipment and distribution lines or other equipment or processes;
- the inability to obtain required governmental permits and approvals;
- the inability to obtain land required for generation or distribution facilities or equipment or, in the case of generation facilities or equipment, rights-of-way over land;
- work stoppages and other industrial actions by employees;
- opposition from local communities and special-interest groups;
- social unrest and terrorism;
- engineering and environmental problems;
- construction and operational delays; and
- unanticipated cost overruns.

If GBP experiences any of these or other problems, it may not be able to generate, sell or distribute electricity profitably or at all, which could materially and adversely affect GBP's business, financial condition and results of operations.

GBP may be unable to attract, train and retain skilled personnel in a competitive job market.
GBP believes that there is significant demand outside the Philippines for personnel who possess the technical skills required by employees of the Generation Subsidiaries. In particular, the Generation Subsidiaries have lost qualified technical personnel who have taken jobs outside the Philippines. Any loss of such personnel and an inability on the part of GBP to identify, train and retain replacement personnel may adversely affect GBP's ability to operate or maintain its generation facilities. Continued losses of trained personnel also means that GBP will need to incur additional expenses in hiring and training replacement personnel and it may take time for these new personnel to reach the level of technical skill and expertise of the personnel they are replacing. Any of the foregoing could materially and adversely affect GBP's business, financial condition and results of operations.

PPC is a party to a proceeding before the ERC, which, if unfavorably decided against the PPC, may result in adjustments to GBP's prior recorded income.
On October 2, 2002, a petition was filed by consumer protection groups from Iloilo City against PPC, NPC and PECO for the refund of ₱12.1 million representing a ₱0.3/kWh discount due to PECO customers. The petitioners alleged that the power purchased by PPC from NPC, which it sold to PECO (and eventually charged to Iloilo consumers) from June 2001 to July 2002 was subject to the discount. This matter is still pending review by the ERC. If the ERC decides against PPC, GBP may be forced to make adjustments to its prior recorded income, which could materially and adversely affect GBP's business, financial condition and results of operations.

GBP operates in a highly regulated industry and must comply with safety, health and environmental laws and regulations.

The operation of the GBP's power generation facilities are subject to a broad range of safety, health and environmental laws and regulations. These laws and regulations impose controls on air and water discharges, on the storage, handling, discharge and disposal of fuel, and employee exposure to hazardous substances and other aspects of the operations of these facilities and businesses. GBP has incurred, and expects to continue to incur, operating costs to comply with such laws and regulations. In addition, GBP has made and expects to continue to make capital expenditures on an ongoing basis to comply with safety, health and environmental laws and regulations. The discharge of hazardous substances or other pollutants into the air, soil or water may cause GBP to be liable to third parties, the Government or the LGUs with jurisdiction over the areas where GBP's facilities are located. GBP may be required to incur costs to remedy the damage caused by such discharges or pay fines or other penalties for non-compliance.

GBP's facilities may be targets of terrorist attacks.

The Generation Subsidiaries' power generation facilities may be potential targets of terrorist activities, as well as subject to events occurring in response to or in connection with them, that could result in full or partial disruption of the Generation Subsidiaries' ability to generate electricity. Strategic targets, such as energy-related facilities, may be at greater risk of future terrorist activities than other domestic targets. Although Generation Subsidiaries' facilities are situated in remote locations in the Philippines, there can be no assurance that these facilities will not be the subject of terrorist attacks which materially and adversely affect GBP's business, financial condition and results of operations.

SELECTED FINANCIAL INFORMATION – GBP

The following tables present GBP's selected consolidated financial information and should be read in conjunction with the auditors' reports and with GBP's consolidated financial statements and notes thereto contained in this Prospectus and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations – GBP". The selected consolidated financial information presented below as of and for the years ended December 31, 2009, 2010 and 2011 was derived from the consolidated financial statements of GBP, prepared in compliance with PFRS and audited by SGV & Co. in accordance with PSA. The information below is not necessarily indicative of the results of future operations. For additional information regarding financial information presented in this Prospectus, see "Presentation of Financial Information".

SELECTED CONSOLIDATED STATEMENTS OF INCOME

	For the years ended December 31,			
	2009	2010	2011	2011
	(₱ millions)			(U.S.$ million)
NET FEES	3,876.5	4,655.7	16,786.1	382.1
COSTS AND EXPENSES				
Power plant operations and maintenance costs	2,231.4	2,723.4	8,753.6	199.3
Depreciation	413.7	479.4	1,569.6	35.7
Personnel	284.5	400.0	523.2	11.9
Outside services	107.4	103.9	393.9	9.0
Regulatory, taxes and licenses	96.4	99.4	355.8	8.1
Insurance	50.6	69.5	165.2	3.8
Rent and utilities	31.8	35.3	71.7	1.6
Travel and representation	30.1	31.1	45.5	1.0
Professional fees	21.7	15.5	10.9	0.3
Supplies	10.4	9.0	19.0	0.4
Telephone and postage	7.3	8.9	9.6	0.2
Equity in net losses of an associate	–	–	–	–
Others	70.1	168.5	186.0	4.2
	3,355.4	4,143.9	12,104.0	275.5
FINANCE COSTS	(311.0)	(127.2)	(2,451.3)	(55.8)
OTHER EXPENSES	–	–	–	–
OTHER INCOME	129.1	280.9	135.2	3.1
INCOME BEFORE INCOME TAX	339.2	665.5	2,366.0	53.9
PROVISION FOR (BENEFIT FROM) INCOME TAX				
Current	83.6	184.5	217.3	5.0
Deferred	26.0	(6.2)	(80.8)	(1.9)
Final	–	–	–	–
	109.6	178.3	136.5	3.1
NET INCOME	229.6	487.2	2,229.5	50.8
OTHER COMPREHENSIVE INCOME (LOSS)				
Changes in fair value of AFS investments	221.5	(142.2)	(101.4)	(2.3)
TOTAL COMPREHENSIVE INCOME	451.0	345.0	2,128.1	48.5
NET INCOME (LOSS) ATTRIBUTABLE TO:				
Equity holders of GBP	253.0	522.3	1,580.0	36.0
Non-controlling interests	(23.4)	(35.1)	649.5	14.8
	229.6	487.2	2,229.5	50.8
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:				
Equity holders of GBP	474.5	380.1	1,478.6	33.7
Non-controlling interests	(23.5)	(35.1)	649.5	14.8
	451.0	345.0	2,128.1	48.5

Notes:

(1) *Other comprehensive loss represents changes in fair value of available-for-sale investments.*

See accompanying notes to GBP's consolidated financial statements.

SELECTED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As of December 31,			
	2009	2010	2011	2011
	(₱ millions)			(U.S.$ million)
ASSETS				
Current Assets				
Cash and cash equivalents	4,076.4	6,132.7	8,606.7	195.9
Receivables – net	2,102.3	2,617.4	4,026.4	91.7
Inventories – net	481.2	833.3	1,114.6	25.4
Advances to suppliers and contractors	1,581.0	194.0	230.1	5.2
Due from related parties/affiliates	629.5	4,392.1	414.3	9.4
Prepayments and other current assets – net	3,269.8	3,296.3	2,019.8	46.0
Total Current Assets	12,140.2	17,465.8	16,411.9	373.6
Non-current Assets				
Long-term receivables – net of current portion	786.4	802.4	1,083.6	24.7
Available-for-sale (AFS) investments	687.7	545.5	444.1	10.1
Property, plant and equipment – net	20,337.7	34,692.6	36,714.4	835.8
Deferred income tax assets	235.1	114.3	147.2	3.4
Goodwill and other non-current assets – net	1,330.6	2,089.2	2,039.6	46.4
Total Non-current Assets	23,377.5	38,244.0	40,428.9	920.4
TOTAL ASSETS	35,517.7	55,709.8	56,840.8	1,294.0
LIABILITIES AND EQUITY				
Current Liabilities				
Accounts payable and accrued expenses	4,519.3	6,095.1	3,789.6	86.3
Notes payable	–	–	–	–
Short-term loans	1,462.1	54.4	–	–
Advances from venture partners	–	–	–	–
Current portion of long-term debt	329.1	361.4	964.6	22.0
Income tax payable	28.0	78.4	36.6	0.8
Equity in net losses over cost of investment in an associate	21.1	22.6	18.2	0.4
Dividends payable	–	–	29.5	0.7
Total Current Liabilities	6,359.6	6,611.9	4,838.5	110.2
Non-current Liabilities				
Long-term debt net of current portion	11,682.6	25,030.5	29,176.4	664.2
Deferred income tax liabilities	449.5	322.6	274.7	6.2
Retirement benefit obligation	41.9	32.7	64.6	1.5
Other non-current liabilities	404.3	407.2	639.4	14.6
Total Non-current Liabilities	12,578.3	25,793.0	30,155.1	686.5
Equity Attributable to Equity Holders of GBP				
Capital stock – ₱100 par value				
Authorized – 2,400,000 shares				
Issued – 2,366,996 shares	236.7	236.7	240.0	5.5
Additional paid-in capital	4,546.8	4,546.8	4,630.6	105.4
Deposits for future stock subscription	7,115.6	13,622.8	8,908.0	202.8
Unrealized valuation gains on AFS investments	537.7	395.5	294.1	6.7
Retained earnings	1,365.7	1,887.9	3,467.8	78.9
	13,802.5	20,689.7	17,540.5	399.3
Non-controlling interests	2,777.3	2,615.2	4,306.7	98.0
Total Equity	16,579.8	23,304.9	21,847.2	497.3
TOTAL LIABILITIES AND EQUITY	35,517.7	55,709.8	56,840.8	1,294.0

See accompanying notes to GBP's consolidated financial statements.

SELECTED CONSOLIDATED STATEMENTS OF CASH FLOW

	For the years ended December 31,			
	2009	2010	2011	2011
	(₱ millions)			(U.S.$ million)
Net cash provided by (used in) operating activities	(1,285.4)	(3,236.6)	764.3	17.4
Net cash provided by (used in) investing activities	(13,550.0)	(9,163.3)	(3,533.1)	(80.4)
Net cash provided by (used in) financing activities	18,313.3	14,487.6	5,286.6	120.3
Cash and cash equivalents at beginning of the year	604.0	4,076.4	6,132.7	139.6
Cash and cash equivalents at end of the year	4,076.4	6,132.7	8,606.7	195.9

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – GBP

The following discussion of GBP's recent financial results should be read in conjunction with the auditors' reports and GBP's consolidated financial statements and notes thereto contained in this Prospectus and the section entitled "Selected Financial Information – GBP". GBP's audited consolidated financial statements as of December 31, 2009, 2010 and 2011 were prepared in compliance with PFRS and audited by SGV & Co. in accordance with PSA.

This discussion contains forward-looking statements and reflects the current views of GBP with respect to future events and financial performance. Actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors such as those set forth in the section entitled "Risk Factors" and elsewhere in this Prospectus.

FACTORS AFFECTING RESULTS OF OPERATIONS

GBP's results of operations are affected by a variety of factors. Set out below is a discussion of the most significant factors that have affected GBP's results in the past and which GBP expects to affect its financial results in the future. Factors other than those set forth below could also have a significant impact on GBP's results of operations and financial condition in the future.

Maintaining contractual availability levels and successfully contracting excess capacity

GBP sells power by contracting capacity and energy to off-takers under EPPAs and in the wholesale electricity spot market ("WESM"). The EPPAs specify a contracted capacity per off-taker, with a corresponding Minimum Contracted Energy. GBP is bound to make available, and the clients are bound to take or pay for, the specified capacity and energy. GBP's EPPAs allow for downtime for maintenance and repairs in order to be available as per contract to its clients. If the Generation Subsidiaries are unable to supply the Minimum Contracted Energy, GBP's results of operations will be adversely impacted. GBP's ability to grow its future revenue from its power generation business will depend, in part, on its ability to maximize the availability of its power plants' capacity to new and existing off-takers. Increasing the available capacity from each facility is a function of improving its operational efficiency. The more efficiently each plant is operated, the higher capacity that is potentially available for dispatch to new and existing off-takers. The level of operational efficiency that each facility is able to attain depends on a variety of factors, including normal degradation of the generating units and the quality of operations and maintenance services performed on the plants. If the Generation Subsidiaries are unable to optimize their availability and contract their excess capacity to new or existing off-takers, GBP's results of operations will be adversely impacted.

Demand for, and the prevailing prices of, power sold on the WESM

In addition to selling capacity to contracted off-takers, the Generation Subsidiaries also sell power on the spot market through the WESM. For the year ended December 31, 2011, approximately 19% of the Generation Subsidiaries' total capacity was sold through WESM. Demand for, and the prevailing prices of, power sold on the WESM are determined by a variety of factors, including (a) the overall demand for power in the grid, which is affected by general economic conditions in the Visayas and Mindoro, industrial activity, weather and other factors; (b) the availability of alternative sources of power supply other than the Generation Subsidiaries; and (c) the ability of the transmission facilities to wheel electricity from power generation facilities to the Visayas and Mindoro grids. Fluctuations in the demand for, and the prevailing prices of, power sold on the WESM may materially impact GBP's results of operations.

Effects of Philippine economic conditions

Demand for electricity is directly related to the strength of the Philippine economy (including its overall growth and income levels) and the overall levels of business activity in the Philippines. Factors that may adversely affect the Philippines economy include:

- decreases in business, industrial, manufacturing or financial activity in the Philippines, the Southeast Asian region or globally;

- scarcity of credit or other financing, resulting in lower demand for products and services provided by companies in the Philippines, the Southeast Asian region or globally;
- exchange rate fluctuations;
- inflation or increase in interest rates;
- natural disasters, including but not limited to typhoons, tsunamis, earthquakes, fires, floods, the occurrence of epidemics and similar events;
- political instability, terrorism or military conflict in the Philippines, other countries in the region or globally; and
- other regulatory, social, political or economic developments in or affecting the Philippines.

There is still a degree of uncertainty regarding the economic and political situations in the Philippines. This uncertainty could have adverse effects on the demand for electricity.

Interest rates

All of the long-term debts of the Generation Subsidiaries are Peso-based. Certain outstanding loans have floating interest rates. Changes in the floating rates of interest would have resulting effects on the interest expense of the Generation Subsidiaries.

GBP's expansion projects are financed through Peso-based 12-year project financing with terms ranging from 5+7 (5 year fixed rate, with repricing on the 5th year) to an outright 12-year fixed rate. The interest rate for these expansion projects are therefore fixed for a minimum of 5 to 7 years.

Fuel cost

GBP's EPPAs contain a fuel pass-through feature, with an efficiency cap. This feature allows GBP to pass on fuel costs while ensuring that it maintains its plants at optimum running order. GBP's results of operations are adversely affected, however, by fuel costs that it is unable to pass on to its customers, such as if the plants exceed their consumption rate or efficiency caps or for sales to the WESM.

Exchange Rate Fluctuations

GBP maintains its accounting records and prepares financial statements in Pesos. Revenues and expenses are primarily denominated in Pesos, with a small portion based on the U.S. dollar. Foreign currency based expenses are typically for imported spare parts and insurance. These costs are covered by the U.S. dollar-based tariffs. Realized foreign exchange gains and losses on revenues and expenses are recorded as part of GBP's income statement under "Foreign Exchange Gain (Loss)". A significant fluctuation in the U.S. dollar and Peso exchange rate could have a material impact on GBP's results of operations.

Cost control

GBP's ability to effectively manage certain costs that are not passed through under its EPPAs, such as spare parts, labor, security and insurance, will have a significant impact on its results of operations.

Competition

Competition has a direct effect on GBP's ability to sell power on the WESM as well as to negotiate EPPAs with new and existing off-takers. Competition typically results in lower selling prices in the WESM and under EPPAs. Despite relatively high levels of demand for power in the Philippines, it has become necessary for power producers, especially non-renewable energy producers, to keep their power rates competitive in order to sell on the WESM and attract new off-takers. Upward or downward price adjustments may be made to respond to a competing generator's pricing strategy. GBP's ability to effectively manage the competitive landscape for its uncontracted capacity will have a significant impact on its results of operations.

Acquisition and/or development of generation facilities

Significant increases in GBP's revenues will depend on the acquisition or development of new generation facilities that will allow it to sell more power. GBP's ability to further expand its generating capacity will, to some extent, depend on when and how it is able to acquire existing generation facilities or construct new facilities, as well as on its ability to negotiate viable off-take agreements in respect of these additional facilities. This growth will also depend generally on the level of economic growth and activity in the Philippines and, more specifically, on the demand for electricity, improvements in the Philippines' transmission infrastructure and the ability of GBP's new generation facilities to compete with other suppliers in the Visayas and Mindoro markets.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those that are both (i) relevant to the presentation of GBP's financial condition and results of operations and (ii) require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increase, those judgments become even more subjective and complex. In order to provide an understanding of how GBP's management forms its judgments about future events, including the variables and assumptions underlying its estimates, and the sensitivity of those judgments to different circumstances, GBP has identified certain critical accounting policies. For a complete discussion of GBP's critical accounting policies and significant accounting judgements and estimates, see Note 2 and Note 3 to GBP's financial statements included in this Prospectus.

DESCRIPTION OF KEY LINE ITEMS

Revenue

Net fees

Net fees consist of energy fees for the energy and services supplied by the Generation Subsidiaries as provided for in their respective EPPAs with respective customers. Energy fees are recognized based on actual delivery of energy generated and made available to customers multiplied by the applicable tariff rate, net of adjustments, as agreed upon between the parties. Power sold through the WESM are also included in net fees. Net fees are net of discounts provided by the Generation Subsidiaries to their customers.

Other income

Other income includes recovery from insurance, gain on foreign exchange derivative contracts, accretion of discount in accounts receivable, interest income, dividends, sale of coal, equity in net earnings of an associate and other miscellaneous items.

Costs and Expenses

Power plant operations and maintenance costs

Power plant operations and maintenance costs reflects power plant operations, purchased power and repairs and maintenance and others. Power plant operations mainly represent costs of coal and start-up fuel costs and purchased power from the NPC. Repairs and maintenance and others mainly represent cost of materials and supplies consumed and the cost of restoration and maintenance of the power plants.

Depreciation

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

Personnel

Personnel reflects salaries, wages and others, employee benefits and retirement benefit expenses.

Outside services

Outside services reflects management and consultancy services paid to third parties.

Regulatory, taxes and licenses

Regulatory, taxes and licenses reflects business taxes, real property tax, community tax and barangay clearance, BIR annual registration, documentary stamp tax and notarial fees, among others.

Insurance

Insurance reflects costs associated with the acquisition of various company insurance policies, such as property industrial all risk, property sabotage and terrorism, comprehensive general liability, motor car and re-export bonds.

Miscellaneous expenses

Miscellaneous expenses reflects rent and utilities, travel and representation, professional fees, supplies, telephone and postage, trainings and seminars and others.

Finance costs

GBP's finance costs reflects interest expense, accretion of decommissioning liability and other financing charges.

Other expenses

Other expenses reflects accounts receivable written off, provision for impairment of input VAT, discount on receivables, foreign exchange loss, provision for probable losses, equity in net losses of an associate and others.

Provision for Income Tax

Provision for income tax includes both current and deferred taxes.

RESULTS OF OPERATIONS

Year ended December 31, 2011 compared to year ended December 31, 2010

Net fees

GBP recorded revenues from net fees of ₱16,786.1 million in 2011, an increase of 260.5% from of ₱4,655.7 million in 2010, due to an increase in the amount of power sold due to the commencement of commercial operations of the CEDC and PEDC plants on February 26, 2011 and March 26, 2011, respectively. In addition, GBP increased the amount of power it sold through the WESM, which are generally at higher rates than for contracted capacity.

Other income

GBP recorded other income of ₱135.2 million in 2011, a decrease of 51.9% from ₱280.9 million in 2010, due to lower insurance claims recovered from insurance companies recorded in 2011 as well as lower foreign exchange gain resulting from construction reserves for the CEDC and PEDC plants being paid out. The following table sets forth the components of GBP's other income:

	Year ended December 31,		
	2010	2011	2011
	(₱ millions)		(U.S.$ millions)
Recovery from insurance	135.1	76.8	1.7
Foreign exchange gain	120.5	10.9	0.2
Dividend	13.6	20.7	0.5
Equity in net earnings of an associate	(1.4)	4.4	0.1
Others	6.8	8.5	0.2
Sale of scrap and sludge oil	6.3	13.9	0.3
Total	280.9	135.2	3.0

Power plant operations and maintenance costs
GBP recorded costs for power plant operations and maintenance costs of ₱8,753.6 million in 2011, an increase of 221.4% from ₱2,723.4 million in 2010, due to increased fuel costs in direct proportion to increased energy sales resulting from the start of commercial operations of the CEDC and PEDC plants on February 26, 2011 and March 26, 2011, respectively.

Depreciation
GBP recorded depreciation of ₱1,569.6 million in 2011, an increase of 227.4% from ₱479.4 million in 2010, due to the commencement of depreciation of the new CEDC and PEDC plants.

Personnel
GBP recorded personnel expenses of ₱523.2 million in 2011, an increase of 30.8% from ₱400.0 million in 2010, due to increases in the retirement benefit expense and increase in employee benefits as a result of the overall increase in the number of employees in 2011.

Outside services
GBP recorded outside services expenses of ₱393.9 million in 2011, an increase of 279.1% from ₱103.9 million in 2010, due to increased third-party services used and O&M supervision fees paid to FHIC. The O&M supervision contracts for CEDC and PEDC with FHIC began in 2011.

Regulatory, taxes and licenses
GBP recorded regulatory, taxes and licenses expenses of ₱355.8 million in 2011, an increase of 257.9% from ₱99.4 million in 2010, due to higher provisions and expenses related to the increased production from commercial operations of the CEDC and PEDC plants. These taxes and expenses include VAT paid on fuel as well as gross receipts tax.

Insurance
GBP recorded insurance expenses of ₱165.2 million in 2011, an increase of 137.7% from ₱69.5 million in 2010, due to the expansion of insurance coverage relating to the commencement of commercial operations of CEDC and PEDC on February 26, 2011 and March 26, 2011, respectively. Beginning in 2011, insurance premiums related to the CEDC and PEDC plants can no longer be capitalized.

Miscellaneous expenses
GBP recorded miscellaneous expenses of ₱342.7 million in 2011, an increase of 27.7% from ₱268.3 million in 2010, due primarily to increased rent, utilities, travel and related costs primarily associated with the new plants and the inability to capitalize such costs as was done in prior years.

Finance costs
GBP recorded finance costs of ₱2,451.3 million in 2011, an increase of 1,827.1% from ₱127.2 million in 2010, due to higher debt levels relating to the final drawdowns of CEDC and PEDC project finance facilities in March 2011 and the commencement of commercial operations of CEDC and PEDC on February 26, 2011 and March 26, 2011, respectively.

Provision for income tax
GBP recorded provision for income tax of ₱136.5 million in 2011, a decrease of 23.4% from ₱178.3 million in 2010, due to a higher taxable income for 2011 as a result of the commencement of commercial operations of the CEDC and PEDC plants on February 26, 2011 and March 26, 2011, respectively.

Net income
As a result of the foregoing, net income increased to ₱2,229.5 million in 2011, an increase of 357.6% from ₱487.2 million in 2010.

Year ended December 31, 2010 compared to year ended December 31, 2009

Net fees
GBP recorded revenues from net fees of ₱4,655.7 million in 2010, an increase of 20.1% from ₱3,876.5 million in 2009, due to an increase in the amount of power sold as well as an overall increase in prices. This was largely due

to increased energy sales accompanied by higher tariffs resulting from inflation, shifts to fuel pass-through contracts and higher rate recoveries approved by the ERC.

Other income
GBP recorded other income of ₱280.9 million in 2010, an increase of 117.6% from ₱129.1 million in 2009, due to higher insurance claims recognized in 2010 as well as foreign exchange gains on dollar reserves. The following table sets forth the components of GBP's other income:

	Year ended December 31,	
	2009	2010
	(₱ millions)	
Recovery from insurance	61.5	135.1
Foreign exchange gain	17.4	120.5
Accretion of discount on accounts receivable	–	–
Interest income	–	–
Dividend	11.3	13.6
Sale of coal	–	–
Equity in net earnings of an associate	3.7	(1.4)
Others	35.2	6.8
Sale of scrap and sludge oil	–	6.3
Total	129.1	280.9

Power plant operations and maintenance costs
GBP recorded costs for power plant operations and maintenance costs of ₱2,723.4 million in 2010, an increase of 22.0% from ₱2,231.4 million in 2009, due to the net effect of (i) increased costs of coal, fuel oil and lube oil in direct proportion to increased energy sales and (ii) higher expenses for repairs due to scheduled preventative maintenance.

Depreciation
GBP recorded depreciation of ₱479.4 million in 2010, an increase of 15.9% from ₱413.7 million in 2009, due to the capitalization of rehabilitation and major repairs undertaken in 2010.

Personnel
GBP recorded personnel expenses of ₱400.0 million in 2010, an increase of 40.6% from ₱284.5 million in 2009, due to an increase in the number of employees, primarily resulting from the hiring of PEDC personnel, as well as adjustments to the salaries, wages and benefits of employees working at GBP's older plants.

Outside services
GBP recorded outside services expenses of ₱103.9 million in 2010, a decrease of 3.3% from ₱107.4 million in 2009, due to TPC decreasing its use of third-party personnel in favor of in-house resources.

Regulatory, taxes and licenses
GBP recorded regulatory, taxes and licenses expenses of ₱99.4 million in 2010, an increase of 3.1% from ₱96.4 million in 2009, primarily due to higher provisions related to energy sales and production.

Insurance
GBP recorded insurance expenses of ₱69.5 million in 2010, an increase of 37.4% from ₱50.6 million in 2009, due to higher insurance premiums in 2010.

Miscellaneous expenses
GBP recorded miscellaneous expenses of ₱268.3 million in 2010, an increase of 56.5% from ₱171.4 million in 2009, due to increases in rent and utilities and trainings and seminars, partially offset by a decrease in professional fees resulting from higher external counsel fees experienced in 2009 relating to a Court of Tax Appeal case.

Finance costs
GBP recorded finance costs of ₱127.2 million in 2010, a decrease of 59.1% from ₱311.0 million in 2009, due to lower borrowing costs resulting from decreasing interest rates.

Provision for income tax

GBP recorded provision for income tax of ₱178.3 million in 2010, an increase of 62.7% from ₱109.6 million in 2009, due to higher taxable income from higher revenues in 2010.

Net income

As a result of the foregoing, net income increased to ₱487.2 million in 2010, an increase of 112.2% from ₱229.6 million in 2009.

LIQUIDITY AND CAPITAL RESOURCES

In 2009, 2010 and 2011, GBP's principal source of liquidity was cash and cash equivalents, receivables and receivables from related parties. As of December 31, 2011, GBP had cash and cash equivalents totaling ₱8,606.7 million. GBP's principal use of cash for 2011 was plant operating costs and debt service.

Cash Flows

The following table sets forth selected information from GBP's consolidated statements of cash flows for the periods indicated:

	As of December 31,			
	2009	2010	2011	2011
		(₱ millions)		(U.S.$ millions)
Net cash provided by (used in) operating activities	(1,285.4)	(3,236.6)	764.3	17.4
Net cash provided by (used in) investing activities	(13,550.0)	(9,163.3)	(3,533.1)	(80.4)
Net cash provided by (used in) financing activities	18,313.3	14,487.6	5,286.6	120.3
Net increase in cash and cash equivalents	3,472.4	2,056.3	2,474.0	56.3
Cash and cash equivalents at beginning of period	604.0	4,076.4	6,132.7	139.6
Cash and cash equivalents at end of period	4,076.4	6,132.7	8,606.7	195.9

Cash flows used in operating activities was ₱1,285.4 million in 2009, ₱3,236.6 million in 2010 and ₱764.3 million in 2011. In 2009, the primary sources of cash were ₱955.2 million from operations, offset primarily by increases in receivables of ₱551.4 million and prepayments and other current assets of ₱2,856.1 million. In 2010, the primary source of cash was ₱1,273.0 million from operations, offset primarily by increases in receivables of ₱760.6 million, prepayments and other current assets of ₱1,820.4 million and payment of interest of ₱2,007.1 million. In 2011, the primary sources of cash were from the final drawdown of debt of construction facilities of PEDC and CEDC and operations.

Cash flows used in investing activities was ₱13,550.1 million in 2009, ₱9,163.3 million in 2010 and ₱3,533.1 million in 2011. In each of these periods, net cash used in investing activities primarily reflected additions to property plant and equipment at the power generation facilities.

Cash flows from financing activities was ₱18,313.3 million in 2009, ₱14,487.6 million in 2010 and ₱5,286.6 million in 2011. In 2009, the primary sources of cash from financing activities were proceeds from the availment of long-term debt of ₱9,979.1 million and proceeds from deposits from future stock subscriptions of ₱3,713.7 million, partially offset by payments of long-term debt of ₱634.4 million. In 2010, the primary sources of cash from financing activities were proceeds from the availment of long-term debt of ₱13,471.7 million and proceeds from deposits from future stock subscriptions of ₱6,507.2 million, partially offset by changes in accounts of related parties of ₱3,844.8 million. In 2011, the primary sources of cash from financing activities were proceeds from the availment of long-term debt and changes in accounts with related parties.

Capital Expenditures

The table below sets out GBP's capital expenditures in 2009, 2010 and 2011, together with its budgeted capital expenditures for 2012.

Year ended December 31,	Expenditure (₱ millions)	(U.S.$ millions)
2009 (actual)	13,575.5	309.0
2010 (actual)	9,522.2	216.8
2011 (actual)	3,567.1	81.2
2012 (budgeted)[1]	140.1	3.2

Note:

(1) This figure includes capital expenditure/loans for existing plants only and does not include expansion plans.

GBP has historically sourced funding for capital expenditures through internally-generated funds and long-term borrowings.

GBP has budgeted ₱140.1 million for capital expenditures for 2012. The planned capital expenditures for 2012 are summarized below:

Capital Projects	Expenditure (₱ millions)	(U.S.$ millions)
CEDC	13.5	0.3
PEDC	60.2	1.4
PPC	8.1	0.2
TPC	56.3	1.3
GPRI	2.0	0.1
Total[1]	140.1	3.2

Note:

(1) This figure includes capital expenditure/loans for existing plants only and does not include expansion plans.

GBP expects to fund its budgeted capital expenditures principally through operating cashflows, as well as through borrowings. The figures in GBP's capital expenditure plans are based on management's estimates and have not been appraised by an independent organization. In addition, GBP's capital expenditure plans are subject to a number of variables, including: possible cost overruns; construction/development delays; the receipt of critical government approvals; availability of financing on acceptable terms; changes in management's views of the desirability of current plans; and macroeconomic factors such as the Philippine's economic performance and interest rates. There can be no assurance that GBP will execute its capital expenditure plans as contemplated at or below estimated costs.

Contractual obligations and commitments

The following table sets forth GBP's contractual obligations and commitments as of December 31, 2011:

	Contractual Obligations and Commitments			
	Payments Due by Period			
	Total	2012	2013-2017	After 2017
	(₱ millions)			
Long-term debt obligations	30,492.2	1,553.5	10,527.0	18,411.7

Debt obligations and facilities

GBP's total amount of long-term debt was ₱30,141 million as of December 31, 2011, with a current portion of ₱964.6 million.

The following table sets forth GBP's total indebtedness as of the periods indicated:

	As of December 31,			
	2009	2010	2011	2011
	(₱ millions)			(U.S.$ millions)
Long-term debt (net of current portion)	11,682.6	25,030.5	29,176.4	664.2

Off Balance Sheet Arrangements

As of December 31, 2011, GBP did not have any off-balance sheet arrangements.

The following are the major performance measures used by GBP for 2009, 2010 and 2011.

	As of and for the years ended December 31,		
	2009	2010	2011
	(₱ millions, except ratios)		
Net Income	229.6	487.2	2,229.5
Total Assets	35,517.7	55,709.8	56,840.8
Total Debt	18,937.9	32,404.9	34,993.6
Stockholder's Equity	16,579.8	23,304.9	21,847.2
Current Ratio(1)	190.9%	264.2%	339.2%
Debt to Equity Ratio(2)	114.2%	139.0%	160.2%

Notes:

(1) Current Assets/Current Liabilities

(2) Total Debt/Stockholder's Equity

QUALITATIVE AND QUANTITATIVE DISCLOSURE OF MARKET RISK

GBP's principal financial instruments consist of its long-term debt, cash on hand and in the bank, receivables from installment sales, short-term investments and receivables from and payables to affiliated companies. These are used to provide funding for GBP's business operations. GBP does not enter into hedging transactions or engage in speculation with respect to financial instruments.

GBP believes that the principal risks arising from its financial instruments are liquidity risk, credit risk, foreign exchange risk and commodity risk.

Credit Risk

GBP is exposed to credit risk through the payment terms of its EPPAs. Credit risk is the risk of loss that may occur from the failure of a customer to abide by the terms and conditions of such customer's financial contract with GBP, principally the failure to make required payments on amounts due to GBP. GBP attempts to mitigate credit risk by measuring, monitoring and managing the risk for each customer. GBP and the Generation Subsidiaries transact only with companies and institutions which are in sound financial position and have demonstrated good credit standing. Receivables for the Generation Subsidiaries are largely from VECO, PECO and Carmen Copper, the collection of which has been current and up to-date historically through the course of GBP's EPPAs.

Liquidity Risk

GBP bears the risk that it will not have sufficient cash flows to meet its operating requirements and its financing obligations when they come due. GBP manages this risk by regularly reviewing its cash flow position, debt maturity profiles, availability of credit facilities and overall liquidity position to mitigate the effects of fluctuations in cash flow.

Going forward, and to the extent it is able to do so, GBP intends to primarily use internally generated funds and additional equity offerings to meet its financing requirements.

Foreign Exchange Risk

GBP uses the Philippine Peso as its functional currency and is therefore exposed to foreign exchange movements, primarily in the U.S. dollar. GBP is also exposed to the risk that increases in the Peso exchange rate for U.S. dollars will decrease the value of its only foreign-currency-denominated assets, which are U.S. dollar cash and cash equivalents amounting to ₱2,928.7 million and ₱540.9 million as of December 31, 2010 and 2011, respectively, which are primarily held as reserves during the construction phase of new facilities. GBP follows a policy to manage its currency risk by closely monitoring its cash flow position and by providing forecast on all other exposures in non-Philippine Peso currencies.

Commodities Risk

GBP is exposed to the risk that prices for raw materials used at its power generation facilities, including coal and oil, will increase. These materials are global commodities whose prices are cyclical in nature and fluctuate in accordance with global market conditions. GBP does not engage in commodity hedging, but attempts to manage commodity risk by passing along the costs of fuel directly to its customers (subject to efficiency standards) under the terms of its EPPAs. GBP is exposed to the risk that they may not be able to pass increased commodities costs to their customers for uncontracted capacity, which would lower GBP's margins.

Seasonality

Seasonality has some impact on GBP's results of operations due to the seasonality of its customers' power needs, such as greater power requirements during months with higher temperatures for increased air-conditioning use.

PHILIPPINE POWER INDUSTRY OVERVIEW

Overview

The Philippine power industry was historically dominated by companies owned and managed by the Government, primarily through NPC. Confronted by a widening fiscal deficit, increasing pressures on the Government's budget from NPC's debts and an energy crisis in the 1990s, the Government decided to restructure and promote the development of the Philippine power industry through private sector participation and has been privatizing its generation assets since December 2003.

The current framework of the Philippine power sector is governed by the EPIRA which was enacted in 2001. The EPIRA aims to restructure and improve the power sector in the Philippines by ensuring and accelerating total electrification of the country and providing a fairer and more competitive landscape for power sector participants, resulting in a more efficient and transparent industry. The Philippine power industry, following the passage of the EPIRA, is currently undergoing major reforms. On June 6, 2011, the ERC announced that the final stage of electricity reform, the "open access regime", will commence on December 26, 2011 in Luzon and the Visayas. Under the open access regime, all electricity end-users with an average monthly peak demand of 1 MW for the 12 months preceding December 26, 2011, as certified by the ERC, will have the right to choose their own electricity suppliers. However, due to infrastructure, system and procedural challenges, ERC deferred the implementation of the open access regime to September 2012. The new-kick off date for the open access regime based on preliminary recommendation by the DOE is September 26, 2012, however, there is no certainty that open access will commence on this date. For further information on the open access regime, see "Regulation – GBP".

The Philippine power industry has evolved into a competitive market with clear separation between generation, transmission, distribution and supply functions. Under the EPIRA, cross ownership in the transmission sector with the generation and distribution sector is not allowed.

Philippine Power Industry Structure

The following table sets out certain information relating to the generation, transmission, distribution and supply sectors in the Philippine power industry:

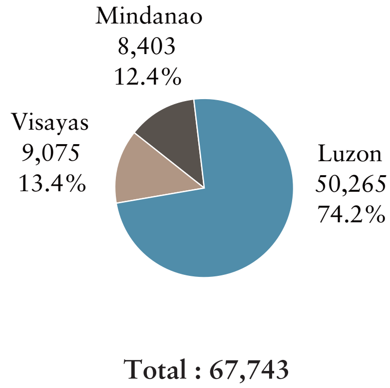
Sector	Details
Generation	• Generation companies are involved in converting fuel and other forms of energy into electricity • Generation companies compete with each other for contracts with distribution utilities or spot sales on the WESM • Competition is based largely on pricing • The generation sector consists of: 1) NPC-owned and operated plants; 2) NPC-owned and IPP-operated plants; 3) IPP-owned and operated plants; and 4) Independent Power Producer Administrators ("IPPAs")[1]
Transmission	• The transmission network is responsible for transmitting electricity from power generators to electricity distributors and large end-users • National Transmission Corporation ("TransCo"), which is owned by the Philippine government, is the owner of the transmission system and grid. Prior to the award of the concession, it was responsible for maintaining the reliability, adequacy, security, stability and integrity of the nationwide electrical grid. It is mandated to provide open and non-discriminatory access to its transmission system to all electricity users. The transmission of electricity through the transmission grid is subject to transmission wheeling charges • NGCP is a private consortium of Monte Oro Grid Resources, Calaca High Power Corporation and the State Grid Corporation of China. It holds the concession contract to operate, maintain, improve, and expand the transmission network

[1] *"Independent Power Producer Administrators" refers to qualified independent entities appointed by PSALM who shall administer, conserve and manage the contracted energy output of NPC IPP contracts*

Sector	Details
Distribution	• Distributors are responsible for distributing electric power off the transmission network to end-users and consist of private distribution utilities such as Meralco and the Visayan Electric Company, electric cooperatives and LGUs
Supply	• The supply function is currently being undertaken solely by franchised distribution utilities. However, upon commencement of retail open access, the supply function will become competitive

According to DOE Power Statistics 2010, the total installed capacity for the Philippine power industry amounted to 16,359 MW as of December 31, 2010 and 67,743 GWh of electricity was generated in 2010. The breakdown of electricity generated by grid is set out in the following chart:

Gross Power Generation by Grid in 2010 (GWh)

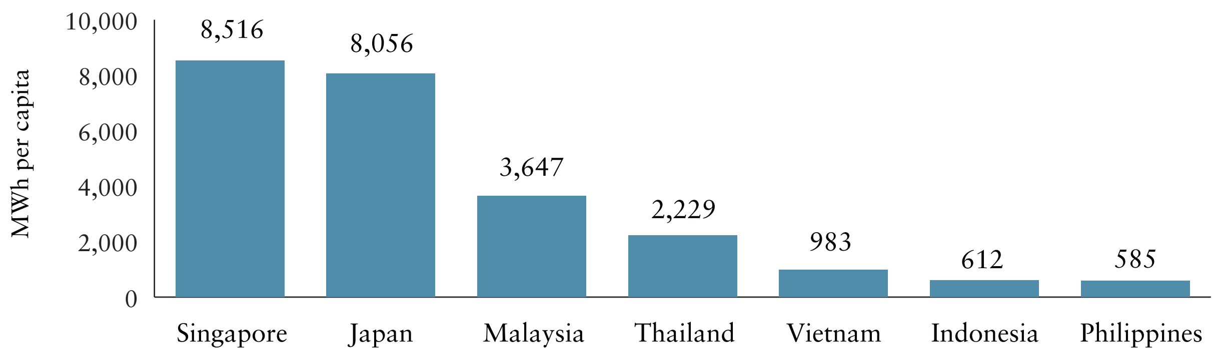


Source: DOE Power Statistics 2010

Economic Growth Drivers for Demand of Power in the Philippines

The growth of the Philippine economy has led to a significant increase in demand for electricity over the past decade. According to DOE Power Sector Situationer, peak power demand in the Philippines for the period from 2005 to 2010 increased at a CAGR of 3.5%, with peak demand rising from approximately 8,629 MW in 2005 to 10,231 MW in 2010. During the same period, the Philippine economy, measured in terms of real GDP, grew at a CAGR of 6.1%, according to the National Statistical Coordination Board.

Comparison with other regional electricity markets is useful for assessing the growth potential in the Philippine power market. The chart below shows the estimated electricity consumption per capita in 2010 for certain Asian countries in the region, including the Philippines:



Source: EIU

At present, consumption of electricity per capita in the Philippines is the lowest in the region. This indicates potential for growth in electricity demand as the Philippine economy develops.

Power Generation Ownership

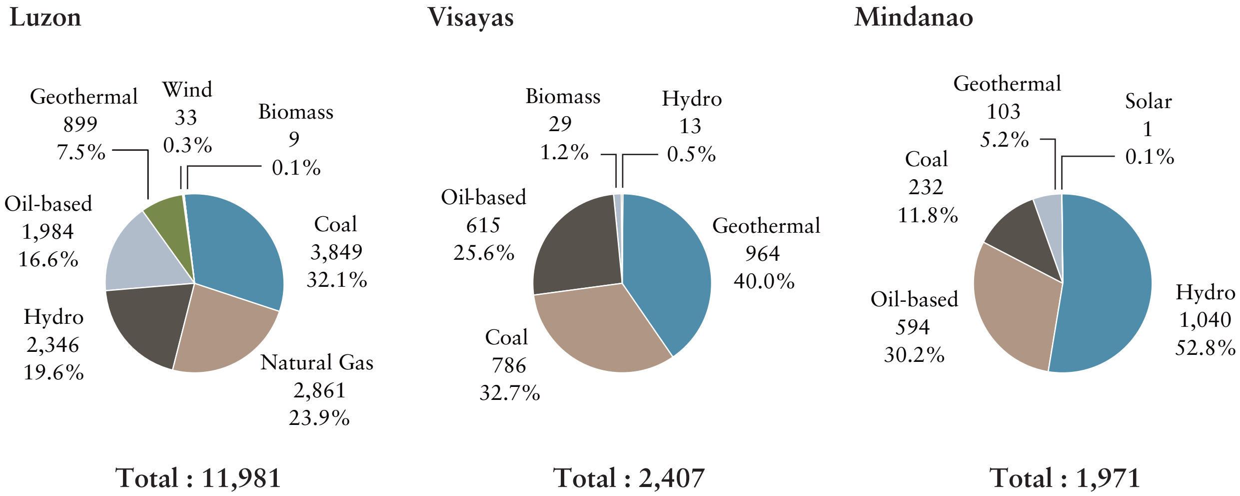
The ownership of various generation assets in the Philippines can be subdivided into the following categories: (1) generation facilities owned and operated by NPC; (2) plants operated by IPPs that supply electricity to NPC under electricity offtake contracts and (3) plants owned and operated by IPPs that supply electricity to customers other than NPC ("Non-NPC"). The EPIRA transferred all of NPC's generation assets, except those used in missionary electrification, and IPP contracts to PSALM.

As a result of the privatization process under the EPIRA, there have been major changes to power plant ownership and management in the Philippines. According to DOE Power Statistics 2010, in 2010, Non-NPC was the largest segment in the country's power generation sector, with a 71.5% market share of electricity production. The market share of electricity production from generation facilities owned and operated by NPC has significantly fallen from 29.6% in 2006 to 6.0% in 2010.

Current Electricity Supply and Demand

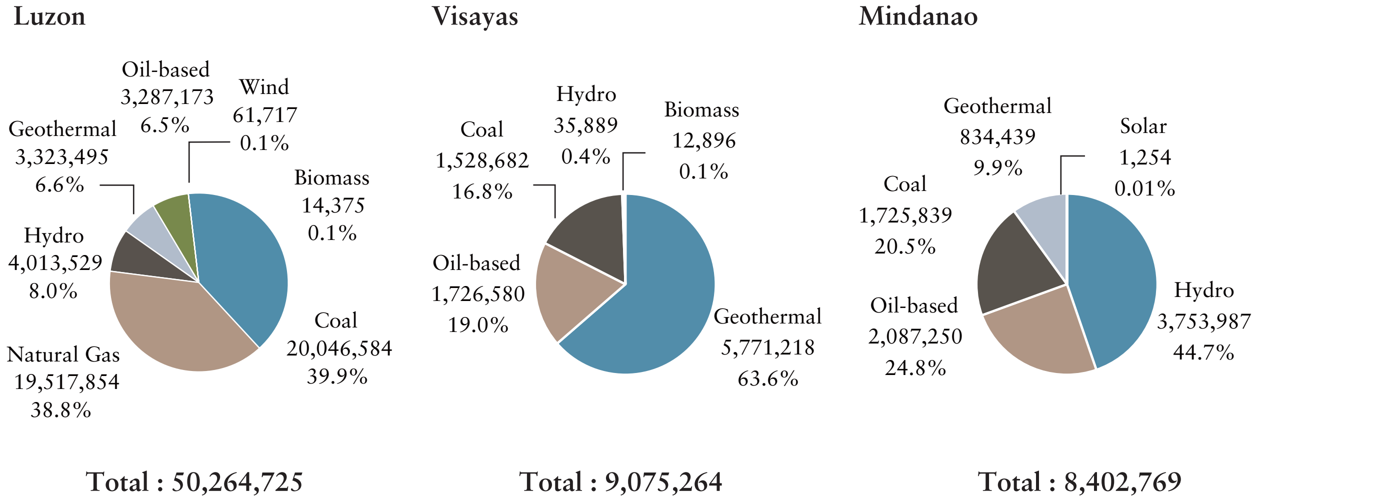
According to DOE Power Sector Situationer, the total installed capacity for electricity generation in the Philippines as of December 31, 2010 was 16,359 MW. Of this total, 13,902 MW, or 85%, was considered to be dependable capacity (the maximum capacity a power plant can sustain over a specified period), as modified for seasonal limitations and other plant-specific factors such as required maintenance. As of December 31, 2010, the total installed capacity of 16,359 MW is broken down as 11,981 MW in Luzon, 2,407 MW in the Visayas and 1,971 MW in Mindanao, and the total dependable capacity of 13,902 MW is broken down as 10,498 MW in Luzon, 1,745 MW in the Visayas and 1,658 MW in Mindanao. The charts below set out the installed capacity for electricity generation by plant type and gross power generation by plant type, respectively, in Luzon, the Visayas and Mindanao as of December 31, 2010.

Installed Capacity by Plant Type and Grid in 2010 (MW)



Source: Data obtained from information contained in and derived from DOE Power Sector Situationer

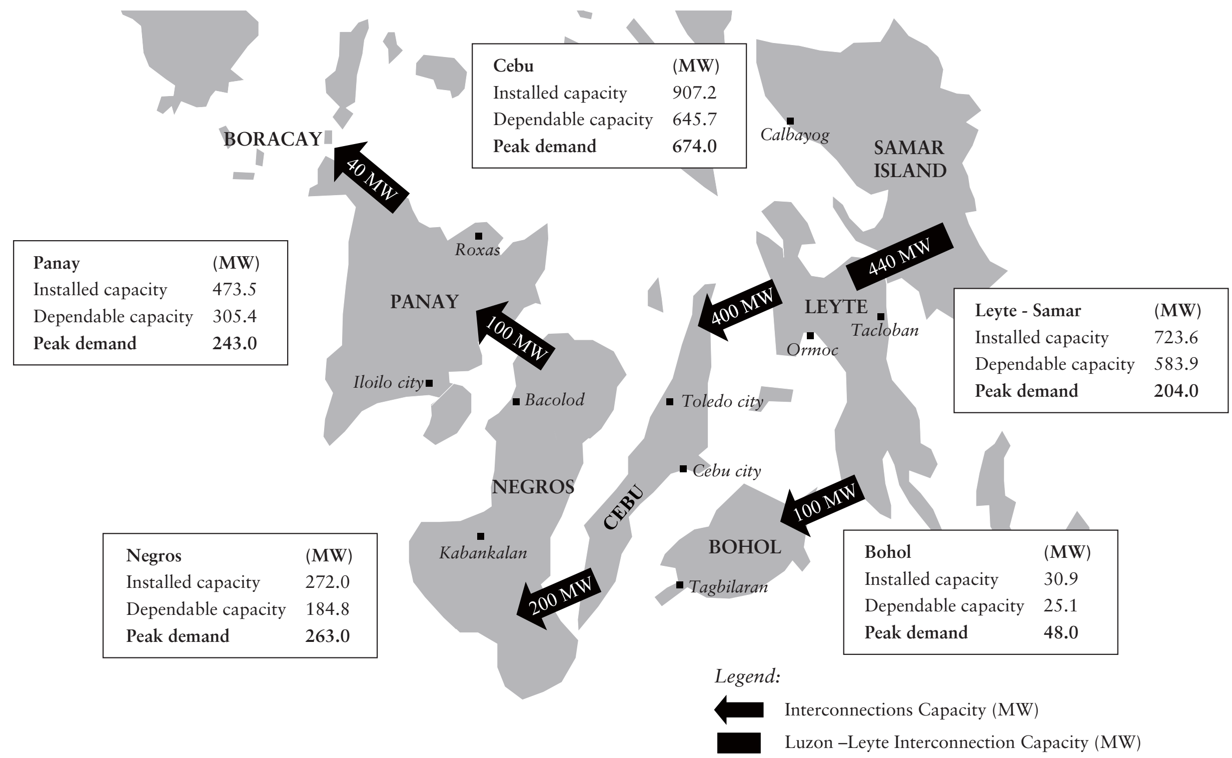
Gross Power Generation by Plant Type and Grid in 2010 (MWh)



Source: DOE Power Sector Situationer

According to the DOE 2010 Power Sector Situationer, the Philippine electricity market has a total peak demand of 10,231MW, covering the three major grids. The peak demand of the Visayas grid in 2010 was 1,431 MW, an increase of 15.3% compared to the 2009 level of 1,241 MW, mainly due to the abnormal temperatures and commercial and industrial expansions. In 2010, the Luzon grid also encountered increased peak demands of 7,656 MW from 6,928 MW in 2009 while the peak demand for the Mindanao grid decreased to 1,288 MW from 1,303 MW in 2009.

The map below shown the installed capacity, dependable capacity and peak demand for the Visayas grid.



Source: 2010 Philippine Power Sector Situationer, Philippines Department of Energy; 2009 NGCP Transmission Development Plan

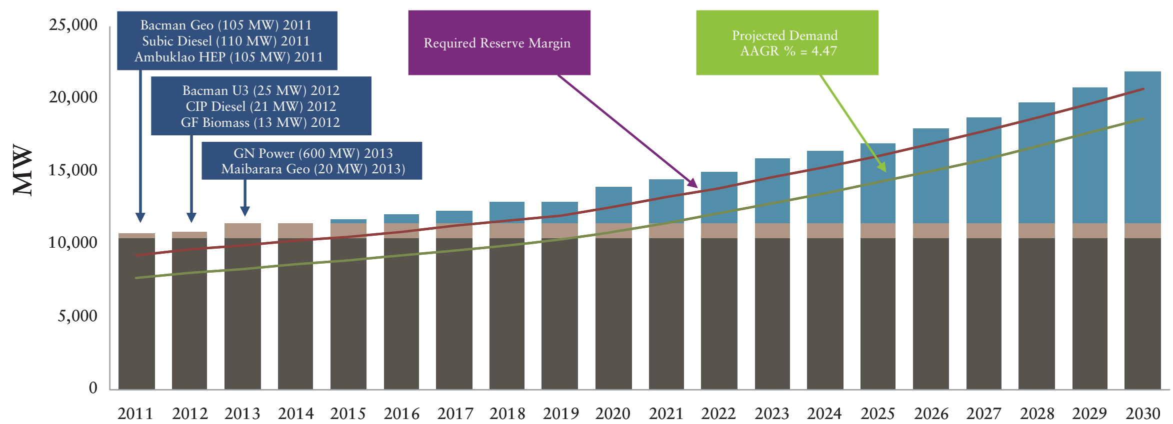
Supply and Demand Outlook

According to the DOE's Power Development Plan 2011 to 2030, peak demand for electricity in Luzon, the Visayas and Mindanao is expected to increase at an average annual growth rate of 4.5%, 4.6% and 4.6%, respectively through 2030, and the DOE projects that power consumption in Luzon, Visayas and Mindanao will require aggregate additional capacities of 1,500 MW, 350 MW and 650 MW, respectively, in addition to committed power projects by 2018. Based on the current forecast, the critical period of supply shortage for Luzon and Visayas is 2015, and for Mindanao is 2011. Since construction of new power plants takes on average a minimum of three years the DOE noted that there may be a need to increase investment in power generation in order to mitigate supply shortage in the short-to-medium term.

According to the DOE's Power Development Plan 2011 to 2030, only approximately 999 MW, 232 MW and 286 MW are currently expected to be provided by committed power projects in Luzon, the Visayas and Mindanao, respectively by 2018 and accordingly Luzon, Visayas and Mindanao are expected to experience electricity supply shortages unless sufficient new capacities are added on top of the current committed additions.

The DOE is currently studying and implementing mechanisms to address the current electricity supply situation in the Philippines, including the rehabilitation of non-operating generation assets under preservation or decommissioned to increase generation capacity, particularly in Mindanao. The charts below set out the power supply and demand outlook for Luzon, the Visayas and Mindanao, respectively, based on the DOE's Power Development Plan 2011 to 2030.

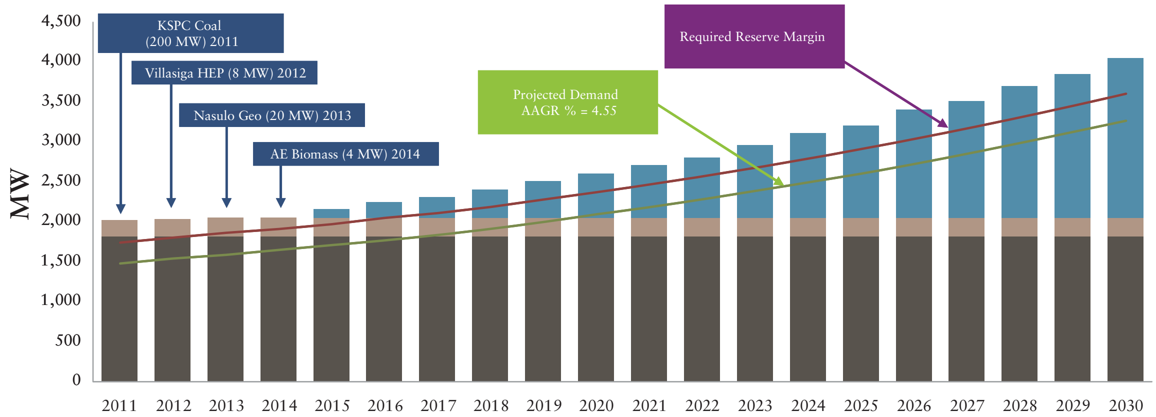
Luzon Power Supply and Demand Outlook: 2011-2030



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Required Additional Capacity	-	-	-	-	300	300	300	600	-	1,000	500	500	1,000	500	500	1,000	800	1,000	1,000	1,150
Committed Capacity	320	59	620	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Existing Capacity	10,468	10,788	10,842	11,462	11,462	11,462	11,462	11,462	11,462	11,462	11,462	11,462	11,462	11,462	11,462	11,462	11,462	11,462	11,462	11,462
Required reserved margin	1,601	1,616	1,627	1,639	1,651	1,664	1,677	1,692	1,707	1,730	1,754	1,779	1,806	1,834	1,864	1,896	1,929	1,964	2,001	2,040
Peak demand	7,673	8,048	8,331	8,618	8,921	9,247	9,587	9,948	10,322	10,893	11,496	12,131	12,802	13,511	14,258	15,046	15,879	16,757	17,684	18,662

Source: DOE Power Development Plan 2010 to 2030

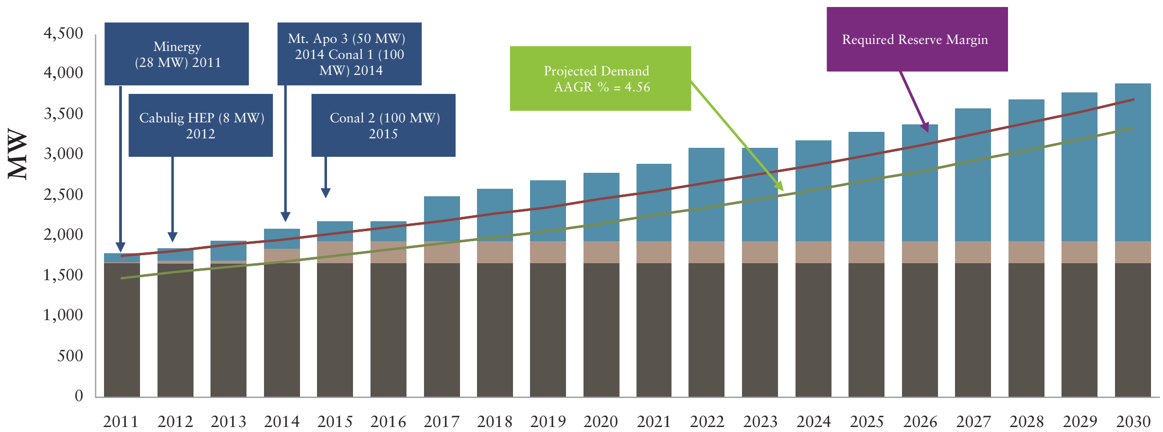
Visayas Power Supply and Demand Outlook: 2011-2030



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Required Additional Capacity	-	-	-	-	100	100	50	100	100	100	100	100	150	150	100	200	100	200	150	200
Committed Capacity	200	8	20	4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Existing Capacity	1,824	2,024	2,032	2,052	2,056	2,056	2,056	2,056	2,056	2,056	2,056	2,056	2,056	2,056	2,056	2,056	2,056	2,056	2,056	2,056
Required reserved margin	259	262	264	266	268	271	274	276	280	284	287	291	295	300	304	309	314	319	325	331
Peak demand	1,487	1,540	1,594	1,651	1,711	1,774	1,840	1,912	1,998	2,089	2,183	2,283	2,387	2,496	2,610	2,730	2,855	2,987	3,125	3,270

Source: *DOE Power Development Plan 2010 to 2030*

Mindanao Power Supply and Demand Outlook: 2011-2030



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Required Additional Capacity	100	50	100	-	-	-	300	100	100	100	100	200	-	100	100	100	200	100	100	100
Committed Capacity	28	8	-	150	100	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Existing Capacity	1,658	1,685	1,693	1,693	1,843	1,943	1,943	1,943	1,943	1,943	1,943	1,943	1,943	1,943	1,943	1,943	1,943	1,943	1,943	1,943
Required reserved margin	269	272	275	277	280	283	286	289	293	297	300	304	309	313	318	322	327	333	338	344
Peak demand	1,484	1,550	1,616	1,686	1,755	1,829	1,906	1,987	2,071	2,163	2,259	2,360	2,465	2,575	2,690	2,811	2,937	3,069	3,207	3,351

Source: *DOE Power Development Plan 2010 to 2030*

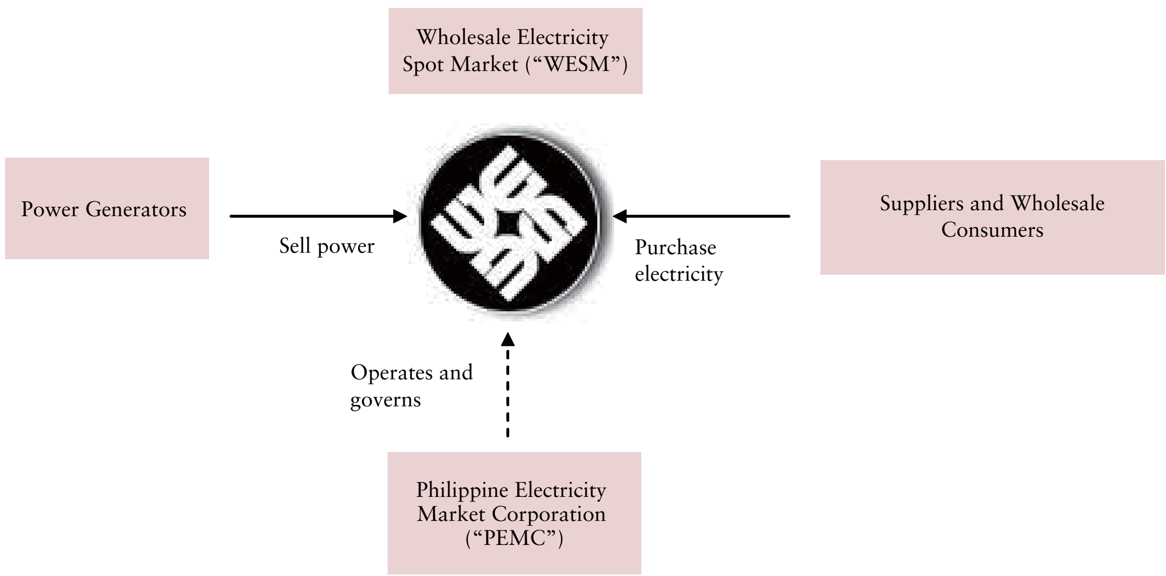
Energy Sources

The Philippines' main energy sources for power generation are coal, natural gas, geothermal, hydropower, fuel oil and diesel oil. According to the DOE Power Sector Situationer, coal-fired plants accounted for the largest proportion of installed capacity and also remained the top electricity producers in 2010, accounting for 34.4% of the country's total gross generation in 2010. In the Visayas grid, gross generation from geothermal energy predominates, accounting for 63.6% of total generation in 2010. Coal and natural gas-fired plants are the dominant producers of electricity in the Luzon grid, together accounting for 78.7% of the total generation in 2010. Hydropower is the main supplier of electricity in the Mindanao grid, accounting for 44.7% of the total generation in 2010.

With limited natural resources available, the Philippines largely relies on imports of coal and oil for generating electricity. The Government's goal, as set out in the National Energy Sufficiency and Conservation Program, is to meet supply targets while promoting energy self-sufficiency. Limiting the utilization of imported fuels will make the Philippines less vulnerable to increasing oil and coal prices and promoting the use of indigenous sources of energy, such as locally mined coal, geothermal and hydro, will play an increasingly vital role if the Government expects to achieve its self-sufficiency targets.

Wholesale Electricity Spot Market

The WESM was established as part of the EPIRA. The WESM provides a market in which IPPAs and other generators can sell power, while allowing suppliers and wholesale consumers to purchase electricity where no bilateral contract exists between the two parties. The primary aim of the WESM is to provide transparent and efficient dispatch pricing. Its design is similar to the electricity markets in Australia, Singapore and New Zealand. The Philippine Electricity Market Corporation ("PEMC") is responsible for operating and regulating the WESM. The PEMC membership is comprised of representatives from the electricity industry and is chaired by the Secretary of the DOE. The diagram below illustrates how the WESM operates:



BUSINESS – GBP

OVERVIEW

GBP is a holding company that, through its subsidiaries, is a leading power producer in the Visayas Region and Mindoro Island, with a combined gross dependable capacity of 627 MW (480 MW attributable to GBP, net of minority interests in its subsidiary) comprising 619.5 MW of power supplied to the Visayas grid and 7.5 MW of power supplied to Mindoro Island. GBP is a joint venture among several companies, including FMIC, a subsidiary of MBT, and GBH, a non-affiliated company. GT Capital Holdings holds a 39.0% direct share of GBP, assuming the exercise by GT Capital Holdings of an option to acquire from GBH an additional 4.6% in GBP held by GBH. In consideration of a loan that was granted by GT Capital Holdings to GBH, GBH granted GT Capital Holdings the right, but not the obligation, to acquire additional common shares of GBP held by GBH corresponding to approximately 4.6% of the outstanding capital stock of GBP. The option granted to GT Capital Holdings by GBH may be exercised up to one year from the execution of the Memorandum of Agreement, dated December 27, 2011, which set forth the terms of the option. A portion of the proceeds from the Offer will be used by GT Capital Holdings to exercise the option (see "Use of Proceeds"). GT Capital Holdings is currently in discussions with a third-party for the purchase of additional GBP shares. It is expected that these discussions will result in the increase of the direct holdings of GT Capital Holdings in GBP up to 51% by the end of 2012.

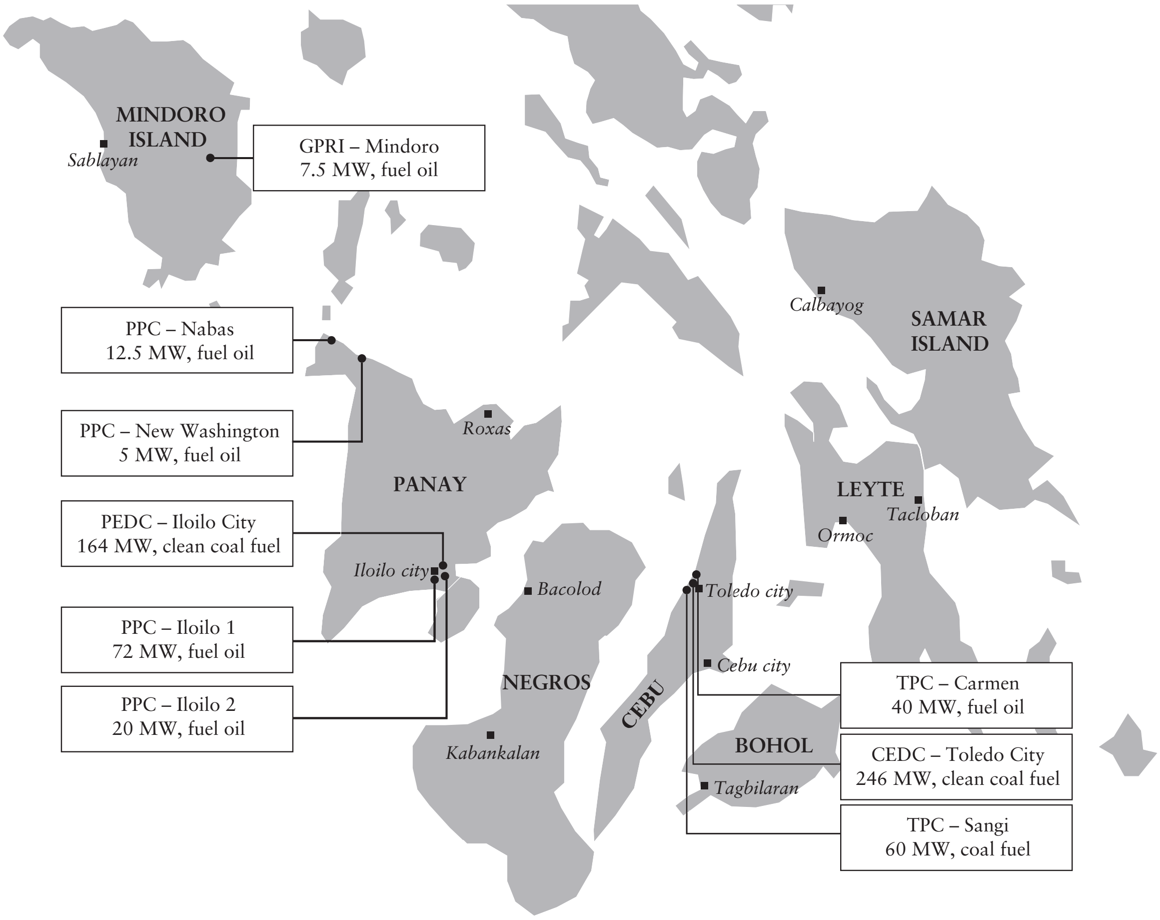
GBP owns nine power generation facilities in the Visayas and Mindoro Island. The largest is the 246 MW-rated clean coal-fired power plant in Toledo City, Cebu, which is operated by CEDC. CEDC is a joint venture between GBP and the Aboitiz Vivant Group, in which GBP holds a 52.1% beneficial interest. This facility is the first commercial clean coal power plant in the Philippines. The second largest power generation facility is the 164 MW-rated, clean coal-fired power plant in Iloilo City, Panay, which is operated by PEDC, in which GBP holds a 89.3% beneficial interest. The CEDC and PEDC projects began commercial operations on February 26 and March 26, 2011, respectively. Both the CEDC and PEDC plants utilize circulating fluidized bed boiler technology that produces very low levels of sulfur dioxide and nitrogen oxide and captures most solid emissions. In 2011, CEDC and PEDC contributed 44.8% and 26.5%, respectively, of GBP's total revenues.

GBP's other power generation facilities consist of a 60 MW coal facility and a 40 MW fuel oil facility operated by TPC, a 72 MW fuel oil facility, a 20 MW fuel oil facility, a 12.5 MW fuel oil facility and a 5 MW fuel oil facility operated by PPC, and a 7.5 MW fuel oil facility operated by GPRI. TPC is an indirectly wholly owned subsidiary of GBP.

To capitalize on the projected power demand growth in the Visayas and across the Philippines, GBP is considering several new projects, including projects in Luzon and renewable energy projects. In the Visayas, GBP has signed a letter agreement for two additional power projects which are expected to come online in 2014 and 2015. See "Use of Proceeds" and "Management's Discussion and Analysis of Financial Condition and Results of Operations – GBP – Capital Expenditure".

GBP is one of the largest independent power producers in the Visayas region. According to the DOE, the Visayas region has been the fastest growing power grid in the Philippines and annual demand growth is expected to be 4.6% from 2011 to 2030. Due to the increasing demand and the long lead-time of building new facilities, the region is expected to require 350 MW of additional power supply by 2018 according to the DOE's projections. For further information on the power situation in the Visayas, see "Philippine Power Industry Overview".

The map below shows the location of the Generation Subsidiaries' current power plant operations in the Visayas and Mindoro Island:



Company/Plants	Effective GBP Ownership (%)	Gross/Net Capacity(1) (MW)	Effective GBP Gross/Net capacity	Contracted Net Capacity (%)
CEDC	52.1	246/216	128/113	83.3
PEDC	89.3	164/144	146/129	77.4
TPC – Sangi	100.0	60/50	60/50	100.0
TPC – Carmen	100.0	40/36	40/36	0.0
PPC – Iloilo 1	89.3	72/69	64/62	21.7
PPC – Iloilo 2	89.3	20/18	18/16	44.4
PPC – Nabas	89.3	13/11	11/10	100.0
PPC – New Washington	89.3	5/4.5	4.5/4	100.0
GPRI	100.0	8/7	8/7	88.2
Total		**627/556**	**480/426**	

Note:

(1) Based on 100% of plants.

GBP's revenues (net fees) were ₱3,876.5 million, ₱4,655.7 million and ₱16,786.1 million in 2009, 2010 and 2011, respectively, with net income of ₱229.6 million, ₱487.2 million and ₱2,229.5 million, respectively. Its total assets amounted to ₱35,517.7 million, ₱55,709.8 million and ₱56,840.8 million as of December 31, 2009, 2010 and 2011, respectively. GBP's principal source of revenue are fees from power.

HISTORY

GBP originated in 2002 as Mirant Toledo Holdings Corporation, which subsequently changed its name to Mirant Global Corporation in September 2003, a joint venture among Mirant (Philippines) Corporation, GBH and FMIC. Mirant Global Corporation owned TPC, PPC and GPRI, which collectively had 179.5 MW of generation capacity. In 2004 and 2005, Mirant Global Corporation expanded its facilities in Iloilo City and Aklan in Panay Island. In 2006, Mirant (Philippines) Corporation's entire share in the company was acquired by FMIC and GBH, and the company was renamed Global Business Power Corporation.

CEDC was incorporated in 2008 as a joint venture with Global Formosa Power Holdings, Inc. and Abovant Holdings, Inc for the development and operation of the 246 MW coal-fired facility in Toledo City, Cebu. CEDC broke ground on its facility in 2008. PEDC was incorporated in 2008 to develop the 164 MW coal-fired facility in Iloilo City, which has an identical design to the CEDC facility. PEDC also broke ground on its facility in 2008. Commercial operations for CEDC and PEDC began on February 26 and March 26, 2011, respectively.

COMPETITIVE STRENGTHS

GBP believes that its principal strengths are the following:

Leading power producer in the Visayas with strategically located generation facilities
GBP is one of the leading independent power producers in the Visayas. GBP believes it significantly benefits from the strategic location of its generation facilities across the Visayan Islands, which allows GBP to address the structural limitations of the regional electricity grid and to maintain a competitive advantage based on cost efficiency and an established presence in the region. The Visayas regional grid, which includes the main islands of Leyte, Cebu, Negros and Panay, is heavily reliant on, and constrained by, the submarine cables (interconnectors) that transmit power from island to island. Due to technical transmission constraints, supply-demand imbalances exist between the islands. The Leyte Geothermal Power Plant, an independent third party, represents the largest single source of power in the region, which supplies electricity to both the Luzon and Visayas grids. This creates a de facto "one-way" flow of electricity through the Visayas grid, which causes issues of voltage regulation, frequency stabilization and transmission constraints. GBP has power generation facilities spread throughout the grid and located near areas where high growth in demand is expected, most notably Cebu and Panay islands. This local supply reduces the distance that power needs to travel through the grid and also the amount of power that travels across undersea cables. GBP believes that because its power generation facilities are located near key off-takers, there is a reduced chance of supply disruptions, allowing GBP to deliver a reliable power supply with lower transmission-related costs as compared to its competitors. GBP also believes that its ability to supply reliable power at competitive rates is a key consideration to its current and potential bilateral off-takers.

High quality, new and competitive generation assets
GBP believes that the CEDC and PEDC facilities are among the newest and most technologically advanced in the Philippines. The two facilities, which began commercial operations in the first quarter of 2011, are state of the art clean coal-fired power plants. They use circulating fluidized bed boiler technology, which is 95% efficient in removing sulfur dioxide from the plants' emissions, produces very low nitrogen oxide and captures most solid particulate emissions. In addition, both the CEDC and PEDC facilities have surpassed internationally recognized environmental standards set by the World Bank. The technology and age of the facilities also allows GBP to maintain low operating costs, since newer facilities are more efficient in the use of fuel and require comparatively little operational maintenance at this point of their lifecycles.

Strong partnerships with key industry leaders
GBP believes it enjoys strong partnerships with leading companies in the energy sector. For example, FHIC, a leading Taiwanese manufacturer of heavy industrial products including oil and refinery and petrochemical processing equipment and turnkey cogeneration plant projects, has been a key strategic partner for both the CEDC and PEDC facilities. FHIC designed, provided equipment for and oversaw the construction of both the CEDC and PEDC facilities. In addition, FHIC oversees the operations and maintenance of the CEDC and PEDC facilities.

GBP also enjoys a strong relationship with the Aboitiz Group, one of the Philippines' leading energy companies, which is a key strategic shareholder of CEDC. GBP believes that its strong partnerships with key industry leaders will support its future success.

Diversified power generation facilities
GBP's nine power generation facilities provide a diverse range of power load capabilities. The CEDC, PEDC, and TPC Sangi power plant facilities are well suited for base load generation, while the fuel oil facilities can provide

intermediate, peak load and ancillary support and cover any power deficiencies caused by routine maintenance shutdowns of other GBP facilities. This diversity allows GBP greater flexibility when providing customers with power across a variety of situations, and provides customers with the reassurance that one provider can manage their requirements on an integrated portfolio basis. GBP also conducts extensive research into its customer's current and future power needs in order to use its portfolio of power generation facilities to adjust effectively to the changes in the requirements of the electricity network. GBP believes it is one of the few power producers in the Visayas with the flexibility to supply base, intermediate, peak load and ancillary support to the grid.

Long-term power purchase agreements providing stable and predictable earnings

GBP typically enters into long-term, predominantly Peso-based EPPAs with its customers. GBP also focuses on bilateral power agreements in an attempt to sell its full power generation capacity at set rates while also participating on the WESM spot market for its non-contracted capacity. Most of GBP's contracts carry terms of 15 to 25 years, with certain key industrial customers under 10-year contracts, and are approved by the ERC. These contracts are predominantly Peso-based, with some U.S. dollar-based expenses, which allows GBP to provide relatively stable rates to its customers. Changes in the tariffs charged by GBP are governed by stable formulas and fuel is charged on a full pass-through basis. Further, when negotiating these contracts, GBP provides a menu of service options allowing GBP to tailor its contracts to the demand and growth forecasts of its customers. GBP believes that these factors will allow it to produce stable and predictable long-term earnings which form the basis for sustainable growth.

Synergies with other GT Capital businesses

The Ty family has been involved in the Philippine power industry since FMIC and GBH entered into a joint venture agreement with Mirant (Philippines) Inc. in 2003, and further when it later acquired Mirant Global Corporation in 2006. GBP continues to benefit from its affiliation with GT Capital in several ways. For example, many of GBP's customers and partners, such as VECO and the Aboitiz-Vivant Group, also conduct business with other GT Capital companies, such as MBT and FMIC. GBP believes that MBT is one of the leading banks in providing financing to electrical co-operatives. GT Capital believes that the common management between GBP, GT Capital and MBT helps assure GBP's customers and partners that GBP is a trusted and well-managed business partner. This relationship also allows GBP to draw upon the extensive business network and in-depth local business knowledge, relationships and expertise of GT Capital, as well as rely on its pool of experienced managers and technical personnel.

STRATEGIES

Continue sustainable growth in capacity through plant expansion, greenfield development and acquisitions

GBP intends to take advantage of the significant supply and demand imbalances that are expected in the Philippines by growing organically through plant expansion, the greenfield development of additional power facilities as well as inorganically through strategic acquisitions in the Visayas, Luzon and Mindanao. GBP is reviewing opportunities for projects that include renewable energy facilities, such as hydroelectric and geothermal facilities, as well as coal plants that may be modeled after the CEDC and PEDC facilities. To evaluate organic growth opportunities, GBP uses feasibility analysis and site evaluations, and conducts research into the local communities and the socio-economic context of its potential sites. In evaluating potential sites, GBP focuses on areas with significant demand growth; on advantageous locations, such as those in proximity to water transportation facilities for fuel shipments or favorable river conditions for hydroelectric facilities; and those in proximity to a particular market, as long transmission distances deteriorates the quality of service GBP can provide and increases transmission costs. GBP will also consider actively pursuing opportunities to acquire power generation assets that add value to its existing business, including certain power generation assets that are expected to be privatized by the Philippine government. GBP will only consider such acquisitions if the opportunities fit within GBP's strategic framework. GBP is also pursuing an expansion of TPC and signed a letter agreement for two additional 82 MW units with FHIC, which are expected to come online in 2014 and 2015. While GBP intends to maintain its primary focus on traditional forms of power generation, such as coal and oil-based facilities, it will also consider renewable energy projects to complement its existing portfolio and bring down its average cost of generation.

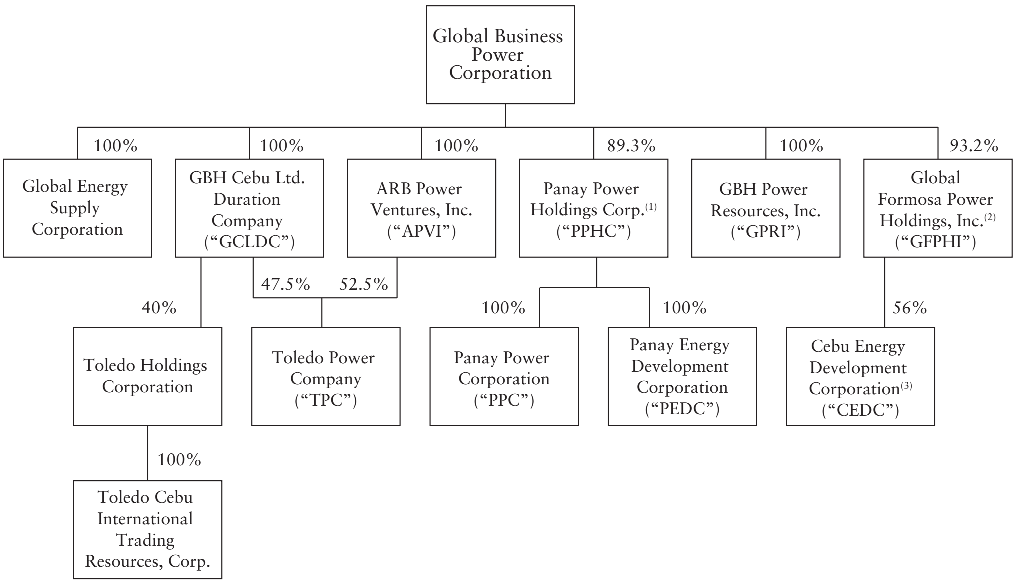
Optimize existing generation assets

GBP plans on maximizing the efficiency and productivity of its existing generation assets. For example, in 2011 GBP has expanded the CEDC facility's coal yard and, in November 2011, began a project to increase the size of its jetty to accommodate larger ships. Similar projects are scheduled to begin at PEDC in 2012. These projects will expand CEDC's and PEDC's ability to process larger coal shipments, thereby allowing GBP to significantly reduce associated coal transportation costs. GBP is also evaluating plans to expand or upgrade its existing facilities, including those at TPC, in order to increase the efficiency of their facilities. GBP will also strive to continue to optimize the efficiency of its existing power plants through proper maintenance, facility upgrades, enhanced work processes and energy loss monitoring and mitigation. GBP seeks to remain a cost-efficient power producer by managing costs through strict cost-control initiatives that help reduce unit operating costs, while continuing to achieve operating standards above international benchmarks.

Participate in retail open access

In September 2011, GBP received a license to engage in retail electricity supply. This will allow GBP to participate in the retail open access initiative ("Open Access") when it is expected to go into effect in the third quarter of 2012 and directly supply power to end users, including major industrial customers. Under EPIRA, open access is designed to create a competitive market for electricity generation in the Philippines by allowing businesses and consumers to choose their electricity supplier based on price and generation source. When implemented, companies that consume more than 1 MW per year may purchase power directly from GBP and other power producers. GBP intends to take advantage of Open Access by focusing on supplying direct power to power-intensive industries, such as cement and semiconductor producers. Open Access will allow GBP to charge its retail customers competitive rates, while customers would pay less than they would pay power distributors since intermediary distributors would be circumvented. See "Regulation – GBP".

CORPORATE STRUCTURE



Notes:

(1) Panay Power Holding, formerly known as Claredon Tower, is a joint venture among GBP, the La Filipina Uygongco Group and Delta Pi.

(2) Global Formosa Power Holdings, Inc. is a joint venture between GBP and Flat World Ltd.

(3) CEDC is a joint venture between GFPHI and Abovant Holdings, Inc.

POWER GENERATION FACILITIES

A summary of the Generation Subsidiaries' power stations follows:

Name of Company	Power Stations	Location of Facility	GBP effective ownership
CEDC	246 MW(1) clean coal fuel	Toledo City, Cebu	52.1%
PEDC	164 MW(1) clean coal fuel	Iloilo City, Panay	89.3%
TPC	Sangi Plant – 60 MW(2) coal fuel	Toledo City, Cebu	100.0%
	Carmen Plant – 40 MW(2) fuel oil		
PPC	Iloilo 1 Plant – 72 MW(1) fuel oil	Iloilo City, Panay	89.3%
	Iloilo 2 Plant – 20 MW(1) fuel oil		
	Nabas Plant – 12.5 MW(1) fuel oil	Aklan, Panay	
	New Washington Plant – 5 MW(1) fuel oil		
GPRI	7.5 MW(1) fuel oil	Mindoro	100.0%

Notes:

(1) This figure represents gross capacity, which is the plant's name-plate rated capacity. GBP rates CEDC and PEDC at their total gross capacity because they have only recently begun commercial operations.

(2) This figure represents dependable capacity, which is capacity that can be relied upon to carry system load to meet firm power obligations. GBP rates the dependable capacity of these facilities as they believe that this best reflects GBP's operations and total capacity.

Electric Power Purchase Agreements

GBP enters into bi-lateral off-take arrangements through EPPAs between its Generation Subsidiaries and the power-off-takers. The EPPAs provide for a specific amount of capacity to be allocated to each customer, with provisions that allow for the periodic revision of the amounts in the agreement. The contracts are generally between 10 and 25 years in length, where 10 year contracts are standard for industrial off-takers and 15 to 25-year contracts are standard for power utilities and distributors.

GBP's EPPAs are take or pay contracts where the off-taker agrees to pay the higher of the actual energy off-take or the minimum contracted energy as specified in the EPPA. In the event that the off-taker does not take the minimum contracted energy, the off-taker must still pay the corresponding energy fees for such minimum contracted energy.

The electricity fees paid under the EPPAs are set by formulas. These formulas take into account capital recovery costs, operation and management costs and fuel costs. Where costs are denominated in U.S. dollars, a foreign exchange adjustment is also applied. GBP passes all fuel costs to the off-takers. However, fuel costs are generally indexed to the Mean of Platt's Singapore, in the case of oil fuel, and Newcastle Coal, for coal fuel. Fees are paid in Pesos.

EPPAs also contain provisions that allow certain amounts of specified and unspecified downtime for the Generation Subsidiary. The EPPAs also provide for penalties for late payment of fees as well as liquidated damages for termination of the contracts.

Where an off-taker is a power utility, EPPAs generally have "no-poaching" provisions that prevent GBP from marketing its power supplies directly to the utilities' customers. However, under Open Access, in the event that a customer switches from the utility to the Generation Subsidiary, the EPPA specifies that the amount of power to be supplied to the utility will be reduced accordingly, to prevent any overhang under the EPPA.

GBP typically only enters into bilateral off-take agreements with off-takers that are rated A or better according to the National Electrification Administration ("NEA"), the Government agency tasked with overseeing electric cooperatives. EPPAs are generally tailored to the needs of the off-taker, whether baseload, intermediate or peaking power. With the operation of CEDC and PEDC, which specialize in baseload power, GBP has been using its other power facilities to specialize in intermediate and peak power, as the case may be. Thus, GBP has focused its efforts on transitioning many of its existing customers from EPPAs with the smaller generation facilities to EPPAs with CEDC and PEDC. Recently transitioned agreements include those with VECO, PECO and AKELCO.

As of December 31, 2011, GBP had uncontracted capacity of 167.5 MW, which it intends to market to bilateral, industrial off-takers as well as to the WESM.

A summary of EPPAs of the Generation Subsidiaries as of December 31, 2011 follows:

Generation Subsidiary/Plant	Customer	Contracted Amount	Expiration Date
		(MW/year)	
CEDC (246 MW)	Visayan Electric Company, Inc. (VECO)	105	2036
	Philippine Economic Zone Authority – MACTAN Economic Zone (PEZA-MEZ I)	25	2021
	Mactan Electric Company (MEC)	15	2026
	Bohol I Electric Cooperative, Inc. (BOHECO)	10	2026
	CEBU III Electric Cooperative, Inc. (CEBECO 3)	10	2026
	CEBU II Electric Cooperative, Inc. (CEBECO 2)	8	2026
	Balamban Enerzone Corporation (BEZ)	4	2026
	CEBU I Electric Cooperative, Inc. (CEBECO 1)	3	2026
		180	MW
Contracted Capacity (% of net capacity)		**83.3%**	
PEDC (164 MW)	Panay Electric Company, Inc. (PECO)	65	2036
	Aklan Electric Cooperative, Inc. (AKELCO)	12	2036
	Iloilo II Electric Cooperative, Inc. (ILECO 2)	10	2036
	Capiz Electric Cooperative, Inc. (CAPELCO)	8	2036
	Antique Electric Cooperative, Inc. (ANTECO)	7	2036
	Iloilo I Electric Cooperative, Inc. (ILECO 1)	3.5	2036
	Iloilo III Electric Cooperative, Inc. (ILECO 3)	2	2036
	Philippine Phosphate Fertilizer Corporation	4	2016
		111.5	MW
Contracted Capacity (% of net capacity)		**77.4%**	
TPC			
Sangi Plant (60 MW)	Carmen Copper Corporation (Carmen Copper)	35	2014
	CEBECO 3	15	2015
Carmen Plant (40 MW)	No contract	–	
		50	MW
Contracted Capacity (% of net capacity)		**58.1%**	
PPC			
Iloilo 1 Plant (72 MW)	PECO(1)	15	2026
Iloilo 2 Plant (20 MW)	ILECO 1(1)	8	2025
Nabas Plant (12.5)	National Grid Corporation of the Philippines	12.5	2012
New Washington Plant (5 MW)	AKELCO	5	2025
		40.5	MW
Contracted Capacity (% of net capacity)		**39.4%**	
GPRI – Mindoro (7.5 MW)	Oriental Mindoro Electric Cooperative, Inc.	6	2020
		6	MW
Contracted Capacity (% of net capacity)		**88.2%**	

Note:

(1) EPPA is for peak power only.

Cebu Energy Development Corporation

Overview

CEDC developed and owns and operates a 246 MW clean coal-fired power plant located in Toledo City, Cebu. CEDC is a joint venture composed of GBP and Abovant Holdings, Inc., a joint venture between the Aboitiz Power Corporation and the Vivant Energy Corporation. FHIC is the engineering, procurement and construction ("EPC") provider and supervises the operations and maintenance of the plant.

The CEDC plant provides affordable energy while simultaneously improving the power system reliability of Cebu Island. CEDC utilizes the latest in circulating fluidized bed ("CFB") boiler technology and was the first commercial clean-coal facility in the Philippines.

The CEDC facility is a three-unit facility with a gross capacity of 246 MW and net capacity of 216 MW. GBP believes the CEDC facility is one of the largest power industry investment in the Visayas region. As of December 31, 2011, the contracted capacity of the facility was 180 MW across eight customers organized for terms of either 10, 15 or 25 years in length. The CEDC facility covers 28.1 hectares of land. Coal is stored on a 2.5 hectare, covered yard and serviced by a 200 meter (shoreline to pier) jetty. The facility utilizes three 82 MW Kawasaki turbines and is powered by three 300T/H boilers manufactured by FHIC. Power is transmitted to the CNP Grid via a 5.1 km 138 kV dedicated point-to-point transmission line from the plant switchyard to the Calung Calung substation of the NGCP in Talavera, Cebu.

CEDC broke ground on the facility in January 2008 and formal construction began in July of that year. The first unit of CEDC was synchronized with the grid in February 2010, with the second and third units becoming synchronized in June 2010 and December 2010, respectively. CEDC declared commercial operations on February 26, 2011.

The facility's key customers are VECO, PEZA-MEZ1, MECO and BOHECO, which off-take 42.7%, 10.2%, 6.1% and 5.7% of the CEDC plant's gross capacity, respectively. CEDC and VECO have entered into a 25-year EPPA, which expires in 2036. The EPPAs for PEZA-MEZ1, MECO and BOHECO expire in 2021, 2026 and 2026, respectively. VECO is a distribution utility associated with the Aboitiz and Garcia Group, which distributes power in Cebu City and other nearby areas. PEZA-MEZ1 is an industrial ecozone located in Mactan, Cebu. MECO is a distribution utility distributing power in Mactan, Cebu. BOHECO is a franchised electric utility.

Shareholders

CEDC is a joint venture between GFPHI and Abovant Holdings, Inc., which represents the interest of GBP and the Aboitiz Power Corporation and the Vivant Energy Corporation, respectively. On April 27, 2007, GBP and Flat World Ltd., a corporation organized under the laws of British Virgin Islands, entered into an agreement to form a strategic partnership which was incorporated on May 5, 2008 as Global Formosa Power Holdings, Inc. GBP has a 93.2% interest in GFPHI.

On August 11, 2007, GFPHI and Abovant Holdings, Inc. entered into a Memorandum of Agreement whereby both parties agreed to form a joint venture company for the purpose of constructing a new coal-fired power plant in Toledo City, Cebu. This joint venture company was incorporated on December 5, 2008 as CEDC. The Memorandum of Agreement allows a third-party investor to participate on a minority basis in the equity contribution of GBP to CEDC. GFPHI has a 56% interest in CEDC. GBP's indirect interest in CEDC is therefore 52.1%. Under the joint-venture agreement, Abovant Holdings, Inc. appoints five of the 11 members of CEDC's board of directors and the quorum for board meetings and minimum votes to pass a motion or resolution requires at least one of the board members it selected to be present and vote for the motion or resolution.

On November 12, 2007, GBP entered into EPC contracts with FHIC, under which FHIC designed the CEDC facility, provided the machinery, equipment and supplies for the CEDC facility, and served as project manager and technical supervisor for the implementation and installation of such equipment. These contracts were later amended so that CEDC assumed GBP's rights and responsibilities. See "– Engineering, Procurement and Construction". FHIC is a leading manufacturer of heavy industrial products, including oil and refinery and petrochemical processing equipment, plastics and fiber processing and turnkey cogeneration plant projects and power plant equipment products.

Operations

The table below is a summary of certain operating statistics of the CEDC facility since it commenced commercial operations on February 26, 2011.

	Year ended December 31, 2011(1)
Actual Energy Generated (GWh)(2)	1,510.8
Electricity Sold (GWh)	1,353.1
of which: bilateral off-take agreements	1,285.7
of which: WESM sales	67.4
Average Realized Electricity Prices (P/MWh)	
for electricity sold under bilateral off-take agreements	5.8
for electricity sold on WESM	12.2
Net Capacity Factor (%)(3)	71.4
Availability Factor (%)(4)	92.0
Reliability factor (%)(5)	97.3
Average Net Dependable Capacity (MW)(6)	216.0
Net Heat Rate (Btu/kWh) (LHV)	12,515.1

Notes:

(1) *The figures for 2011 include power produced beginning on February 26, 2011 and continuing through the end of 2011.*

(2) *Actual Energy Generated equals actual gross electrical output from the plant.*

(3) *Net capacity factor is a measure of the actual delivered energy from the CEDC plant within the year divided by the maximum generation possible during that period.*

(4) *Availability factor is the percentage of time of the year in which a power plant is available for dispatch regardless of actual plant capacity.*

(5) *Reliability factor is a measure of the ability of the electric system to supply the aggregate electrical demand and energy requirements of the customers at all times, taking into account scheduled and unscheduled outages of system facilities.*

(6) *Average net dependable capacity is the average capacity a unit can sustain over a specified period modified for seasonal limitation and units actual performance condition, less the capacity required for station service or auxiliaries.*

In 2011, CEDC generated 1,286.2 GWh, equivalent to a net capacity factor of 71.4%. CEDC's first, second and third units began producing power in February 2010, June 2010 and December 2010, respectively, on a test basis. Prior to the ERC's approval of CEDC's bilateral rates, the rates charged by CEDC for its contracted capacity were significantly lower.

The plant's availability was 92% during 2011 and met CEDC's internal target of 92%, while the plant's reliability factor of 97.3% was higher than its internal target of 92%. The Net Heat Rate of 12,515.1 Btu/kWh was 2.5% better than the expected heat rate considering degradation for the same accumulated operating hours.

Fuel Supply

CEDC receives coal from PT Adaro and Coal Orbis, which provide coal from Indonesia, and Semirara, which provides coal from the Philippines. Under the agreement with PT Adaro, CEDC will receive coal from 2011 to 2019, with an option to extend until October 1, 2022. PT Adaro is required to supply approximately 250,000 metric tons of coal per year in accordance with specified quality standards. Under the agreement with Coal Orbis, CEDC will receive coal from 2010 to 2016, with an option to renew for an additional five years. Coal Orbis is required to supply approximately 150,000 metric tons of coal per year in accordance with specified quality standards. Under the agreement with Semirara, CEDC will receive coal from 2010 to 2019. Semirara is required to supply approximately 400,000 metric tons of coal per year, with an option for additional volume, subject to availability, in accordance with specified quality standards. Semirara assumes any additional costs related to the failure to meet these specifications. Coal prices under the agreements are indexed to Newcastle Coal prices and are modified if they do not meet certain moisture, sulfur, ash and coal particulate standards. Coal procurement is handled through GBP's fuel management group.

Engineering, Procurement and Construction

The CEDC plant was constructed by FHIC pursuant to a Supply Contract dated November 12, 2007 between GBP and FHIC. The contract was amended on November 5, 2009 so that CEDC could assume GBP's obligations. This was also supplemented by a Supervisory Agreement dated November 12, 2007 between GBP and FHIC and amended on November 5, 2009, so that CEDC could assume GBP's obligations. Under the supply agreement, FHIC agreed to design and provide or procure the material and equipment necessary for the construction of the facility. Under the supervision agreement, FHIC agreed to provide advisory, project management and supervisory services for the construction of the facility and installation and implementation of the power generation equipment. GBP and True North Manufacturing Services Corporation entered into an agreement dated November 12, 2007 and amended on October 5, 2009, for the construction of the facility.

Financing and Capital Expenditures

CEDC obtained funding for the construction of the CEDC plant using a mix of project finance debt and equity at a 70/30 ratio. Total long-term debt incurred was ₱16.0 billion with a final maturity in 2021, of which ₱15.2 billion remains outstanding as of December 31, 2011. The project finance facilities were provided mostly by local Philippine commercial banks. For more information, see the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations – GBP – Liquidity and Capital Resources – Debt Obligations and Facilities" in this Prospectus and GBP's audited consolidated financial statements included in this Prospectus.

Operations and Maintenance

Operations and maintenance services for the CEDC plant are provided by FHIC under an Operation and Maintenance Agreement with CEDC dated January 26, 2011 (the "CEDC Contract of Services"). The CEDC Contract of Services is for a two-year term beginning January 1, 2011 and renewable for six month periods for up to three years. The agreement provides a schedule of fees to be paid to FHIC based on the personnel assigned to CEDC. All amounts payable under the CEDC Contract of Services, as amended, are exclusive of any applicable taxes imposed on CEDC in connection with services performed under the agreement, which are to be paid for on CEDC's own account.

Certificate of Compliance

Under the EPIRA, no person or entity may engage in the generation of electricity unless such person or entity has complied with the standards, requirements and other terms and conditions set by the ERC and has received a Certificate of Compliance ("COC") from the ERC to operate facilities used in the generation of electricity. CEDC was issued its COC on February 22, 2010.

Panay Energy Development Corporation

Overview

PEDC developed and owns and operates a 164 MW clean coal-fired power plant located in Iloilo City, Panay. GBP believes that the PEDC facility is the largest power plant investment on Panay Island. PEDC was incorporated on February 27, 2009. PEDC utilizes the latest in CFB boiler technology, and has a design identical to the CEDC plant. PEDC is owned by a group of investors consisting of GBP and local investors.

PEDC, like CEDC, entered into EPC contracts with FHIC, where FHIC designed the facility, provided the machinery, equipment and supplies for the facility, and served as project manager and technical supervisor for the implementation and installation of such equipment.

The PEDC facility is a two-unit facility with a gross capacity of 164 MW and net capacity of 144 MW. As of December 31, 2011, the contracted capacity of the facility was 111.5 MW spread among eight customers under terms of either 15 or 25 years in length. The PEDC facility covers 27.8 hectares of land. Coal is stored on a 1.8 hectare, covered yard and serviced by a 200 meter (from shoreline to pier) jetty. The facility utilizes two 82 MW Kawasaki turbines and is powered by two 300T/H boilers manufactured by FHIC. Power is transmitted to the Cebu Negros Panay Grid via a 17 km 138kV transmission line from the plant switchyard to the Sta. Barbara substation of NGCP located in Sta. Barbara, Iloilo.

PEDC broke ground on the facility in September 2008. The first unit of PEDC was synchronized with the Visayas grid in November 2010 and the second in March 2011. PEDC commenced commercial operations on March 26, 2011. The construction and operations at the PEDC facility occurred at a faster rate than that of CEDC because of the lessons learned from construction of the CEDC facility which were applied to PEDC.

The facility's key customers are PECO, AKELCO and ILECO 2, which off-take 39.6%, 7.3% and 6.1% of the PEDC plant's gross capacity, respectively. PEDC has entered into a 25-year EPPA with PECO, AKELCO and ILECO 2, which all expire in 2036. PECO is one of the largest power distribution utilities in the Philippines and is located in Iloilo City. AKELCO and ILECO 2 are electric cooperatives.

Shareholders

GBP indirectly owns PEDC through its 89.3% share of Panay Power Holdings Corporation ("PPHC"), which in turn is the 100% owner of PEDC. The other investors in PPHC are the La Filipina Uygongco Group, a corporation with businesses in Iloilo City, with an 8.0% interest and Delta Pi, which has an 2.7% interest.

Operations

The table below is a summary of certain operating statistics of the PEDC facility since it commenced commercial operations on March 26, 2011.

	Year ended December 31, 2011[(1)]
Actual Energy Generated (GWh)[(2)]	858.5
Electricity Sold (GWh)	657.7
of which: bilateral off-take agreements	564.5
of which: WESM sales	93.2
Average Realized Electricity Prices (P/MWh)	
for electricity sold under bilateral off-take agreements	5.4
for electricity sold on WESM	7.8
Net Capacity Factor (%)[(3)]	72.0
Availability Factor (%)[(4)]	82.0
Reliability factor (%)[(5)]	93.0
Average Net Dependable Capacity (MW)[(6)]	138.2
Net Heat Rate (Btu/kWh) (LHV)	12,159.0

Notes:

(1) *The figures for 2011 include power produced beginning on March 26, 2011 and continuing through the end of 2011.*

(2) *Actual Energy Generated equals actual gross electrical output from the plant.*

(3) *Net capacity factor is a measure of the actual delivered energy from the PEDC plant within the year divided by the maximum generation possible during that period.*

(4) *Availability factor is the percentage of time of the year in which a power plant is available for dispatch regardless of actual plant capacity.*

(5) *Reliability factor is a measure of the ability of the electric system to supply the aggregate electrical demand and energy requirements of the customers at all times, taking into account scheduled and unscheduled outages of system facilities.*

(6) *Average net dependable capacity is the average capacity a unit can sustain over a specified period modified for seasonal limitation and units actual performance condition, less the capacity required for station service or auxiliaries.*

PEDC's first and second units began producing power in November 2010 and March 2011, respectively. For 2011, PEDC generated 858.5 GWh, equivalent to a net capacity factor of 72%. Prior to the ERC's approval of PEDC's bilateral rates, the rates charged by PEDC for its contracted capacity were significantly lower.

The plant's availability factor of 82% during 2011 as against PEDC's internal target of 84%, while the plant's reliability factor of 93% was higher than its internal target of 85.7%. The Net Heat Rate of 12,159 Btu/kWh was better than the expected heat rate of 13,365 Btu/kWh, considering degradation for the same accumulated operating hours.

Fuel Supply

PEDC receives coal from Samtan and PT Sion supplying coal from Indonesia, and Semirara supplying coal from the Philippines. Under the agreement with Samtan, PEDC will receive coal from 2011 to 2020, with an option to renew for an additional three years. Samtan is required to supply approximately 150,000 metric tons of coal per year in accordance with specified quality standards. Under the agreement with PT Sion, PEDC will receive coal until 2015, with an option to renew for an additional five years. PT Sion is required to supply approximately 150,000 metric tons of coal per year in accordance with specified quality standards. Under the agreement with Semirara, PEDC will receive coal from 2010 to 2019. Semirara is required to supply approximately 300,000 metric tons of coal per year or 15,000 to 18,000 metric tons of coal per month in accordance with specified quality standards and assumes any additional costs related to the failure to meet these specifications. The price of the coal under these agreements is indexed to Newcastle Coal prices and is modified if it does not meet certain moisture, sulfur, ash and coal particulate standards. Coal procurement is handled through GBP's fuel management group.

Engineering, Procurement and Construction

The PEDC plant was constructed by FHIC pursuant to a Supply Agreement dated January 31, 2008 between GBP and FHIC, which was amended on October 7, 2009 so that PEDC could assume GBP's obligations. This was also supplemented by a Supervisory Agreement also dated January 31, 2008 between GBP and FHIC, and amended on October 7, 2009, so that PEDC could assume GBP's obligations. Under the supply agreement, FHIC agreed to design and provide or procure the material and equipment necessary for the construction of the facility. Under the supervision agreement, FHIC agreed to provide advisory, project management and supervisory services for the construction of the facility and installation and implementation of the power generation equipment. GBP and True North Manufacturing Services Corporation entered into an agreement dated January 31, 2008 and likewise amended on October 7, 2009, for the construction of the facility.

Financing and Capital Expenditures

PEDC obtained funding for the construction of the PEDC plant using a mix of project finance debt and equity at a 70/30 ratio. Total long-term debt incurred was ₱14.0 billion with a final maturity in 2021, of which ₱13.1 billion remains outstanding as of December 31, 2011. The project finance facilities were provided mostly by local Philippine commercial banks. For more information, see the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations – GBP – Liquidity and Capital Resources – Debt Obligations and Facilities" in this Prospectus and GBP's audited consolidated financial statements included in this Prospectus.

Operations and Maintenance

Operations and maintenance services for the PEDC plant are provided by FHIC under an Operation and Maintenance Agreement with PEDC dated January 26, 2011 (the "PEDC Contract of Services"). The PEDC Contract of Services is for a two-year term beginning January 1, 2011 and renewable for six month periods for up to three years. The agreement provides a schedule of fees to be paid to FHIC based on the personnel assigned to PEDC. All amounts payable under the PEDC Contract of Services, as amended, are exclusive of any applicable taxes imposed on PEDC in connection with services performed under the agreement, which are for PEDC's own account.

Certificate of Compliance

All of the major required permits for PEDC have been obtained. PEDC received the COC from the ERC to operate facilities used in the generation of electricity on January 24, 2011.

Toledo Power Co.

Background

GBP, through its wholly owned subsidiaries ARB Power Ventures, Inc. ("APVI") and GCLDC, own 100% of TPC through a partnership. TPC owns and operates a 60 MW coal fuel power station, the Sangi plant, and a 40 MW fuel oil power station, the Carmen plant. Both facilities are in Toledo City, Cebu. GBP, formerly Mirant Toledo Holdings Corporation, acquired TPC in 2002 before it became a joint venture between Mirant (Philippines), GBH and FMIC. GBP signed a letter agreement for the expansion of the TPC plants in November 2011.

The Sangi plant has a rated capacity of 60 MW and net capacity of 50 MW. As of December 31, 2011, the contracted capacity of the facility was 50 MW across two customers organized for terms between three and 12 years in length. The Sangi plant covers 6.2 hectares of land. Coal is stored on a 0.6 hectare yard and serviced by a 200 (shoreline to pier) meter jetty. The facility utilizes one Hitachi and one Mitsubishi turbine and is powered by Vereinigte Kesselwerke AG boilers.

The Carmen plant is primarily used for back-up power only. It is a 4x10 MW-unit facility with a rated capacity of 40 MW and net capacity of 36 MW. As of December 31, 2011, it has no contracted capacity. The Carmen plant is primarily run for sales to the WESM and for back-up capacity. The Carmen plant covers 4.9 hectares of land. Fuel is stored in tanks. The facility utilizes four 10 MW generators.

TPC's key customers are CEBECO 3 and its main industrial customer, Carmen Copper, which, combined, off-take all of TPC's total capacity. TPC and CEBECO 3 have entered into a 12-year EPPA expiring in 2015. CEBECO 3 is an electric cooperative based in Toledo City. TPC and Carmen Copper have also entered into a three-year EPPA for power generated from its Sangi plant beginning 2011. This agreement expires in 2014. Carmen Copper is a subsidiary of Atlas Consolidated Mining & Development Corporation.

Shareholders

TPC is a general partnership between APVI and GCLDC. APVI has an assigned capital of 52.5% and a 95.0% share in the profits of TPC. GCLDC has an assigned capital of 47.5% and a 5% share in the profits of TPC and a 40% equity interest in the shares of stock of Toledo Holdings Corporation ("THC"), a company that leases land to TPC. See "– Properties". APVI and GCLDC are both wholly-owned subsidiaries of GBP. Yorktown Properties, Inc. owns the remaining interest in THC.

Sangi Plant Operations

The Sangi plant was built in 1964 to serve the electric power requirements of the mine owned and operated by Atlas Consolidated Mining and Development Corporation. The table below is a summary of certain operating statistics for the Sangi plant for the periods indicated.

	Year ended December 31,				
	2007	**2008**	**2009**	**2010**	**2011**
Actual Energy Generated (GWh)(1)	411.5	349.8	380.8	441.1	420.6
Electricity Sold (GWh)	341.3	286.3	317.4	373.4	355.0
Net Capacity Factor (%)(2)	72.2	43.3	52.8	85.3	88.8
Availability Factor (%)(3)	89.2	76.1	80.3	91.6	89.2
Reliability factor (%)(4)	90.5	86.7	75.2	98.1	97.2
Average Net Dependable Capacity (MW)(5)	50	50	50	50	50
Net Heat Rate (Btu/kWh) (LHV)	16,780	17,793	17,191	16,301	17,296

Notes:

(1) *Actual Energy Generated equals actual gross electrical output from the plant.*

(2) *Net capacity factor is a measure of the actual delivered energy from the plant within the year divided by the maximum generation possible during that period.*

(3) *Availability factor is the percentage of time of the year in which a power plant is available for dispatch regardless of actual plant capacity.*

(4) *Reliability factor is a measure of the ability of the electric system to supply the aggregate electrical demand and energy requirements of the customers at all times, taking into account scheduled and unscheduled outages of system facilities.*

(5) *Average net dependable capacity is the average capacity a unit can sustain over a specified period modified for seasonal limitation and units actual performance condition, less the capacity required for station service or auxiliaries.*

In 2011, the Sangi plant generated 420.6 GWh, equivalent to a net capacity factor of 88.8% as compared to an 85.3% net capacity factor for all of 2010. This increase in dispatch was primarily due to the increase in demand by Carmen Copper Corporation. The Sangi plant generated 441.3 GWh and 383.4 GWh of power in each of 2010 and 2009, respectively.

The plant's availability factor of 89.2% during 2011 was below TPC's internal target of 90%, while the plant's reliability factor of 97.2% was higher than TPC's internal target of 90%. The Net Heat Rate of 17,296 Btu/kWh was 1.2% better than the expected heat rate considering degradation for the same accumulated operating hours. The plant's availability factor of 91.6% during 2010 exceeded TPC's internal target of 90.0%. The plant's reliability factor of was 98.1% during 2010. The actual Net Heat Rate measured during the NDC was 16,301 Btu/kWh, which was 6.9% more efficient than the guaranteed heat rate for the same amount of accumulated operating hours.

Carmen Plant Operations

The Carmen plant was built in 1979. The Carmen plant has been used chiefly as a back-up plant since 2006. The table below is a summary of certain operating statistics of the Carmen plant since 2007.

	Year ended December 31,				
	2007	2008	2009	2010	2011
Actual Energy Generated (GWh)(1)	4.7	68.0	143.2	113.0	10.0
Electricity Sold (GWh)	4.5	62.9	132.3	106.6	8.7
Net Capacity Factor (%)(2)	1.4%	19.5%	40.9%	33.8%	2.8%
Availability Factor (%)(3)	95.5%	97.7%	96.9%	97.0%	98.0%
Reliability factor (%)(4)	92%	92%	89.9%	95.0%	97.0%
Average Net Dependable Capacity (MW)(5).	37	37	37	36	36
Net Heat Rate (Btu/kWh) (LHV)	10,844	9,876	9,340	9,521	10,585

Notes:

(1) *Actual Energy Generated equals actual gross electrical output from the plant.*

(2) *Net capacity factor is a measure of the actual delivered energy from the plant within the year divided by the maximum generation possible during that period.*

(3) *Availability factor is the percentage of time of the year in which a power plant is available for dispatch regardless of actual plant capacity.*

(4) *Reliability factor is a measure of the ability of the electric system to supply the aggregate electrical demand and energy requirements of the customers at all times, taking into account scheduled and unscheduled outages of system facilities.*

(5) *Average net dependable capacity is the average capacity a unit can sustain over a specified period modified for seasonal limitation and units actual performance condition, less the capacity required for station service or auxiliaries.*

In 2011, the Carmen plant generated 10.0 GWh, equivalent to a net capacity factor of 2.8% as compared to a 33.8% net capacity factor for all of 2010. This decrease in dispatch was primarily due to the Carmen plant being a back-up plant. The Carmen plant generated 113.2 GWh and 140.6 GWh of power in each of 2010 and 2009, respectively.

The plant's availability factor of 98.0% during 2011 exceeded TPC's internal target of 90.0%, while the plant's reliability factor of 97.0% was also higher than TPC's internal target of 90%. The Net Heat Rate of 10,585 Btu/kWh was 5.9% worse than the expected heat rate considering degradation for the same accumulated operating hours. The plant's availability factor of 97.0% during 2010 exceeded TPC's internal target of 90.0%. The plant's reliability factor was 95.0%. The actual Net Heat Rate measured during the NDC was 9,521 Btu/kWh, which was 4.8% more efficient than the guaranteed heat rate for the same amount of accumulated operating hours.

Fuel Supply

The Sangi plant receives coal from Semirara, as well as certain Indonesian suppliers on a spot basis. Under the agreement with Semirara, the plant will receive coal through December 31, 2013, with a one year renewal. Semirara is required to supply approximately 15,000-18,000 metric tons of coal per month in accordance with specified quality standards and assumes any additional costs related to the failure to meet these specifications. The price of the coal under the agreement is indexed to Newcastle Coal prices and is modified if it does not meet certain moisture, sulfur, ash and coal particulate standards.

The fuel oil supplied for the Carmen plant is provided by the Pilipinas Shell Petroleum Corporation ("Shell Oil"), under which Shell Oil agreed to provide fuel oil to TPC for a period of one year. Fuel suppliers for the Carmen plant can vary from year to year. The price of the fuel oil is indexed to the Mean of Platt's Singapore with additional charges for premium, duties, taxes and delivery. Diesel and other oils are also provided under this agreement.

Operations and Maintenance

Operations and maintenance services for the TPC plants are done in-house by TPC staff. When maintenance requires specific expertise, TPC hires independent consultants to conduct the maintenance activities.

Certificate of Compliance

All of the major required permits for the TPC plants have been obtained. The Sangi plant renewed its COC in 2009 with a validity period of five years. The Carmen plant also renewed its COC in 2009 with a validity period of five years. The TPC plants gained ISO 14001 certification in 2009, with a validity period of three years. As a part of maintaining this certification, the TPC plant undergoes inspections by a third party every year. The last inspection was conducted in December 2011. The TPC plant's next inspection is scheduled for June 2012.

Panay Power Corporation

Background

PPC owns and operates four fuel oil power plants. In Iloilo City, it has a 72 MW plant, Iloilo 1, and a 20 MW plant, Iloilo 2. In Aklan, it has a 12.5 MW plant, PPC Nabas, and a 5 MW plant, PPC New Washington. GBP, formerly Mirant Global Corporation, acquired PPC and the Iloilo 1 plant in 2003 when it was formed as a joint venture between Mirant (Philippines) and GBH. Under Mirant Global Corporation, the Iloilo Plant 2, Nabas and New Washington Plants were built in 2004.

The Iloilo 1 plant is a six-unit facility with a rated capacity of 72 MW and net capacity of 69 MW. As of December 31, 2011, the contracted capacity of the facility was 15 MW with one customer, PECO, for a term of 15 years expiring on 2026. The Iloilo 1 plant covers 9.4 hectares of land. Bunker fuel is stored in fuel tanks. The facility utilizes Wartsila-Sultzer turbines.

The Iloilo 2 plant is a four-unit facility with a rated capacity of 20 MW and net capacity of 18 MW. As of December 31, 2011, the contracted capacity of the facility was 8 MW which has been contracted to one customer, ILECO 1, for a term of 20 years expiring in 2025. The Iloilo 2 plant covers 2.1 hectares of land. The facility utilizes four 5 MW generators.

The Nabas plant is a three-unit facility with a rated capacity of 12.5 MW and net capacity of 11.3 MW. As of December 31, 2011, the contracted capacity of the facility was 12.5 MW and dedicated fully to NGCP for a term of three years expiring on 2012. The Nabas plant covers 3.4 hectares of land. Fuel is stored in two vertical and two horizontal tanks and delivered by lorry. The facility utilizes Mitsubishi generators. Power is transmitted to the Cebu Negros Panay grid via a 69kV transmission line from the plant switchyard to the Caticlan substation.

The New Washington plant is a single-unit facility with a rated capacity of 5 MW and net capacity of 4.5 MW. As of December 31, 2011, the contracted capacity of the facility was 5 MW and dedicated fully to AKELCO for a term of twenty years expiring on 2025. The New Washington plant covers 2.6 hectares of land. Fuel is stored in two 500 kiloliter tanks. The facility utilizes a Mitsubishi generator. The New Washington plant is an embedded generator of AKELCO and therefore does not pass through the transmission grid.

The PPC's key customers are PECO, NGCP, AKELCO and ILECO 1. PPC primarily generates peaking power to supply these customers with additional energy during maximum usage periods. PECO, NGCP, AKELCO and ILECO 1 off-take a total of 40.5 MW per year, or 39.5% of PPC's net capacity.

Shareholders

GBP indirectly owns PPC through its 89.3% share of PPHC, which in turn is the 100% owner of PPC.

Iloilo 1 Plant Operations

The Iloilo 1 plant completed its 13th year of operations in 2011. Originally used to provide baseload, intermediate and peak power requirements of PECO, currently it is primarily used to provide peak power and has reduced its power generation accordingly. The table below is a summary of certain operating statistics of the Iloilo 1 plant for the periods indicated.

	Year ended December 31,				
	2007	2008	2009	2010	2011
Actual Energy Generated (GWh)(1)	345	304	322	388	110.6
Electricity Sold (GWh)	328.4	289.8	291.9	362.7	101.1
Net Capacity Factor (%)(2)	54%	48%	51%	62%	18%
Availability Factor (%)(3)	82%	82%	82%	95%	100%
Reliability factor (%)(4)	87%	87%	87%	92%	100%
Average Net Dependable Capacity (MW)(5)	69	69	69	69	69
Net Heat Rate (Btu/kWh) (LHV)	8,503	8,566	8,390	8,530	8,620

Notes:

(1) *Actual Energy Generated equals actual gross electrical output from the plant.*

(2) *Net capacity factor is a measure of the actual delivered energy from the plant within the year divided by the maximum generation possible during that period.*

(3) *Availability factor is the percentage of time of the year in which a power plant is available for dispatch regardless of actual plant capacity.*

(4) *Reliability factor is a measure of the ability of the electric system to supply the aggregate electrical demand and energy requirements of the customers at all times, taking into account scheduled and unscheduled outages of system facilities.*

(5) *Average net dependable capacity is the average capacity a unit can sustain over a specified period modified for seasonal limitation and units actual performance condition, less the capacity required for station service or auxiliaries.*

In 2011, the Iloilo 1 plant generated 110 GWh of power, equivalent to a net capacity factor of 18% as compared to a 62% net capacity factor for all of 2010. This decrease in dispatch was primarily due to the plant shifting from a load-following plant to a peaking plant. The Iloilo 1 plant generated 388 GWh and 322 GWh of power in each of 2010 and 2009, respectively.

The plant's availability factor of 100% during 2011 met PPC's internal target, while the plant's reliability factor of 100% matched PPC's internal target. The Net Heat Rate of 8,620 Btu/kWh was 1.9% better than the expected heat rate considering degradation for the same accumulated operating hours. The plant's availability factor of 95% during 2010 was below PPC's internal target of 100%. The plant's reliability factor of 98% during 2010 was higher than PPC's internal target of 97%.

Iloilo 2 Plant Operations

The Iloilo 2 plant completed its eighth year of operations in 2011. The table below is a summary of certain operating statistics of Iloilo 2 for the periods indicated.

	Year ended December 31,				
	2007	2008	2009	2010	2011
Actual Energy Generated (GWh)(1)	28.6	22.5	28.1	22.2	2.0
Electricity Sold (GWh)	38.6	20.3	24.1	19.4	1.6
Net Capacity Factor (%)(2)	16.3%	12.8%	16.1%	12.6%	1.1%
Availability Factor (%)(3)	93%	93%	95%	85%	100%
Reliability factor (%)(4)	95%	95%	96%	88%	100%
Average Net Dependable Capacity (MW)(5)	18	18	18	18	18
Net Heat Rate (Btu/kWh) (LHV)	9,609	9,551	9,660	10,085	10,699

Notes:

(1) *Actual Energy Generated equals actual gross electrical output from the plant.*

(2) *Net capacity factor is a measure of the actual delivered energy from the plant within the year divided by the maximum generation possible during that period.*

(3) *Availability factor is the percentage of time of the year in which a power plant is available for dispatch regardless of actual plant capacity.*

(4) *Reliability factor is a measure of the ability of the electric system to supply the aggregate electrical demand and energy requirements of the customers at all times, taking into account scheduled and unscheduled outages of system facilities.*

(5) *Average net dependable capacity is the average capacity a unit can sustain over a specified period modified for seasonal limitation and units actual performance condition, less the capacity required for station service or auxiliaries.*

In 2011, the Iloilo 2 plant generated 2.0 GWh, equivalent to a net capacity factor of 1.1% as compared to a 12.6% net capacity factor for all of 2010. This decrease in dispatch was primarily due to the plant shifting from a base load plant to a peaking plant. The Iloilo 2 plant generated 22.2 GWh and 28.1 GWh of power in each of 2010 and 2009, respectively.

The plant's availability factor of 100% during 2011 met PPC's internal target, while the plant's reliability factor of 100% matched PPC's internal target. The Net Heat Rate of 10,699 Btu/kWh was better than the expected heat rate considering degradation for the same accumulated operating hours. The plant's availability factor of 85% during 2010 was lower than PPC's internal target of 100%. The plant's reliability factor of 88% during 2010 matched PPC's internal target.

Nabas Plant Operations

The Nabas plant completed its fifth year of commercial operations in 2011. The table below is a summary of certain operating statistics of the Nabas plant for the periods indicated.

	Year ended December 31,				
	2007	2008	2009	2010	2011
Actual Energy Generated (GWh)(1)	12.3	6.8	12.2	38.6	15.2
Electricity Sold (GWh)	0.7	6.2	11.6	36.7	14.4
Net Capacity Factor (%)(2)	11.6%	6.3%	11.1%	35.2%	14.0%
Availability Factor (%)(3)	93.0%	100.0%	91.7%	90.9%	99.0%
Reliability factor (%)(4)	97.0%	100.0%	95.7%	93.2%	99.0%
Average Net Dependable Capacity (MW)(5)	11.3	11.3	11.3	11.3	11.3
Net Heat Rate (Btu/kWh) (LHV)	9,310	9,338	9,323	9,345	9,046

Notes:

(1) *Actual Energy Generated equals actual gross electrical output from the plant.*

(2) *Net capacity factor is a measure of the actual delivered energy from the plant within the year divided by the maximum generation possible during that period.*

(3) *Availability factor is the percentage of time of the year in which a power plant is available for dispatch regardless of actual plant capacity.*

(4) *Reliability factor is a measure of the ability of the electric system to supply the aggregate electrical demand and energy requirements of the customers at all times, taking into account scheduled and unscheduled outages of system facilities.*

(5) *Average net dependable capacity is the average capacity a unit can sustain over a specified period modified for seasonal limitation and units actual performance condition, less the capacity required for station service or auxiliaries.*

In 2011, the Nabas plant generated 15.2 GWh, equivalent to a net capacity factor of 14.0% as compared to a 35.2% net capacity factor for all of 2010. This decrease in dispatch was primarily due to a more stabilized grid thus resulting in lower demand from NGCP. The Nabas plant generated 38.56 GWh and 12.19 GWh of power in each of 2010 and 2009, respectively.

The plant's availability factor of 99.0% during 2011 met PPC's internal target, while the plant's reliability factor of 100.0% matched PPC's internal target. The Net Heat Rate of 9,046 Btu/kWh was 4.8% better than the expected heat rate considering degradation for the same accumulated operating hours. The plant's availability factor of 90.9% during 2010 was below PPC's internal target of 99.0%. The plant's reliability factor of 93.2% during 2010 matched PPC's internal target.

New Washington Plant Operations

The New Washington plant completed its fifth year of commercial operations in 2011. The table below is a summary of certain operating statistics of the New Washington plant for the periods indicated.

	Year ended December 31,				
	2007	2008	2009	2010	2011
Actual Energy Generated (GWh)(1)	3.4	0.5	4.2	9.0	4.0
Electricity Sold (GWh)	0.07	0.48	3.89	9.03	3.69
Net Capacity Factor (%)(2)	7.8%	1.2%	9.7%	22.8%	9.1%
Availability Factor (%)(3)	100.0%	100.0%	100.0%	96.3%	100.0%
Reliability factor (%)(4)	100.0%	100.0%	100.0%	100.0%	100.0%
Average Net Dependable Capacity (MW)(5)	4.5	4.5	4.5	4.5	4.5
Net Heat Rate (Btu/kWh) (LHV)	9,295	9,725	9,224	9,391	9,344

Notes:

(1) *Actual Energy Generated equals actual gross electrical output from the plant.*

(2) *Net capacity factor is a measure of the actual delivered energy from the plant within the year divided by the maximum generation possible during that period.*

(3) *Availability factor is the percentage of time of the year in which a power plant is available for dispatch regardless of actual plant capacity.*

(4) *Reliability factor is a measure of the ability of the electric system to supply the aggregate electrical demand and energy requirements of the customers at all times, taking into account scheduled and unscheduled outages of system facilities.*

(5) *Average net dependable capacity is the average capacity a unit can sustain over a specified period modified for seasonal limitation and units actual performance condition, less the capacity required for station service or auxiliaries.*

In 2011, the New Washington plant generated 4.0 GWh of power, equivalent to a net capacity factor of 9.1% as compared to a 22.8% net capacity factor for all of 2010. This decrease in dispatch was primarily due to lower demand as a result of PEDC's supply of baseload requirement to AKELCO. The New Washington plant generated 9.0 GWh and 4.2 GWh of power in each of 2010 and 2009, respectively.

The plant's availability factor of 100.0% during 2011 met PPC's internal target, while the plant's reliability factor of 100.0% matched PPC's internal target. The Net Heat Rate of 9,344 Btu/kWh was 1.6% better than the expected heat rate considering degradation for the same accumulated operating hours. The plant's availability factor of 96.0% during 2010 was below PPC's internal target of 100.0%. The plant's reliability factor of 100.0% during 2010 matched PPC's internal target.

Fuel Supply

The fuel oil supplied for the Iloilo 1 plant is provided by Shell Oil, under which Shell Oil agreed to provide fuel oil for a period of 15 years beginning in 1998 and shall continue indefinitely subject to 60 days prior written notice of termination by either party. Additionally, Shell Oil also provided certain fuel handling equipment for use at the Iloilo 1 plant. The price of the fuel oil is indexed to the Mean of Platt's Singapore with additional charges for premium, duties, taxes and delivery. Diesel and other oils are also provided under this agreement.

The fuel oil supplied for the Iloilo 2, Nabas and New Washington plants are bidded out on an annual basis. Currently the bunker fuel requirements of these plants are provided by Petron. The price of the fuel oil is indexed to the Mean of Platt's Singapore with additional charges for premium, duties, taxes and delivery. Start up diesel and other oils are also bidded out on an annual basis.

Operations and Maintenance

Operations and maintenance services for the PPC plants are done in house by PPC staff. When maintenance requires specific expertise, PPC hires independent consultants to conduct the maintenance activities.

Certificate of Compliance

PPC was issued its original COC for the Iloilo 1 plant was renewed on September 4, 2008 with a validity period of five years. PPC was issued its original COC for the Iloilo 2 plant in 2005, which was amended on August 31, 2007 with a validity period of five years. PPC was issued its original COC for the Nabas plant in 2005, which was renewed on September 27, 2010 with a validity period of five years. PPC was issued its original COC for the New Washington plant in 2005, which was renewed on September 27, 2010 with a validity period of five years.

GBH Power Resources, Inc.

Background

GPRI owns and operates the 7.5 MW power generation facility in Pinalamayan, Oriental Mindoro which is not presently connected to either the Luzon Grid, Mindanao Grid or the Visayas Grid operated by NPC. GBP, formerly Mirant Global Corporation, acquired GPRI in 2003 when it was formed as a joint venture between Mirant (Philippines) and GBH.

The GPRI plant is a two-unit facility with a rated capacity of 7.5 MW and net capacity of 6.8 MW. As of December 31, 2011, the contracted capacity of the facility was 6 MW and dedicated fully to ORMECO for a term of 20 years expiring in 2020. The GPRI plant covers 2 hectares of land. Fuel is stored in tanks and delivered by lorry. The facility utilizes Mitsubishi generators. The GPRI plant is an embedded generator of ORMECO and is connected directly to ORMECO.

Shareholders

GPRI is a wholly owned subsidiary of GBP.

Operations

The GPRI plant completed its eleventh year of commercial operations in 2011. The table below is a summary of certain operating statistics of GPRI for the periods indicated.

	Year ended December 31,				
	2007	2008	2009	2010	2011
Actual Energy Generated (GWh)[(1)]	43.5	40.7	46.1	47.3	46.2
Electricity Sold (GWh)	46.7	38.0	42.9	44.6	43.23
of which: bilateral off-take agreements	46.7	38.0	42.9	44.6	43.23
of which: WESM sales	–	–	–	–	–
Average Realized Electricity Prices (P/MWh)					
for electricity sold under bilateral off-take agreements	7.3	9.5	8.7	8.9	11.5
for electricity sold on WESM	–	–	–	–	–
Net Capacity Factor (%)[(2)]	66.2%	61.9%	70.1%	72.0%	70.5%
Availability Factor (%)[(3)]	86.0%	94.0%	93.0%	94.0%	91.0%
Reliability factor (%)[(4)]	91.0%	99.0%	98.0%	99.0%	97.0%
Average Net Dependable Capacity (MW)[(5)]	6.4	6.4	6.4	6.4	6.4
Net Heat Rate (Btu/kWh) (LHV)	8,792	8,647	8,731	8,442	8,753

Notes:

(1) *Actual Energy Generated equals actual gross electrical output from the plant.*

(2) *Net capacity factor is a measure of the actual delivered energy from the plant within the year divided by the maximum generation possible during that period.*

(3) *Availability factor is the percentage of time of the year in which a power plant is available for dispatch regardless of actual plant capacity.*

(4) *Reliability factor is a measure of the ability of the electric system to supply the aggregate electrical demand and energy requirements of the customers at all times, taking into account scheduled and unscheduled outages of system facilities.*

(5) *Average net dependable capacity is the average capacity a unit can sustain over a specified period modified for seasonal limitation and units actual performance condition, less the capacity required for station service or auxiliaries.*

In 2011, GPRI generated 46.2 GWh of power, equivalent to a net capacity factor of 70.5% as compared to a 72.0% net capacity factor for all of 2010. This decrease in dispatch was primarily due to slightly lower kWh sales due to plant outages. GPRI generated 47.3 GWh and 46.1 GWh of power in each of 2010 and 2009, respectively.

The plant's availability factor of 91.0% during 2011 exceeded GPRI's internal target of 90.0%, while the plant's reliability factor of 97.0% was also higher than GPRI's internal target of 90%. The Net Heat Rate of 8,753 Btu/kWh was 0.5% better than the expected heat rate considering degradation for the same accumulated operating hours. The plant's availability factor of 94.0% during 2010 exceeded GPRI's internal target of 90.0%. The plant's reliability factor of 99.0% during 2010 was also higher than GPRI's internal target of 97%.

Fuel Supply

The fuel oil supplied to the GPRI plant is bidded out on an annual basis and is currently being provided by Petron pursuant to a fuel oil supply agreement. The price of the fuel oil is indexed to the Mean of Platt's Singapore with additional charges for premium, duties, taxes and delivery. Start up diesel and other oils are also bidded out annually.

Operations and Maintenance

Operations and maintenance services for the GPRI plant are done in-house by GPRI staff. When maintenance requires specific expertise, GPRI hires independent consultants to conduct the maintenance activities.

Certificate of Compliance

GPRI was issued its original COC for the GPRI plant on March 17, 2003, which was renewed on March 9, 2009 with a validity period of 5 years.

FUTURE POWER GENERATION PROJECTS

GBP is actively considering and reviewing options for further growth, including greenfield power plants, expansion of existing power plants and inorganic growth through acquisitions.

Project identification and approval

GBP identifies potential investments, both in relation to greenfield projects and existing power generation facilities by analyzing the demand for electricity. Factors such as GDP and population growth, customer mix, profiles of the major users, and industrial expansion are considered. GBP also looks at commercial viability, potential costs (whether for development or acquisition) and competitive costs, as well as land acquisition and environmental protection issues and the impact of environmental protection requirements on overall profitability of the project, and the availability of government incentives for a particular project. GBP is reviewing opportunities for projects that include renewable energy facilities, such as hydroelectric and geothermal facilities, as well as coal plants that may be modeled after the CEDC and PEDC facilities.

GBP evaluates and assesses each potential project based on, among other things, the following criteria:

- GBP's equity internal rate of return standards;
- the ability to obtain majority ownership and management control over the project;
- the participation of world-class partners and suppliers; and
- the project's potential for future expansion.

For power generation projects, an initial assessment of a proposed facility is formalized in a preliminary feasibility study. In evaluating potential sites, GBP focuses on areas with significant demand growth; on advantageous locations, such as those in proximity to water transportation facilities for fuel shipments or favorable river conditions for hydroelectric facilities; and those in proximity to a particular market, as long transmission distances deteriorates the quality of service GBP can provide and increases transmission costs. GBP also considers fuel supply arrangements, local requirements for permits and licenses, the ability of the plant to generate electricity at a competitive cost and the ability of potential off-takers to purchase the electricity generated, among other issues.

After preliminary evaluations are conducted, selected projects, acquisitions and business opportunities are submitted for preliminary internal approval. Once such approval has been obtained, GBP conducts additional due diligence and performs financial and budgetary analysis, including the necessity for procuring joint venture partners for the project. Based on such analysis, the project, acquisition or business is submitted to GBP's senior management and board for review and approval.

For the development of a new power plant, GBP, its partners and suppliers are required to obtain the necessary permits required before commencement of commercial operations, including permits related to siting, construction, the environment and planning, operation licenses and similar approvals. It is also GBP's policy to have off-take and fuel supply arrangements in place early in the development of a power plant project.

Although GBP continues to focus on enhancing its position as a leading power provider in the Visayas region, from time to time it evaluates business opportunities in the Luzon and Mindanao grids, with a view to acquiring or developing competitive or complementary power generation facilities on commercially reasonable terms.

Notwithstanding the review and evaluation process that GBP's management conducts in relation to any proposed project, acquisition or business, there can be no assurance that GBP will eventually develop a particular project, acquire a particular generating facility or undertake a new line of business or that projects will be implemented or acquisitions made or businesses conducted in the manner planned or at or below the cost estimated by GBP.

Future power opportunities of GBP may include renewable energy projects. GBP is assessing opportunities for the acquisition of geothermal power projects as well as the development of greenfield renewable energy projects, including hydroelectric power projects. GBP believes that by adding renewable energy projects to its power generation portfolio, it may be able to lower its total energy production costs while strengthening its commitment to the environment.

Acquisition of generation assets

As part of its growth strategy, GBP evaluates the feasibility of acquiring existing generation facilities. In particular, GBP intends to participate in the bidding for selected NPC-owned power generation plants that are scheduled for privatization. To the extent that GBP chooses to bid for such assets and is successful, it expects that these acquisitions may be partly funded using a portion of the proceeds of the Offer. However, the disposition by PSALM of NPC's power generation assets as mandated under the EPIRA has been delayed several times and there is no assurance the privatization program will proceed in accordance with PSALM's timetable.

COMPETITION

GBP's power generation facilities face competition from existing and future power generation plants that supply electricity to the Visayas grid. Several of these competitors may have greater financial resources than GBP, giving them the ability to respond to operational, financial and other challenges more quickly than GBP. GBP believes that its experience in designing, building and operating power plant projects in Visayas and Mindoro is stronger than any of its competitors in the region.

A key competitor in the region is the Leyte Geothermal Power Plant, which is operated by the Government through NAPOCOR. However, this project is undergoing a process of privatization that GBP believes will be completed in 2012. The Leyte plant services both the Luzon and Visayas grids. Geothermal power plants are significant competitors because they can produce power at a relatively lower cost than fossil fuel and coal-based producers.

GBP will face competition in both the development of new power generation facilities and the acquisition of existing power plants, as well as competition for financing for these activities. Factors such as the performance of the Philippine economy and the potential for a shortfall in the Philippines' energy supply have attracted many potential competitors, including multinational development groups and equipment suppliers, to explore opportunities in the development of electric power generation projects in the Philippines. Accordingly, competition for and from new power projects may increase in line with the expected long-term economic growth of the Philippines.

INSURANCE

It is GBP's policy to obtain insurance coverage for its operating assets and employees that is in line with industry standards and good business practices. As of December 31, 2011, GBP maintains all-risks insurance coverage, including property damage, machinery breakdown, business interruption, sabotage and terrorism, and directors and officers liability, among others. GBP does not anticipate having any difficulties in renewing any of its insurance policies and believes that its insurance coverage is consistent with industry standards in the Philippines.

PROPERTIES

As of December 31, 2011, GBP Generation Subsidiaries owned power generation facilities, buildings, other land improvements and property and equipment for the operation of its power generation business. The power plant complexes of CEDC, PEDC, TPC and PPC have been mortgaged and/or pledged as security for their long-term debt in the amount of ₱30.1 billion as of December 31, 2011.

The Generation Subsidiaries lease the parcels of land where their power generation facilities are located from THC. Each of TPC, PPC and GPRI leases land from THC for a period of one year, renewable every year and under such terms and conditions as may be agreed upon by the respective parties. Each of the lease agreements of TPC, PPC and GPRI with THC are in the process of being renewed. CEDC and PEDC each have lease agreements with THC for a period of five years, renewable every end of the lease term and under such terms and conditions as may be agreed upon by the respective parties. CEDC's lease agreement with THC will expire on May 31, 2014, while PEDC's lease agreement with THC will expire on August 1, 2013. Currently, GBP has no plans of purchasing real estate.

INTELLECTUAL PROPERTY

Although GBP and its subsidiaries own exclusive rights to their respective corporate logos, none of them own any trademarks and service marks. GBP does not have any other intellectual property rights or registered trademarks or applications for its name or project names.

EMPLOYEES

As of December 31, 2011, GBP and its consolidated subsidiaries had 713 employees. For 2012, GBP has no plans for additional hiring except in the ordinary course of business expansion. The following table provides a breakdown of GBP's employees by subsidiary and function as of December 31, 2011.

	Executive Officers	Operations	Administrative	Total
GBP Headquarters	10	–	77	87
CEDC	1	92	41	134
PEDC	1	91	27	119
TPC	2	177	43	222
PPC	1	90	38	129
GPRI	–	18	4	22

LEGAL PROCEEDINGS

GBP is involved in various legal actions arising in the ordinary course of business. GBP believes that these legal actions or any losses from these matters, if any, would not have a material adverse effect on GBP's financial position, operating results and cash flows.

PPC is a party to a proceeding before the ERC. On October 2, 2002, consumer protection groups from Iloilo City filed a petition against PPC, NPC and PECO for the refund of ₱12.12 million representing a ₱0.30/kWh discount due to PECO customers. The petitioners alleged that the power purchased by PPC from NPC, which it sold to PECO (and eventually charged to Iloilo consumers) from June 2001 to July 2002 was subject to the discount. GBP acquired PPC as part of its acquisition of Mirant's holdings in 2003. The management team at PPC during the period subject of the petition no longer works for GBP. GBP maintains policies which ensure that it consistently and accurately bills its customers and supplies power at the agreed-upon price. For more information, see "Risk Factors – GBP – PPC is a party to a proceeding before the ERC, which, if unfavorably decided against the PPC, may result in adjustments to the GBP's prior recorded income".

REGULATION – GBP

Since the enactment of the EPIRA in 2001, the Philippine power industry has undergone and continues to undergo significant restructuring. Through the EPIRA, the Government began to institute major reforms with the goal of fully privatizing all aspects of the power industry. The principal objectives of the EPIRA are:

- to ensure and accelerate the total electrification of the country;
- to ensure the quality, reliability, security and affordability of the supply of electric power;
- to ensure transparent and reasonable prices of electricity in a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency and to enhance the competitiveness of Philippine products in the global market;
- to enhance the inflow of private capital and to broaden the ownership base of the power generation, transmission and distribution sectors;
- to ensure fair and non-discriminatory treatment of public and private sector entities in the process of restructuring the electric power industry;
- to protect the public interest as it is affected by the rates and services of electric utilities and other providers of electric power;
- to ensure socially and environmentally compatible energy sources and infrastructure;
- to promote the utilization of indigenous and new and renewable energy resources in power generation in order to reduce dependence on imported energy;
- to provide for an orderly and transparent privatization of the assets and liabilities of NPC;
- to establish a strong and purely independent regulatory body and system to ensure consumer protection and enhance the competitive operation of the electricity market; and
- to encourage the efficient use of energy and other modalities of demand side management.

With a view to implementing these objectives, the DOE, in consultation with the relevant government agencies, electric power industry participants, non-government organizations and electricity consumers, promulgated the EPIRA's Implementing Rules and Regulations (the "IRR") on February 27, 2002.

The IRR governs the relations between, and respective responsibilities of, the different electric power industry participants as well as the particular governmental authorities involved in implementing the structural reforms in the industry, namely the DOE, NPC, NEA, ERC and PSALM.

Reorganization of the Electric Power Industry

Of the many changes initiated by the EPIRA, of primary importance is the reorganization of the electric power industry by segregating the industry into four sectors: (1) the generation sector; (2) the transmission sector; (3) the distribution sector; and (4) the supply sector. The goal is for the generation and supply sectors to be fully competitive and open, while the transmission and distribution sectors will remain regulated. Prior to the EPIRA, the industry was regulated as a whole, with no clear distinctions between and among the various sectors and/or services.

The Generation Sector

The EPIRA provides that power generation is not a public utility operation. Thus, generation companies are not required to secure franchises, and there are no restrictions on the ability of non-Filipinos to own and operate generation facilities. However, generation companies must obtain a certificate of compliance from the ERC, as well as health, safety and environmental clearances from appropriate government agencies under existing laws.

Generation companies are also subject to the ERC's rules and regulations on abuse of market power and anti-competitive behavior. The ERC may impose fines and penalties for violation of the EPIRA and the IRR policy on market power abuse, cross-ownership and anti-competitive behavior.

The goal of the EPIRA is for the generation sector to be open and competitive, while the private sector is expected to take the lead in introducing additional generation capacity. Generation companies will compete either for contracts with various suppliers, electric cooperatives and private distribution utilities, or through spot market transactions in the WESM. Competition will be based largely on pricing, subject to availability of transmission lines to wheel electricity through the grid and/or buyers. Recovery by distribution utilities of their purchased power cost is subject to review by the ERC to determine reasonableness of the cost and to ensure that the distribution utilities do not earn any revenue therefrom. Upon commencement of retail competition and open access, generation rates, except those intended for the Captive Market, will cease to be regulated.

The generation sector converts fuel and other forms of energy into electricity. It consists of the following: (i) PSALM-owned and -operated generation facilities; (ii) NPC-owned plants, which consist of plants operated by IPPs, as well as IPP-owned and -operated plants, all of which supply electricity to NPC; (iii) IPP-owned and -operated plants that supply electricity to customers other than NPC; and (iv) privately-owned generation companies.

Under the EPIRA, generation companies are allowed to sell electricity to distribution utilities, electric cooperatives or to retail electricity suppliers through either bilateral contracts or the WESM as described below. Once the regime of retail competition and open access is implemented, generation companies may likewise sell electricity to eligible end-users. The ERC issued a resolution on January 24, 2007 prescribing the timeline for full retail competition and open access. Pursuant to Section 31 of the EPIRA, such implementation is subject to the fulfillment of five conditions. namely: (1) the establishment of WESM; (2) unbundling of transmission and distribution wheeling charges; (3) initial implementation of the cross-subsidy removal scheme; and (4) privatization of at least 70% of the total capacity of NPC's generating assets in Luzon and Visayas, and (5) transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPP administrators. No generation company is allowed to own more than 30% of the installed generating capacity of the Luzon, Visayas or Mindanao grids and/or 25% of the national installed generating capacity. Also, no generation company associated with a distribution utility may supply more than 50% of the distribution utility's total demand under bilateral contracts, without prejudice to the bilateral contracts entered into prior to the effectiveness of the EPIRA.

Historically, the generation sector has been dominated by NPC. To introduce and foster competition in the sector, and, more importantly, to lessen the debt and stranded contract costs of NPC, the EPIRA mandates the total privatization of the generation assets and IPP contracts of NPC, which exclude the assets devoted to missionary electrification through NPC's Small Power Utilities Group. NPC is directed to transfer ownership of all the assets for privatization to a separate entity, PSALM, which is specially tasked to manage the privatization. Beginning early 2004, PSALM has been conducting public bidding for the generation facilities owned by NPC.

As of the date of this Prospectus, PSALM has already met the requirements for retail competition and open access (1) privatization of at least 70% of the total capacity of NPC's generating assets in Luzon and Visayas, and (2) transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPP administrators.

Section 47(j) of the EPIRA prohibits NPC from incurring any new obligations to purchase power through bilateral contracts with generation companies or other suppliers. Also, NPC is only allowed to generate and sell electricity from generating assets and IPP contracts that have not been disposed of by PSALM.

Generation companies are required to secure a CoC from the ERC.

Requirement of Public Offering for Generation Companies
Under Section 43(t) of the EPIRA, the ERC was mandated to issue rules and guidelines under which, among others, generation companies which are not publicly listed shall offer and sell to the public a portion of not less than 15% of their common shares of stock.

ERC Resolution No. 9, Series of 2011, the latest ruling of the ERC with regard to public offerings of generation companies and distribution utilities, adopted the rules to implement Section 47(t) of the EPIRA. Under the resolution, generation companies, among others, which are not publicly listed are required to sell to the public a portion of not less than 15% of their common shares of stock. If the authorized capital stock of a generation company is fully subscribed, such company must increase its authorized capital stock by 15% or sell or cause the sale of 15% of its existing subscribed capital stock in order to comply with the public offering requirement under the EPIRA.

Any offer of common shares of stocks for sale to the public through any of the following modes may be deemed as a public offering for purposes of compliance with the public offering requirement under the EPIRA: (1) listing in the PSE; and (2) listing of the shares of stock in any accredited stock exchange or direct offer of the required portion of a company's capital stock to the public. For generation companies registered with the BOI under the Omnibus Investments Code, the public offering requirement may be complied with by a direct offer of the required portion of the registered enterprise's shares of stock to the public or through its employees through an employee stock option plan (or any plan analogous thereto), provided such offer is deemed feasible and desirable by the BOI.

The Transmission Sector
Pursuant to the EPIRA, NPC has transferred its transmission and sub-transmission assets to TransCo, which was created pursuant to the EPIRA to assume, among other functions, the electrical transmission function of the NPC. The EPIRA also requires the privatization of TransCo through an outright sale of, or the grant of a concession over, the transmission assets and facilities while TransCo's sub-transmission assets are to be offered for sale to qualified distribution utilities. In December 2007, the consortium of Monte Oro Grid Resources, Calaca High Power Corporation, and State Grid Corporation of China, now known as the NGCP, won the concession contract to operate, maintain and expand the TransCo's assets and facilities. NGCP was officially granted the authority to operate the country's sole transmission system on January 15, 2009 by virtue of Republic Act No. 9511. NGCP's principal function is to ensure and maintain the reliability, adequacy, security, stability and integrity of the nationwide electrical grid in accordance with the Philippine Grid Code ("Grid Code"). NGCP is also mandated to provide open and non-discriminatory access to its transmission system to all electricity users.

The transmission of electricity through the transmission grid is subject to transmission wheeling charges. Inasmuch as the transmission of electric power is a regulated common carrier business, NGCP's transmission wheeling charges are subject to regulation and approval by the ERC.

The Grid Code establishes the basic rules, requirements, procedures and standards that govern the operation, maintenance and development of the Philippine grid, or the high-voltage backbone transmission system and its related facilities. The Grid Code identifies and provides for the responsibilities and obligations of three key independent functional groups, namely: (a) the grid owner, or TransCo, (b) the system operator, or NGCP as the current concessionaire of TransCo, and (c) the market operator, or PEMC. The functional groups, as well as all users of the grid, including the generation companies and distribution utilities, must comply with the provisions of the Grid Code as promulgated and enforced by the ERC.

In order to ensure the safe, reliable and efficient operation of the Philippine grid, the Grid Code provides for, among others, the following regulations:

- the establishment of a grid management committee, which is tasked with the monitoring of the day-to-day operation of the grid;

- performance standards for the transmission of electricity through the grid, as well as the operation and maintenance thereof, which standards shall apply to TransCo, NGCP, distribution utilities and suppliers of electricity;

- technical and financial standards and criteria applicable to users of the grid, including generation companies and distribution utilities connected or seeking to connect thereto; and

- other matters relating to the planning, management, operation and maintenance of the grid.

The Distribution Sector

The distribution of electric power to end-users may be undertaken by private distribution utilities, cooperatives, LGUs presently undertaking this function, and other duly authorized entities, subject to regulation by the ERC. The distribution business is a regulated public utility business requiring a franchise from the Philippine Congress, although franchises relating to electric cooperatives remained under the jurisdiction of the NEA until the end of 2006. All distribution utilities are also required to obtain a Certificate of Public Convenience and Necessity from the ERC to operate as public utilities.

All distribution utilities are also required to submit to the ERC a statement of their compliance with the technical specifications prescribed in the Philippine Distribution Code ("Distribution Code") (which provides the rules and regulations for the operation and maintenance of distribution systems), the Distribution Services and Open Access Rules and the performance standards set out in the IRR of the EPIRA.

The distribution sector is and will continue to be regulated by the ERC, with distribution and wheeling charges, as well as connection fees from its consumers, subject to ERC approval. Likewise, the retail rate imposed by distribution utilities for the supply of electricity to its captive consumers is subject to ERC approval. In addition, as a result of the EPIRA, of promoting retail competition and open access, distribution utilities are required to provide universal and non-discriminatory access to their systems within their respective franchise areas following commencement of the open access regime.

The Distribution Code establishes the basic rules and procedures that govern the operation, maintenance, development, connection and use of the electric distribution system in the Philippines. The Distribution Code defines the technical aspects of the working relationship between the distribution and all the users of the distribution system, including distribution utilities, embedded generators and large customers. All such electric power industry participants in distribution system operations are required to comply with the provisions of the Distribution Code as promulgated and enforced by the ERC.

To ensure the safe, reliable and efficient operation of distribution systems in the Philippines, the Distribution Code provides for, among others, the following regulations:

- technical, design and operational criteria and procedures to be complied with by any user who is connected or seeking connected to a distribution system;

- performance and safety standards for the operation of distribution systems applicable to distributors and suppliers; and

- other matters relating to the planning, development, management, operation and maintenance of distribution systems.

The Supply Sector

The supply of electricity refers to the sale of electricity directly to end-users. The supply function is currently being undertaken solely by franchised distribution utilities. However, upon commencement of the open access regime, the supply function will become competitive. The business is not considered a public utility operation and suppliers are not required to obtain franchises. However, the supply of electricity to the contestable market is considered a business with a public interest dimension. As such, the EPIRA requires all suppliers of electricity to the Contestable Market to obtain a license from the ERC and they are subject to ERC's rules and regulations on the abuse of market power and other anti-competitive or discriminatory behavior. Once the open access regime is implemented as mandated by the EPIRA, it is expected that the Contestable Markets may choose where to source their electric power requirements and can negotiate with suppliers for their electricity. The EPIRA also contemplates that certain end-users will directly source power through the WESM or by entering into contracts with generation companies. This will encourage competition at the retail level and it is planned that retail competition will gradually increase over time, provided that supply companies are sufficiently creditworthy to be suitable offtakers for generation companies.

Role of the ERC

The ERC is the independent, quasi-judicial regulatory body created under the EPIRA that replaced the Energy Regulatory Board (the "ERB"). The ERC plays a significant role in the restructured industry environment, consisting of, among others, promoting competition, encouraging market development, ensuring consumer choice and penalizing abuse of market power by industry participants. Among the primary powers and functions of the ERC are:

- to determine, fix and approve, after conducting public hearings, transmission and distribution and wheeling charges and retail rates and to fix and regulate the rates and charges to be imposed by distribution utilities and their captive end-users, including self-generating entities;

- to grant, revoke, review or modify the certificates of compliance required of generation companies and the licenses required of suppliers of electricity in the Contestable Market;

- to enforce the Grid Code and Distribution Code, which shall include performance standards, the minimum financial capability standards, and other terms and conditions for access to and use of transmission and distribution facilities;

- to enforce the rules and regulations governing the operations of the WESM and the activities of the WESM operator to ensure a greater supply and rational pricing of electricity;

- to ensure that the electric power industry participants and NPC functionally and structurally unbundle their respective business activities and rates and to determine the levels of cross-subsidies in the existing and retail rates until the same is removed in accordance with the different sectors;

- to set a lifeline rate for marginalized end-users;

- to promulgate rules and regulations prescribing the qualifications of suppliers which shall include, among others, their technical and financial capability and creditworthiness;

- to determine the electricity end-users comprising the contestable and captive markets;

- to fix user fees to be charged by NGCP for ancillary services to all electric power industry participants or self-generating entities connected to the grid;

- to review all power purchase contracts executed between NPC and IPPs, including the distribution utilities;

- to monitor and adopt measures to discourage or penalize abuse of market power, cartelization and any anti-competitive or discriminatory behavior by any electric power industry participant;

- to review and approve the terms and conditions of service of TransCo/NGCP and any distribution utility or any changes therein;

- to perform such other regulatory functions as are appropriate and necessary in order to ensure the successful restructuring and modernization of the electric power industry; and

- to have original and exclusive jurisdiction over all cases that involve the contesting of rates, fees, fines and penalties imposed in the exercise of its powers, functions and responsibilities and over all cases involving disputes between and among participants or players in the energy sector relating to the foregoing powers, functions and responsibilities.

- Section 43(t) if the EPIRA also requires the ERC to promulgate rules and guidelines under which generation companies, distribution utilities which are not publicly listed shall offer and sell to the public a portion not less than 15% of their common shares of stocks:

Role of the DOE
In accordance with its mandate to supervise the restructuring of the electric power industry, the DOE exercises, among others, the following functions:

- preparation and annual updating of the Philippine Energy Plan and the Philippine Power Development Program, and thereafter integrate the latter into the former;
- ensuring the reliability, quality and security of the supply of electric power;
- exercise of supervision and control over all government activities pertaining to energy projects;
- encouragement of private investment in the electricity sector and promotion of the development of indigenous and renewable energy sources for power generation;
- facilitation of reforms in the structure and operation of distribution utilities for greater efficiency and lower costs;
- promotion of incentives to encourage industry participants, including new generating companies and end-users, to provide adequate and reliable electric supply;
- education of the public (in coordination with NPC, ERC, NEA and the Philippine Information Agency) on the restructuring of the industry and the privatization of NPC assets; and
- establishment of the WESM in cooperation with electric power industry participants, and formulating rules governing its operations.

Role of the Joint Congressional Power Commission
The Joint Congressional Power Commission created pursuant to the EPIRA consists of 14 members selected from the members of the Philippine Senate and House of Representatives. Its responsibilities and functions include, among others, the following:

- monitoring and ensuring the proper implementation of the EPIRA;
- endorsement of PSALM's initial privatization plan for approval by the President of the Philippines;
- ensuring transparency in the public bidding procedures adopted for the privatization of NPC's generation and transmission assets;
- evaluation of the adherence of industry participants to the objectives and timelines under the EPIRA; and
- recommendation of necessary remedial legislation or executive measures to correct the inherent weaknesses in the EPIRA.

Competitive Marking Devices

Wholesale Electricity Spot Market
The EPIRA mandates the establishment of the WESM. The WESM provides a venue whereby generators may sell power, and at the same time suppliers and wholesale consumers can purchase electricity where no bilateral contract exists between the two. In June 2002, the DOE, in cooperation with electric power industry participants, promulgated detailed rules for the WESM. These rules set the guidelines and standards for participation in the market, reflecting accepted economic principles and providing a level playing field for all electric power industry participants, and procedures for establishing the merit order dispatch for each time (hourly) trading period. These rules also provide for a mechanism for setting electricity prices that are not covered by bilateral contracts between electricity buyers and sellers.

On November 18, 2003, upon the initiative of the DOE, the PEMC was incorporated as a non-stock, non-profit corporation with membership comprising an equitable representation of electricity industry participants and chaired by the DOE. The PEMC acts as the autonomous market group operator and the governing arm of the WESM. The PEMC was tasked to undertake the preparatory work for the establishment of the WESM, pursuant to Section 30 of the EPIRA and in accordance with the WESM Rules. Its primary purpose is to establish, maintain, operate and govern an efficient, competitive, transparent and reliable market for the wholesale purchase of electricity and ancillary services in the Philippines in accordance with relevant laws, rules and regulations. Although the long-term goal is to have an interconnected WESM in Luzon and Visayas, WESM in the Visayas grid is still under trial operation status. Moreover, while WESM intends to operate both energy and reserve markets, only the former has already been launched, having only completed its application for the reserve market's pricing methodology.

The WESM became operational in the Luzon grid on June 26, 2006 and in the Visayas grid on December 26, 2010 for the trading of energy. Prior to the commencement of the Luzon WESM commercial operations, the ERC issued the enforcement of the 90% cap on the Bilateral Supply Contracts of Distribution Utilities to address other issues that may arise during the commercial operations of the WESM. The ERC is responsible for monitoring the 90% cap on power sourced from bilateral power supply contracts of distribution utilities' total monthly demand. Any distribution utility that violates the 90% cap will not be allowed to recover the costs pertaining to the volume in excess of the cap from its customers.

Retail Competition and Open Access

The EPIRA likewise provides for a system of open access on transmission and distribution wires, whereby NGCP, as the concessionaire, and distribution utilities may not refuse the use of their wires by qualified persons, subject to the payment of distribution and wheeling charges. Conditions for the commencement of the Open Access system are as follows:

- establishment of the WESM;
- approval of unbundled transmission and distribution wheeling charges;
- initial implementation of the cross-subsidy removal scheme;
- privatization of at least 70% of the total capacity of generating assets of NPC in Luzon and Visayas; and
- transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPP administrators.

The Government expects retail competition and open access to be implemented in phases. As far as Luzon is concerned, the WESM began operations in June 2006 and retail competition has already been introduced, with end-users who comprise the Contestable Market for this purpose already identified.

In a decision dated June 6, 2011, the ERC declared that all conditions to retail competition and open access have been complied with and stated that open access will start on December 26, 2011 in Luzon. However, the Government has postponed the implementation of open access to 2012 since there are still certain issues that are being ironed-out.

Upon implementation of open access, the various contracts entered into by utilities and suppliers may potentially be "stranded". Stranded contract cost refers to the excess of the contracted cost of electricity under eligible contracts of NPC over the actual selling price of the contracted energy output of such contracts in the market. Under the EPIRA, recovery of the stranded cost may be allowed provided that such contracts were approved by the ERB (now the ERC) as of December 31, 2000.

Unbundling of Rates and Removal of Cross Subsidies

The EPIRA mandates that distribution and wheeling charges be unbundled from retail rates and that rates reflect the respective costs of providing each service. The EPIRA also states that cross-subsidies shall be phased out within a period not exceeding three years from the establishment by the ERC of a universal charge, which shall be collected from all electricity end-users. However, the ERC may extend the period for the removal of the cross-subsidies for a maximum of one year if it determines that there will be a material adverse effect upon the public interest or an immediate, irreparable and adverse financial effect on a distribution utility.

These arrangements are now in place, in satisfaction of one of the conditions for retail competition and open access.

The EPIRA likewise provides for a socialized pricing mechanism called a lifeline rate to be set by the ERC for marginalized or low-income captive electricity consumers who cannot afford to pay the full cost of electricity.

These end-users are exempt from the cross-subsidy removal for a period of ten years, unless extended by law.

Implementation of the PBR

On December 10, 2004, the ERC issued a resolution for the adoption of a methodology for Setting Distribution Wheeling Rates entering a Performance Based Regulation ("PBR"), PBR is intended to replace the return-on-rate-base regulation that has historically determined the distribution charges paid by the distribution companies' customers. Under the PBR, the distribution-related charges that distribution utilities can collect from customers over a four-year regulatory period will be set by reference to projected revenues which are reviewed and approved by the ERC and used by the ERC to determine a distribution utility's efficiency factor. For each year during the regulatory period, a distribution utility's distribution charge is adjusted upwards or downwards taking into consideration the utility's efficiency factor set against changes in overall consumer prices in the Philippines. The ERC has also implemented a performance incentive scheme whereby annual rate adjustments under PBR will also take into consideration the ability of a distribution utility to meet or exceed service performance targets set by the ERC, such as the average duration of power outages, the average time to provide connections to customers and the average time to respond to customer calls, with utilities being rewarded or penalized depending on their ability to meet these performance targets.

Reduction of Taxes and Royalties on Indigenous Energy Resources

To equalize prices between imported and indigenous fuels, the EPIRA mandates the President of the Philippines to reduce the royalties, returns and taxes collected for the exploitation of all indigenous sources of energy, including but not limited to, natural gas and geothermal steam, so as to effect parity of tax treatment with the existing rates for imported coal, crude oil, bunker fuel and other imported fuels. Following the promulgation of the implementing rules and regulations, President Arroyo enacted Executive Order No. 100 on May 3, 2002, to equalize the taxes among fuels used for power generation. This mechanism, however, is yet to be implemented.

Government Approval Process

As set forth in the EPIRA, power generation is not considered a public utility operation. Thus, an entity engaged or intending to engage in the generation of electricity is not required to secure a franchise. However, no person or entity may engage in the generation of electricity unless such person or entity has complied with the standards, requirements and other terms and conditions set by the ERC and has received a certificate of compliance from the ERC to operate facilities used in the generation of electricity. A certificate of compliance is valid for a period of five years from the date of issuance.

In addition to the certificate of compliance requirement, a generation company must comply with technical, financial and environmental standards. A generation company must ensure that all its facilities connected to the grid meet the technical design and operational criteria of the Grid Code and Distribution Code promulgated by the ERC. In this connection, the ERC has issued "Guidelines for the Financial Standards of Generation Companies", which sets the minimum financial capability standards for generation companies. Under the guidelines, a generation company is required to meet a minimum annual interest cover ratio or debt service coverage ratio of 1.5x throughout the period covered by its certificate of compliance. For certificate of compliance applications and renewals, the guidelines require the submission to the ERC of, among other things, comparative audited financial statements, a schedule of liabilities, and a five-year financial plan. For the duration of the certificate of compliance, the guidelines also require a generation company to submit audited financial statements and forecast financial statements to the ERC for the next two financial years, as well as other documents. The failure by a generation company to submit the requirements prescribed by the guidelines may be grounds for the imposition of fines and penalties.

Upon the introduction of retail competition and open access the rates charged by a generation company will no longer be regulated by the ERC, except rates for Captive Markets (which are determined by the ERC). In addition, since the establishment of the WESM, generation companies are now required to comply with the membership criteria and appropriate dispatch scheduling as prescribed under the WESM Rules.

In the course of developing a power plant, other permits, approvals and consents must also be obtained from relevant national, provincial and local government authorities, relating to, among others, site acquisition, construction and operation, including environmental licenses and permits.

Environmental Laws

Development projects that are classified by law as environmentally critical or projects within statutorily defined environmentally critical areas are required to obtain an ECC prior to commencement. The DENR, through its regional offices or through the EMB, determines whether a project is environmentally critical or located in an environmentally critical area. As a requirement for the issuance of an ECC, the proponent of an environmentally critical project is needed to submit an EIS to the EMB while the proponent of a project in an environmentally critical area is generally required to submit an IEE to the proper DENR regional office. In the case of an environmentally critical project within an environmentally critical area, an EIS is required.

The EIS refers to both the document and the study of a project's environmental impact, including a discussion of the direct and indirect consequences to human welfare and the ecological as well as environmental integrity. The IEE refers to the document and the study describing the environmental impact, including mitigation and enhancement measures, for projects in environmentally critical areas.

While the terms and conditions of an EIS or an IEE may vary from project to project, as a minimum it contains all relevant information regarding the project's environmental effects. The entire process of organization, administration and assessment of the effects of any project on the quality of the physical, biological and socio-economic environment as well as the design of appropriate preventive, mitigating and enhancement measures is known as the EIS System. The EIS System successfully culminates in the issuance of an ECC. The issuance of an ECC is a government certification that the proposed project or undertaking will not cause a significant negative environmental impact; that the proponent has complied with all the requirements of the EIS System; and that the proponent is committed to implementing its approved Environmental Management Plan in the EIS or, if an IEE was required, that it shall comply with the mitigation measures provided therein.

Project proponents that prepare an EIS are required to establish an Environmental Guarantee Fund when the ECC is issued for projects determined by the DENR to pose a significant public risk to life, health, property and the environment or where the project requires rehabilitation or restoration. The Environmental Guarantee Fund is intended to meet any damage caused by such a project as well as any rehabilitation and restoration measures. Project proponents that prepare an EIS are required to include a commitment to establish an Environmental Monitoring Fund when an ECC is eventually issued. In any case, the establishment of an Environmental Monitoring Fund must not occur later than the initial construction phase of the project. The Environmental Monitoring Fund must be used to support the activities of a multi-partite monitoring team which will be organized to monitor compliance with the ECC and applicable laws, rules and regulations.

Renewable Energy Act of 2008

The Renewable Energy Act of 2008 (the "RE Law") is landmark legislation and is considered the most comprehensive renewable energy law in Southeast Asia. The RE Law was signed into law by President Gloria M. Arroyo on December 16, 2008 and took effect on January 30, 2009.

The RE Law aims to (a) accelerate the exploration and development of renewable energy resources such as, but not limited to, biomass, solar, wind, hydro, geothermal and ocean energy sources, including hybrid systems, to achieve synergy self-reliance, through the adoption of sustainable energy development strategies to reduce the country's dependent on fossil fuels and thereby minimize the country's exposure to price fluctuations in the international markets, the effects of which spiral down to almost all sectors of the economy; (b) increase the utilization or renewable energy by institutionalizing the development of national and local capabilities in the use of renewable energy systems and promoting its efficient and cost-effective commercial application by providing fiscal and non-fiscal incentives; (c) encourage the development and utilization of renewable energy resources as tools to effectively prevent or reduce harmful emissions and thereby balance the goals of economic growth and development with the protection of health and environment; and (d) establish the necessary infrastructure and mechanism to carry out mandates specified in the RE Law and other laws.

The two key main features of the RE Law are the fiscal incentives made available for renewable energy activities and the non-fiscal incentives or market mechanisms geared towards promoting and encouraging the commercialization of renewable energy resources.

The RE Law also offers key fiscal and non-fiscal incentives to developers of renewable energy facilities, including hybrid systems, subject to certification from DOE and in consultation with the BOI. All fiscal incentives apply to all RE capacities upon the RE Law becoming effective. Key incentives are as follows:

- income tax holiday for the first seven years of operation;
- duty-free importations of RE machinery, equipment and materials, effective within ten years upon issuance of certification, provided that the said machinery, equipment and materials are directly, exclusively and actually used in the RE facilities;
- special realty property tax rates on equipment and machinery not exceeding 1.5% of the net book value;
- net operating loss carry-over for a period of seven years;
- corporate income tax rates of 10% after the income tax holiday;
- accelerated depreciation for the purposes of computing taxable income;
- zero percent value-added tax on the sale of fuel or power generated from emerging energy sources and purchases of local supply of goods, properties and services of renewable energy facilities;
- cash incentives for renewable energy developers for missionary electrification;
- tax exemption, applicable to both value-added tax and corporate income tax, on carbon emission credits; and
- tax credits on domestic purchases of capital equipment and services.

The non-fiscal incentives or market mechanisms include the Renewable Portfolio Standard, which sets a minimum percentage of generation from eligible renewable energy resources; the Feed-In Tariff System, which authorizes a fixed tariff for electricity produced from emerging renewable energy resources; the Renewable Energy Market, which will operate in the WESM to facilitate compliance with the Renewable Portfolio Standard; and the Green Energy Option, which allows end-users to contract their energy requirements directly from renewable energy facilities.

Renewable Portfolio Standards
The Renewable Portfolio Standards ("RPS") places an obligation on electric power industry participants such as generators, distribution utilities, or suppliers to source or produce a specified fraction of their electricity from eligible renewable energy resources, as determined by the National Renewable Energy Board ("NREB"). The

NREB is expected to implement the RPS rules no later than January 2013. These rules would include specifications such as the minimum percentage of generation from eligible renewable energy resources, the sectors where the RPS shall be imposed on a per grid basis, the types of renewable energy resources to be certified and required to comply with RPS.

Feed-in Tariff

The Feed-in Tariff ("FiT") is a scheme that involves the obligation on the part of electric power industry participants to source electricity from renewable energy generation at a guaranteed fixed price applicable for a given period of time, which shall in no case be less than 12 years, to be determined by the ERC. The FiT system also includes a proposed Renewable Energy Charge ("REC") which is a surcharge that allows all electricity consumers to share in the cost of the FiT. It shall be part of the transmission wheeling rates to be imposed and collected from customers by NGCP. The FiT system shall be adopted to accelerate the development of emerging renewable energy resources (wind, solar, ocean, run-of-river hydropower, and biomass energy resources) through a fixed tariff system. The FiT Rules were issued by the ERC on July 23, 2010 under ERC Resolution No. 16, Series of 2010.

Green Energy Option

The Green Energy Option program is a mechanism to be established by the DOE which shall provide end-users the option to choose renewable energy resources as their source of energy. The end-users may directly contract from renewable energy facilities their energy requirements distributed through their respective distribution utilities.

Moreover, the RE Law allows renewable energy developers utilizing intermittent renewable energy resource the option to pay transmission and wheeling charges on per kilowatt-hour basis equivalent to the average rate of all other electricity transmitted through the grid. These renewable energy developers are also given priority dispatch.

Moreover, the RE Law allows renewable energy developers utilizing intermittent renewable energy resources the option to pay transmission and wheeling charges on a per kilowatt-hour basis equivalent to the average rate of all other electricity transmitted through the grid. These renewable energy developers are also given priority dispatch.

The RE Law also directs government financial institutions to provide preferential financial packages for renewable energy projects recommended and endorsed by the DOE.

As to the Government share in the exploration, development and utilization of renewable energy resources with respect to existing and new renewable energy development projects, the RE Law prescribes a rate of 1% of the gross income from the sale of renewable energy (1.5% for geothermal energy), and other incidental income from the generation, transmission and sale of electric power.

The DOE has been designated as the lead regulatory agency to implement the RE Law. On May 25, 2009, the DOE issued Circular No. DC2009-05-0008, known as the Implementing Rules and Regulations (IRR) of the RE Law (effective June 12, 2009), followed on July 12, 2009 by Circular No. DC2009-07-0011 prescribing guidelines governing renewable energy service/operating contracts and the process for the registration of renewable energy developers (effective August 10, 2009). A new office within the DOE, the Renewable Energy Management Bureau, has been created to, implement, among other things, the renewable energy policies, plans and programs.

Another office, the National Renewable Energy Board, has also been created pursuant to the RE Law. It has monitoring, review and recommendatory functions with respect to various renewable energy programs such as the Renewable Portfolio Standard and the National Renewable Energy Program that will be prepared by the DOE. The board was convened in September 2009. Representatives from government agencies, private renewable energy developers, private distribution utilities, and non-government organizations were appointed to the board. Working committees created by the board are presently holding workshops and meetings to flesh out implementing details on the mandated programs including the Renewable Portfolio Standard and the feed-in tariff system.

SUMMARY – TMP

You should read the following summary together with the more detailed information about TMP and TMP's financial information included elsewhere in this Prospectus. TMP's summary also should be read together with the matters set forth under "Risk Factors – TMP". Additional information on TMP, including corporate structure and segment information, can be found in TMP's consolidated financial statements found in this Prospectus.

OVERVIEW

GT Capital has interests in the automotive industry primarily through its 21.0% direct ownership in TMP. TMP is engaged in the manufacture, importation and wholesale distribution of Toyota brand motor vehicles in the Philippines. It is also engaged in the sale of motor vehicle parts and accessories, both locally and via export. TMP also has direct interests in three dealerships, Toyota Makati (100.0%), Toyota San Fernando (55.0%) and Lexus Manila, Inc. (75.0%). GT Capital also has interests in Toyota-related businesses through its 25.1% share ownership in MBT. MBT owns 30.0% of TMP and 34.0% of Toyota Financial Services Philippines Corporation ("TFSPH"). MBT, through its subsidiary FMIC, also has a 9.0% interest in Toyota Cubao, Inc. and 19.25% in Toyota Manila Bay Corporation, which are Toyota dealerships.

TMP is a joint venture company among GT Capital, MBT, TMC, Mitsui and Maximus Management Holdings which each owns 21.0%, 30.0%, 34.0%, 6.0% and 9.0% of TMP's shares, respectively.

TMP has entered into distributor agreements (the "Toyota Distributor Agreement" and the "Lexus Distributor Agreement") with TMC and Toyota Motor Asia Pacific Pte. Ltd. ("TMAP") for the right to sell Toyota and Lexus brand products in the Philippines. The Toyota Distributor Agreement is typically renewed every three years, with the last such renewal occurring on December 3, 2009. TMC was incorporated in Japan on August 28, 1937 and its primary business is in the automotive industry. TMC's operations are conducted through subsidiaries and affiliate companies in more than 170 countries. TMC's subsidiaries and affiliate companies, including TMP, are required to implement certain standardized guidelines in their manufacture and distribution of Toyota products in order to maintain the Toyota brand image worldwide. TMAP is a Singapore-based company established in 1990 to oversee the distribution of Toyota vehicles in Asia Oceania. In 2007, TMAP-Engineering and Manufacturing ("TMAP-EM") regional office was also established in Thailand to enhance the production and service parts sourcing network and support manufacturing and engineering programs to subsidiaries and affiliates in Asia Oceania.

According to combined industry statistics from CAMPI and AVID, TMP has had the highest number of new vehicle unit sales in the Philippines for both passenger cars and commercial vehicles every year since 2002. In the Philippine auto industry, achieving the highest sales of passenger cars, commercial vehicles and overall sales is known as the "Triple Crown". Since 2002, TMP has achieved ten consecutive Triple Crowns and since 1989, TMP has been number one in total sales in 21 out of 23 years. In 2011, TMP's annual sales were 54,593 units, and TMP's market share in the Philippines was 33%, according to data from CAMPI and AVID.

In 2011, TMP's revenue was ₱54,099.7 million and gross profit was ₱6,034.7 million compared to revenue of ₱59,762.2 million and gross profit of ₱7,430.6 million in 2010.

COMPETITIVE STRENGTHS

TMP believes that its competitive strengths are the following:

- Market leadership in the Philippines with the top-ranked global automotive brand
- High quality products across an extensive product range
- Efficient and streamlined operation with support from a leading global manufacturer
- Extensive dealer network for retail sales and service
- Strong business synergies with other members of GT Capital

STRATEGIES

TMP's principal strategies are the following:

- Continue to leverage Toyota's strong brand recognition and customer loyalty
- Respond to higher market demand
- Reduce costs and strengthen competitiveness of local production
- Strengthen dealer network through training and improved facilities

RISK FACTORS – TMP

RISKS RELATING TO TMP'S BUSINESS

The Philippine automotive industry is highly volatile.

The Philippine automotive market has been subject to considerable volatility in demand and TMP's business is highly sensitive to sales volume. Demand for vehicles depends to a large extent on general, social, political and economic conditions in the Philippines. Demand may also be affected by factors directly impacting vehicle prices or the cost of purchasing and operating vehicles such as sales and financing incentives, prices of raw materials and parts and components, and the cost of fuel, exchange rates and governmental regulations (including tariffs, import regulations and other taxes). Volatility in demand may lead to lower vehicle unit sales and increased inventory, which may result in higher selling expenses per vehicle and could materially and adversely affect TMP's business, financial condition and results of operations.

The Philippine automotive market is highly competitive.

The Philippine automotive market is highly competitive. TMP faces strong competition from vehicle manufacturers and importers in the Philippines. TMP's competitors also have relationships with joint venture partners and recognized international auto brands. Factors affecting competition include product quality and features, innovation and development time, production capacity, pricing, reliability, safety, fuel economy, customer service and financing terms. Increased competition may lead to lower vehicle unit sales and increased inventory, which may result in higher selling expenses and may adversely affect TMP's financial condition and results of operations. Further, under the ASEAN-Korea free trade agreement, tariffs on vehicles from Korea will be gradually reduced beginning in 2012, leading to greater competition from Korean brands. Competition has a direct effect on selling prices of vehicles. In general, vehicle price setting is based on specification differences. However, upward or downward price adjustments may be made to respond to competitors' pricing strategy and the target market's purchasing behavior. TMP's ability to maintain its competitiveness will be fundamental to its future success in existing and new markets and its market share. In addition, under the terms of the Toyota Distributor Agreement with TMC and TMAP, TMP is required to meet certain business targets including, among others, annual sales plan and market share. Should TMP fail to meet its expected business targets, its right to distribute Toyota brands in the Philippines may be terminated. There can be no assurance that TMP will be able to compete successfully in the future, which could materially and adversely affect TMP's business, financial condition and results of operations.

The Philippine automotive industry is subject to various governmental regulations.

The Philippine automotive industry is subject to various laws and government regulations. These regulations include environmental protection and conservation rules that regulate the levels of air, water, noise and solid waste pollution produced by automotive manufacturing activities and vehicle performance. The Government also imposes tariffs, taxes and levies. TMP has incurred, and expects to incur in the future, significant costs in complying with these regulations. New legislation or changes in existing legislation may also subject TMP to additional expense in the future and could materially and adversely affect TMP's business, financial condition and results of operations.

TMP's success depends on its ability to continue offering innovative, new, price-competitive products and services that meet and satisfy customer demand on a timely basis.

Meeting and satisfying customer demand with attractive new vehicles and reducing product development time are critical elements to the success of automotive manufacturers. The timely introduction of new vehicle models at competitive prices and meeting rapidly changing customer preferences and demands are fundamental to TMP's success. There is no assurance that TMP may adequately perceive and identify changing customer preferences and demands with respect to quality, styling, reliability, safety and other features in a timely manner. Even if TMP succeeds in perceiving and identifying customer preferences and demands, there is no assurance that TMP will be capable of manufacturing and introducing new, price-competitive products in a timely manner with its available technology, intellectual property, sources of raw materials and parts and components, and production capacity. Further, there is no assurance that TMP will be able to implement capital expenditures at the level and periods planned by management. TMP's inability to develop and offer products that meet customer demand in a timely manner could result in a lower market share and reduced sales volumes and margins, and could materially and adversely affect TMP's business, financial condition and results of operations.

TMP's success depends on its ability to market and distribute effectively, and to maintain its brand image.

TMP's success in the sale of vehicles depends on its ability to market and effectively distribute based on distribution networks and sales techniques tailored to the needs of its customers, as well as its ability to maintain and further cultivate the Toyota brand image. There is no assurance that TMP will be able to develop sales techniques and distribution networks that effectively adapt to customer preferences or changes in the regulatory environment in the Philippines. Nor is there assurance that TMP will be able to cultivate and protect the Toyota brand image. Toyota's inability to maintain well-developed sales techniques and distribution networks or a positive brand image may result in decreased sales and market share and could materially and adversely affect TMP's business, financial condition and results of operations.

TMP's ongoing success depends on the non-termination and repeated renewal of distributor agreements with TMC and TMAP.

TMP acquired the rights to use the "Toyota" and "Lexus" brand names through the Toyota Distributor Agreement and the Lexus Distributor Agreement, respectively, with TMC and TMAP. These distributor agreements were last renewed on December 3, 2009 with an expiration date of November 30, 2012. According to the distributor agreements: (i) TMC and TMAP have agreed to grant TMP an exclusive distributorship of Toyota and Lexus products in the Philippines, thereby supplying TMP with Toyota and Lexus vehicles, parts and accessories, non-exclusive rights to use Toyota and Lexus trademarks and service marks, including the use of such trademarks by local Toyota and Lexus dealerships, solely in connection with the distribution, sale and service of Toyota and Lexus products; and (ii) TMP has agreed to continuously purchase Toyota and Lexus products from TMC, TMAP, and/or other such suppliers designated by TMC, and to obtain any governmental approvals or certifications necessary for the import, sales, service, use, registration, and/or homologation of Toyota and Lexus products in the Philippines.

The distributor agreements are terminable at the option of TMC upon the occurrence of various events which include:

- breach of any material provision of the distributor agreement by TMP;
- discontinuation of a material part of the business activities of TMP as a Toyota or Lexus authorized distributor;
- issuance of an order by any relevant government authority for TMP to discontinue, or the cancellation or withdrawal of any license or permission to operate, a material part of TMP's business activities as a Toyota or Lexus authorized distributor;
- the election by TMC to terminate the agreement, after consultation with TMAP, in the event that: (a) TMP fails in any material respect to achieve any of the business targets; and (b) TMP fails to make significant progress in achieving such business targets within six months after TMAP has given guidance or advice to TMP to improve its performance; and (c) TMAP deems that there is no justifiable reason for such failure;
- the election by TMC to terminate a distributor agreement in the event that:

    (a) TMP has implemented, without prior notification to TMC and TMAP, any of the following significant changes in its organization: (i) merger or acquisition of any company or organization; (ii) assignment or disposition of all or a substantial portion of its assets or business to any third party; (iii) change of its executives or high-ranked employees, such as department/division general managers and above; (iv) relocation, expansion, reduction, or closing down of its head offices or other important facilities; (v) change of its main shareholders or any person or entity which has substantial control over TMP as well as listing all or a part of its shares on any stock exchange; and (vi) any other significant change in its business or organization; or

    (b) failure by TMP to satisfy the request of TMC and/or TMAP for TMP to suspend such significant changes or to modify the contemplated organization scheme such as to prevent or reduce possible impairment of TMC and/or TMAP's interests or TMP's performance or the ability to perform as a Toyota or Lexus authorized distributor.

If either of the Toyota Distributor Agreement or Lexus Distributor Agreement were to be terminated, TMP shall be required to: (i) immediately and fully settle all of its outstanding liabilities to the other parties in relation to the relevant agreement; (ii) immediately terminate all dealership agreements and any other contracts concluded between TMP and any third party in relation to the relevant agreement; (iii) collect and remove all data, facility signs, signboards, posters, advertising or technical materials and printed matters related to Toyota or Lexus products, software for the sale and service of Toyota or Lexus products, and all tools and implements designed for servicing Toyota or Lexus products located in the facilities of TMP and/or the dealers, and deliver at its own cost and expense to TMC and/or TMAP or dispose of a part or a whole of them in accordance with the instructions of TMC and/or TMAP; (iv) remove from its facilities and cease using the name of TMC and any of the trademarks, service marks, and any mark confusingly similar thereto, cancel the relevant registrations thereof, and cause all dealers to do the same; (v) refrain from conducting itself and cause each dealer to refrain from conducting itself in such manner as would lead a third party to believe that TMP or any dealer is still an authorized distributor or dealer of Toyota or Lexus brand products in the Philippines; (vi) in the event that TMP fails to comply with the above obligations, TMP shall allow TMC and TMAP to enter its premises at any time for the removal and disposal of all items bearing Toyota or Lexus trademarks and any marks confusingly similar thereto, as well as all items that should have been delivered to TMC and/or TMAP or disposed of by TMP, wherein TMP shall reimburse TMC and TMAP for all expenses incurred in exercising such right if so requested by TMC and TMAP; (vii) allow TMC and TMAP to repurchase Toyota or Lexus products which are new, unused, undamaged, and in good and saleable condition or dispose of such products in accordance with instructions of TMC and/or TMAP in the event that the products are not repurchased.

Further, any decreases in product quality, negative allegations or negative events associated to the Toyota group of companies outside of the Philippines could tarnish the image of the brands and may cause consumers to choose other vehicles. Further, there can be no assurance that these brand names will not be adversely affected in the future by events such as actions that are beyond TMP's control and which could materially and adversely affect TMP's business, financial condition and results of operations.

A third party could inappropriately use the trademark and trade name "Toyota" or any of the trademarks and trade names that TMP uses.

TMP has a license to use the "Toyota" name and logo in the Philippines. There is no assurance that the steps taken by TMP or TMC will prevent misappropriation or infringement of the intellectual property rights of TMC. In addition, policing unauthorized use of intellectual property rights is difficult and sometimes practically infeasible. The Philippine automotive industry has experienced unauthorized copies of vehicles and auto parts from time to time. Such misappropriation or infringement could materially and adversely affect TMP's business, financial condition and results of operations.

Product recalls could materially adversely affect TMP's reputation and financial condition.

TMP may recall its products to address performance, compliance, or safety-related issues. While no recalls on TMP manufactured automobiles have occurred in the past, there can be no assurance that such recalls will not occur in the future. The costs TMP would incur in connection with such recalls typically include the cost of the part being replaced and labor to remove and replace the defective part. If the defective part or vehicle is the fault of TMP, it will be responsible for such costs. Otherwise, costs are claimed from TMAP. In addition, if not handled properly by TMP, TMAP and TMC, product recalls can harm TMP's reputation and cause it to lose customers, particularly if those recalls cause consumers to question the safety or reliability of TMP's products. Any costs incurred or lost sales caused by future product recalls could materially and adversely affect TMP's business, financial condition and results of operations. Conversely, not issuing a recall or not issuing a recall on a timely basis can harm TMP's reputation and cause it to lose customers.

Dealer misconduct is difficult to detect and could harm TMP's reputation or lead to litigation costs.
TMP sells its vehicles to a dealer network consisting primarily of third-party dealers over which it has limited direct supervision. Dealer misconduct could result in negative publicity for TMP and the other dealers in the network and result in reputational or financial harm to TMP and the other dealers. Misconduct could include:

- engaging in misrepresentation or fraudulent activities and statements when marketing or selling vehicles, parts or services to customers;

- hiding unauthorized or unsuccessful activities, resulting in unknown and unmanaged risks or losses; or

- not complying with laws or TMP's control policies or procedures.

TMP cannot always deter or detect dealer misconduct, and the precautions it takes to detect and prevent these activities may not be effective in all cases. There can be no assurance that agent or employee misconduct will not materially and adversely affect TMP's business, financial condition and results of operations.

TMP may be unable to maintain its current distributor network or attract new distributors.
TMP is heavily dependent on its distribution network. The success of TMP's business depends on maintaining good relations with existing distributors as well as attracting new ones. Although TMP believes it has good relations with its existing distributors, there can be no assurance that its distributors will continue to do business with TMP or that TMP will be able to attract new quality distributors. If TMP does not succeed in maintaining its current distribution network or in attracting new distributors to support future growth, TMP's market share may decline and could materially and adversely affect TMP's business, financial condition and results of operations.

The continued competitiveness of TMP may be adversely affected if it fails to successfully reduce its costs.
TMP believes that competition has led to, and will likely continue to lead to, an increase in selling expenses. At the same time, prices of raw materials, including steel, as well as energy costs, are increasing due to high demand. Therefore, despite relatively high levels of consumer demand for vehicles in the Philippines, it has become necessary for automotive manufacturers in the Philippines to reduce costs in order to remain competitive. TMP has taken various measures to reduce costs in connection with its operations. However, the effectiveness of such measures is not assured. If TMP is unable to reduce overall costs, its competitive position may suffer, which in turn could materially and adversely affect TMP's business, financial condition and results of operations. TMP's ability to maintain its competitiveness will be fundamental to its future success in existing and new markets. There can be no assurance that TMP will be able to compete successfully in the future.

Foreign currency rate fluctuations would have an adverse impact upon TMP's financial condition and results of operations.
A significant amount of the components and raw materials used by TMP are imported. The costs of such imported components and raw materials are mainly denominated in Japanese Yen and U.S. dollars. This could materially and adversely affect TMP's business, financial condition and results of operations, as financing and purchasing raw materials and components will become more expensive for TMP if the values of these other foreign currencies increase against the Peso in the currency markets.

TMP is subject to a number of risks associated with its supply chain.
Any interruption in the supply of raw materials, parts and components from any key suppliers could materially and adversely affect TMP's business, results of operations and financial condition. TMP obtains a significant proportion of its raw materials from a limited number of suppliers in the Philippines and abroad. For example, Calamba Steel Center Corp. and Toyota Tsusho Philippines Corp. supplied substantially all of TMP's steel plates that TMP purchased in 2011, representing approximately 0.5% of TMP's total manufacturing costs in 2011. In addition, certain components used in TMP's vehicles are available only from a single supplier and cannot be quickly or inexpensively re-sourced from another supplier due to long lead times and new contractual commitments that may be required by another supplier in order to provide the components or materials.

In 2011, TMP's supply chain was impacted by the earthquake and tsunami that struck Japan in March 2011 as well as the floods in Thailand which occurred during the second half of 2011. Both of these events impacted TMP's ability to source parts and imported vehicle units, thereby reducing TMP's production and sales figures for 2011. TMP also experienced an increase in costs for its supplies as a result of these two natural disasters. While TMP believes production and sales forecasts have since returned to normal following these two events, there can be no assurance that similar supply chain disruptions following natural disasters will not occur in the future. Any future supply chain disruptions caused by natural disasters could have a material adverse impact on TMP's business, financial condition and results of operations.

Increases in prices for raw materials that TMP and its suppliers use in manufacturing their products or parts and components, such as steel and plastic parts, may lead to higher production costs for parts and components. This could, in turn, negatively impact TMP's future profitability because TMP may not be able to pass all those costs on to its customers or require its suppliers to absorb such costs. Due to the increasingly competitive market environment, automobile manufacturers may be forced to increase efficiency by further reducing costs of their supply of parts which may result in additional cost and pricing pressure on suppliers. Pricing pressure on suppliers, however, may affect product quality, the decline of which could materially and adversely affect TMP's business, financial condition and results of operations.

The manufacturing activities and operations of TMP could be adversely affected if it fails to obtain raw materials and spare parts in a timely fashion or at a reasonable price.

Raw materials and spare parts used by TMP are, and will continue to be, sourced from suppliers located in the Philippines, Japan and other ASEAN countries, including TMC and TMAP. If TMP's suppliers fail to meet their commitments or to enter into agreements with TMP on commercially reasonable terms, and TMP is unable to locate alternative suppliers in a timely fashion, the manufacturing activities and operations of TMP could be materially adversely affected. This may be the case where TMP is dependent on a sole supplier or a limited number of suppliers for a critical input, and it may find it difficult to replace such supplier in a timely manner and at a reasonable market price.

TMP relies heavily on the technology and processes of TMC which TMP uses under its Toyota Technical Assistance Agreement with TMC.

TMP has acquired the right to use TMP's Toyota Production System ("TPS"), which is based on just-in-time production and quality control processes and feed back mechanisms. Under the Technical Assistance Agreement, which was last renewed on May 1, 2009 and is valid until April 30, 2014, TMP may request assistance for technical know-how on manufacturing, engineering and other know-how and information relating to licensed products. TMC is paid royalties based on the value added by TMP in the manufacture of each vehicle or part. If the Technical Assistance Agreement were to expire, or if TMP or TMC were to terminate the agreement, TMP would no longer be permitted to use TMC's processes or produce the licensed vehicles or parts, which would materially and adversely affect TMP's business, financial condition and results of operations.

TMP's success depends on its ability to attract and retain senior management and key technical personnel.

TMP relies on experienced, capable and talented senior managers and highly-skilled technical personnel to operate its business. TMP expects increased competition for such employees not only from other automotive companies but also from other industries in the Philippines and abroad. TMP's business, results of operations and financial condition could be adversely affected if such experienced and talented senior managers and skilled technical personnel are not retained by TMP.

SELECTED FINANCIAL INFORMATION – TMP

The following tables present TMP's selected consolidated financial information and should be read in conjunction with the auditors' reports and with TMP's consolidated financial statements and notes thereto contained in this Prospectus and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations – TMP". The selected consolidated financial information presented below as of and for the years ended December 31, 2009, 2010 and 2011 was derived from the consolidated financial statements of TMP, prepared in compliance with PFRS and audited by SGV & Co in accordance with PSA. The information below is not necessarily indicative of the results of future operations. For additional information regarding financial information presented in this Prospectus, see "Presentation of Financial Information".

SELECTED CONSOLIDATED STATEMENTS OF INCOME

	For the years ended December 31,			
	2009	2010	2011	2011
	(₱ millions)			(U.S.$ million)
REVENUE				
Manufacturing activities	14,357.9	18,507.0	17,243.6	392.6
Trading activities	32,220.3	41,255.2	36,856.1	839.2
	46,578.3	59,762.2	54,099.7	1,231.8
COST OF GOODS SOLD				
Manufacturing activities	13,871.0	16,853.5	15,990.5	364.0
Trading activities	28,577.4	35,478.2	32,074.5	730.3
	42,448.5	52,331.7	48,065.0	1,094.4
GROSS PROFIT				
Manufacturing activities	486.9	1,653.5	1,253.1	28.5
Trading activities	3,642.9	5,777.1	4,781.6	108.9
	4,129.8	7,430.6	6,034.7	137.4
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES				
Selling	(887.6)	(1,970.3)	(1,734.1)	(39.5)
General and administrative	(1,298.9)	(1,514.5)	(1,531.1)	(34.9)
	(2,186.6)	(3,484.8)	(3,265.2)	(74.3)
INTEREST INCOME	220.9	293.9	343.3	7.8
INTEREST EXPENSE	(15.3)	(18.4)	(13.8)	(0.3)
FOREIGN EXCHANGE GAIN (LOSS) – net	68.5	79.5	(98.5)	(2.2)
OTHER INCOME – net	53.7	40.6	41.1	0.9
INCOME BEFORE INCOME TAX	2,271.1	4,341.4	3,041.5	69.3
PROVISION FOR INCOME TAX	499.0	852.0	825.1	18.8
NET INCOME	1,772.1	3,489.4	2,216.4	50.4
Attributable to:				
Equity holders of TMP	1,762.2	3,476.6	2,199.2	50.1
Non-controlling interest	9.9	12.8	17.2	0.4
OTHER COMPREHENSIVE INCOME				
Unrealized gain on available-for-sale financial assets	1.1	9.1	1.2	0.0
TOTAL COMPREHENSIVE INCOME	1,773.2	3,498.6	2,217.7	50.5

See accompanying notes to TMP's consolidated financial statements.

SELECTED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As of December 31,			
	2009	2010	2011	2011
	(₱ millions)			(U.S.$ million)
ASSETS				
Current Assets				
Cash and cash equivalents	6,259.2	6,587.7	5,304.3	120.8
Short-term investments	601.7	734.3	1,072.3	24.4
Receivables	1,907.8	3,326.1	3,982.7	90.7
Inventories	3,436.4	5,845.5	4,529.5	103.1
Prepayments and other current assets	321.6	484.0	310.6	7.1
Total Current Assets	12,526.7	16,977.7	15,199.4	346.1
Non-current Assets				
Available-for-sale financial assets	97.6	113.4	114.4	2.6
Property, plant and equipment	1,181.3	1,103.5	1,412.4	32.2
Investment properties	355.5	342.1	328.8	7.5
Intangible assets	–	1.6	0.9	–
Deferred tax assets	290.7	370.6	390.6	8.9
Other non-current assets	639.6	655.9	574.8	13.1
Total Non-current Assets	2,564.6	2,587.2	2,821.9	64.3
	15,091.3	19,565.0	18,021.3	410.3
LIABILITIES AND EQUITY				
Current Liabilities				
Accounts payable and others	5,717.5	7,503.1	7,245.6	165.0
Accrued expenses	1,417.9	1,911.1	1,767.8	40.3
Income taxes payable	7.1	76.6	12.6	0.3
Loans payable	130.0	110.0	–	–
Total Current Liabilities	7,272.5	9,600.8	9,026.0	205.5
Non-current Liabilities				
Long-term debt	245.8	245.8	245.8	5.6
Provisions	436.7	674.0	650.9	14.9
Retirement liability	380.0	377.8	460.7	10.5
Total Non-current Liabilities	1,062.5	1,297.7	1,357.4	30.9
Total Liabilities	8,335.0	10,898.5	10,383.4	236.4
Equity Attributable to Equity Holders of TMP				
Capital stock	1,549.4	1,549.4	1,549.4	35.3
Additional paid-in capital	873.9	873.9	873.9	19.9
Retained earnings				
Appropriated	204.9	304.9	304.9	6.9
Unappropriated	3,973.6	5,761.8	4,714.8	107.4
Other comprehensive income	25.7	34.8	36.0	0.8
	6,627.5	8,524.8	7,479.1	170.3
Non-controlling interest	128.8	141.6	158.8	3.6
Total Equity	6,756.4	8,666.5	7,637.9	173.9
	15,091.3	19,565.0	18,021.3	410.3

See accompanying notes to TMP's consolidated financial statements.

SELECTED CONSOLIDATED STATEMENTS OF CASH FLOW

	For the years ended December 31,			
	2009	2010	2011	2011
		(₱ millions)		(U.S.$ million)
Net cash provided by (used in) operating activities	6,869.3	1,985.5	2,478.9	56.4
Net cash provided by (used in) investing activities	92.1	485.1	(404.2)	(9.2)
Net cash provided by (used in) financing activities	(3,100.1)	(2,137.2)	(3,370.3)	(76.7)
Cash and cash equivalents at beginning of the year	2,410.9	6,259.2	6,587.7	150.0
Cash and cash equivalents at end of the year	6,259.2	6,587.7	5,304.3	120.8

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – TMP

The following discussion of TMP's recent financial results should be read in conjunction with the auditors' reports and TMP's consolidated financial statements and notes thereto contained in this Prospectus and the section entitled "Selected Financial Information – TMP". TMP's audited consolidated financial statements as of December 31, 2009, 2010 and 2011 were prepared in compliance with PFRS and audited by SGV & Co. in accordance with PSA.

This discussion contains forward-looking statements and reflects the current views of TMP with respect to future events and financial performance. Actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors such as those set forth in the section entitled "Risk Factors" and elsewhere in this Prospectus.

FACTORS AFFECTING RESULTS OF OPERATIONS

TMP's results of operations are affected by a variety of factors. Set out below is a discussion of the most significant factors that have affected TMP's results in the past and which TMP expects to affect its financial results in the future. Factors other than those set forth below could also have a significant impact on TMP's results of operations and financial condition in the future.

Trends affecting TMP's demand and growth

TMP's future demand and growth depend largely on the ability of TMP on a timely basis to launch new models that meet customers' changing needs in the Philippines and to continually improve the overall quality of its products. The launch of a new locally-manufactured vehicle product requires substantial capital investment and generally higher initial production costs.

The Philippines' economic growth has been, and will continue to be, a significant factor in the continued growth of TMP's business. The effects of the global financial crisis of 2008 and 2009 had an impact on the Philippine economy in general, and on the car industry in particular. While car sales remained strong during the financial crisis, TMP experienced a shift in sales towards more fuel efficient vehicles. GDP growth in the Philippines is expected to remain relatively strong in the long term, though the recent economic uncertainty has lowered estimates for the Philippines' immediate growth. Economic growth in the Philippines has spawned a more affluent and more populated middle class as well as a larger upper-class population. Growth in the upper class has driven sales for luxury brands such as Lexus. TMP's ability to continue growing its revenues will depend on its ability to meet the changing needs of consumers in a growing economy.

Demand is also affected by factors directly impacting vehicle price or the cost of purchasing and operating vehicles such as sales and financing incentives, prices of raw materials and parts and components, cost of fuel and governmental regulations (including tariffs, import regulation and other taxes). Volatility in demand may lead to lower vehicle unit sales and increased inventory.

Competition

Competition has a direct effect on selling prices of vehicles. Competition typically results in lower selling prices and higher selling expenses while the prices of raw materials, including steel and energy costs, are increasing due to high demand. Despite relatively high levels of consumer demand for vehicles in the Philippines, it has become necessary for automotive manufacturers in the Philippines to reduce costs in order to remain competitive. In general, vehicle price setting is based on specification differences. However, upward or downward price adjustments may be made to respond to competitors' pricing strategy and the target market's purchasing behavior. It may sometimes be necessary to maintain the current prices of some vehicle models despite increasing costs and decreasing margins in order to narrow the gap with competitors or maintain market share. In an effort to mitigate the effects of competitive pricing, TMP pushes high-profit models or variants and introduces limited or special edition models.

TMP, like other Philippine automotive manufacturers, faces competition from imported and domestically-produced vehicles, including those produced by joint venture companies in the Philippines set up by international automotive manufacturers. TMP, along with some of these competitors, have been increasing their operations and sales in the Philippines in recent years. Moreover, competition from imported second-hand/used cars continues to capture a significant share of the market. The products of TMP in terms of pricing, product quality, brand name recognition and financial and technical resources are affected if competing automotive products, domestic or foreign, brand-new or second-hand, gain a competitive advantage.

Foreign currency fluctuations

TMP maintains its accounting records and prepares its financial statements in Pesos. Sales are denominated in Pesos, while foreign-currency-based expenses for imported component parts and completely built-up ("CBU") units are typically denominated in Japanese Yen, U.S. dollar, Thai Baht and Indonesian Rupiah. Fluctuations in the Peso exchange rate against these currencies could have a material impact on TMP's results of operations.

Supply chain disruptions

TMP's operations are dependent on the continual supply of production parts and imported vehicle units. Supply disruptions for production parts and imported vehicle units will likely have a significant impact on TMP's results of operations. For example, on March 11, 2011, a 9.0 magnitude earthquake occurred with an epicenter approximately 70 km east of Tohoku Japan. The earthquake and the resulting tsunami resulted in heavy damage to Japanese transport systems and power plants. Additionally, the Fukushima nuclear power station suffered severe damage rendering it inoperable after its containment chambers were breached and radiation leaked into the environment. In the immediate aftermath of the earthquake, certain industries, including the Japanese automotive industry, experienced the cascading effects of the disruption in the global supply chain. TMP, as a regular recipient of automotive parts supplied by TMC's Japanese facilities, experienced disruptions in its supply over a course of two months following the earthquake. However, regular service and parts deliveries were resumed by June 6, 2011. In addition, the floods that impacted parts of Thailand beginning in July 2011 caused widespread damage to the country, including several industrial estates and manufacturing facilities. Some key suppliers of production parts for imported vehicle units and for TMP, suffered significant damage at its facilities resulting in supply disruptions for TMP. For the full years 2010 and 2011, TMP produced 28,412 units and 26,129 units, respectively. The 2011 figure was below the target of 28,761 units due to supply disruptions caused by the March 2011 earthquake and tsunami in Japan as well the severe flooding experienced in Thailand beginning in July 2011. These incidents reduced the availability of many key components, resulting in lower production and sales figures for the year as well as an overall increase in the cost of component parts and CBU units. The disruption of parts supply from TMC had a material adverse impact on TMP's results of operations for the first half of 2011. Although TMP and TMAP are investigating alternative sources for parts in order to mitigate supply disruptions in the future, similar supply disruptions may have a material adverse impact on TMP's results of operations and financial condition.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those that are both (i) relevant to the presentation of TMP's financial condition and results of operations and (ii) require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increase, those judgments become even more subjective and complex. In order to provide an understanding of how TMP's management forms its judgments about future events, including the variables and assumptions underlying its estimates, and the sensitivity of those judgments to different circumstances, TMP has identified certain critical accounting policies. For a complete discussion of TMP's critical accounting policies and significant accounting judgments and estimates, see Note 4 and Note 5 to TMP's financial statements included in this Prospectus.

DESCRIPTION OF KEY LINE ITEMS

Revenue

Manufacturing activities

Manufacturing activities reflect the sale of vehicles manufactured in the Philippines, namely the Innova and Vios.

Trading activities
Trading activities represent (i) export of car parts, (ii) local sales of imported vehicle units and service parts, and (iii) car sales and related income for TMP owned dealerships.

Interest income
Interest income is interest from savings and time deposits and short-term investments.

Other income
Other income accounts mainly for rent income, gain on sale of fixed assets and dividend income.

Costs and Expenses

Costs of goods sold – manufacturing activities
Costs of goods sold for manufacturing activities reflects the cost of raw materials, labor and overhead in the manufacture of locally-manufactured vehicles as well as depreciation and energy costs.

Costs of goods sold – trading activities
Costs of goods sold for trading reflects costs of materials and other incidental costs in the export and local sale of service parts and imported vehicles as well as TMP-owned dealership related expenses.

Selling, general and administrative
Selling, general and administrative expenses consist of advertisements, promotions, other selling expenses and costs of administering the business such as salaries, wages and benefits.

Interest expense
Interest expense relates primarily to interest on loans and long-term debt.

Foreign exchange gain – net
Foreign exchange gain – net relates primarily to gains associated with parts procured that are denominated in Japanese Yen, the U.S. dollar, Thai Baht and Indonesian Rupiah.

Provision for income tax
TMP's deferred tax asset and liability are recognized on deductible and taxable temporary differences.

RESULTS OF OPERATIONS

Year ended December 31, 2011 compared to year ended December 31, 2010

Revenue from manufacturing activities
TMP recorded revenues from manufacturing activities of ₱17,243.6 million in 2011, a decrease of 6.8% from ₱18,507.0 million in 2010, primarily due to the decrease in locally manufactured vehicles resulting from the temporary interruption of component parts supply brought about by the Japan earthquake and the flooding in Thailand in 2011.

Revenue from trading activities
TMP recorded revenues from trading activities of ₱36,856.1 million in 2011, a decrease of 10.7% from ₱41,255.2 million in 2010, due to the 9.1% decrease in sales volume of imported vehicles resulting from the temporary interruption of imported CBU vehicles brought about by the Japan earthquake and the flooding in Thailand in 2011.

Interest income
TMP recorded interest income of ₱343.3 million in 2011, an increase of 16.8% from ₱293.9 million in 2010, due to increased short-term investments in 2011.

Other income
TMP recorded other income of ₱41.1 million in 2011, an increase of 1.2% from ₱40.6 million in 2010, primarily due to the increased dividend received from TAP.

The following table sets forth the components of TMP's other income:

	Year ended December 31,	
	2010	2011
	(₱ in millions)	
Commission	₱ 9.7	₱11.5
Gain on sale of property and equipment	9.1	7.8
Rent	8.8	1.8
Dividend income	6.9	16.6
Others	6.1	3.4
Total	₱40.6	₱41.1

Cost of goods sold – manufacturing activities
TMP recorded cost of goods sold for manufacturing activities of ₱15,990.5 million in 2011, a decrease of 5.1% from ₱16,853.5 million in 2010, due to corresponding decrease in sales volume of locally manufactured vehicles.

Cost of goods sold – trading activities
TMP recorded cost of goods sold for trading activities of ₱32,074.5 million in 2011, a decrease of 9.6% from ₱35,478.2 million in 2010, due to corresponding decrease in sales volume of imported CBU vehicles.

Selling, general and administrative
TMP recorded selling, general and administrative expenses of ₱3,265.2 million in 2011, a decrease of 6.3% from ₱3,484.8 million in 2010, mainly due to reduction of warranty provisions starting 2011 following decrease in processed warranty claims.

Interest expense
TMP recorded interest expenses of ₱13.8 million in 2011, a decrease of 25.0% from ₱18.4 million in 2010, due to a reduction in outstanding loans availed by TMP-owned dealerships from banks resulting from a lower volume of vehicles purchased as well as a shift towards TFSPH for loan facilities by the dealers.

Foreign exchange gain
TMP recorded a net foreign exchange loss of ₱98.5 million in 2011, whereas it recorded a net foreign exchange gain of ₱79.5 million in 2010, due to the impact of the depreciation in the Philippine Peso against the U.S. Dollar on settlement of foreign currency denominated liabilities.

Provision for income tax
TMP recorded provision for income tax of ₱825.1 million in 2011, a decrease of 3.2% from ₱852.0 million in 2010, due to decrease in net income before tax. This decrease was partially offset by the expiration of tax holidays for the Vios and Innova in 2011.

Net income
As a result of the foregoing, net income decreased to ₱2,216.4 million in 2011, a decrease of 36.5% from ₱3,489.4 million in 2010.

Year ended December 31, 2010 compared to year ended December 31, 2009

Revenue from manufacturing activities
TMP recorded revenues from manufacturing activities of ₱18,507.0 million in 2010, an increase of 28.9% from ₱14,357.9 million in 2009, primarily due to the increase in locally manufactured vehicle sales volume by 27.1% due to growth in the Philippine automobile market brought about by the economic growth in the Philippines typically experienced during a presidential election year. In addition, TMP increased its advertising and promotional activities during 2010, which TMP believes was partly responsible for the higher sales volumes experienced in 2010.

Revenue from trading activities
TMP recorded revenues from trading of ₱41,255.2 million in 2010, an increase of 28.0% from ₱32,220.3 million in 2009, mainly due to the increase in imported vehicle sales volume by 20.5% due to growth in the Philippine automobile market brought about by the economic growth in the Philippines typically experienced during a presidential election year.

Interest income

TMP recorded interest income of ₱293.9 million in 2010, an increase of 33.0% from ₱220.9 million in 2009, due to higher short term investments placed during 2010 as a result of larger cash balances stemming from increased sales.

Other income

TMP recorded other income of ₱40.6 million in 2010, a decrease of 24.4% from ₱53.7 million in 2009, primarily due to a decrease in the dividend income from Toyota Autoparts, Inc. ("TAPI"), an affiliate of TMP. The following table sets forth the components of TMP's other income:

	Year ended December 31,	
	2009	2010
	(₱ in millions)	
Commission	₱ 6.6	₱ 9.7
Gain on sale of property and equipment	8.8	9.1
Rent	10.9	8.8
Dividend income	14.4	6.9
Others	13.0	6.1
Total	₱53.7	₱40.6

Cost of goods sold – manufacturing activities

TMP recorded cost of goods sold for manufacturing activities in 2010 of ₱16,853.5 million, an increase of 21.5% from ₱13,871.0 million in 2009 due to the corresponding increases in locally manufactured vehicle sales volumes.

Costs of goods sold – trading activities

TMP recorded cost of goods sold for trading of ₱35,478.2 million in 2010, an increase of 24.1% from ₱28,577.4 million in 2009, which resulted from the increase in sales of imported vehicles.

Selling, general and administrative

TMP recorded selling, general and administrative costs of ₱3,484.8 million in 2010, an increase of 59.4% from ₱2,186.6 million in 2009, due to the increase in sales volume and more aggressive promotional and sales activities in 2010.

Interest expense

TMP recorded interest expenses of ₱18.4 million in 2010, an increase of 20.3% from ₱15.3 million in 2009, due to an increase in loans taken in 2010 for working capital requirements.

Foreign exchange gain

TMP recorded a foreign exchange gain of ₱79.5 million in 2010, an increase of 16.1% from ₱68.5 million in 2009, due to the impact of the appreciation of the Peso experienced in 2010 on settlement of foreign currency denominated liabilities.

Provision for income tax

TMP recorded a provision for income tax of ₱852.0 million in 2010, an increase of 70.7% from ₱499.0 million in 2009, due to a corresponding increase in taxable net income.

Net income

As a result of the foregoing, net income increased to ₱3,489.4 million in 2010, an increase of 96.9% from ₱1,772.1 million in 2009.

LIQUIDITY AND CAPITAL RESOURCES

In 2009, 2010 and 2011, TMP's principal source of liquidity was cash from operating activities. As of December 31, 2011, TMP had cash and cash equivalents totaling ₱5,304.3 million. TMP expects that its principal uses of cash for 2012 will be for operating activities.

The following table sets forth selected information from TMP's statements of cash flows for the periods indicated:

	As of December 31,			
	2009	2010	2011	2011
	(₱ millions)			(U.S.$ millions)(1)
Net cash provided by (used in) operating activities	6,869.3	1,985.5	2,478.9	56.4
Net cash provided by (used in) investing activities	92.1	485.1	(404.2)	(9.2)
Net cash provided by (used in) financing activities	(3,100.1)	(2,137.2)	(3,370.3)	(76.7)
Net increase in cash and cash equivalents	3,848.3	328.5	(1,283.4)	(29.2)
Cash and cash equivalents at beginning of period	2,410.9	6,259.2	6,587.7	150.0
Cash and cash equivalents at end of period	6,259.2	6,587.7	5,304.3	120.8

Cash flows from operating activities

TMP recorded net cash provided by operating activities of ₱6,869.3 million in 2009, ₱1,985.5 million in 2010 and ₱2,478.9 million in 2011. In 2009, the primary sources of cash were ₱2,315.5 million from operations, decreases in inventories of ₱2,816.6 million and increases in accounts payable and others of ₱982.4 million. In 2010, the primary source of cash was ₱4,586.8 million from operations and an increase in accounts payable and others of ₱1,785.6 million, while cash from operations was used for a ₱2,430.1 million increase in inventories and a ₱1,423.0 million increase in receivables. In 2011, the primary sources of cash were ₱2,875.6 million from operations and a decrease in inventories of ₱1,314.8 million.

Cash flows from investing activities

TMP recorded net cash provided by investing activities of ₱92.1 million in 2009, ₱485.1 million in 2010 and net cash used for the same activities of ₱404.2 million in 2011. In 2009, cash flows provided by investing activities were primarily due to proceeds from borrowings of ₱540.0 million and interest received of ₱211.2 million, which was partially offset by the acquisition of ₱601.7 million of short-term investments and ₱210.0 million in property and equipment. In 2010, cash flows provided by investing activities were primarily due to proceeds from short-term investments of ₱601.7 million and proceeds from borrowings of ₱510.0 million, which was partially offset by the acquisition of ₱734.3 million of short-term investments and ₱146.3 million in property and equipment. In 2011, cash flows used in investing activities were due to the acquisition of ₱538.6 million in property, plant and equipment and acquisition of ₱1,072.3 million short-term investments, which was partially offset by ₱344.6 million interest received.

Cash flows used in financing activities

TMP recorded net cash used in financing activities of ₱3,100.1 million in 2009, ₱2,137.2 million in 2010 and ₱3,370.3 million in 2011. The cash was primarily used for the payment of dividends of ₱2,644.4 million, ₱1,588.5 million and ₱3,246.2 million in 2009, 2010 and 2011, respectively, as well as payments on short-term loans for working capital requirements.

Capital Expenditures

The table below sets out TMP's capital expenditures in 2009, 2010 and 2011, together with its budgeted capital expenditures for 2012.

Year ended December 31,	Expenditure (₱ in millions)
2009 (actual)	210.0
2010 (actual)	146.3
2011 (actual)	538.6
2012 (budgeted)	714.4

TMP has historically sourced funding for capital expenditures through internally-generated funds.

TMP has budgeted ₱714.4 million for capital expenditures for 2012. The planned capital expenditures for 2012 are summarized below:

Capital Projects	Expenditure ₱ (millions)	Expenditure U.S.$ (millions)
Building Expansion/Improvements	284.5	6.5
Acquisition of New Machineries/Tools/Equipment	274.4	6.3
Product Model Change/Upgrade Projects	131.0	3.0
Others	24.5	0.6
Total	714.4	16.4

TMP expects to fund its budgeted capital expenditures principally through cash from operations. The figures in TMP's capital expenditure plans are based on management's estimates and have not been appraised by an independent organization. In addition, TMP's capital expenditure plans are subject to a number of variables, including: possible cost overruns; construction/development delays; the receipt of critical Government approvals; availability of financing on acceptable terms; changes in management's views of the desirability of current plans; and macroeconomic factors such as the Philippine's economic performance and interest rates. There can be no assurance that TMP will execute its capital expenditure plans as contemplated at or below estimated costs.

Contractual obligations and commitments

The following table sets forth TMP's contractual obligations and commitments as of December 31, 2011:

	Contractual Obligations and Commitments — Payments Due by Period (₱ in millions)		
	Total	2012	2013
Operating lease obligations	8.7	8.7	–

Debt obligations and facilities

TMP's total amount of long-term debt was ₱245.8 million as of December 31, 2011. TMP's long-term debt was comprised of unsecured long term loan, provisions and retirement liabilities.

The following table sets forth TMP's total indebtedness as of the periods indicated:

	As of December 31, (₱ in millions)		
	2009	2010	2011
Long term debt	245.8	245.8	245.8
Total	245.8	245.8	245.8

Off Balance Sheet Arrangements

As of December 31, 2011, TMP did not have any off balance sheet arrangements.

QUALITATIVE AND QUANTITATIVE DISCLOSURE OF MARKET RISK

TMP's principal financial instruments consist of its long-term debt, cash on hand and in the bank, receivables from sales, short-term investments and receivables from and payables to affiliated companies. These are used to provide funding for TMP's business operations. TMP does not enter into hedging transactions or engage in speculation with respect to financial instruments.

TMP believes that the principal risks arising from its financial instruments are foreign currency risk, interest rate risk, liquidity risk and seasonality.

Foreign Exchange Risk

TMP is exposed to the risk that increases in the Peso exchange rate for dollars will decrease the value of its foreign-currency-denominated assets, which are cash and cash equivalents, short-term receivables and receivables amounting to ₱1,561.0 million as of December 31, 2011. In addition, TMP faces the risk that the Peso equivalent price for foreign currency denominated component parts and CBU units, which are primarily denominated in Yen, dollars, Baht and Rupiah, will increase due to foreign currency exchange fluctuations.

Interest Rate Risk

TMP's exposure to interest rate risk relates primarily to its interest-bearing loans. As of December 31, 2011, ₱40.0 million of TMP's loans bear interest at 3.8% to 4.5%. Increases in interest rates would have the effect of increasing the interest due on TMP's outstanding debt and increases in such rates could make it more difficult for TMP to procure new debt on attractive terms, or at all. TMP does not, and has no plans to, engage in interest rate derivative or swap activity to hedge its exposure to increases in interest rates.

Fluctuations in interest rates also have an effect on demand for TMP's products. As most purchasers of TMP's products obtain some form of financing for their automobile purchases, interest rate levels could affect the affordability and desirability of TMP's products.

Liquidity Risk

TMP bears the risk that it will not have sufficient cash flows to meet its operating requirements and its financing obligations when they become due. TMP manages this risk by regularly reviewing its cash flow position, debt maturity profiles, availability of credit facilities and overall liquidity position to mitigate the effects of fluctuations in cash flow.

Going forward, and to the extent it is able to do so, TMP intends to primarily use internally generated funds and additional equity offerings to meet its financing requirements.

Seasonality

TMP's business is subject to significant sales variations due to seasonality. Sales for TMP's products typically increase during the end of the year as well as during the Summer.

THE PHILIPPINE AUTOMOTIVE INDUSTRY

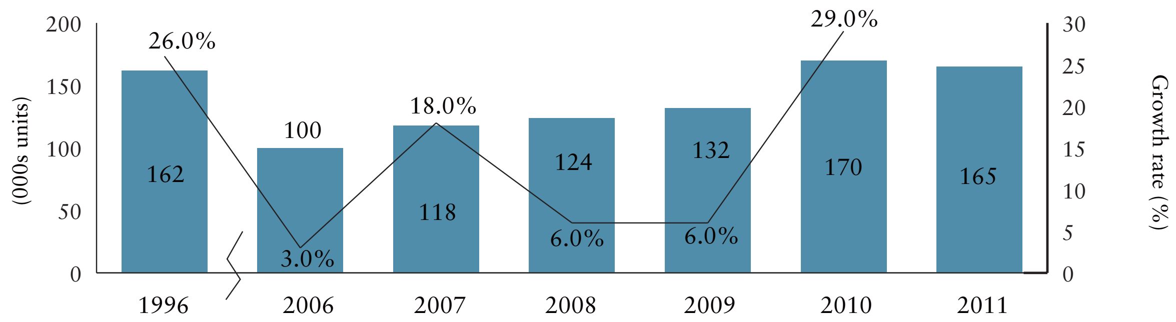
BACKGROUND

The beginning of the formal auto industry in the Philippines can be traced back to the commercial importation of CBU cars and trucks in the 1950s. The auto industry developed further in the 1970s with the implementation of the Government's Motor Vehicle Development Program as a key strategy for industrialization and the entry of global car manufacturers. Foreign manufacturers that set up production operations in the Philippines included Toyota, Mitsubishi, Honda, Isuzu, Nissan and Ford.

MARKET SIZE AND GROWTH

Following a record year in 1996 – with overall sales reaching 162,000 units – the automotive industry was significantly affected by the Asian financial crisis of 1997, and sales growth remained low until 2005. From 2006-2010, sales growth gained strength, with a CAGR of 14% according to CAMPI and AVID. In 2010, industry-wide sales reached approximately 170,000 units. In 2011, the Philippine automotive industry was affected by parts supply disruption caused by the Japan earthquake and tsunami and Thailand floods. This resulted in slightly reduced sales of approximately 165,000 units.

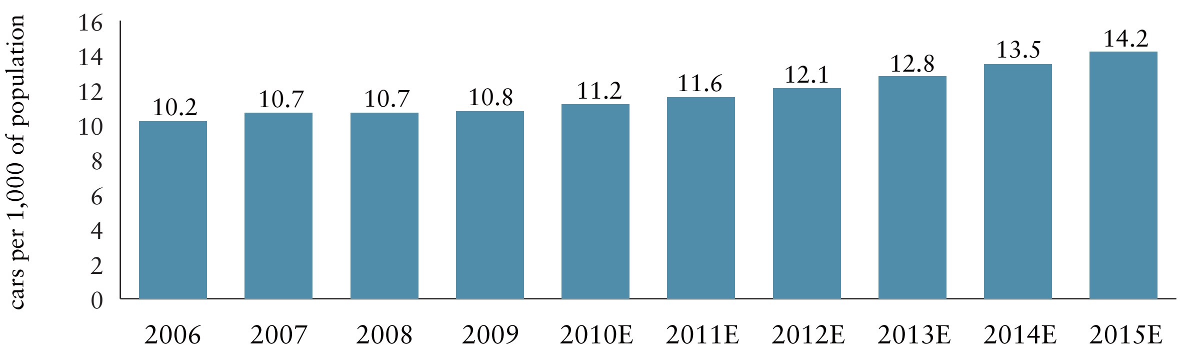
Philippines Automotive Market Sales



Source: *CAMPI and AVID*

Passenger car ownership has also grown in line with overall vehicle sales, as a result of continued growth in GDP and disposable income as well as changing lifestyles. Between 2006 and 2010, passenger car density increased from 10.2 per thousand population to 11.2 and is expected to reach 14.2 per thousand population in 2015, according to Business Monitor International ("BMI") estimates.

Historical and Forecast Passenger Car Density in the Philippines

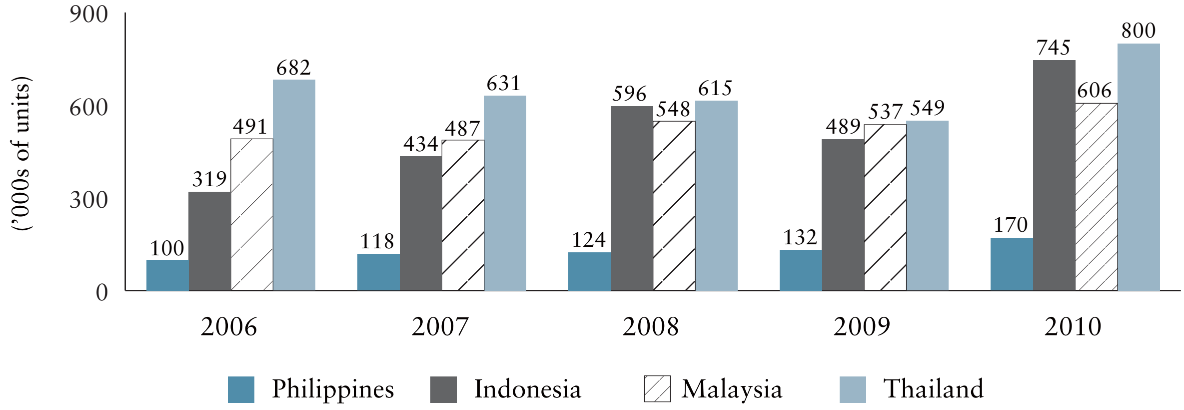


Source: *BMI*

PHILIPPINES AUTOMOTIVE MARKET IN AN INTERNATIONAL CONTEXT

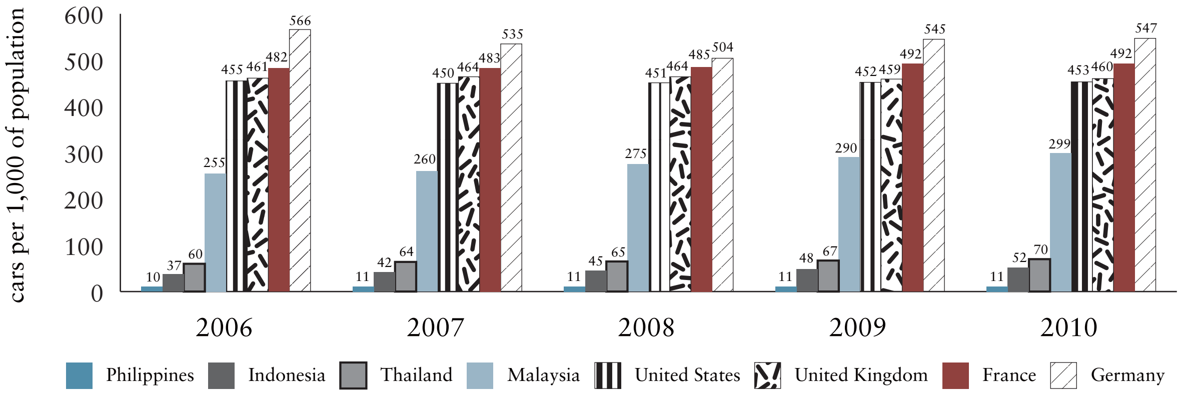
Unlike neighboring South East Asian countries and other developed countries, where vehicle ownership rate is generally higher, the Philippine automotive industry is at the early stages of motorization. In 2010, the Philippine market recorded approximately 170,000 vehicle sales while Thailand, Indonesia and Malaysia recorded approximately 800,000, approximately 745,000, approximately 606,000 vehicle sales, respectively according to Board of Investments. Passenger car density rates in the Philippines are also still the lowest amongst the ASEAN4 (Indonesia, Malaysia, Philippines, and Thailand) and developed countries. Vehicle sales in the Philippines grew at a CAGR of 14% from 2006 to 2010 whereas Indonesia grew at a CAGR of 24%. Malaysia and Thailand's vehicle sales grew at a CAGR of 5% and 4% in the same period, respectively.

ASEAN4 Automotive Market – Annual vehicle sales



Source: *Board of Investments*

Passenger Car Density in ASEAN4, US, UK, France and Germany

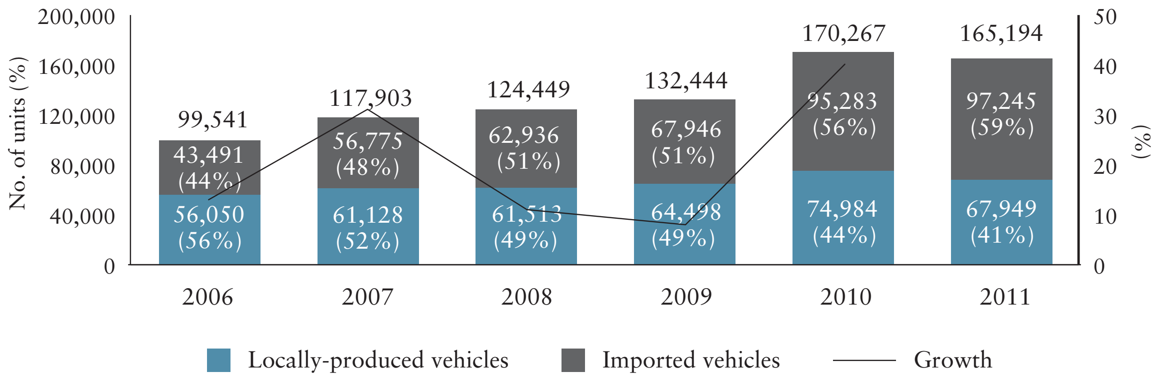


Source: *BMI*

MARKET SEGMENTATION AND TRENDS

Automotive sales in the Philippines can be classified either as sales of locally manufactured vehicles or imported CBU vehicles. The overall market growth has been reflected in positive absolute trends for both segments, but over the past five years imported CBU vehicles have captured an increasingly larger share of the market. CBU market share was 59% in 2011 as compared to 44% in 2006 according to CAMPI and AVID.

Sales of Imported CBU Vehicles vs. Locally Produced Vehicles



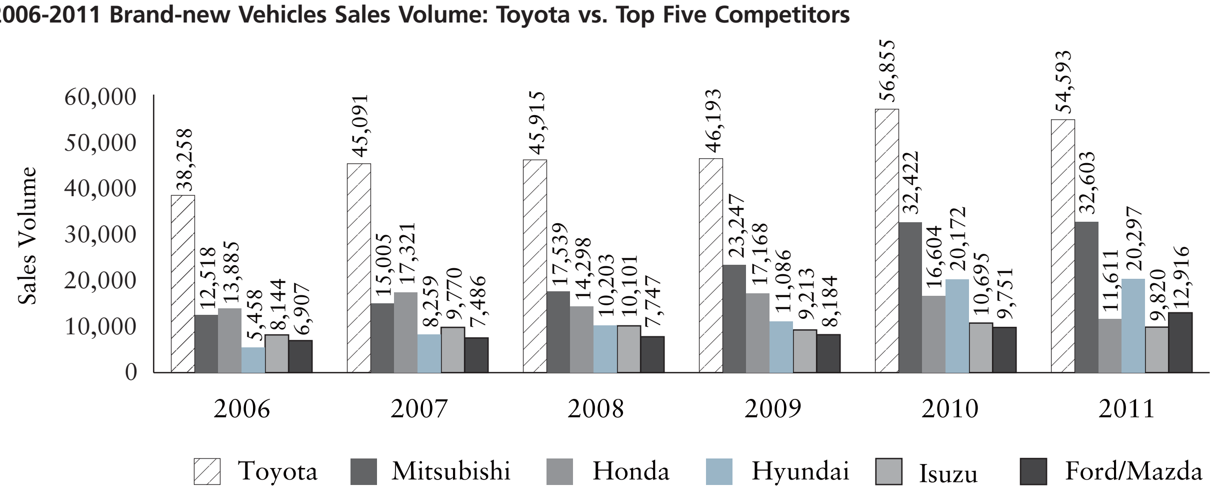
Source: *CAMPI and AVID*

This trend is attributable to, among others, the increasing number of imported models available versus locally produced models. The number of imported CBU models available for purchase in the Philippines has increased from 86 models in 2006 to 174 models in 2010 and grew at a CAGR of 22%. Another factor supporting the growth of the imported CBU market has been the opening up of the Philippine automotive market under several free trade agreements. This trend is expected to continue with further reduced tariffs on imported Korean and Chinese CBU vehicles beginning in 2012 under the ASEAN-Korea and ASEAN-China Free Trade Agreements.

New vehicles have recently accounted for an increasingly larger share of the Philippine automotive market. Rising income levels and changing consumption preferences have contributed to this shift, but regulation is also considered to have supported the trend over recent years. In February 2006, the Philippines Supreme Court upheld the constitutionality of Executive Order No. 156 resulting in a stricter implementation of the prohibition on importation of second-hand vehicles. This resulted in a decrease in the number of second-hand vehicles from 43% of total vehicle registrations in 2006 to 23% in 2010 according to CAMPI and AVID.

KEY COMPETITORS IN THE PHILIPPINE AUTOMOTIVE SECTOR

2006-2011 Brand-new Vehicles Sales Volume: Toyota vs. Top Five Competitors



Source: *CAMPI and AVID*

Based on industry data compiled by CAMPI and AVID, the top six automotive companies in the Philippines accounted for 86% of total vehicles sold in 2011. Toyota remains the leading automotive brand in the Philippines, with a 2011 market share of 33%, which is 13 percentage points higher than its closest competitor, Mitsubishi. Korean brand, Hyundai, had a market share of 12% in 2011. Ford was the fourth most successful automotive brand in 2011, with a market share of 8%. Several of the leading international automotive companies have manufacturing and assembly plants in the Philippines, including Ford, Honda, Isuzu, Kia, Mitsubishi, Nissan, Suzuki and Toyota.

BUSINESS – TMP

OVERVIEW

GT Capital has interests in the automotive industry primarily through its 21.0% direct ownership in TMP. TMP is engaged in the manufacture, importation and wholesale distribution of Toyota brand motor vehicles in the Philippines. It is also engaged in the sale of motor vehicle parts and accessories, both locally and via export. TMP also has direct interests in three dealerships, Toyota Makati (100.0%), Toyota San Fernando (55.0%) and Lexus Manila, Inc. (75.0%). GT Capital also has interests in Toyota-related businesses through its 25.1% share ownership in MBT. MBT owns 30.0% of TMP and 34.0% of TFSPH. MBT, through its subsidiary FMIC, also has a 9.0% interest in Toyota Cubao, Inc. and 19.25% in Toyota Manila Bay Corporation, which are Toyota dealerships.

TMP is a joint venture company among GT Capital, MBT, TMC, Mitsui and Maximus Management Holdings which each owns 21.0%, 30.0%, 34.0%, 6.0% and 9.0% of TMP's shares, respectively.

TMP has entered into Toyota Distributor Agreement and the Lexus Distributor Agreement with TMC and TMAP for the right to sell Toyota and Lexus brand products in the Philippines. The Toyota Distributor Agreement is typically renewed every three years, with the last such renewal occurring on December 3, 2009. TMC was incorporated in Japan on August 28, 1937 and its primary business is in the automotive industry. TMC's operations are conducted through subsidiaries and affiliate companies in more than 170 countries. TMC's subsidiaries and affiliate companies, including TMP, are required to implement certain standardized guidelines in their manufacture and distribution of Toyota products in order to maintain the Toyota brand image worldwide. TMAP is a Singapore-based company established in 1990 to oversee the distribution of Toyota vehicles in Asia Oceania. In 2007, TMAP-EM regional office was also established in Thailand to enhance the production and service parts sourcing network and support manufacturing and engineering programs to subsidiaries and affiliates in Asia Oceania.

According to combined industry statistics from CAMPI and the Association of Vehicle Importers and Distributors ("AVID"), TMP has had the highest number of new vehicle unit sales in the Philippines for both passenger cars and commercial vehicles every year since 2002. In the Philippine auto industry, achieving the highest sales of passenger cars, commercial vehicles and overall sales is known as the "Triple Crown". Since 2002, TMP has achieved ten consecutive Triple Crowns and since 1989, TMP has been number one in total sales in 21 out of 23 years. In 2011, TMP's annual sales were 54,593 units, and TMP's market share in the Philippines was 33%, according to data from CAMPI and AVID.

In 2011, TMP's revenue was ₱54,099.7 million and gross profit was ₱6,034.7 million compared to revenue of ₱59,762.2 million and gross profit of ₱7,430.6 million in 2010.

HISTORY

TMP was incorporated in the Philippines on August 3, 1988 as a joint venture between MBT, TMC, Titan Resources, and Mitsui. The joint venture agreement was revised in 1999 to revise the parties' shareholdings and include Maximus Management Holdings as a joint venture partner. TMP has been the exclusive manufacturer and distributor of Toyota brand products in the Philippines since 1989, when it began manufacturing the Corolla model at its Bicutan, Parañaque City production plant. In 1990, TMP began domestic production of the Crown and Liteace models while domestic production of the Corona and Tamaraw FX models began in 1991.

In 1990, TMP commenced two shift operations and in 1993, TMP started press plant operations. In response to increasing demand, TMP opened a second plant located at Santa Rosa, Laguna in 1997. See "– Production and Production Processes". In 2005, the plants were consolidated into a single location at TMP's present site in Santa Rosa, Laguna, which was given special economic zone status through Presidential Proclamation No. 381. The zone is known as the Toyota Special Economic Zone ("TSEZ") and affords certain tax benefits to companies located inside the zone which are registered with the Philippine Economic Zone Authority ("PEZA").

In 1998, TMP became the first automotive company in the Philippines to be awarded ISO14001 certification for environmental management. In February 2005, TMP began domestic production of the Innova commercial vehicle model, while production of the VIOS passenger car commenced in August 2007. In January 2009, TMP reached a key milestone by opening the Philippines' first Lexus dealership. TMP sold its 500,000th, 600,000th and 700,000th unit in October 2007, December 2009 and September 2011, respectively.

COMPETITIVE STRENGTHS

TMP believes that it has certain key strengths that provide competitive advantages over many of its competitors, including, among others:

Market leadership in the Philippines with the top-ranked global automotive brand

Toyota is a leading and universally recognized global brand with a presence in more than 170 countries worldwide. According to the "BrandZ Top 100 Most Valuable Global Brands" study published in May 2011 by Millward Brown (WPP), a marketing agency, Toyota is the No.1-ranked automotive brand globally. It is also within the Top 30 most valuable global brands across all industries and is the fourth most valuable brand based in Asia according to the same study. In the Philippines, Toyota has been the top-selling brand for both passenger and commercial vehicles in every year since 2002 according to CAMPI and AVID. In 2011, TMP had a market share of 33% of total vehicle sales in the country. TMP believes that the Toyota brand name and its leading market position are important to TMP's ability to continue to grow and attract customers in the Philippines.

High quality products across an extensive product range

As TMC's exclusive wholesale distributor in the Philippines, TMP has access to a wide range of TMC's vehicle offerings. In the Philippines, TMP manufactures the Vios and the Innova, which are well tailored to the Philippine domestic market. TMP also imports 15 other Toyota models from across TMC's product range. In addition, TMP introduced a range of high-end Lexus models to cater to the growing wealth in the Philippines. The design, quality, reliability and safety of these vehicles have been widely recognized around the world by a number of independent organizations, including J.D. Power & Associates, Consumers Digest and the European Car of the Year Organizing Committee. The vehicles manufactured and sold in the Philippines are subject to the same international quality standards as all Toyota vehicles. As a testament to their high quality, TMP's products generally maintain strong resale value in the secondary market, which enhances their appeal as new car purchases. The availability of Toyota parts and services across most areas of the Philippines contributes to the convenience value of Toyota vehicles.

Efficient and streamlined operation with support from a leading global manufacturer

TMP is the beneficiary of support from TMC's leading global platforms. TMP imports and manufactures automobiles and parts designed by TMC's award winning design team and implements its state-of-the-art TPS, which is based on just-in-time production and quality control processes and feedback mechanisms. The just-in-time production allows TMP to keep inventories and overheads low, thereby reducing costs. Additionally, TMAP's engineering and manufacturing office provides technical assistance in the implementation of TPS in several functional areas. The quality control process allows TMP to achieve mass-production efficiencies over small and large production volumes and minimize waste. The parts and components requirements of TMP are sourced from Japan and ASEAN countries through TMAP, free from tariffs, and from local suppliers. TMP purchases raw materials, parts, components, equipment and other supplies from TMC, foreign TMC subsidiaries and affiliates and other foreign and local suppliers authorized by TMC. This ensures that TMP uses high-quality, well designed parts for the vehicles it manufactures in the Philippines. Overall, this support system provides flexibility to respond to changing consumer demands without significantly increasing production costs.

Extensive dealer network for retail sales and service

As of December 31, 2011, the Toyota and Lexus dealer network in the Philippines consisted of 31 dealership facilities, of which 17 are in Metro Manila, seven are in Luzon, four are in the Visayas and three are in Mindanao. Out of the 31 dealerships, TMP directly owns three dealerships, including Lexus Manila, Inc. TMP plans to expand the dealership network by facilitating the opening of new showrooms and service outlets across the Philippines. TMP provides continuing support to the network of Toyota dealers, including financing for dealer stock through TFSPH. TMP believes it can rely on the extensive Toyota dealer network that provides channels for customers to purchase Toyota vehicles as well as readily available after-sales service and maintenance that enhances the post-purchase customer experience and the Toyota brand.

Strong business synergies with other members of GT Capital

As a member of GT Capital, TMP continues to benefit from this affiliation in several ways. MBT has a 34% effective interest in TFSPH, which is a joint venture between MBT and Toyota Financial Services Corporation of Japan. TFSPH provides financing to both the general public and Toyota dealerships for the purchase of cars and the acquisition of vehicle inventories, respectively. While TMP does not have any ownership interest in TFSPH, TFSPH's financing promotions for retail and wholesale customers help to support sales of TMP's products. MBT's credit card subsidiary, MCC, and TMP have also developed a Toyota Mastercard, a loyalty and credit card in one, where rewards earned on purchases made with the Toyota Mastercard can be used to purchase items at any Toyota dealership. In addition, certain GT Capital companies maintain fleet accounts for the purchase of Toyota cars for their business operations. In terms of management, TMP is also able to draw upon the significant managerial experience of the GT Capital companies to complement its own managerial resources.

STRATEGIES

Continue to leverage Toyota's strong brand recognition and customer loyalty

TMP plans to maintain the strength of the Toyota brand and to leverage its brand recognition to continue introducing new products to the Philippine market. TMP believes that "Toyota" is one of the most widely recognized brands in the world and also enjoys strong brand recognition in the Philippines. In addition, TMP believes the Toyota brand enjoys significant loyalty among many customers who have purchased TMP's products in the past. TMP intends to leverage this customer loyalty both in sales and after sales by expanding the business through various customer retention programs.

Respond to higher market demand

TMP intends to capitalize on the growth of the Philippine automotive sector by expanding its manufacturing capacity. In 2010, TMP expanded its annual production capacity from approximately 25,000 cars to approximately 30,000 cars through process improvements at its manufacturing plant. TMP is evaluating plans to further increase its capacity in the medium term to accommodate the continued growth in local demand. TMP believes that economies of scale in local production would allow TMP to capture a higher margin in the Philippines, and that increased demand would therefore result in greater and more profitable local production. TMP is also working to expand as a wholesale distributor of imported Toyota vehicles. For example, in 2009, TMP began to sell the Lexus luxury brand in the Philippines. TMP plans to maintain the strength of the Toyota brand and to leverage its brand recognition to continue introducing new products to the Philippine market. TMC has a vast range of Toyota brand vehicles which it sells throughout the world. In consultation with TMC, TMP is able to draw upon this range as it suits the Philippine market to continually offer new automotive products in the Philippines. TMP is also working on expanding the Toyota dealer network in the Philippines. Toyota's network of 30 dealership outlets is geographically diverse, covering both Metro Manila and the wider Philippines. TMP believes that there is an opportunity for further market penetration by meeting the growing demand that is currently underserved by existing distribution channels.

Reduce costs and strengthen competitiveness of local production

TMP places an emphasis on reducing production and overhead costs through value engineering and cycle time reductions as well as stringent working capital controls. TMP will continue to work with its operations team, TMC and TMAP to continue achieving cost reductions and management efficiencies. TMP also plans to expand its local supply network, which can reduce supply chain risks, import logistics and packing costs, as well as foreign exchange risk, inventory costs and ultimately production costs. TMP has strict operational targets in key functional areas such as safety, quality, cost, logistics and maintenance. These targets help ensure that TMP sustains high levels of operational efficiency. TMP believes that productivity improvements and operational efficiencies will improve its results of operations.

Strengthen dealer network through training and improved facilities

TMP believes that the dealer network is the leading contributor to its sales success in the Philippines. A key differentiator for the Toyota brand in the Philippines is the availability of quality sales and after-sales services, which relies upon the dealer network to provide timely, courteous, knowledgeable and affordable support to purchasers of Toyota products. To ensure the quality of the dealers, TMP provides dealer training to improve the dealer's sales and services. Training programs include vehicle maintenance, vehicle education and sales training. Dealer incentive programs also exist to motivate dealers and their sales and after-sales workforce.

PRODUCTS

TMP is authorized to distribute Toyota products that are approved for distribution in the Philippines by TMC and TMAP according to their Toyota Distributor Agreement. TMP's products are divided into three categories: vehicle sales, local sales of service parts and export sales of original equipment manufacturer ("OEM") parts and service parts. Vehicle sales are divided into locally manufactured vehicles using both imported CKD components and locally manufactured parts and components, as well as CBU vehicles, which are wholly imported. All imported parts and components for locally manufactured vehicles as well as imported CBU vehicles from ASEAN countries are not subject to tariffs in the Philippines, while imported CBU vehicles from Japan are subject to prevailing tariff rates. Local sales of service parts include parts primarily imported by TMP and parts manufactured by its local suppliers. TMP also produces certain body parts for local manufacture of vehicles and service parts requirements. Export sales are made of parts manufactured by local suppliers and TMP for regional importers.

The table below shows the sales breakdown by vehicle sales, local sales of service parts and export sales for each of the last three years.

	Year ended December 31,					
	2009		2010		2011	
Category	(₱ millions, except percentages)					
Vehicle sales						
Locally manufactured vehicles	14,383.3	31.2%	18,507.0	31.6%	17,243.6	31.3%
Imported CBU vehicles	21,843.4	47.4%	27,520.6	47.0%	25,762.4	46.8%
Local sales of service parts	1,973.5	4.3%	2,297.6	3.9%	2,247.7	4.1%
Export sales of OEM parts and service parts	7,858.7	17.1%	10,211.9	17.4%	9,751.5	17.7%
Total[(1)]	46,058.9	100.0%	58,537.1	100.0%	55,005.2	100.0%

Note:

(1) Sales attributable only to TMP parent company activities.

Vehicle Sales

The vehicles TMP sells in the Philippines can be sorted by two types of classifications. First, vehicles can be classified as either locally manufactured vehicles or imported CBU vehicles. Second, vehicles can be classified as either passenger cars or commercial vehicles. TMP sells two models of locally manufactured vehicles, the passenger car VIOS and the commercial vehicle Innova. Both the VIOS and Innova vehicles are produced in the 82-hectare TSEZ. All other vehicle models sold by TMP are imported CBU vehicles.

The table below shows the breakdown by passenger and commercial vehicle sold for each of the last three years.

	Year ended December 31,					
	2009		2010		2011	
Category	(₱ millions, except percentages)					
Passenger	10,818	30%	13,364	29%	11,489	27%
Commercial	25,409	70%	32,664	71%	31,517	73%
Total	36,227	100%	46,028	100%	43,006	100%

Passenger cars

In addition to the compact-sized VIOS, the other Toyota passenger car models sold in the Philippines are the sub-compact Yaris, compact-sized Corolla and the mid-sized Camry. These passenger cars are marketed as providing value for money. Set out below are the main specifications for TMP's passenger car models:

Model	Seating	Engine[(1)]	Transmission[(2)]
Camry	5-passenger	3.5L V6, 24-valve, DOHC, Dual VVT-I; 2.4L 4-Cylinder In-Line DOHC, 16-valve, VVT-I	6-Speed/5-Speed Automatic with Super ECT
Corolla Altis	5-passenger	2.0L 4-Cylinder In-Line DOHC, 16-valve, Dual VVT-I; 1.6L 4-Cylinder In-Line DOHC, 16-valve, Dual VVT-I	CVT/4-Speed Automatic with Super ECT/6-Speed Manual
VIOS	5-passenger	1.5L 4-Cylinder In-Line DOHC, 16-valve, VVT-I; 1.3L 4-Cylinder In-Line DOHC, 16-valve, VVT-I	4-Speed Automatic with Super ECT/5-Speed Manual
Yaris	5-passenger	1.5L 4-Cylinder In-Line DOHC, 16-valve, VVT-I;	4-Speed Automatic/5-Speed Manual
Prius	5-passenger	1.8 4-Cylinder In-Line DOHC VVT-I/Electric Motor	CVT
Lexus LS	5-passenger/ 4-passenger	4.6 V8 32-Valve DOHC Dual VVT-IE 5.0L V8 32-Valve DOHC Dual VVT-IE/Electric Motor	8-Speed Sequential Shift Automatic with ECT 8-Speed Hybrid Sequential Shift Automatic
Lexus GS	5-passenger	4.6 V8 32-Valve DOHC Dual VVT-I	8-Speed Sequential Shift Automatic
Lexus ES	5-passenger	3.5 V6, 24-Valve DOHC Dual VVT-I	6-Speed Sequential-Shift Automatic with ECT
Lexus IS-C	5-passenger	3.0L V6, 24-Valve DOHC Dual VVT-I	6-Speed Sequential-Shift Automatic with ECT and Paddle Shift
Lexus IS	5-passenger	3.0L V6, 24-Valve DOHC Dual VVT-I	6-Speed Sequential-Shift Automatic with ECT and Paddle Shift
Lexus CT	5-passenger	1.8 4-Cylinder In-Line DOHC VVT-I/Electric Motor	CVT

Notes:

(1) Engine terms: DOHC, Dual Overhead Cam; VVT-I, Variable Valve Timing – Intelligent; EFI, Electronic Fuel Injection.

(2) Transmission terms: ECT, Electronic Control Transmission.

Commercial vehicles

TMP's commercial vehicles include pick-ups, SUVs, multi-purpose vehicles, vans and minibuses that are designed for durability and the transport of people and goods. Pick-up and SUVs include 4x4 vehicles equipped with advanced four-wheel drive capabilities that provide superior traction geared for rugged conditions.

Set out below are the main specifications for TMP's commercial vehicles:

Model	Seating	Engine[(1)]	Transmission[(2)]
Avanza	7-passenger	1.5L 4-Cylinder In-Line DOHC, VVT-I, EFI; 1.3L 4-Cylinder In-Line DOHC, VVT-I, EFI	4-Speed Automatic/5-Speed Manual
Fortuner	7-passenger	3.0L Diesel 4-Cylinder In-Line, DOHC 16 Valve; Direct Injection/D-4D; Variable Nozzle Turbo with Intercooler; 2.5L Diesel 4-Cylinder In-Line, DOHC 16 Valve; Direct Injection/D-4D Turbo; 2.7L Gas 4-Cylinder In-Line, DOHC 16-Valve VVT-I	4-Speed Automatic with ECT/ 5-Speed Manual
Hiace	11-passenger GL Grandia, Super Grandia/ 15-passenger Commuter	2.5 Liter Diesel, 4-Cylinder In-Line DOHC, 16-valve, Direct Injection, Turbo Charged D-4D	4-Speed Automatic/5-Speed Manual
Hilux	5-passenger	3.0 Liter Diesel, 4-Cylinder, In-Line DOHC, 16-valve, Direct Injection/d-4d; Variable Nozzle Turbo with Intercooler; 2.5 L Diesel, 4-Cylinder In-Line, DOHC 16-Valve; Direct Injection/D-4D Turbo	4-Speed Automatic Gate Type with ECT/5-Speed Manual
Innova	7-passenger V; 8-passenger	2.5 L Diesel, 4-Cylinder, In-line, DOHC 16-valve, Direct Injection/D-4D Turbo; 2.0 L Gas, 4-Cylinder, In-line, DOHC 16-Valve, VVT-I, EFI	4-Speed Automatic Gate Type with ECT/5-Speed Manual
Land Cruiser Prado	7-passenger;	3.0 Liter Diesel, 4-Cylinder, In-Line DOHC, 16-valve, Direct Injection/D-4D; Variable Nozzle Turbo with Intercooler;	5-Speed Automatic/6-Speed Manual
		4.0L Gas V6 24-Valve Dual VVT-I	5-Speed Automatic
Previa	7-passenger; 8-passenger standard	2.4L 4-Cylinder In-Line DOHC, 16-valve, VVT-I, EFI	4-Speed Automatic with ECT
RAV4	5 passenger	2.4L 4-Cylinder In-Line DOHC, 16-valve, VVT-I, EFI	4-Speed Automatic with Super ECT
LC200	8-passenger	4.5L V8 Direct Injection, Common Rail System Twin Turbo-Intercooler Diesel	6-Speed Automatic with Sequential Shift
Hilux C&C/ HSPU	3-passenger/ 15-passenger	2.5L 4-Cylinder In-Line DOHC 16-Valve, D-4D Turbo	5-Speed Manual
Alphard	7-passenger	3.5 V6, 24-Valve DOHC Dual VVT-I	6-Speed Sequential-Shift Automatic with ECT
Coaster	30-passenger	4.1L 4-Cylinder In-Line, 16-Valve OHV, Gear Drive	5-Speed Manual
Lexus LX	8-passenger	5.7L V8 32-Valve DOHC Dual VVT-iE	6-Speed Sequential-Shift Automatic with ECT
Lexus RX	5-passenger	3.5 V6, 24-Valve DOHC Dual VVT-I;	6-Speed Sequential-Shift Automatic with ECT
		3.5 V6, 24-Valve DOHC VVT-I/ Electric Motor	E-CVT

Notes:

(1) *Engine terms: DOHC, Dual Overhead Cam; VVT-I, Variable Valve Timing – Intelligent; EFI, Electronic Fuel Injection.*

(2) *Transmission terms: ECT, Electronic Control Transmission.*

Vehicle sales and distribution

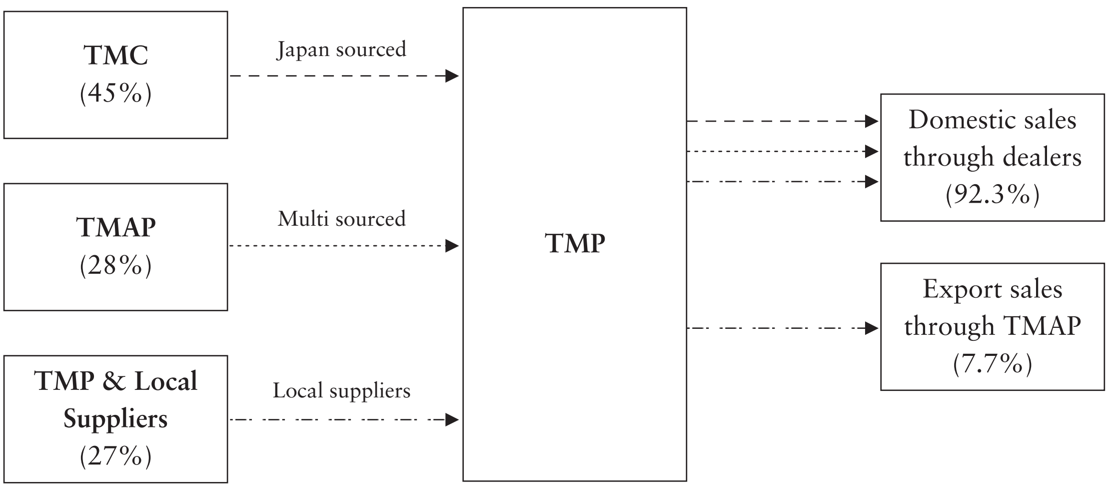
The table below sets out the geographic breakdown of TMP's sales for the periods indicated.

	As of December 31,					
	2009		2010		2011	
	units	%	units	%	units	%
Metro Manila	31,776	69%	38,553	68%	36,812	67%
Outside Metro Manila	14,417	31%	18,302	32%	17,781	33%
Total	46,193	100%	56,855	100%	54,593	100%

As of December 31, 2011, the Toyota and Lexus dealer network in the Philippines consisted of 31 dealers, of which 17 dealers were in Metro Manila. TMP owns direct interests in three dealerships: 100% of Toyota Makati, Inc., 55% of Toyota San Fernando Pampanga, Inc. and 75% of Lexus Manila, Inc. Approximately 67% of TMP's sales in 2011 were in Metro Manila while 33% of total sales in 2011 were made outside of Metro Manila. GT Capital has a 2.26% and 4.83% effective interest (through MBT) in the Toyota Cubao, Inc. and Toyota Manila Bay Corporation dealerships, respectively, while the remaining dealerships are independent companies who have entered into dealership agreements with TMP. TMP enters into dealership agreements based on criteria set out in the Toyota Distributor Agreement. TMP provides each Toyota dealer with periodic performance reviews, training and education. In addition, TMP sets individual sales and operational targets for each dealership.

Service Parts Sales

There are three sources of Toyota Genuine Service Parts: (i) TMC (Japan-sourced parts), (ii) TMAP (multi-sourced parts, and (iii) TMP and local suppliers. The chart below shows the process for TMP's service parts procurement and sales for the year ended December 31, 2011:



TMP offers a wide range of after-sales parts consisting of service parts, oils and chemicals and accessories. Service parts, which are sold through Toyota dealers, include periodic maintenance items such as oil filters, air filters and spark plugs; general parts such as brake pads, engine parts, and under-chassis parts; collision parts such as panels and bumpers; and other items such as radios and air conditioning units. Oils and chemicals include mineral, semi, and fully synthetic motor oils as well as brake fluids and engine coolants. Accessories include side visors, roof racks and similar products. A substantial portion of the service parts that TMP sells locally are sourced from TMC and TMAP, with the remaining portion manufactured by both TMP and local suppliers. TMP provides service parts for all models it introduces in the market and accepts special orders for Toyota vehicles that were not bought from TMP.

TMP exports service parts manufactured by TMP and its local suppliers through TMAP for distribution primarily to Toyota subsidiaries and affiliates within the Asia Pacific region.

AUTO FINANCING

TFSPH, an associate of MBT, provides leasing, financing and inventory stock financing to Toyota customers and dealers. These services support the marketing of Toyota's products throughout the Philippines. TFSPH's competitors for retail leasing and retail financing include commercial banks, savings and loan associations, credit unions, finance companies and other captive automotive finance companies. Commercial banks and other captive automotive finance companies also provide competition for TFSPH's wholesale financing activities.

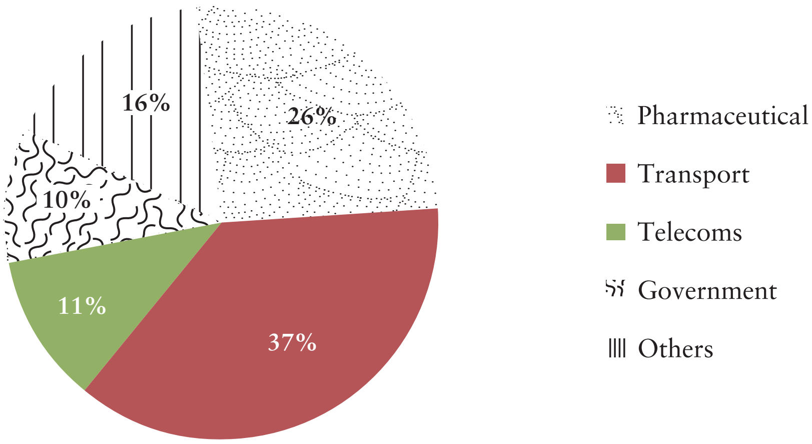
TFSPH offers auto loans to individuals and corporations, primarily for the acquisition of new Toyota vehicles. Interest rates are generally fixed with monthly repayment schedules amortized over the term of the loan. The vehicle is mortgaged to TFSPH while its corresponding loan is outstanding. TFSPH also offers Toyota vehicles for lease to corporations, with TFSPH retaining ownership of the vehicles. Lease periods typically range from 24 to 60 months. Lease rates are generally fixed with monthly payment schedules. Inventory financing is provided for Toyota dealers for the purchase of Toyota vehicles from TMP. Inventory loans have a maximum maturity of 90 days. The purchased vehicles serve as collateral to secure the loan.

CUSTOMERS AND MARKETING

TMP engages in a wide array of marketing activities, including television advertising, brochures and trade shows. TMP is provided full access to the wide range of marketing materials produced by TMC and TMAP. The resources provided by TMC are especially critical during the initial phase of a new product launch. TMP is able to leverage TMC's significant experience in other markets to tailor a targeted marketing campaign for the Philippines.

In addition to general consumer sales, TMP's products are also sold to fleet accounts such as pharmaceutical companies, taxi companies and government entities. In 2011, 22.5% of TMP's products were sold to fleet account customers.

The chart below provides a breakdown of TMP's fleet account customers by category for the year ended December 31, 2011:



PRODUCTION AND PRODUCTION PROCESSES

In April 1997, TMP began operations at its current automotive manufacturing plant located at the 82-hectare TSEZ in Santa Rosa City, Laguna. The plant building comprises 55,000 sq. m. for operations and manufacturing and 1,200 sq. m. for the storage of OEM parts. TMP also owns and operates an 11,200 sq. m. central parts depot to store and process after-sales parts.

TMP has two production lines consisting of the Innova line and the Vios line. The Innova and the Vios also share a common line for production processes applicable to both models. TMP's total vehicle production capacity as of December 31, 2011, determined on the basis of two eight-hour production shifts per day, is 30,480 units annually without overtime. This is a 21.9% increase from 2010's capacity of 25,000 vehicles. The increase was the result of operational improvements made in 2010. For the full years 2010 and 2011, TMP produced 28,412 units and 26,132 units, respectively. The 2011 figure was below the target of 28,761 units due to supply disruptions caused by the March 2011 earthquake and tsunami in Japan as well the severe flooding experienced in Thailand in the second half of 2011. These incidents reduced the availability of many key components, resulting in lower production and sales figures for the year.

The chart below shows TMP's key production data for 2009, 2010 and 2011:

	Year ended December 31,		
	2009	2010	2011
	Number of units, except percentages		
Production capacity	25,000	30,480	30,480
Vehicles produced			
Vios	11,880	15,792	14,580
Innova	9,371	12,620	11,552
Capacity utilization	85.0%	93.2%	85.7%

Notes:

(1) Production capacity is determined by TMP using internal models.

(2) Capacity utilization is calculated as number of vehicles produced divided by production capacity.

The production process involves pressing, welding, painting and assembling the vehicles. TMP uses TPS, which is based on two principal elements: just-in-time production and "jidoka", a Japanese term for automated quality control. Under the just-in-time method, materials, parts and components are delivered just before they are needed in the manufacturing process. This allows TMP to maintain low levels of inventory while maintaining operational efficiency. Jidoka involves the ability to stop work immediately when problems arise in the production process to prevent the production of defective items. To achieve this, TMP equips its machine operators with the ability to stop production should the operators suspect abnormalities. This permits TMP to build quality into the production process by avoiding defects and preventing waste that would result from producing a series of defective items. TMP's TPS allows it to achieve mass-production efficiencies over small and large production volumes. This flexibility allows TMP to respond to changing consumer demand without significantly increasing production costs. While TPS remains the cornerstone of Toyota brand automotive production, the system has been expanded for use in the production, distribution and customer service activities relating to Toyota-branded parts.

Components and Raw Materials

The parts and components requirement of TMP are sourced from Japan and ASEAN countries through TMAP and from local suppliers. TMP purchases raw materials, parts, components, equipment and other supplies from TMC, foreign subsidiaries of TMC, affiliates and other foreign and local suppliers authorized by TMC. TMP has full responsibility to ensure compliance of all localized parts and components in accordance with TMC's standards.

The top five suppliers accounted for 80%, 79% and 75%, respectively, of total material purchases in 2009, 2010 and 2011. The table below depicts the source of parts for each of the last three years:

Source	2009	2010	2011
TMC/TMAP			
– Japan sourced	18%	18%	19%
– Multi sourced	53%	53%	52%
Local suppliers	29%	29%	29%
Total	100%	100%	100%

TMP established its supply chain based on Toyota standards in terms of supplier capability, cost competitiveness and economies of scale, which are the reasons for single-sourced commodities. Being aware of the supply chain risks in the auto parts manufacturing industry, TMP has put in place supply risk management programs such as a back-up supply database to immediately identify back-up source (local or regional) for each part, financial risk management and labor risk management.

IMPORTED VEHICLES

TMP imports CBU units from Japan, Thailand and Indonesia through TMAP. The table below shows the source of TMP's CBU units.

Country	Vehicle Model
Japan	Alphard, RAV4, Prius, Hiace, Land Cruiser Prado, LC200, Previa, Coaster and Lexus models
Thailand	Corolla Altis, Yaris, Camry, Hilux and Hilux C&C/HSPU
Indonesia	Avanza and Fortuner

Vehicles imported from ASEAN countries Thailand and Indonesia are tariff free while vehicles imported from Japan are subject to 0% or 20% tariffs depending on the vehicle's engine size.

COMPETITION

TMP's major competitors in the Philippines are Mitsubishi, Hyundai, Honda, Isuzu, Nissan, and Ford. According to CAMPI and AVID, Toyota has been the top selling brand measured by units sold in the Philippines for passenger and commercial vehicles since 2002 and its current market share is 33% of all new vehicle sales in 2011. Mitsubishi is the second leading brand by units sold and has grown its market share from 14% in 2008 to 19.7% in 2011. Due to aggressive expansion by Hyundai, it exceeded Honda as the third largest brand by units sold in 2010, and has increased its market share from 8% of new car sales in 2009 to 12.3% in 2011. Honda's market share fell from 13% in 2009 to 7% 2011, after it peaked in 2007 at 15%. TMP expects competition from Korean car companies, such as Hyundai and Kia, to increase due to the gradual reduction of trade tariffs between Korea and the Philippines.

The following table sets out TMP's vehicle unit sales and market share in the Philippines for the periods indicated.

	Year ended December 31,					
	2009		2010		2011	
Category	Units	%	Units	%	Units	%
Passenger cars	17,237	37.3%	21,031	35.8%	19,043	33.0%
Commercial vehicles	28,956	33.6%	35,824	32.6%	35,550	33.1%
Total vehicles	46,193	34.9%	56,855	33.7%	54,593	33.0%

Source: *CAMPI and AVID.*

TMP believes that four key factors have contributed to TMP being the most preferred car manufacturer in the Philippines:

- **Product:** quality, durability and reliability;
- **Value for money:** affordable vehicles that command high resale values in the market;
- **Worry-free ownership:** personalized maintenance programs and high standards of customer care; and
- **Pioneering technologies:** sustainable innovation from a global leader in manufacturing technology.

For further information on TMP's market share and that of its major competitors, please see the section titled "The Philippine Automotive Industry" included elsewhere in this Prospectus.

INSURANCE

TMP's property, plant and equipment are covered by industrial all risk and electronic equipment insurance policies up to ₱6.8 billion with Malayan Insurance Co., Inc. This covers risks on sudden and accidental physical destruction subject to certain exclusions.

Locally manufactured parts and components are covered by a Marine Open Policy with BPI MS Insurance Corp. from the time the merchandise is loaded on board the ocean vessel at port anywhere in the world, to delivery at the TMP plant and third party logistics provider's warehouse for assembly and storage, until physical delivery to dealers. The Marine Open Policy for locally manufactured parts and components covers all risks including war, strikes and riots, subject to certain exclusions. TMP also maintains a Marine Open Policy for non-locally manufactured parts (such as equipment, maintenance parts and after-sales parts) under a BPI MS Insurance policy.

Imported CBU vehicles are covered by Marine Open Policy under Malayan Insurance Co., Inc. against all risks subject to exclusions provided in the policy (such as willful misconduct, ordinary leakage and unsuitability of packing). The insurance attaches from the time the units are discharged from Manila or Batangas port (for imported CBU vehicles from Japan) or from the time the units are loaded to the overseas vessel (for CBU vehicles from Thailand and Indonesia) up to the time the units are turned over to Metro Manila and Luzon dealers or shipped to port for Visayas and Mindanao dealers. The units are covered for the amount of the declared wholesale invoice price.

As of December 31, 2011, TMP had comprehensive general liability insurance to cover potential liability arising from product liability and premises operation claims to the extent not exceeding ₱112 million and ₱48 million, respectively.

PROPERTIES

TMP owns the land and buildings occupied by its manufacturing facility located in the TSEZ at Santa Rosa-Tagaytay Highway, Santa Rosa City, Laguna 4026, Philippines. TMP leases its marketing office at 31/F GT Tower International, Ayala Avenue corner H.V. dela Costa St., Makati City, Manila 1226, Philippines. TMP also owns the former manufacturing facility along the South Luzon Expressway in Bicutan, Parañaque City, Philippines. The Parañaque City property is currently used by the Toyota Bicutan and Toyota Makati dealerships as stockyard for inventory of new vehicles. TMP intends to sell a portion of this property and has received approval from management to seek potential buyers. For 2012, TMP has no plans for expansion except in the ordinary course of business.

INTELLECTUAL PROPERTY

On December 3, 2009, TMP renewed its exclusive distributorship of Toyota products and at the same time, entered into an agreement for the exclusive distribution of Lexus products in the Philippines under the Toyota Distributor Agreement and the Lexus Distributor Agreement. These agreements are set to expire on November 30, 2012, but are expected to be renewed for an additional three years in accordance with past practice. TMC is the registered owner of certain Toyota and Lexus related brand names in the Philippines and has granted the right to use such names to TMP under the terms of the Toyota Distributor Agreement and Lexus Distributor Agreements.

TMP has also entered into a Technical Assistance Agreement with TMC, whereby TMP is licensed to manufacture Toyota vehicles and parts of proper and specified quality and obtain technical assistance from TMC. This agreement will expire on April 30, 2014 unless renewed. Under this agreement, TMP pays TMC royalties on all licensed products. Under the current Technical Assistance Agreement, TMP possesses licenses for the manufacture of the Innova, Vios, Camry, Corolla and Tamaraw models.

EMPLOYEES

The following table provides a breakdown of TMP's employees for the periods indicated.

	As of December 31,		
	2009	2010	2011
Regular			
President's Office	1	1	1
Management Services Office	24	24	26
General Administration	74	74	71
Treasury	7	7	7
Manufacturing	914	914	953
Comptrollership	64	64	63
Marketing	171	171	178
Production Control & Logistics	64	64	69
Outside Contractors			
Production (on-the job trainees)(1)	304	304	282
Production Contractual(2)	102	102	138
Office Contractual(3)	–	–	–
Total	1,725	1,725	1,788

Notes:

(1) *Students, typically on a 5-10 month training agreement.*

(2) *Contracted from a workers co-operative and hired on a seasonal basis.*

(3) *Contracted from manpower agencies on a seasonal basis.*

TMP's training focuses on developing a fundamental skills set for production workers, office workers, managers and leaders, which is aligned with the global Toyota training scheme. Further training and development is primarily based on on-the-job learning and periodic rotation, which allow individual employees to expand their knowledge and skills. Certain key positions, including manufacturing positions, are held by secondees from TMC and TMAP.

TMP has two certified and recognized labor unions, one for rank and file employees known as Toyota Motor Philippines Corporation Labor Organization ("TMPCLO") and one for supervisory employees known as Toyota Motor Philippines Corporation Supervisory Union ("TMPCSU"). TMPCLO was certified as the sole and exclusive bargaining agent of TMP's rank and file employees in June 2006. It negotiated a five-year collective bargaining agreement effective from July 1, 2006 to June 30, 2011. TMPCSU was established in 2001 and has a five-year collective bargaining agreement with TMP effective from July 1, 2006 to June 30, 2011. Collective bargaining negotiations should have commenced in July 2011 but were postponed due to internal union matters. A union officer election was held within TMPCSU in June and resulted in a new leadership team. In July, TMPCLO conducted a certification vote, which resulted in TMPCLO remaining the bargaining agent for rank and file employees. It was followed by an officer election in August that resulted in a new leadership team. These leadership changes in both unions caused the postponement of collective bargaining negotiations to November 2011. Collective bargaining agreement negotiations are expected to be concluded within the first quarter of 2012.

In addition, there is an unrecognized labor union responsible for a work stoppage in 2001. All subsequent issues related to the work stoppage in 2001 by the unrecognized labor union have been resolved by the Supreme Court in favor of TMP on October 18, 2010.

TMP applies a progressive benefit structure with a set of base benefits applicable to all employees and a supplementary, variable scheme where individual employees choose a package of benefits that are appropriate to their individual circumstances, subject to their entitlement.

TMP has funded a non-contributory defined benefit retirement plan covering all of its regular and permanent employees. The plan is administered by trustees. The benefits are based on the years of service and percentage of final basic salary. TMP's normal retirement age is 55 years. Early retirement is allowed at 50 years.

TMP believes that relations with its employees are generally good. This is further evidenced by TMP being recognized as the "2011 Employer of the Year" by the People Management Association of the Philippines. For 2012, TMP has no plans for additional hiring except in the ordinary course of business expansion.

LEGAL PROCEEDINGS

In the normal course of business, TMP is subject to labor and customer claims. TMP believes that there are no outstanding claims against it that would have a material adverse effect on TMP's financial position, operating results or cash flows if adversely adjudicated.

REGULATORY AND ENVIRONMENTAL MATTERS

The automotive industry in the Philippines is subject to various laws and regulations. These regulations include environmental protection and conservation rules that regulate the levels of air, water, noise and solid waste pollution produced by automotive manufacturing activities and vehicle performance. TMP has in the past and expects that in the future it will continue to incur significant costs related to compliance with these regulations.

TMP takes its commitment to the environment very seriously. This commitment is evidenced when TMP became the first automotive manufacturer in the Philippines to obtain ISO 14001 certification for its environmental management systems. TMP continuously strives to improve its internal environmental performance through several initiatives, as follows:

- Efficient Production Processes: (1) using robotic painting systems to minimize volatile organic compound emissions and (2) treating waste water to a multi-stage cleaning process at the site's state-of-the art waste water treatment plant.

- Toyota Manufacturing Eco Center: (1) covering the building with the "Greenroof", planted vegetation over a waterproof membrane, that reduces heat absorption from the sun and lowers cooling costs; (2) implementing solar power at certain facilities; and (3) rapid composting waste organic materials in the TSEZ.

- Toyota Forest: maintaining a tree nursery in the TSEZ to support greening projects, tree-planting activities, and seedlings donations to various organizations.

- Clean & Green Project: teaching students the importance of tree-planting, waste segregation, and recycling.

The vehicles produced and sold by TMP are also designed for better fuel economy and with what TMP believes to be high levels of safety features for sustainable mobility. For example, the Vios 1.3 has a registered fuel efficiency of 17.54 to 21.43 km/liter and the Innova 2.5 D-4D has a registered fuel efficiency of 13.16 to 14.29 km/liter (based on standard fuel tests carried out by TMP at constant 80 km controlled conditions). Specific technology systems also improve economic performance. The Variable Valve Timing-Intelligent and Direct Injection Common Rail engines offer improved engine performance, lower emissions and better fuel efficiency. The Hybrid Synergy Drive is a new type of power train that combines gasoline and electric power sources. Individual programs also reduce the amount of harmful chemicals used in the manufacturing process. TMC's "SoC-free Project" ensures all parts and materials installed, attached, or applied to the vehicles do not contain Substance of Concern elements ("SoC"), such as hexavalent chromium, mercury, cadmium and lead. In 2007, Toyota became the first automotive company in the Philippines to be SoC-free.

CORPORATE AND SOCIAL RESPONSIBILITY

TMP engages in corporate social responsibility activities to uplift Philippine society through effective coordination with stakeholders and institutional partners.

TMP donated ₱100 million to the University of the Philippines ("UP") Asian Center for the construction of the GT-Toyota Asian Cultural Center ("GT-TACC") at UP Diliman. Inaugurated in 2009, the GT-TACC is a one-hectare complex that is home to the GT-Toyota Hall of Wisdom and the GT-Toyota Asian Center Auditorium.

TMP also supports the Philippine Peñablanca Sustainable Reforestation Project ("PPSRP") in Cagayan province. The PPSRP is envisioned to reforest a total of 2,500 hectares until 2013, as well as provide a sustainable source of livelihood for local people. TMP donated a vehicle and regularly sends volunteer team members to the annual tree-planting.

TMP's other initiatives include road safety programs in partnership with Automobile Association Philippines and the UP-National Center for Transportation Studies, most noteworthy of which is the establishment of the UP Traffic Safety Model Zone in UP Diliman.

TMP's social humanitarian arm, Toyota Motor Philippines Foundation, Inc. carries out programs in the areas of education, healthcare, environment and community service that improve the lives of Filipinos. TMP has implemented holistic learning programs in Pulong Sta. Cruz Elementary School ("PSCES"), its host community in Santa Rosa, Laguna. Toyota's efforts in supporting PSCES have helped the school top the National Achievement Test rankings in 2010. It ranked first in 2010 among all public schools in Santa Rosa, Laguna. In addition, the Toyota Automotive Education Program, in partnership with the country's leading technical schools and Toyota dealers nationwide, continues to produce skilled, highly-trained workers for the automotive industry both here and abroad through scholarships for vocational students and learning tools.

Toyota also provides quality healthcare services to constituents of its host communities – Santa Rosa, Laguna and Parañaque – through the bi-annual Medical and Dental Outreach Program. TMP, the Makati Medical Center, Makati Dental Society, Manila Doctor's College and Drugmakers Laboratories provide free consultations, laboratory services, and medicines to thousands of local constituents. In other community service endeavors, TMP extends assistance to various charities nationwide.

AWARDS AND RECOGNITION

In 2011, TMP received the following awards and recognition, which it believes are testament to TMP's strong fundamentals as implemented in its business operations.

Toyota Asia Pacific Regional Awards

Excellent Quality Company Award. TMP received the "Excellent Quality Company Award" in the Team Toyota Asia Pacific Meeting held in Singapore for its outstanding performance in producing quality vehicles.

Asia Pacific Skill Contest. TMP won awards in the Toyota Asia Pacific Skill regional contest in Thailand with two TMP team members winning gold and bronze medals. TMP believes that these achievements are testament to its culture of excellence as well as the global competitiveness of the Filipino worker.

Recognition from the Government and Various Organizations

Safety Milestone Recognition. TMP received the Safety Milestone ("SMile") Recognition from the Bureau of Working Conditions of the Department of Labor and Employment, for having achieved more than two million safe man-hours without a lost-time accident and for having complied with all reporting requirements for labor standards. TMP is the first automotive manufacturing company to receive the SMile Award.

ECOSWITCH Award. TMP received the ECOSWITCH Award from the Green Philippine Islands of Sustainability ("GPIoS"). GPIoS recognizes companies who have successfully implemented environmentally friendly measures within their organization.

Outstanding Achievement on Productivity and Quality Award. TMP was also conferred the "Outstanding Achievement on Productivity and Quality" Award at the 2011 Kapatiran sa Industriya Awards, a biennial activity of the Employers Confederation of the Philippines. The award was given to TMP for its successful implementation of programs which consistently enhance its competence, promote safety and champion efficient production.

SUMMARY – AXA

You should read the following summary together with the more detailed information about AXA and AXA's financial information included elsewhere in this Prospectus. AXA's summary also should be read together with the matters set forth under "Risk Factors – AXA". Additional information on AXA, including corporate structure and segment information, can be found in AXA's financial statements found in this Prospectus.

OVERVIEW

GT Capital has interests in the life insurance business through its 25.3% ownership of shares in AXA, the Philippines' third largest insurance company in terms of total net premium income of ₱8.3 billion in 2010. AXA is a joint venture between the AXA Group, one of the world's largest insurance groups, and the MBT Group, one of the Philippines' largest financial conglomerates. AXA is a provider of personal and group insurance in the Philippines, including life insurance and investment-linked insurance products. AXA distributes its products in the Philippines through a multi-channel distribution network comprised of agents, bancassurance, corporate solutions and direct marketing/telemarketing ("DMTM").

In 2011, AXA's gross premiums were ₱10.01 billion and net insurance premiums were ₱9.98 billion compared to gross premiums of ₱8.4 billion and net insurance premiums of ₱8.3 billion in 2010, respectively. AXA recorded a net income of ₱1.0 billion in 2011 compared to ₱0.8 billion in 2010.

AXA is part of the AXA Group, one of the world's largest insurance groups and asset managers. With its headquarters in Paris, the AXA Group operates in Western Europe, North America, the Asia Pacific region and in certain regions of Africa and the Middle East. The AXA Group conducts its operations in the Philippines through its 45% interest in AXA. AXA's remaining joint venture partners are GT Capital, with a 25.3% shareholding and FMIC, which owns 28.2%, with 1.5% held by other shareholders.

Over the past years, AXA has developed into a multi-line, multi distribution channel company offering traditional and unit-linked products for individual and group clients through 450 salaried financial executives in the branch network of Metrobank, 1,500 exclusive financial advisors and a small direct sales team (50-80 employees) for group insurance, worksite marketing and telemarketing.

COMPETITIVE STRENGTHS

AXA believes that its competitive strengths are the following:

- A leading insurance provider in the Philippines
- Pioneer and market leader for bancassurance in the Philippines
- Value-enhancing strategic partnerships with MBT and HSBC
- Strong, well-recognized global brand and reputation

STRATEGIES

AXA's principal strategies are the following:

- Continue to leverage off AXA's existing relationship with MBT to maximize bancassurance distribution
- Leverage AXA's agency force as an effective and productive distribution channel
- Expand into the young mass affluent and high net worth segments
- Increased focus on family breadwinners

RISK FACTORS – AXA

RISKS RELATED TO AXA'S BUSINESS

AXA's growth is dependent on its ability to attract and retain individual agents.

A substantial portion of AXA's business is conducted and obtained through its individual agents. As of December 31, 2011, AXA had 1,489 individual agents. AXA's individual agent sales force generated 19% and 23% of its annualized new business premiums in 2010 and 2011, respectively. If AXA is unable to attract new agents who generate new business, its growth and expansion plans could be adversely affected. In addition, if AXA is unable to retain its current group of well-trained agents through any reason including targeted recruitment by other companies, its business could be materially and adversely affected. There can be no guarantee that AXA will be able to recruit the right staff in the future and it may incur heavy costs in bringing new recruits up to required standard which it may not be able to recover.

If AXA is unable to develop other distribution channels for its products, its growth may be materially and adversely affected.

Agents, insurance brokers and bancassurance are emerging as some of the fastest growing life insurance distribution channels in the Philippines. Newly established domestic and foreign-invested life insurance companies have been particularly focusing on agents and banks as some of their main distribution channels. While AXA's relationship with the MBT Group allows the bank to serve as the main platform for bancassurance insurance distribution channels, the inability to continue developing alternative distribution channels could materially and adversely affect AXA's longer-term prospects, business, financial condition or results of operations.

AXA's business and prospects would be materially and adversely affected to the extent its bancassurance activities are impaired.

AXA intends to expand its businesses with its existing customers and increase its revenues by expanding its cross-selling efforts, in particular, to the customer base of MBT. There is no assurance, however, that AXA's bancassurance activities will continue to be as successful in the future. In particular, the applicable Philippine regulatory framework allows for some level of discretion on the part of the regulators empowered to oversee and review AXA's bancassurance activities. Customer dissatisfaction on AXA products and services can be the other fundamental reason for bancassurance activities to be potentially impaired. If AXA is deemed to have violated any bancassurance regulations, it may be fined, penalized or required to cease its bancassurance activities, which could materially and adversely affect AXA's business, financial condition or results of operations.

Agent and employee misconduct may be difficult to detect and deter and could harm AXA's reputation or lead to regulatory sanctions or litigation costs.

Agent or employee misconduct could result in violations of law by AXA, potentially resulting in regulatory sanctions, litigation or serious reputational or financial harm. Misconduct could include:

- engaging in misrepresentation or fraudulent activities and statements when marketing or selling insurance policies to customers;
- accepting premiums directly from customers and not remitting customer premiums;
- hiding unauthorized or unsuccessful activities, resulting in unknown and unmanaged risks or losses; or
- otherwise not complying with laws or AXA's control policies or procedures.

AXA cannot always deter or detect agent or employee misconduct, and there can be no assurance that agent or employee misconduct will not materially and adversely affect AXA's business, financial condition or results of operations.

AXA's inability to properly manage its investment portfolio by matching its assets and liabilities could have an adverse effect on AXA's profitability.

AXA's profitability is affected by its ability to properly manage its investment portfolio. Changes in interest rates influence the decisions AXA makes with respect to its investment portfolio. If interest rates were to increase in the future, surrenders and withdrawals of traditional insurance policies and contracts may increase as policyholders seek other investments with higher perceived returns. This process may result in cash outflows requiring AXA to sell investment assets at a time when the prices of such assets are adversely affected by the increase in market interest rates, which may result in investment losses. In addition, as instruments in AXA's investment portfolio mature, it may have to reinvest the funds it receives in investments bearing lower interest rates. Decreased liquidity could be caused by a financial crisis impacting AXA's ability to convert assets into cash at favorable prices. In the event that AXA is unable to properly match its assets and liabilities in response to changing interest rates and other external factors, its profitability may be adversely effected.

AXA's business and prospects may be adversely affected by changes in consumers' preferences or purchasing power.

AXA's ability to successfully launch new products and maintain demand for its existing products depends on the acceptance of these products by consumers, as well as the purchasing power of consumers. Consumer preferences may shift due to a variety of reasons, including changes in demographic and social trends or changes in wealth. For example, younger workers require only basic insurance, however as workers age, they begin to consume premium insurance packages addressing education, retirement and medical needs, AXA's inability to respond effectively to changes in consumer preference or purchasing power could materially and adversely affect AXA's business, financial condition or results of operations.

Defaults on AXA's debt investments may materially and adversely affect its profitability.

70% of AXA's investment portfolio assets (exclusive of assets held to cover unit-linked liabilities) as of December 31, 2011 were comprised of Government and Government guaranteed debt securities, of which 89% is Philippine peso-denominated and 11% U.S. dollar-denominated. AXA may be unable to recover its investments in case of default by the Government. Additional losses due to defaults could reduce AXA's profitability and materially and adversely affect AXA's business, financial condition or results of operations.

Economic and financial markets may change to affect the relative attractiveness of AXA's products.

Some of the products sold by AXA are sensitive to market rates such as interest rates. A change in the market will affect how AXA's products compare to alternative products issued by other insurers and financial intermediaries. This could result in products becoming uncompetitive and new business income could reduce significantly For example, an overall reduction in market interest rates could be adverse to AXA as existing products need to be altered to provide lower returns to policyholders. In this case customers may no longer choose to purchase AXA's products. If AXA's products become less attractive, it could materially and adversely affect AXA's business, financial condition or results of operations.

Economic and financial market volatility may reduce the demand for investment-linked products.

Over the past several years, investment-linked investment products have become increasingly popular in the Philippines due to the significant rise in the PSE composite index. A portion of AXA's sales have come from equity-focused investment-linked products. However, previous declines in the Philippine economy and the country's equity markets have had a negative impact on investment-linked product returns. Declining returns may result in customers choosing fixed income investment options rather than investment-linked products and thus could materially and adversely affect AXA's business, financial condition or results of operations.

Fund manager performance may reduce the return on investment-linked products and thus the demand for such products.

The return on AXA's investment-linked products is driven by the performance of the fund managers AXA engages, subject to controls put in place on investments by AXA as well as the overall market performance. Poor performance of the fund managers in terms of achieving a return less than either the target or competitors could result in more customers cancelling their policies and new business reducing significantly. If lower returns on AXA's investment-linked products were to occur, it would have a material and adverse affect on AXA's business, financial condition and results of operations.

Future actual claims may not be consistent with the assumptions used in pricing AXA's products and establishing reserves for its obligations, which could materially and adversely affect its earnings.

AXA's earnings depend significantly upon the extent to which its actual claims are consistent with the assumptions used in setting the prices for its products and establishing the liabilities in its financial statements for its obligations for future policy benefits and claims. Such assumptions include those for investment returns, mortality, morbidity, expenses and persistency (renewal of policies), as well as macro-economic factors such as inflation, GDP growth and interest rates. These assumptions are based on AXA's own experience, data published by the insurance industry, as well as judgments and standards adopted by AXA's local as well as regional management. AXA has data available for a shorter period of time as compared with insurance companies operating in more developed countries, and as a result AXA has less claims experience on which to base some of the assumptions used.

AXA's assumptions for pricing and establishing reserves may prove inaccurate and as a result, AXA may not determine precisely the amounts which it will ultimately be required to pay to settle its liabilities. To the extent that trends in actual experience results are materially worse than its underlying assumptions used in establishing these liabilities, and these trends are expected to continue in the future, AXA could be required to increase its liabilities.

In varying degrees depending on type of AXA product, AXA retains the right to adjust prices or non-guaranteed benefits on account of material changes in experience compared to the pricing assumptions, e.g. claims, expenses, taxes, investment results. To the extent that price increases or benefit adjustments are not effected to cover such increase in liabilities, any such increase could have a material adverse effect on AXA's profitability and financial condition. Any material impairment in its solvency level could change its customers' or its business associates' perception of its financial health, which in turn could materially and adversely affect AXA's business, financial condition or results of operations.

AXA's risk management and internal reporting systems, policies and procedures may leave it exposed to unidentified or unanticipated risks, which could materially and adversely affect its business or result in losses.

Many of AXA's methods of identifying and managing risk and exposure are based upon the use of observed historical market behavior or statistics based on historical models. As a result, these methods may not predict future exposures, which could be significantly greater than the historical measures indicate. Other risk management methods depend upon the evaluation of information regarding markets, customers or other matters that are publicly available, which may not always be accurate, complete, up to date properly evaluated.

Management of operational, legal and regulatory risks requires, among other things, policies and procedures to record properly and verify a large number of transactions and events. The failure or ineffectiveness of these systems could materially and adversely affect AXA's business or result in losses.

AXA requires certain regulatory approvals in the ordinary course of its business and the failure to obtain such approvals in a timely manner or at all may adversely affect its business and results of operations.

AXA requires certain regulatory approvals, licenses, registrations and permits for operating its business, including the launching of new products or changes to the price or format of existing products. In connection with its business, AXA may require such approvals or their renewal from time to time. AXA has applied for, or is in the process of applying for, such approvals or their renewal. AXA may not receive such approvals or renewals in the manner it anticipated or at all, which could materially and adversely affect AXA's business, financial condition or results of operations.

AXA may be exposed to various risks as AXA expands its range of products and services.

AXA has expanded and will continue to expand its products and services to customers. AXA's expansion of the range of its products and services has and will expose it to new and potentially increasingly challenging risks, including the following:

- its experience and expertise in managing and commercializing the new products and services;
- its ability to recruit additional qualified staff;
- its ability to provide satisfactory customer service such as providing sufficient products and service information and handling of customer complaints;

- acceptance of its new products by customers;
- its ability to establish an effective management team or to enhance its risk management systems and information technology system to support a broader range of products and services;
- its ability to obtain or maintain regulatory approval for its new products and services;
- its ability to identify all potential risks associated with its products and services; and
- actions of its competitors, actions of MBT, or developments in the insurance, banking and investment management industries, which may render AXA's new products and services obsolete or uneconomical.

The inability to achieve the intended results with respect to its new products and services could materially and adversely affect AXA's business, financial condition or results of operations.

AXA's business is dependent on its ability to attract and retain key personnel, including senior management, underwriting personnel, actuaries, information technology specialists, investment managers and other professionals.
The success of AXA's business is dependent to a large extent on its ability to attract and retain key personnel who have in-depth knowledge and understanding of the life insurance market in the Philippines, including members of its senior management, qualified underwriting personnel, actuaries, information technology specialists and experienced investment managers. AXA does not carry key man insurance policies for any of these personnel. AXA competes with other life insurance companies and financial institutions to attract and retain these key personnel and some of these competitors may offer better compensation packages and other benefits. As the insurance and investment businesses continue to expand in the Philippines, AXA expects that competition for these personnel will increase in the future. The inability to continue to attract and retain key personnel could materially and adversely affect AXA's business or results of operations.

AXA depends on the efficient, uninterrupted and secure operation of its information technology system.
AXA's business is highly dependent on the ability of its information technology systems, which is integrated with the AXA Group's regional system, to timely process a large number of transactions across numerous and diverse markets and products at a time when transaction processes have become increasingly complex and the volume of such transactions are growing at a significant rate. The proper functioning of AXA's financial control, accounting, customer database, customer service and other data processing systems, including those relating to underwriting and claim processing, together with the communication systems between AXA's various branch offices and its main information technology centers, is critical to AXA's business and to its ability to compete effectively.

Although AXA has a backup data center that could be used in the event of a catastrophe or a failure of its primary system, and it has established alternative communication systems where available, there can be no assurance that its business activities would not be materially disrupted in the event of a partial or complete failure of any of these primary information technology or communications systems, which could be caused by, among others, software bugs, computer virus attacks or conversion errors due to system upgrading. In addition, a prolonged failure of its information technology system could damage AXA's reputation and materially and adversely affect AXA's business, financial condition or results of operations.

AXA may need additional capital in the future, and there is no assurance that it will be able to obtain such capital on acceptable terms or at all.
AXA may require additional capital in the future in order for it to meet regulatory capital adequacy requirements, remain competitive, grow its existing business, enter new businesses, pay operating expenses, conduct investment activities, meet its liquidity needs, expand its base of operations and offer new products and services.

To the extent AXA's existing sources of capital are not sufficient to satisfy its needs, it may have to seek external sources. AXA's ability to obtain additional capital from external sources in the future may not be possible and is subject to a variety of uncertainties, including:

- its future financial condition, results of operations and cash flows;

- its ability to obtain the necessary regulatory approvals on a timely basis; and
- availability of capital from its shareholders.

The inability to do so could materially and adversely affect AXA's business, financial condition or results of operations

RISKS RELATED TO AXA'S RELATIONSHIP WITH THE AXA GROUP

AXA is a joint venture among GT Capital Holdings, FMIC and the AXA Group. Serious disputes with the AXA Group which cannot be resolved in accordance with the shareholders agreement with the AXA Group, could lead to the dissolution of AXA, which could materially and adversely affect AXA's business, financial condition and results of operations.

AXA is a joint venture among GT Capital Holdings, FMIC and the AXA Group covering the life insurance business. See "Business – AXA – Overview" and "Business – AXA – History". Pursuant to the shareholders agreement with FMIC and the AXA Group (the "AXA Shareholders Agreement"), AXA's corporate name was amended from Metro Philippines Life Insurance Corporation to Philippine AXA Life Insurance Corporation. According to the same AXA Shareholders Agreement, parties to the joint venture shall work together to, among others, (i) formulate strategic business and investment plans, including budgets for income and expenditure, (ii) facilitate access to technological expertise of the worldwide AXA Group, and (iii) establish product development and marketing strategies consistent with the overall strategic plans of AXA. Serious disputes with the AXA Group, which cannot be resolved in accordance with the AXA Shareholders Agreement, could lead to the dissolution of AXA, as well as a revocation of the right to use "AXA" as a corporate name. The AXA Shareholders Agreement may also be terminated in accordance with its provisions.

A serious dispute with the AXA Group in connection with the scope or performance of the respective obligations of the parties under the AXA Shareholders Agreement could affect the ability of AXA to manage and operate its business. Should such a situation arise in which AXA cannot continue the joint venture with the AXA Group, due to one of the above reasons of for any other reason, AXA's business, financial condition and results of operations could be materially and adversely affected.

AXA relies heavily on the "AXA" brand and negative events associated with it outside of the Philippines may impact AXA's business and results of operations.

AXA believes that it derives significant value from the use of the "AXA" brand name due to its strong international presence. Decrease in product quality, negative allegations or negative events associated with the AXA brand outside of the Philippines could tarnish the image of the brand and may cause consumers to choose other products. Further, there can be no assurance that this brand name will not be adversely affected in the future by events such as actions that are beyond AXA's control and which could materially and adversely affect AXA's business, financial condition or results of operations.

AXA relies on the AXA Group for certain services and IT systems and the inability to obtain such services or IT systems in a timely manner or at all may adversely affect its business and results of operations.

Many of the successful or innovative products that AXA has launched in the Philippines were developed in and adapted from other markets where the AXA Group operates. Further, the risk management team in the Philippines is directly supported by the risk management team of the AXA Group. AXA also shares an IT platform with the AXA Group. Thus AXA benefits from the investments and improvements in IT infrastructure made by the AXA Group. Lastly, certain managerial functions, such as finance and treasury functions are integrated with the AXA Group. If AXA is unable to obtain these support services or IT systems from the AXA Group, it may be unable to operate effectively and could materially and adversely affect AXA's business, financial condition or results of operations.

AXA, as a member of the AXA Group, must comply with certain international laws that may impose liability, restrictions and costs that other Philippine insurance companies may not be subject to.

AXA, which is 45.0% owned by the AXA SA, is a member of the AXA Group. Therefore, AXA must comply with certain regulations such as those promulgated in France and the European Union, for example Solvency II framework for insurers. AXA's competitors in the Philippines may not be subject to similar foreign regulations, which could put AXA at a competitive disadvantage that could materially and adversely affect AXA's business, financial condition or results of operations.

RISKS RELATED TO THE PHILIPPINE INSURANCE INDUSTRY

Catastrophes could materially and adversely affect AXA's results of operations and financial condition.

AXA could in the future experience catastrophic losses from large-scale losses of life that may have an adverse impact on its business, results of operations and financial condition. Such catastrophes can be caused by various events, including terrorist attacks, earthquakes, typhoons, floods, tsunamis, fires and epidemics.

AXA establishes liabilities for claims arising from large-scale loss of life events only after assessing the exposure arising from the event, and reinsures such liabilities with the AXA Group. It cannot be absolutely certain that the liabilities it establishes after the assessment will be adequate to cover actual claims. Such an event could materially and adversely affect AXA's business, financial condition or results of operations.

The limited availability of long-term fixed income securities in the Philippines and the regulatory investment restrictions applicable to AXA increases its exposure to interest rate risk.

Like other insurance companies, AXA seeks to manage interest rate risk through managing, to the extent possible, the average duration of its investment assets and the insurance policy liabilities they support. Matching the duration of its assets to their related liabilities reduces AXA's exposure to changes in interest rates, because the effect of the changes largely will be offset against each other. Some restrictions under Philippine regulations on the asset classes in which AXA may invest as well as financial derivatives that may be used to hedge interest rate risk, and the limited availability of long-duration investment assets in the Philippines, particularly corporate bonds, restrict the ability for asset duration to match that of the liabilities. There cannot be any assurance regarding the strengthening of fixed income securities in the Philippines. Hence, AXA may continue to be exposed to interest rate changes, which could materially and adversely affect its business, financial condition or results of operations.

AXA expects competition in the Philippine insurance industry to increase, which may materially and adversely affect the growth of its business.

AXA faces competitive pressures from both domestic and foreign-invested life insurance companies operating in the Philippines, and other financial institutions that sell other financial investment products in competition with AXA's products. Foreign-led insurance companies control the large majority of the market. AXA competes with Philippine American Life, Sun Life of Canada, Insular Life, Pru Life of the UK and Manufacturers Life, among others. Some of these competitors are more established locally. If AXA is not able to adapt to these increasingly competitive pressures in the future, its growth rate may decline, which could materially and adversely affect AXA's business, financial condition or results of operations.

Changes in regulations in the Philippine life insurance industry may impose additional costs and restrictions on AXA's activities.

AXA operates in a highly regulated industry. The Philippine Insurance Commission supervises and administers the insurance industry in the Philippines. In exercising its authority, it is given wide discretion to administer the law. The Philippine Insurance Commission's regulations provide for, among other matters, assets, liabilities and solvency margins of insurers; reporting requirements of life insurance providers; licensing of insurance agents; investment restrictions for life insurance providers; and advertising, sale and distribution of insurance products. The Philippines' insurance regulatory regime is undergoing significant changes toward a more transparent regulatory process and a convergent movement toward international standards. Some of these changes may result in additional costs or restrictions on AXA's activities. Among other things, changes to determination of statutory reserves and solvency requirements may affect AXA's income and the amount of capital it is required to maintain.

Because the terms of AXA's products are subject to insurance as well as tax regulations, changes in regulations – in particular tax regulations and its rulings – may affect underlying costs in the products thus its profitability on the policies and contracts it issues.

The Philippine Insurance Code imposes three requirements for the declaration and distribution of any shareholder dividends: (i) dividends must be declared out of profits from its business; (ii) profits must be remaining on hand after retaining unimpaired the entire paid-up capital stock, the required margin of solvency and legal reserve fund, and the aggregate amount of its debt and liabilities; and (iii) dividends must be reported to the Philippine Insurance Commission within 30 days after declaration or distribution. Future changes in Philippine regulations could materially and adversely affect AXA's business, financial condition or results of operations.

The rate of growth of the Philippine insurance market may not be as high or as sustainable as AXA anticipates.

The Philippine insurance market may not grow at the rate which AXA anticipates. This may be the case even though AXA expects insurance penetration rates to rise with the growth of the Philippine economy and household wealth, continued social welfare reform, demographic changes and the continued opening of the Philippine insurance market to foreign participants. The impact on the Philippine insurance industry of certain trends and events, such as the pace of economic growth in the Philippines and the progression of economic reforms is generally prospective and is not clear. Consequently, the growth and development of the Philippine insurance market is subject to a number of uncertainties that are beyond AXA's control. Any reduction of growth in the insurance industry as compared to AXA's estimates could materially and adversely affect AXA's business, financial condition or results of operations.

SELECTED FINANCIAL INFORMATION – AXA

The following tables present AXA's selected financial information and should be read in conjunction with the auditors' reports and with AXA's financial statements and notes thereto contained in this Prospectus and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations – AXA". The selected financial information presented below as of and for the years ended December 31, 2009, 2010 and 2011 was derived from the financial statements of AXA, prepared in compliance with PFRS and audited by SGV & Co. in accordance with PSA. The information below is not necessarily indicative of the results of future operations. For additional information regarding financial information presented in this Prospectus, see "Presentation of Financial Information".

SELECTED STATEMENTS OF COMPREHENSIVE INCOME

	For the years ended December 31,			
	2009	2010	2011	2011
	(₱ millions, except for earnings per share)			(U.S.$ million)
Premiums and Income				
Gross premiums on contracts issued	4,480.2	8,354.3	10,006.6	227.8
Premium ceded to reinsurers	(42.3)	(23.4)	(31.2)	(0.7)
Net insurance premiums	4,437.9	8,330.9	9,975.4	227.1
Subscriptions allocated to investment in unit-linked funds	(2,694.0)	(6,323.9)	(7,179.6)	(163.4)
Income on assets held to cover unit-linked liabilities	3,939.9	3,309.5	1,201.1	27.3
Change in unit-linked liabilities	(3,939.9)	(3,309.5)	(1,201.1)	(27.3)
Investment income	739.9	786.0	772.7	17.6
Other Income	694.6	689.9	737.8	16.8
Total income	3,178.4	3,482.9	4,306.3	98.0
Benefits, Claims and Operating Expenses				
Gross benefits and claims	5,836.6	8,569.2	7,038.6	160.2
Policyholders' dividends and interest	38.7	71.2	82.7	1.9
Decrease in unit-linked liabilities due to surrenders	(5,353.1)	(8,138.0)	(5,283.8)	120.3
Reinsurers' share of gross benefits and claims	(17.9)	(8.6)	(1.0)	–
Net benefits and claims incurred	504.3	493.8	1,836.5	41.8
Net change in legal policy reserves	460.7	524.6	(490.5)	(11.2)
Increase (decrease) in reserves for policyholders' dividends	3.4	2.5	(8.2)	(0.2)
Net insurance benefits and claims	968.4	1,020.9	1,337.8	30.5
Operating and administrative expenses	969.3	1,121.6	1,365.3	31.1
Commission expenses	189.2	340.6	422.5	9.6
Other expenses	96.4	84.3	72.7	1.7
Total expenses	2,223.2	2,567.2	3,198.2	72.8
Income before income tax	955.2	915.7	1,108.1	25.2
Provision for income tax	106.7	119.4	140.6	3.2
Net income	848.5	796.3	967.5	22.0

See accompanying notes to AXA's financial statements.

SELECTED STATEMENTS OF FINANCIAL POSITION

	As of December 31,			
	2009	2010	2011	2011
	(₱ millions)			(U.S.$ million)
Assets				
Cash and Cash Equivalents	872.7	1,712.4	2,602.5	59.2
Insurance Receivables – net	84.4	125.2	115.7	2.6
Financial Assets				
Financial assets at fair value through profit or loss	2,778.4	2,792.5	1,205.0	27.4
Available-for-sale financial assets	6,270.3	7,139.6	7,950.4	181.0
Loans and receivables – net	441.1	496.2	698.5	15.9
Accrued income	225.1	215.9	164.3	3.7
Investment Properties	14.1	19.5	15.6	0.4
Property and Equipment	124.1	126.8	138.1	3.1
Intangible Assets	–	4.0	12.9	0.3
Other Assets	14.8	42.3	49.3	1.1
	10,825.0	12,674.4	12,952.3	294.9
Assets Held to Cover Unit-Linked Liabilities	21,984.5	22,879.8	25,990.6	591.7
Total Assets	32,809.5	35,554.2	38,942.9	886.5
Liabilities and Equity				
Liabilities				
Insurance contract liabilities	7,476.0	8,042.4	7,568.6	172.3
Premium deposit fund	260.9	223.8	188.9	4.3
Insurance payables	51.1	64.2	85.2	1.9
Life insurance deposits	58.0	191.4	110.3	2.5
Trade and other liabilities	443.9	575.7	705.6	16.1
Income tax payable	7.1	1.0	3.7	0.1
Dividends payable	–	–	621.0	14.1
Pension liability – net	8.6	9.9	1.2	–
	8,305.6	9,108.4	9,284.5	211.4
Unit-Linked Liabilities	21,984.5	22,879.8	25,990.6	591.7
Total Liabilities	30,290.1	31,988.2	35,275.1	803.0
Equity				
Capital stock	250.0	350.0	350.0	8.0
Deposit for future stock subscriptions	0.1	0.1	309.4	7.0
Contributed surplus	50.0	50.0	50.0	1.1
Contingency surplus	412.2	313.6	9.4	0.2
Revaluation reserves for available-for-sale financial assets	589.8	838.6	1,090.0	24.8
Retained earnings	1,217.3	2,013.7	1,859.1	42.3
Treasury stock	–	–	(0.1)	–
Total Equity	2,519.4	3,565.9	3,667.8	83.5
Total Liabilities and Equity	32,809.5	35,554.2	38,942.9	886.5

See accompanying notes to AXA's financial statements.

SELECTED STATEMENTS OF CASH FLOWS

	For the years ended December 31,			
	2009	2010	2011	2011
	(₱ millions)			(U.S.$ million)
Net cash provided by operating activities	423.9	892.3	1,443.4	32.9
Net cash used in investing activities	(1.1)	(52.7)	(65.0)	(1.5)
Net cash provided by (used in) financing activities	(795.7)	1.4	(496.1)	(11.3)
Cash and cash equivalents at beginning of the year	1,245.6	872.7	1,712.4	(39.0)
Cash and cash equivalents at end of the year	872.7	1,712.4	2,602.5	59.2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – AXA

The following discussion of AXA's recent financial results should be read in conjunction with the auditors' reports and AXA's financial statements and notes thereto contained in this Prospectus and the section entitled "Selected Financial Information". AXA's audited financial statements as of December 31, 2009, 2010 and 2011 were prepared in compliance with PFRS and audited by SGV & Co. in accordance with PSA.

AXA restated its financial statements for the year ended December 31, 2009 to segregate the assets and liabilities of its unit-linked funds and classify these under the account "Assets held to cover unit-linked liabilities" while the related income and expenses are presented under the "Income on assets held to cover unit-linked liabilities" account.

This discussion contains forward-looking statements and reflects the current views of AXA with respect to future events and financial performance. Actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors such as those set forth in the section entitled "Risk Factors" and elsewhere in this Prospectus.

FACTORS AFFECTING RESULTS OF OPERATIONS

AXA's results of operations are affected by a variety of factors. Set out below is a discussion of the most significant factors that have affected AXA's results in the past and which AXA expects to affect its financial results in the future. Factors other than those set forth below could also have a significant impact on AXA's results of operations and financial condition in the future.

Economic Conditions in the Philippines

The Philippines' recent economic growth has been, and will continue to be, a significant factor in the continued growth of AXA's life insurance business. The effects of the global financial crisis of 2008 and 2009 had an impact on the Philippine economy in general, and on the life insurance industry in particular. Recently, however, there has been significant growth in the Philippine insurance sector. GDP growth in the Philippines is expected to remain relatively strong in the long term, though the recent economic uncertainty has lowered estimates for the Philippines' immediate growth. Per capita GDP and savings rates are key drivers of life insurance revenues. Economic growth in the Philippines has spawned a more affluent and more populated middle class. AXA believes only a small percentage of Philippines' households savings is invested in life insurance. As this growing middle class continues to see its income level rise, AXA believes consumers will likely seek more sophisticated life insurance products. AXA's ability to continue growing its life insurance revenues will depend on its ability to meet this constantly evolving demand.

Changes in Demographics

The population of the Philippines is growing significantly. The 2007 census counted 88.6 million Filipinos, which subsequently increased to an estimated 94.0 million in the 2010 census update. The population is also aging as life expectancies continue to rise. In 2000, the average life expectancy of a Filipino was 69.5 years and the median age was 21 years, while in 2007, the average life expectancy was 71.6 years and the median age increased to 22 years. The aging society in the Philippines is growing at a significantly higher rate than other Asia Pacific and North American countries. Longer life expectancies and higher median ages in a country typically relate to higher premium income and lower death benefit payouts. AXA expects the number of individuals in the insurable-age population to grow further. Current insurance penetration levels in the Philippines are steadily growing, but are still among the lowest in Asia. See "The Philippine Life Insurance Industry". Growth in the insurable population, low levels of insurance penetration and rising Philippine income levels are all significant factors that are expected to positively affect the results of AXA's life insurance business.

Competition in the Philippines

AXA operates in a highly competitive market. The insurance market in the Philippines is a comparatively developed market with many competitive players. Competition in the Philippine market is primarily based on the types of products offered, price and distribution capability. When market prices for such policies drop as a result of increased price competition or otherwise, AXA's direct written premiums from such policies may decrease and AXA may elect not to engage in price competition with AXA's competitors for certain products. In addition, AXA believes financial strength and claims-paying ability ratings issued by firms such as Standard & Poor's Rating Services, Fitch, Inc. and A.M. Best have also become an increasingly important factor in establishing the competitive position of insurance companies. Any changes in the AXA Group's ratings from such firms could impact AXA's performance.

To remain competitive, AXA must develop new insurance products to satisfy customer needs and maintain attractive premium rates. In addition, AXA must respond to increases in downward premium pressure for its products to avoid an adverse impact on AXA's margins.

Managing Claims and Benefits Incurred

Claims and benefits incurred have been AXA's largest expense in recent periods. Claims and benefits incurred refer to the sum of total claims sustained under the policies issued, whether paid or unpaid, and the associated expenses incurred to settle loss claims. AXA expects its claims and benefits incurred to be influenced by its ability to select profitable risks, monitor unsubstantiated claims and optimize claims handling processes. AXA invests significant resources in these areas in an attempt to manage increases in claims and benefits incurred. Claims and benefits incurred may be influenced by other factors, including catastrophic events and AXA's product mix. AXA maintains claims reserves to be applied against actual claims and benefits incurred. Claims reserves represent estimates determined by using actuarial projection techniques based on historical data. Because establishing reserves is an imprecise process involving estimates, reserves need to be adjusted periodically. In the event AXA needs to increase its claims reserves as a result of changes in its projections, AXA's results of operations may be adversely affected.

Ability to Manage Expenses

Expenses incurred by AXA in the Philippines primarily include policy acquisition costs related to commission expenses to insurance intermediaries and personnel expenses directly related to the marketing and underwriting process less commission income from reinsurers, management expenses (such as administration expenses, salaries and amortization expenses) and costs associated with opening new branches in connection with AXA's growth strategy. Expenses outside of direct variable expenses like commissions are within management control and discretion but may be influenced by market forces such as foreign exchange rates, (dollar denominated expenses, rental rates (rental expenses), inflation rates as affect salaries, etc.).

Fluctuations in Equity Prices, Market Interest Rates and Property Values

AXA's investment portfolio forms an integral part of its business and affects its results of operations and financial condition. As of December 31, 2010 and 2011, the carrying value of AXA's investment portfolio, which contains primarily equity securities, debt securities, investment properties and bank deposits, was ₱11,663.9 million and ₱11,773.5 million, respectively. AXA's results of operations are affected by fluctuations in equity prices, market interest rates and property values. AXA records its portfolio of equity securities on its balance sheet at fair value as determined as of the date of the statement of financial position. As of December 31, 2010 and 2011, AXA held equity securities valued at ₱905.1 million and ₱695.0 million, respectively, representing 7.8% and 5.9%, respectively, of its investment portfolio. The value of AXA's portfolio of equity securities is exposed to price risk, which is defined as the loss in fair value resulting from adverse changes in stock price.

As of December 31, 2010 and 2011, AXA had bank deposits valued at ₱1,712.4 million and ₱2,602.5 million, respectively, representing 14.7% and 22.1%, respectively, of AXA's investment portfolio. As such, changes in bank interest rates directly impact AXA's deposit interest income. Fluctuations in interest rates may also affect the level and timing of recognition of gains and losses on debt securities held in AXA's investment portfolio. A sustained period of lower interest rates would generally reduce AXA's debt investment yields over time as higher-yielding investments mature or are redeemed and proceeds are reinvested in new investments with lower yields, but would also increase realized and unrealized gains on AXA's existing investments. Conversely, rising interest rates should over time increase AXA's investment income, but may reduce the market value of its investment portfolio.

Investments in real properties are carried at cost. AXA will only be affected when there are adverse fluctuations in the value which are required to be recognized as impairment losses. However, the small proportion of property investments (0.1% of AXA's investment portfolio), makes the effect of real property price fluctuations immaterial to AXA's financial condition.

Changes in the Regulatory Environment

AXA operates in a heavily regulated industry and is subject to the supervision of insurance regulators in the Philippines. In the Philippines, the Philippine Insurance Commission sets requirements for capital, solvency margin, fitness and propriety of directors and controllers, actuarial review of liabilities, asset management and adequacy of reinsurance arrangements. Pursuant to these regulations, AXA must submit information on new insurance products to the Philippine Insurance Commission for filing purposes or approval, depending on the product type/nature of the new insurance products, insurance products relating to mandatory insurance and the terms and premium rates of insurance products. AXA may incur costs and expenses to comply with, and its prospects may be adversely affected by changes in applicable laws, rules and regulations, which may reduce AXA's results of operations as well as affect its future growth.

Customer Sentiment, Product Mix and Distribution Channels

AXA's ability to successfully launch new products and maintain demand for its existing products depends on the acceptance of these products by consumers. This acceptance is affected by changing customer needs and taste and the distribution channels used to market towards them. Consumer preferences shift due to a variety of reasons, including changes in demographic and social trends or changes in society's wealth. For example, younger workers require only basic insurance, but as workers age, they begin to consume premium insurance products addressing education, retirement and medical needs. AXA works to address the needs of its customers as their preferences and purchasing power change. Additionally, AXA's distribution channels are designed to target various demographic segments in different ways. Direct marketing and telemarketing is used to target younger customers that may not require sophisticated products that are best sold through the agency and bancassurance channels. High net worth individuals are primarily targeted through AXA's bancassurance channel through its partnership with MBT, as these individuals are typically existing customers who have already purchased other financial service products. AXA's response to the changing customer sentiment with varied product mixes and distribution channels will affect its business prospects as well as future growth.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those that are both (i) relevant to the presentation of AXA's financial condition and results of operations and (ii) require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increase, those judgments become even more subjective and complex. In order to provide an understanding of how AXA's management forms its judgments about future events, including the variables and assumptions underlying its estimates, and the sensitivity of those judgments to different circumstances, AXA has identified certain critical accounting policies. For a complete discussion of AXA's critical accounting policies and significant accounting judgments and estimates, see Note 2 and Note 3 to AXA's financial statements included in this Prospectus.

DESCRIPTION OF KEY LINE ITEMS IN STATEMENT OF INCOME

A brief description of AXA's key line items is set out below:

Revenue

Net insurance premium

Net insurance premiums consists of gross premiums on contracts issued less premiums ceded to reinsurers.

Gross premiums on contracts issued

Gross premiums on contracts issued consist of premiums revenue arising from life insurance contracts and unit-linked insurance contracts. Recurring premiums from life insurance contracts are recognized as revenue when payable by the policyholder. For single premium business, revenue is recognized on the date from which the policy is effective. For regular premium contracts, receivables are recorded at the date when payments are due.

Premium ceded to reinsurers

Premium ceded to reinsurers consists of the reinsurance premium, which represents insurance risk ceded to reinsurance companies in the normal course of the business.

Subscriptions allocated to investment in unit-linked funds

Subscriptions allocated to investment in unit-linked funds represent the portion of revenue from unit-linked premiums that is allocated to investments.

Investment income

Investment income consists of interest income, dividend income and rental income.

Fair value gains (losses) from financial assets at fair value through profit or loss (FVPL)

Fair value gains consist of gains (losses) arising from changes in the fair value of financial assets at FVPL.

Gain (loss) on sale of available-for-sale financial assets

This includes gains and losses on the sale of AFS financial assets which are calculated as the difference between net sales proceeds and acquisition cost for equity securities and amortized cost for debt securities. Realized gains and losses are recognized in the statement of income when the sales transaction occurred.

Foreign exchange gains (loss)

Foreign exchange gains consist of gains (loss) on the revaluation of investments in bonds and government securities, investments in time deposits, and others.

Other income

Other income consists of asset management fees, reversal of impairment losses – net, administrative and service fees and miscellaneous income.

Benefits, Claims and Operating Expenses

Net insurance benefits and claims incurred

Net insurance benefits and claims incurred consist primarily of death claims, surrenders, maturities, policyholders' dividends and interest and annuity payments. Death claims and surrenders are recorded on the basis of notifications received while maturities and annuity payments are recorded when due. Ceded reinsurance recoveries are accounted for in the same period as the underlying claim.

Operating and administrative expenses

Operating and administrative expenses primarily consists of salaries, allowances and benefits, shared services costs, rent, collection fees, advertising and promotions, project development costs and other expenses.

Commission expense

Commission expense consists of commissions paid to agents, service fees on group insurance and bank and staff referral fees.

Other expenses

Other expenses include premium and documentary stamp taxes and experience refunds, among other things.

RESULTS OF OPERATIONS

Year ended December 31, 2011 compared to year ended December 31, 2010

Net insurance premiums

AXA recorded net insurance premiums of ₱9,975.4 million in 2011, an increase of 19.7% from ₱8,330.9 million in 2010, due to the increase in sales from unit-linked single premium policies, especially the guaranteed unit-linked policies as these products are becoming more mature in the market.

	Year ended December 31,		
	2010	2011	
	(₱ millions)		(U.S.$ millions)
Gross premiums on contracts issued	8,354.3	10,006.6	227.8
Premium ceded to reinsurers	(23.4)	(31.2)	(0.7)
Net insurance premiums	8,330.9	9,975.4	227.1

Investment income

AXA recorded investment income of ₱772.7 million in 2011, a decrease of 1.7% from ₱786.0 million in 2010, due to a decrease in dollar bond asset maturities to fund dollar policy benefits maturing in the years 2011 and 2012, which is reflective of AXA's sales moving away from traditional products towards unit-linked products.

Other income

AXA recorded other income of ₱737.8 million in 2011, an increase of 6.9% from ₱689.9 million in 2010 mainly due to a gain on sale of available for sale financial assets and financial assets at FVPL as a result of strategic asset allocation from FVPL to AFS investments and an increase in asset management fees as a result of higher linked net asset value due to an increase in unit-linked single premium sales, but partially offset by the decrease in fair value gains from financial assets at FVPL. The following table sets forth the components of AXA's other income:

	Year ended December 31,		
	2010	2011	
	(₱ millions)		(U.S.$ millions)
Fair value gains from financial assets at fair value through profit or loss	241.4	67.8	1.5
Gain on sale of available for sale financial assets	43.2	277.7	6.3
Foreign exchange gains	40.5	19.1	0.4
Other income	364.8	372.8[(1)]	8.5
Total	689.9	737.4	16.8

Note:

(1) Other income in 2011 includes ₱0.3 million from the gain on sale of property and equipment.

Net insurance benefits and claims

AXA recorded net insurance benefits and claims of ₱1,337.8 million in 2011, an increase of 31.0% from ₱1,020.9 million in 2010, due to higher group claims due to a higher overall group portfolio in 2011. The following table sets forth the components of AXA's net insurance benefits and claims:

	Year ended December 31,		
	2010	2011	
	(₱ millions)		(U.S.$ millions)
Gross benefits and claims	8,569.2	7,038.6	160.2
Policyholders' dividends and interest	71.2	82.7	1.9
Decrease in unit-linked liabilities due to surrenders	(8,138.0)	(5,283.8)	(120.3)
Reinsurers' share of gross benefits and claims	(8.6)	(1.0)	–
Net benefits and claims incurred	493.8	1,836.5	41.8
Net change in legal policy reserves	524.6	(490.5)	(11.2)
Increase (decrease) in reserves for policyholders' dividends	2.5	(8.2)	(0.2)
Net insurance benefits and claims	1,020.9	1,337.8	30.5

Operating and administrative expenses

AXA recorded operating and administrative expenses of ₱1,365.3 million in 2011, an increase of 21.7% from ₱1,121.6 million in 2010, primarily due to an increase in personnel cost related to a higher headcount and increased wages as a result of increase in business requirements, regional project development costs related to a systems upgrade for improving efficiency and local projects, which were mainly for branch office standardization and increased advertising and promotional activities.

Commission expense

AXA recorded commission expense of ₱422.5 million in 2011, an increase of 24.0% from ₱340.6 million in 2010, due to an increase in commission paid to AXA's agency sales force resulting from the higher volume of business in 2011.

Other Expenses

AXA recorded other expenses, not including net insurance benefits and claims, of ₱72.7 million in 2011, a decrease of 13.8% from ₱84.3 million in 2010, mainly due to a decrease in premium and documentary stamp taxes as a result of a 3% reduction in premium tax and reduced DST rates which took effect in April 2010. The following table sets forth the components of AXA's other expenses:

	Year ended December 31,		
	2010	2011	
	(₱ millions)		(U.S.$ millions)
Premium and documentary stamp taxes	51.5	45.0	1.0
Experience refunds	14.9	9.7	0.2
Other expenses	17.9	18.0	0.4
Total other expenses	84.3	72.7	1.7

Income before Income Tax

AXA recorded income before income tax of ₱1,108.1 million in 2011, an increase of 21.0% from ₱915.7 million in 2010.

Provision for Income Tax

AXA recorded provision for income tax of ₱140.6 million in 2011, an increase of 17.8% from ₱119.4 million in 2010, due to an increase in income subject to corporate income tax and investment income subjected to final tax.

Net income

As a result of the foregoing, net income increased to ₱967.5 million in 2011, an increase of 21.5% from ₱796.3 million in 2010.

Financial Position

Assets

The following table sets out selected components of AXA's assets as of the dates indicated.

	Year ended December 31,		
	2010	2011	
	(₱ millions)		(U.S.$ millions)
Cash and cash equivalents	1,712.4	2,602.5	59.2
Insurance receivables	125.2	115.7	2.6
Financial assets			
Financial assets at fair value through profit and loss	2,792.5	1,205.0	27.4
Available-for-sale financial assets	7,139.6	7,950.4	181.0
Loans and receivables – net	496.2	698.5	15.9
Accrued income	215.9	164.3	3.7
Investment properties	19.5	15.6	0.4
Property and equipment	126.8	138.1	3.1
Intangible assets	4.0	12.9	0.3
Other assets	42.3	49.3	1.1
Assets held to cover unit-linked liabilities	22,879.8	25,990.6	591.7
Total assets	35,554.2	38,942.9	886.5

AXA had total assets of ₱38,942.9 million as of December 31, 2011, an increase of 9.5% from ₱35,554.2 million as of December 31, 2010. The net increase in total assets was a result of the factors discussed below:

Cash and cash equivalents increased by ₱890.1 million, or 52.0%, primarily due to proceeds of bond sales for funding of dollar maturities benefits that were put into short-term cash equivalents.

Insurance receivables decreased by ₱9.5 million, or 7.6%, primarily due to a decrease in premiums due and uncollected as of year end resulting from AXA's efforts to make paying premiums easier, including increased payment options through various MBT channels.

Financial assets: The table below sets out AXA's financial assets by asset class at fair value through profit or loss:

	Year ended December 31,		
	2010	2011	
	(₱ millions)		(U.S.$ millions)
Government debt securities			
Local currency	1,992.5	780.2	17.8
Foreign currency	176.9	–	–
Listed equity securities	588.7	389.9	8.9
Other assets	34.4	34.9	0.8
Total financial assets at FVPL	2,792.5	1,205.0	27.4

Accrued income decreased by ₱51.6 million, or 23.9%, primarily due to the timing of coupon on the newly purchased bonds starting the second half of the year as a result of the shift from FVPL to AFS investments.

Property and equipment increased by ₱11.3 million, or 8.9%, primarily due to the increase in the number of branches as well as refurbishments of existing branches to accommodate the expanding sales force.

Assets held to cover unit-linked liabilities increased by ₱3,110.8 million, or 13.6%, primarily due to an increase in unit-linked sales and favorable market conditions.

Other assets increased by ₱7.0 million, or 16.5%, primarily due to capitalized expenses related to agency development.

Liabilities

The following table sets out selected components of AXA's liabilities as of the dates indicated.

	Year ended December 31,		
	2010	2011	
	(₱ millions)		(U.S.$ millions)
Insurance contract liabilities	8,042.4	7,568.6	17.3
Premium deposit fund	223.8	188.9	4.3
Insurance payables	64.2	85.2	1.9
Life insurance deposits	191.4	110.3	2.5
Trade and other liabilities	575.7	705.6	16.1
Income tax payable	1.0	3.7	0.1
Dividends payable	–	621.0	14.1
Pension liability – net	9.9	1.2	–
Unit-linked liabilities	22,879.8	25,990.6	591.7
Total liabilities	31,988.2	35,275.1	803.0

Equity

The following table sets out selected components of AXA's equity as of the dates indicated.

	Year ended December 31,		
	2010	2011	
	(₱ millions)		(U.S.$ millions)
Capital stock	350.0	350.0	8.0
Deposit for future stock subscriptions	0.1	309.4	7.0
Contributed surplus	50.0	50.0	1.1
Contingency surplus	313.6	9.4	0.2
Revaluation reserves for available-for-sale financial assets	838.6	1,090.0	24.8
Retained earnings	2,013.7	1,859.1	42.3
Treasury stock	–	(0.1)	–
Total equity	3,566.0	3,667.8	83.5

Year ended December 31, 2010 compared to year ended December 31, 2009

Net insurance premiums

AXA recorded net insurance premiums of ₱8,330.9 million in 2010, an increase of 87.7% from ₱4,437.9 million in 2009, due to gross premiums on contracts issued increasing by 86.5%, which was caused by an increase in premiums due to newly launched traditional and unit-linked products. Premiums ceded to reinsurers decreased by 44.7% due to changes in reinsurance agreements.

	Year ended December 31,	
	2009	2010
	(₱ millions)	
Gross premiums on contracts issued	4,480.2	8,354.3
Premiums ceded to reinsurers	(42.3)	(23.4)
Net insurance premiums	4,437.9	8,330.9

Investment income

AXA recorded investment income of ₱786.0 million in 2010, an increase of 6.2% from ₱739.9 million in 2009, primarily due to the increase in investable assets in 2010 resulting from an increase in policies sold.

Miscellaneous other income

AXA recorded other income of ₱689.9 million in 2010, an decrease of 0.7% from ₱694.6 million in 2009, due to decreases in gains from other income items, including a one-time gain on sale of investment properties of ₱5.8 million in 2009. Foreign exchange gains also decreased due to appreciation of the Philippine Peso relative to the U.S. dollar. The following table sets forth the components of AXA's other income:

	Year ended December 31,	
	2009	2010
	(₱ millions)	
Fair value gains from financial assets at fair value through profit or loss	244.8	241.4
Gain on sale of available for sale financial assets	5.1	43.2
Foreign exchange gains	62.3	40.5
Other income	382.4[(1)]	364.8
Total	694.6	689.9

Note:

(1) Other income in 2009 includes ₱5.8 million from gain on sale of investment properties.

Net insurance benefits and claims

AXA recorded net insurance benefits and claims of ₱1,020.9 million in 2010, an increase of 5.4% from ₱968.4 million in 2009, due to an increase in unit-linked premiums as more policyholders cashed in older policies in favor of new policies as a result of better pricing in 2010. The following table sets forth the components of AXA's net benefits and claims incurred in insurance contracts:

	Year ended December 31,	
	2009	2010
	(₱ millions)	
Gross benefits and claims	5,836.6	8,569.2
Policyholders' dividends and interest	38.7	71.2
Decrease in unit-linked liabilities due to surrenders	(5,353.1)	(8,138.0)
Reinsurers' share of gross benefits and claims	(17.9)	(8.6)
Net benefits and claims incurred	504.3	493.8
Net change in legal policy reserves	460.7	524.6
Increase (decrease) in reserves for policyholders' dividends	3.4	2.5
Net insurance benefits and claims	968.4	1,020.9

Operating and administrative expenses

AXA recorded operating and administrative expenses of ₱1,121.6 million in 2010, an increase of 15.7% from ₱969.3 million in 2009, primarily due to the increase in salaries, allowances and benefits due to the increase in manpower requirements (12%), advertising and promotional expenses (85%) and project development cost (45%).

Commission expense

AXA recorded commission expense of ₱340.6 million in 2010, an increase of 80.0% from ₱189.2 million in 2009, due to the increase in commission paid to AXA's agency sales force resulting from the higher volume of business in 2010.

Other expenses

AXA recorded other expenses, not including net insurance benefits and claims, of ₱84.2 million in 2010, a decrease of 12.6% from ₱96.4 million in 2009, mainly due to a decrease in premium and documentary stamp taxes as a result of a 3% reduction in premium tax and reduced DST rates on premiums collected on policies which took effect in April 2010. The following table sets forth the components of AXA's total expenses:

	Year ended December 31,	
	2009	2010
	(₱ millions)	
Premium and documentary stamp taxes	77.8	51.5
Experience refunds	3.0	14.9
Other expenses	15.6	17.9
Total other expenses	96.4	84.2

Income before Income Tax

AXA recorded income before income tax of ₱915.7 million in 2010, a decrease of 4.1% from ₱955.2 million in 2009.

Provision for Income Tax

AXA recorded provision for income tax of ₱119.4 million in 2010, an increase of 11.9% from ₱106.7 million in 2009, due to increased revenues and deferred income tax of ₱3.3 million in 2009.

Net income

As a result of the foregoing, net income decreased to ₱796.3 million in 2010, a decrease of 6.2% from ₱848.5 million in 2009.

Financial Position

Assets

The following table sets out selected components of AXA's assets as of the dates indicated.

	Year ended December 31,	
	2009	2010
	(₱ millions)	
Cash and cash equivalents	872.7	1,712.4
Insurance receivables	84.4	125.2
Financial assets		
Financial assets at fair value through profit and loss	2,778.4	2,792.5
Available-for-sale financial assets	6,270.3	7,139.6
Loans and receivables – net	441.1	496.2
Accrued income	225.1	215.9
Investment properties	14.1	19.5
Property and equipment	124.1	126.8
Intangible assets	–	4.0
Other assets	14.8	42.3
Assets held to cover unit-linked liabilities	21,984.5	22,879.8
Total assets	32,809.5	35,554.2

AXA had total assets of ₱35,554.2 million as of December 31, 2010, an increase of 8.4% from ₱32,809.5 million as of December 31, 2009. The net increase in total assets was a result of the factors discussed below:

Cash and cash equivalents increased by ₱839.7 million, or 96.2%, primarily due to the overall increase in premiums received, mostly on account of newly launched unit-linked products.

Insurance receivables increased by ₱40.8 million, or 48.3%, primarily due to an increase in payments due but uncollected.

Financial assets: The table below sets out AXA's financial assets by asset class at fair value through profit or loss:

	Year ended December 31,	
	2009	2010
	(₱ millions)	
Government debt securities		
Local currency	2,016.7	1,992.5
Foreign currency	255.5	176.9
Listed equity securities	479.7	588.7
Other assets	26.5	34.4
Total financial assets at FVPL	2,778.4	2,792.5

Accrued income decreased by ₱9.2 million, or 4.1%, primarily due to the timing on the sale of government debt securities as more securities were sold in 2010 than in 2009 to take advantage of favorable market conditions.

Property and equipment increased by ₱2.7 million, or 2.2%, primarily due to acquisitions and refurbishments.

Assets held to cover unit-linked liabilities increased by ₱895.3 million, or 4.1%, primarily due to the increase in unit-linked business.

Liabilities

The following table sets out selected components of AXA's liabilities as of the dates indicated.

	Year ended December 31,	
	2009	2010
	(₱ millions)	
Insurance contract liabilities	7,476.0	8,042.4
Premium deposit fund	260.9	223.8
Insurance payables	51.1	64.2
Life insurance deposits	58.0	191.4
Trade and other liabilities	443.9	575.7
Income tax payable	7.1	1.0
Pension liability – net	8.6	9.9
Unit-linked liabilities	21,984.5	22,879.8
Total liabilities	30,290.1	31,988.2

Equity

The following table sets out selected components of AXA's equity as of the dates indicated.

	Year ended December 31,	
	2009	2010
	(₱ millions)	
Capital stock	250.0	350.0
Deposit for future stock subscription	0.1	0.1
Contributed surplus	50.0	50.0
Contingency surplus	412.2	313.6
Revaluation reserves for available-for-sale financial assets	589.8	838.6
Retained earnings	1,217.3	2,013.7
Total equity	2,519.4	3,566.0

LIQUIDITY AND CAPITAL RESOURCES

In 2009, 2010 and 2011, AXA's principal source of liquidity was income before income tax. As of December 31, 2011, AXA had cash and cash equivalents totaling ₱2,602.5 million.

The following table sets forth selected information from AXA's statements of cash flows for the periods indicated:

	As of December 31,			
	2009	2010	2011	2011
	(₱ millions)			(U.S.$ millions)
Net cash provided by operating activities	423.9	892.3	1,443.4	32.9
Net cash (used in) investing activities	(1.1)	(52.7)	(65.0)	(1.5)
Net cash provided by (used in) financing activities	(795.7)	1.4	(496.1)	(11.3)
Net increase(decrease) in cash and cash equivalents	(372.9)	841.0	882.3	20.1
Effects of exchange rate changes in cash and cash equivalents	–	(1.3)	7.8	0.2
Cash and cash equivalents at beginning of period	1,245.6	872.7	1,712.4	39.0
Cash and cash equivalents at end of period	872.7	1,712.4	2,602.5	59.2

Cash flows from operating activities

AXA recorded net cash provided by operating activities of ₱423.9 million in 2009, ₱892.3 million in 2010 and ₱1,443.4 million in 2011. In 2009, the primary source of cash was from operations and interest received, which contributed ₱734.7 million and ₱657.3 million, respectively. In 2009, the primary use of cash in operations was for the acquisition of ₱1,062.3 million in available-for-sale financial assets. In 2010, the largest source of cash was the ₱689.6 million generated from operations and the largest use was the ₱1,505.1 million used for the acquisition of available-for-sale financial assets. In 2011, the largest sources of cash were the ₱2,815.6 million and ₱1,655.4 million generated from proceeds from disposal/maturities of available-for-sale financial assets and financial assets at FVPL, respectively, and the largest use was the ₱3,292.4 million used for the acquisition of available-for-sale financial assets.

Cash flows from investing activities

AXA recorded net cash used in investing activities of ₱1.1 million in 2009, ₱52.7 million in 2010 and ₱65.0 million in 2011. In each of these periods, net cash used in investing activities primarily reflected acquisitions of property and equipment.

Cash flows from financing activities

AXA recorded net cash used in financing activities of ₱795.8 million in 2009 to pay cash dividends. In 2010, AXA recorded cash flows from financing activities of ₱1.4 million from the issuance of stock. No dividends were paid to shareholders in 2010. In 2011, AXA recorded financing cash outflows of ₱496.1 million from deposit for future stock subscriptions and used cash of ₱501.0 million to pay cash dividends.

OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2011, AXA did not have any off-balance sheet arrangements.

QUALITATIVE AND QUANTITATIVE DISCLOSURE OF MARKET RISK

AXA has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity, insurance and operational risk. For a complete discussion of the risks faced by AXA and the policies instituted to mitigate such risks, please see Note 23 to AXA's audited financial statements included elsewhere in this Prospectus.

Seasonality and Inflation

AXA does not believe that seasonality and inflation have had a significant effect on its results of operations to date.

THE PHILIPPINE LIFE INSURANCE INDUSTRY

According to the Insurance Commission of the Philippines, as of October 6, 2011, there were 30 life insurance companies licensed to operate in the Philippines. According to the Country Finance report 2010 released by the Economist Intelligence Unit, eight of the life insurance companies are foreign-owned but domestically incorporated. In addition, there were four composite insurers which conducted both life and non-life businesses, namely AsianLife and General Assurance Corporation, CLIMBS Life & General Insurance Cooperative, Paramount Life & General Insurance Corporation and Philippine American Life and General Insurance Company. The Insurance Commission, an agency of the Philippines Department of Finance, is the regulator of all types of insurers in the Philippines. A leading industry group is the Philippine Life Insurance Association, an organization of life insurance companies operating in the Philippines.

According to the Swiss Reinsurance Company Sigma Report for 2010, the Philippine life insurance market recorded premiums of U.S.$1.3 billion in 2010, which accounted for 0.16% of the Asian life insurance market. According to the same report, GDP of the Philippines reached U.S.$189 billion in 2010 as the country achieved strong GDP growth (nominal) of 17.4% during the same period, compared to 1.2% in Europe and 4.0% in North America. The table below sets forth certain information relating to the life insurance market and GDP growth in Asia and other markets as of December 31, 2010.

	2010 premium (U.S.$ bn)[(1)]	2010 premium growth (%)	2010 GDP (U.S.$ bn)	2010 GDP growth (%)
Japan	441.0	6.6	5,519	8.2
China	143.0	31.0	5,648	19.3
South Korea	71.1	11.9	1,022	15.9
India	67.8	21.1	1,526	21.6
Taiwan	63.9	22.1	415	9.5
Hong Kong	22.6	12.4	225	6.6
Singapore	10.2	21.0	223	26.0
Thailand	8.3	29.8	319	20.8
Malaysia	7.9	20.6	246	23.6
Indonesia	7.2	31.1	707	30.7
Israel	5.6	10.9	217	11.9
Philippines	**1.3**	**20.1**	**189**	**17.4**
United Arab Emirates	0.9	5.0	280	36.6
Vietnam	0.7	6.7	117	27.2
Other Asia	3.7	17.8	2,152	16.4
Asia	855.2	13.7	18,805	15.8
Europe	965.7	1.3	20,094	1.2
North America	557.8	2.0	16,215	4.0

Source: Data obtained from information contained in and derived from the Swiss Reinsurance Company Sigma Report 2009 & 2010.

Note:

(1) Life insurance premium income figures (in U.S.$) extracted from Swiss Reinsurance Company Sigma Reports based on information concerning premiums written for direct business by all registered insurers.

PHILIPPINE LIFE INSURANCE MARKET OVERVIEW

The table below sets forth certain information relating to the Philippine life insurance market as of December 31, 2010.

	2010 premium (₱ mn)	2010 premium growth (%)	2010 market share (%)
Philippine American Life and General Insurance Co.	11,254.9	3.3	15.9
Sunlife Financial Philippines	10,633.3	11.2	15.0
Philippine AXA Life Insurance Corporation(1)	**8,359.9**	**88.3**	**11.8**
Pru Life Insurance Corporation of U.K.	7,356.7	108.8	10.4
Insular Life Assurance Co., Ltd.	7,129.0	15.3	10.1
BPI-Philam Life Assurance Corporation	5,695.9	58.1	8.1
The Manufacturers Life Insurance Co. (Phils.), Inc.	3,974.6	24.6	5.6
Grepalife Financial, Inc.	3,492.4	53.5	4.9
United Cocolife Planters Life Assurance Corporation	2,333.4	26.7	3.3
Generali Pilipinas Life Assurance Co., Inc.	1,419.7	(55.8)	2.0
AsianLife and General Assurance Corporation	1,126.0	10.1	1.6
PNB Life Insurance, Inc.	1,007.9	19.0	1.4
Pioneer Life Inc.	987.7	46.3	1.4
Manulife-Chinabank Life Assurance Corporation	974.3	205.9	1.4
Philippine Prudential Life Insurance Co., Inc.	828.2	29.4	1.2
Others	4,153.4	(17.1)	5.9
Total	70,727.3	23.6	100

Source: Philippine Insurance Commission

(1) *Data obtained from information contained in and derived from the Philippine Insurance Commission under its own calculation methodology, which may not reconcile with the information in AXA's audited financial statements contained herein.*

The life insurance industry in the Philippines is fairly concentrated with the top five players accounting for more than 60% of the market share in 2010. According to the Philippine Insurance Commission, AXA Philippines recorded premium income of ₱8,359.9 million, representing a market share of 11.8%. While AXA Philippines is currently the 3rd largest player in the country, it has achieved 88.3% premium income growth over the past year, significantly higher than the 23.6% recorded by the overall market.

INDUSTRY TRENDS

Strong economic growth

The table below sets forth information relating to the GDP, GDP growth and inflation rate of the Philippines for the periods indicated.

Philippine GDP and inflation

	2006	2007	2008	2009	2010
GDP (U.S.$bn)	117	144	169	161	189
Nominal GDP growth (%)	19.4	23.1	17.4	(4.7)	17.4
Inflation (%)	6.3	2.8	9.3	3.3	3.8

Source: Data obtained from information contained in and derived from Swiss Reinsurance Company Sigma Reports for 2005, 2006, 2007, 2008, 2009 and 2010

The Philippines, along with other developing countries in Asia, has in recent years benefited from strong economic growth and increases in income per capita. According to data derived from the Swiss Reinsurance Company Sigma Reports, GDP in the Philippines grew at a CAGR of 12.7% from 2006 to 2010, which is substantially higher than growth achieved by Europe (CAGR of 4.4%) and North America (CAGR of 2.8%). Going forward, private consumption and OFW remittances are expected to remain as the principal drivers of economic growth in the Philippines. Meanwhile, an expected rise in interest rates from record lows could potentially improve investment returns and hence boost overall profitability for insurance companies.

Robust premium growth prospects with low penetration and density rates

The table below sets forth information relating to the life insurance penetration rate and density rate in the Philippines as of December 31, 2010.

2010 life insurance penetration and density rate in the Philippines

	Penetration rate (%)	Density rate (U.S.$)
Philippines	0.7	14.3
Asia	4.5	208.1
North America	3.4	1,620.9
Europe	4.5	1,110.6

Source: Swiss Reinsurance Company Sigma Report 2010

Life insurance penetration in Asian markets has stayed at a relatively low level compared to matured markets in Europe and North America. The Philippines had a penetration rate of 0.7% and a density rate of U.S.$14.3 in 2010, which is one of the lowest in Asia. As the Philippine economy continues to develop while living standards further improve, the Philippine market is expected to achieve strong growth in the long term.

Favourable demographic changes provide growth opportunities

The following table sets forth certain demographic data for the Philippines, the Asia Pacific region, North America and Europe for the periods indicated:

	Population (millions)		Population aged 65 and above	
	2010	CAGR 2006-2010	% Population 2010	CAGR 2006-2010
Philippines	99.9	2.0	5.5	3.8
Asia Pacific	3,358.0	1.1	7.3	2.8
North America	344.3	1.0	13.3	2.2
Europe	688.7	0.2	16.5	0.6

Source: Data obtained from information contained in and derived from Economist Intelligence Unit (EIU).

The Philippines had a population of 99.9 million people in 2010, according to EIU. Given the country's high birth rates, it has experienced high population growth with a CAGR of 2.0% from 2006–2010 (one of the highest in Asia), which could potentially offer life insurers new business opportunities in the long term. In addition, the elderly market has become a focus for life insurers in the recent decade as baby boomers head towards their retirement age. While the Philippines has one of the youngest populations in Asia (aged 65 or above only represented 5.5% of total population in 2010), the aging society is growing much quicker at a 2006–2010 CAGR of 3.8%, compared to 2.8% in Asia Pacific, 2.2% in North America and 0.6% in Europe. Such a demographic change is poised to create increased demand for insurance products that specifically cater to this older group of target customers.

Shift in distribution channels with a focus towards bancassurance

Insurance companies in the Asia Pacific region have traditionally been focused on agency distribution. However, bancassurance, direct marketing and insurance brokers have also emerged to be major distribution channels in recent years. Leveraging banks' distribution networks and customer relationships, bancassurance has become a major business driver for the Philippine insurance industry and currently represents more than one-third of the overall life insurance market. The country's top players, including Philippine American Life and General Insurance Co., Sunlife Financial Philippines, Philippine AXA Life Insurance Corporation and Pru Life Insurance Corporation of the U.K. have taken advantage of the significant premium growth generated through bancassurance.

BUSINESS – AXA

OVERVIEW

GT Capital has interests in the life insurance business through its 25.3% ownership of shares in AXA, the Philippines' third largest insurance company in terms of total net premium income of ₱8.3 billion in 2010. AXA is a joint venture between the AXA Group, one of the world's largest insurance groups, and the MBT Group, one of the Philippines' largest financial conglomerates. AXA is a provider of personal and group insurance in the Philippines, including life insurance and investment-linked insurance products. AXA distributes its products in the Philippines through a multi-channel distribution network comprised of agents, bancassurance, corporate solutions and DMTM.

In 2011, AXA's gross premiums were ₱10.01 billion and net insurance premiums were ₱9.98 billion compared to gross premiums of ₱8.4 billion and net insurance premiums of ₱8.3 billion in 2010, respectively. AXA recorded a net income of ₱1.0 billion in 2011 compared to ₱0.8 billion in 2010.

AXA is part of the AXA Group, one of the world's largest insurance groups and asset managers. With its headquarters in Paris, the AXA Group operates in Western Europe, North America, the Asia Pacific region and in certain regions of Africa and the Middle East. The AXA Group conducts its operations in the Philippines through its 45% interest in AXA. AXA's remaining joint venture partners are GT Capital, with a 25.3% shareholding and FMIC, which owns 28.2%, with 1.5% held by other shareholders.

Over the past years, AXA has developed into a multi-line, multi distribution channel company offering traditional and unit-linked products for individual and group clients through 450 salaried financial executives in the branch network of Metrobank, 1,500 exclusive financial advisors and a small direct sales team (50-80 employees) for group insurance, worksite marketing and telemarketing.

HISTORY

AXA's predecessor company, The Cardinal Life Insurance Corporation was incorporated in the Philippines in 1962 to engage in selling personal and group insurance, including life insurance, accident and other insurance products. In 1977, The Cardinal Life Insurance Corporation was renamed Pan-Philippines Life Insurance Corporation. In 1997, Pan-Philippines Life Insurance Corporation was renamed Metro Philippines Life Insurance Corporation.

The AXA Group, through its Asia Pacific subsidiary, AXA Asia Pacific Holdings Limited ("AXA APH") (then known as National Mutual Holdings Limited), an Australian company, signed the AXA Shareholders Agreement on January 27, 1999 to form a joint venture with FMIC and Ausan Resources Corporation ("Ausan"), through the acquisition of 45% of the capital stock of the Metro Philippines Life Insurance Corporation with the purchase of a portion of shares held by Ausan and all of the shares held by Topsphere Realty Development Company Inc., as well as a subscription of new shares. As a result, the company's name was changed from Metro Philippines Life Insurance Corporation to Philippine AXA Life Insurance Corporation ("AXA") in 1999.

In 2003, AXA received a license to sell variable or investment-linked life insurance products by the Philippine Insurance Commission. In 2004, AXA received BSP approval to conduct bancassurance activities in the Philippines. AXA then became the pioneer bancassurance provider in the Philippines through its relationship with MBT.

In 2009, Ausan's shareholdings in AXA were transferred to GT Capital Holdings. In 2011, AXA SA acceded to AXA APH and assumed all rights and obligations of AXA APH under the AXA Shareholders Agreement.

COMPETITIVE STRENGTHS

AXA believes that its principal strengths are the following:

A leading insurance provider in the Philippines

According to the annual statements furnished by Philippine insurance providers to the Philippine Insurance Commission for 2010, AXA had the third highest insurance premiums, out of all insurance companies in the Philippines, a market share of 12% and a year-on-year growth in net insurance premiums, of 88%. In terms of first-year premiums and single premiums, AXA ranked number one in the Philippines, with a 19% market share in 2010, demonstrating AXA as the fastest growing life insurance provider in the Philippines. AXA believes its distribution channels, strategic relationships, introduction of investment-linked insurance products and leading bancassurance model are contributing factors to its strong market position. Given its strong market position, AXA is uniquely placed to capitalize on growth in the Philippine insurance market. The industry has experienced high historical life insurance premium growth rates. According to the Philippine Insurance Commission, life insurance premiums grew from ₱47.0 billion in 2005 to ₱70.7 billion in 2010, representing 8.5% CAGR. Yet, the Philippine life insurance market is still characterized by a relatively low penetration rate. According to the Swiss Reinsurance Company Sigma Report, the Philippine life insurance penetration rate as a percentage of GDP in 2010 is 0.7% and life insurance premium per capita is U.S.$14.3 – among the lowest levels in Asia.

Pioneer and market leader for bancassurance in the Philippines

AXA pioneered the bancassurance concept in the Philippines in 2004 through its tie up with the MBT Group. As of December 31, 2011, AXA distributes 57% of its insurance products through its bancassurance relationship with MBT. The MBT Group, which is the second largest Philippine bank in terms of asset size, net loans and receivables and total deposits as of December 31, 2011, has a large and diverse customer base, both in major cities and provincial areas of the Philippines. AXA reaches out to the MBT Group's large and diverse customer base by placing AXA financial executives in key MBT Group branches. AXA believes that its relationship with the MBT Group is among the strongest and most productive bancassurance relationships in the Philippines. AXA also believes its first mover advantage and extensive experience in bancassurance distribution will continue to provide it with a distinct competitive advantage in the Philippine life insurance market.

Value-enhancing strategic partnerships with MBT and HSBC

Apart from the area of bancassurance, AXA has also benefited from its affiliation with MBT in several other ways. AXA's relationship with MBT is a key element of AXA's marketing strategy. AXA's relationship with the MBT Group enhances AXA's profile with customers in the Philippines and provides local credibility to an internationally known brand. AXA directly markets to Metrobank credit card holders, who are able to pay insurance premiums directly through their credit cards. Operationally, MBT manages AXA's investment-linked product funds. MBT Group employees are also AXA customers, as AXA is the primary individual insurance provider to the MBT Group. In terms of management, AXA is also able to draw upon the resources of the MBT Group to enhance its management's resources and leverage MBT's knowledge of financial products and local consumer preferences. AXA's partnership with MBT provides benefits across its marketing, operations and management policies and practices; it believes that this will help drive its future premium growth.

In 2011, AXA entered into a marketing partnership with HSBC, whereby AXA's life insurance products are sold to HSBC customers through telemarketing channels. AXA believes that its tie-up with HSBC will provide a platform to expand its customer base while strengthening its reputation through association with a globally recognized financial institution such as HSBC.

Strong, well-recognized global brand and reputation

AXA's affiliation with the AXA Group provides it with strong brand recognition and financial credibility, both of which contribute to AXA's ability to attract new customers to its insurance products and introduce new products to existing customers. The 'AXA' brand was the top insurance brand in the world as well as the 53rd best brand across all categories according to Interbrand in 2011. The AXA Group's leading market position in the global insurance industry is also important for attracting and retaining talented and skilled agents, employees, brokers and managers who in turn work to build AXA's client base and overall growth of its operations. In addition, AXA's relationship with the wider AXA Group allows it to benefit from their product introductions and resources, particularly those which have been successful in other markets.

STRATEGIES

AXA intends to leverage its strengths to build upon the following strategies:

Continue to leverage off AXA's existing relationship with MBT to maximize bancassurance distribution

AXA plans to continue to leverage its reputation as an affiliate of the MBT Group to enable it to cross-sell its products and expand its market reach. In addition, AXA plans to continue to train and streamline customer outreach at bancassurance based workstations. As a result, AXA expects to achieve 50% of its new business income from bancassurance distribution by 2015. AXA believes that it will be able to enhance its competitive strengths by continuing to leverage off of its synergies with MBT, in particular though proactive customer marketing opportunities, and by capitalizing on the quality and quantity of MBT's existing customer base, including overseas Filipinos who return to the Philippines.

Leverage AXA's agency force as an effective and productive distribution channel

AXA believes that its agency is one of the most effective and productive distribution channels for insurance. AXA plans to double the size of its agency force by 2015 to increase its total new business margin. AXA will focus on the recruitment and development of new agents and branch expansion projects to achieve its size targets in 2015. AXA expects to achieve significant agency contribution to its new business as a result.

Expand into the young mass affluent and high net worth segments

AXA's products have traditionally focused on personalized solutions for the mature mass affluent population. Going forward, AXA intends to expand its product offerings by reaching out to new segments which it believes present significant room for growth, including the young mass affluent and high net worth segments. These segments of the population have both experienced significant growth as the Philippine economy continues to perform well. AXA plans to increase its product offerings for the young mass affluent segment by offering "easy and affordable" products. AXA's new product offerings for high net worth individuals will be focused on providing wealth management and solutions for the increasing population of high net worth Filipinos. AXA has devised a "second generation of investment-linked products" for high net worth individuals that AXA believes will provide higher investment potential for the medium and long term.

Increased focus on family breadwinners

AXA believes that family breadwinners have the highest need for insurance and will continue to be a key market for AXA's life insurance products. In order to meet the changing needs of this growing market, AXA has continued to develop life insurance products that offer financial protection, education, health and retirement. For example, AXA recently launched the only regularly offered principal guaranteed life insurance product in the Philippines which it believes is a popular product among its family breadwinner clients due to its financial protection features. This product made up 16% of AXA's new business income in the year ended December 31, 2011. AXA intends to increase its marketing efforts for this and other wealth protection products in order to serve this important customer segment.

PRODUCTS

Overview

AXA offers a range of life insurance and investment-linked insurance products in the Philippines. The following table sets forth AXA's net premium income by product type for the periods indicated:

	As of December 31,					
	2009		2010		2011	
	Amount	% of total	Amount	% of total	Amount	% of total
	(₱ in millions, except for %)					
Participating	714.0	16%	963.0	12%	1,142.2	11%
Non-participating	124.8	3%	179.0	2%	296.4	3%
Investment-Linked Policies	3,265.1	74%	6,771.3	81%	8,083.6	81%
Group	334.0	8%	417.6	5%	453.1	5%
Total	4,437.9	100%	8.330.9	100%	9,975.3	100%

The following table sets forth AXA's annual new premiums, value of new business and new business margin by product type for the periods indicated:

	As of December 31,								
	2009(1)			2010			2011		
	Annual New Premiums(2)	Value of New Business(3)	New Business Margin(4)	Annual New Premiums(2)	Value of New Business(3)	New Business Margin(4)	Annual New Premiums(2)	Value of New Business(3)	New Business Margin(4)
	(₱ in millions, except for %)								
Participating	311.7	90.7	29%	516.5	160.3	31%	433.4	106.4	25%
Non-participating	34.8	42.3	122%	202.8	87.7	43%	305.4	181.3	59%
Investment-Linked Policies – RP	268.8	162.5	60%	347.4	289.1	83%	572.2	416.0	73%
Investment-Linked Policies – SP	226.2	108.3	48%	566.8	315.2	56%	675.5	362.9	54%
Group	193.4	41.3	21%	200.7	66.4	33%	195.9	107.0	55%
Total	1,034.9	445.1	43%	1,834.2	918.7	50%	2,182.9	1,173.6	54%

Notes:

(1) *The value of new business is net of acquisition expense overrun. Expense overrun is the amount of expense which exceeds what is in the pricing loadings.*

(2) *Annual new premiums is calculated as 100% of annualized regular premium plus 10% of single premium.*

(3) *Value of new business is calculated as the present value of future profits.*

(4) *New business margin is calculated as the value of new business divided by annual new premium.*

The following table sets forth AXA's regular premium/single premium breakdown of its total premium income for the periods indicated:

	As of December 31,					
	2009		2010		2011	
	Amount	% of total	Amount	% of total	Amount	% of total
	(₱ in millions, except for %)					
Regular Premium	2,217	49%	2,700	32%	3,275	33%
Single Premium	2,263	51%	5,655	68%	6,732	67%
Total	4,480	100%	8,354	100%	10,007	100%

The following table sets forth AXA's regular premium/single premium breakdown of its Annual Premium Equivalent for the periods indicated:

	As of December 31,					
	2009		2010		2011	
	Amount	% of total	Amount	% of total	Amount	% of total
	(₱ in millions, except for %)					
Regular Premium	809	78%	1,268	69%	1,507	69%
Single Premium	226	22%	566	31%	676	31%
Total	1,035	100%	1,834	100%	2,183	100%

Products

Life insurance contracts offered by AXA primarily include: (i) traditional whole life participating policies (with and without anticipated endowments) and a wide range of non-participating riders (i.e. accidental death and dismemberment, critical illness, hospital income and term life); (ii) investment-linked products, both regular premium and single premium with non-participating riders, including the only regularly offered principal guaranteed product in the Philippines; (iii) various non-participating products mostly catering to start-up life protection and savings needs; and (iv) U.S. dollar denominated single-premium products. In addition, AXA offers group yearly renewable term, credit life and personal accident insurance.

DISTRIBUTION CHANNELS

The distribution network is the starting point of AXA's relationship with its customers. AXA's distribution strategy focuses on strengthening traditional channels and developing new ones, such as the internet and strategic partnerships. Staff hiring, retention, market conduct, streamlined sales techniques and presentations, and sales performance metrics are the main initiatives to strengthen distribution channels. AXA believes the diversification of its distribution channels can help develop new relationships with potential AXA customers.

AXA distributes its products through four main channels: agents, bancassurance, corporate solutions and DMTM that include brokers and in-house distribution channels for corporate accounts. The table below sets out AXA's annual new premiums, value of new business and new business margin by distribution channel for the periods indicated:

	As of December 31,								
	2009(1)			2010			2011		
	Annual New Premiums(2)	Value of New Business(3)	New Business Margin(4)	Annual New Premiums(2)	Value of New Business(3)	New Business Margin(4)	Annual New Premiums(2)	Value of New Business(3)	New Business Margin(4)
	(₱ in millions, except for %)								
Agents	186.2	71.6	38%	355.0	208.0	59%	494.7	268.5	54%
Bancassurance	654.8	332.1	51%	1,117.5	617.5	55%	1,254.0	726.7	58%
Alternative	92.0	19.7	21%	106.6	45.2	42%	182.9	104.6	57%
DMTM	101.5	21.7	21%	255.1	48.0	19%	251.3	73.8	29%
Total	1,034.9	445.1	43%	1,834.2	918.7	50%	2,182.9	1,173.6	54%

Notes:

(1) The value of new business is net of acquisition expense overrun.

(2) Annual new premiums is calculated as 100% of annualized regular premium plus 10% of single premium.

(3) Value of new business is calculated as the present value of future profits.

(4) New business margin is calculated as the value of new business divided by annual new premium.

Agents

Direct written premiums are generated through exclusive agents, as only exclusive agents are allowed for life insurance distribution under Philippine regulations. Exclusive agents are prohibited from distributing insurance products for any other life insurance companies. Exclusive agents accounted for approximately 19% and 23% of AXA's total new business in 2010 and 2011, respectively. AXA uses agents throughout its 24 branches located in strategic locations in Metro Manila, Cebu and Davao, as well as elsewhere throughout the Philippines. In addition to the 24 branches owned or leased by AXA, there are also several franchise branches that are owned and operated by exclusive agents and co-branded under the AXA name. AXA believes that its agency distribution channel is important to its future success and intends to double its current total number of 1,489 agents by 2015.

All of AXA's agents are required to enter into agency agreements before distributing AXA products. Agents are not considered to be AXA employees. These agreements set out the terms under which agents act for AXA, the activities they are authorized to carry out on AXA's behalf, prohibited activities, types of products they are authorized to sell and the criteria for payment of commission. In addition, agents are required to be licensed by the Philippine Insurance Commission. Agents are responsible for submitting a customer's information and their application for an insurance policy to be processed by the head office.

Bancassurance

Bancassurance refers to the sales of insurance through banking institutions. AXA utilizes financial executives, who are AXA employees placed within key MBT branches throughout the Philippines, to provide insurance advisory services to bank-sourced clients. AXA's bancassurance related products are aimed at complementing MBT's existing line of financial products, thereby providing MBT customers with a complete set of financial and insurance solutions. MBT and AXA also cross-market their products through joint advertising campaigns and promotional offers, such as tie-ups with MCC. MBT-based financial executives accounted for 67% and 61% of AXA's total new business premiums in 2010 and 2011, respectively. The cross-marketing of AXA products at MBT branches is the main component of AXA's marketing efforts.

Corporate Solutions

Corporate solutions refers to employee benefits and corporate investment opportunities sold through group policies for corporate clients. New business leads are primarily solicited from accredited brokers, AXA's agency force and MBT's corporate client base. The main driver of selling activities is AXA's sales team, which is composed of three units: Traditional, Bankassure and Worksite. Traditional focuses on obtaining leads from brokers and agents, and through self-generated efforts. Bankassure sources prospects through bank-referred leads from MBT branches and the MBT's Corporate Banking Group. Worksite offers individual products to employees of closed corporate accounts as a supplement to their employee insurance benefits and these can be purchased on a voluntary basis. Corporate solutions accounted for 5% and 9% of AXA's total new business premiums in 2010 and 2011, respectively.

Direct Marketing and Telemarketing

AXA distributes insurance through alternative, direct-to-customer methods such as direct mail, telemarketing or internet, commonly referred to as DMTM. AXA benefits from its relationship with the MBT Group, and currently has a strong and productive partnership with MCC to cross-market insurance products to MCC customers. AXA also pursues direct marketing initiatives with other captive markets or affinity groups, offering its suite of "easy and affordable" products targeted at the young affluent segment, with the objective of sourcing new clients and increasing AXA's customer base. DMTM accounted for approximately 5% and 8% of AXA's total new business premiums in 2010 and 2011, respectively.

MARKETING

AXA aims to be the preferred life insurance company in the Philippines by 2015. To achieve this goal, AXA believes significant efforts and investments are necessary for increasing AXA's brand awareness. AXA's in-house marketing team utilizes both AXA and AXA SA marketing campaigns to increase its brand awareness and to promote product launches. AXA pays AXA SA a service fee for access to AXA SA's global brand campaigns as well as assistance in formulating and executing its marketing and branding strategy within the global AXA Group guidelines. AXA utilizes several forms of advertising, including television, newspapers, magazines and billboard advertisements. In 2010 and 2011, AXA spent ₱52.6 million and ₱123.7 million, respectively, on advertising and promotional activities.

In an effort to become the preferred life insurance company in the Philippines by 2015, AXA began a company-wide movement in 2010. This call to action, dubbed "Cross the Line" by AXA's management, called for distribution channels to forego product-pushing and focus on needs-based selling; as well as for AXA to engage customers and encourage them to plan for the future. AXA has spent much of 2011 improving its structure, enhancing its selling tools, developing expertise and launching products that are based on each customer's needs.

UNDERWRITING

AXA's underwriting process for both individual and group businesses is handled by the Underwriting Department under the umbrella of the Customer Experience Division. The processes through which AXA underwrites insurance policies are documented and standardized.

An underwriting manual, which documents AXA's underwriting process and guidelines, is maintained by AXA. This document serves as useful reference for underwriters on the necessary steps and consideration on risk evaluation.

CLAIMS MANAGEMENT

The evaluation and adjudication of all claims (namely death, disability, medical and personal accident claims) is handled by the Medical and Claims Unit of the Customer Experience Division.

Upon receipt of the complete claim requirements, a claim will be processed by the Medical and Claims Unit which later issues a recommendation and/or routes the file to the rest of the Claims Committee for further evaluation and endorsement to approver for processing benefit proceeds.

Approval of a claim requires concurrence of an approver bearing the limits of authority for the subject amount after which a claims processor will proceed to the settlement process and effect a recommendation in the system and await pay advice.

Denied claims are routed to the head of the Customer Experience Division regardless of the amount for final disposition. Claims denied beyond the Customer Experience Division head's authority are further referred to a higher office which bears the proper authority for the amount, opinion, concurrence and final disposition.

Release of proceeds, both for approved and denied claims (such as a return of premiums or account value) for valid claimants are then carried out by the Medical and Claims Unit where the appropriate documentation is completed.

INVESTMENTS

AXA's investment portfolio is an integral part of its business. AXA's financial strength, underwriting capacity and results of operations depend, in significant part, on the quality and performance of its investment portfolio. To maintain an adequate yield to support future policy liabilities, AXA's management is required to reinvest the proceeds of maturing securities and to invest premium receipts while continuing to maintain satisfactory investment quality. AXA adopts an investment strategy of investing primarily in what it believes to be high quality securities while maintaining diversification to avoid significant exposure to any particular issuer, industry and/or country. AXA's investment strategy includes producing cash flows required to meet maturing insurance liabilities. AXA invests in equities for various reasons, including diversifying its overall exposure to interest rate risk. Generally, insurance regulations restrict the type of assets in which an insurance company may invest. No derivative instruments, including those used in hedging transactions, are allowed under Philippine insurance regulations.

AXA's investment policy and strategic asset allocation is managed by an investment management department. MBT provides fund management services for AXA's investment-linked products under an arm's-length agreement.

Set out below is the value of AXA's investment portfolio (excluding investment in unit-linked funds) by investment category for the periods indicated. This investment portfolio does not include AXA's assets held to cover investment-linked liabilities.

	As of December 31,					
	2009		2010		2011	
	Amount	% of total	Amount	% of total	Amount	% of total
	(₱ in millions, except for %)					
Equity Securities						
Listed	646.2	7%	896.0	8%	685.6	6%
Unlisted	7.7	–	9.1	–	9.4	–
Debt Securities						
Government	8,325.7	84%	8,950.6	77%	8,194.4	70%
Private	42.7	–	41.9	–	231.1	2%
Bank deposits	872.7	9%	1,712.4	15%	2,602.5	22%
Other	14.1	–	19.5	–	15.6	–
Total	9,909.1	100%	11,629.5	100%	11,738.6	100%

The following table sets out AXA's investment return and average annual yields for the periods indicated:

	As of December 31,					
	2009		2010		2011	
	Amount	% of total	Amount	% of total	Amount	% of total
	(₱ in millions, except for %)					
Dividend income from trading and non trading securities	21.2	3%	26.4	3%	26.4	3%
Interest income from trading and non trading securities	717.9	97%	758.5	97%	745.3	97%
Other	0.8	–	1.1	–	1.0	–
Total	739.9	100%	786.0	100%	772.7	100%

Equity securities

The equity portfolio is denominated in Philippine Pesos. All investments must be Philippine peso-denominated to remove any currency risk exposure. The equity portfolio will invest in equities listed in the PSE. It may also invest in an equity fund subject to the governing investment committees and regulator's approval (e.g. AXA Wealth Equity Fund and Unit Trust Fund). Investments in equities may be managed in-house or by a third party manager and shall be subject to the approved investments parameters.

As of December 31, 2011, AXA's investments in equity securities consist of 99% listed and 1% non-listed equity securities which pertains mostly to club shares. A significant portion of AXA's equity investments consist mainly of shares in MBT which make up 4% of AXA's equity investment portfolio. All of AXA's equity investments in securities consist of shares in Philippine companies.

Debt securities

The bond portfolio is invested in Peso and US dollar denominated Government bonds. AXA may also invest in the following:

Peso denominated bonds:

- The Government's Peso bonds;
- Quasi-sovereign ("ROP") bonds; and

- Supra-national bonds.

USD denominated bonds:

- The Government's US dollar denominated bonds; and
- Supra-nationals at least two notches above the Government's credit rating.

Investment in corporate bonds may be undertaken subject to risk and sensitivity analysis as required on a case by case basis. Approval of governing investment committees (LMIC/RIALC/BIC) and the local regulator will be sought prior to investment.

As of December 31, 2011, AXA's debt securities that consisted of investments in Government or Government guaranteed bonds amounted to ₱8.2 billion, or 98% of AXA's total bond portfolio.

Bank deposits

AXA maintains primarily Peso and U.S. dollar cash deposits in the Philippines. To ensure the availability of adequate cash for day-to-day operations and to meet claim payments which may be required from time-to-time, AXA maintains call deposits and term deposits, the majority of which are for terms between three days and 90 days. As of December 31, 2010 and 2011, AXA had bank deposits valued at ₱1.7 billion and ₱2.6 billion, respectively, representing 5% and 7%, respectively, of its investment assets and having an investment return of 1.6% and 2.1%, respectively. AXA's bank deposits are placed with MBT, PS Bank, Citibank, Land Bank, HSBC, Banco de Oro, China Bank, Union Bank and Philippine National Bank.

COMPETITION

AXA faces competition in the Philippines for its products. Competition in the life insurance industry is based on many factors. AXA believes the principal competitive factors that affect its business are distribution channels, quality of sales force and advisors, price, investment management performance, historical performance of investment-linked insurance contracts and quality of management. AXA's major competitors in the Philippines are also affiliated with international insurance companies. Many insurance companies in the Philippines offer products similar to those offered by AXA and in some cases, use similar marketing techniques and banking partnership support. AXA's principal competitors are Philippine American Life, Sun Life of Canada, Pru Life of the UK and Manufacturers Life.

The table below shows the new business premium income plus single premium income and percentage of total market share for AXA and its principal competitors for 2009 and 2010.

	As of December 31,					
	2009			2010		
	Amount	% of total	Ranking	Amount	% of total	Ranking
	(₱ in millions, except for %)					
1. AXA(1)	2,923.7	13.6%	1	6,644.3	19.4%	1
2. Generali Pilipinas	2,679.9	12.5%	2	647.2	2.0%	11
3. BPI Philam Life	2,485.9	11.6%	3	4,565.3	13.3%	3
4. Insular Life	2,190.6	10.2%	4	3,268.8	9.5%	4
5. Sunlife	1,681.9	7.8%	5	2,437.1	7.1%	6
6. Philam Life & Gen.	1,642.7	7.6%	6	2,683.8	7.8%	5
7. Pru Life	1,507.1	7.0%	7	5,228.6	15.3%	2
8. Grepalife Financial	1,411.6	6.6%	8	2,381.6	6.9%	7
9. Manulife (Phils)	739.2	3.4%	9	1,413.6	4.1%	8
10. Philam Equitable	720.3	3.3%	10	112.25	0.3%	20

Source: Philippine Insurance Commission

(1) *Data obtained from information contained in and derived from the Philippine Insurance Commission under its own calculation methodology, which may not reconcile with the information in AXA's audited financial statements contained herein.*

The table below shows the net premium income and percentage of total market share for AXA and its principal competitors for 2009 and 2010.

	As of December 31,			
	2009		2010	
	Amount	% of total	Amount	% of total
	(₱ in millions, except for %)			
1. Philam Life & Gen	10,892.9	19%	11,254.9	16%
2. Sunlife	9,565.9	17%	10,633.3	15%
3. AXA[(1)]	4,440.5	8%	8,360.0	12%
4. Pru Life	3,523.8	6%	7,356.7	10%
5. Insular Life	6,183.8	11%	7,129.0	10%
6. BPI Philam Life	3,602.8	6%	5,695.9	8%
7. Manulife (Phils)	3,190.1	6%	3,974.6	6%
8. Grepalife Financial	2,274.8	4%	3,492.4	5%
9. United Cocolife	1,841.5	3%	2,333.4	3%
10. Generali Pilipinas	3,213.4	6%	1,419.7	2%

Source: Philippine Insurance Commission

(1) *Data obtained from information contained in and derived from the Philippine Insurance Commission under its own calculation methodology, which may not reconcile with the information in AXA's audited financial statements contained herein.*

PRODUCT RESEARCH AND DEVELOPMENT

The development of new products is organized, managed and coordinated primarily within AXA in the Philippines.

Product Development and Pricing

Through its relationship with the AXA Group, AXA draws upon the experience of AXA Group companies in other markets. In particular, AXA adopts the successful or innovative products that have been launched in other markets for introduction into the Philippine market. The investment-linked insurance products, for example, are based on the AXA Group's earlier introduction of this product in Hong Kong.

AXA follows the AXA Group's Asian businesses' product management and development guidelines which are set forth in the Regional Product Blueprint (the "RPB") as published by the AXA Group's regional office in Hong Kong. Products are either developed locally in the Philippines and approved by the regional office in Hong Kong, or sent to AXA from the Hong Kong regional office or the AXA Group headquarters in Paris for local approval and implementation. All new products are subject to approval by the Philippine Insurance Commission. The RPB prescribes every new product or product modification from the concept stage using market research, customer and distributor insights and competitor movements. If local management approves a concept, the next stages are the feasibility, design and planning stages. In these stages, key product features, volume projections, profit metrics, marketing and risk measures are evaluated locally and regionally before any product is approved and moved to the next stages of implementation and launch. Once a product is launched, its actual performance is regularly reviewed against volumes committed in the design and planning stages. Products that do not perform as anticipated may be redesigned or may be pulled out from AXA's portfolio.

The pricing of AXA's products is determined using the various assumptions, profit requirements, risk appetite, competitiveness and pricing strategy as developed by AXA and approved by the regional office in Hong Kong. All new products, including price changes to existing products, must be approved by the Philippine Insurance Commission.

REINSURANCE

AXA reinsures a portion of the risks it underwrites in an attempt to limit volatility in surpluses due to catastrophic events and other concentration risks. Philippine regulations require insurance companies to cede up to 10% of their cessions to unauthorized reinsurers to the National Reinsurance Company. AXA also uses reinsurance to leverage its underwriting capacity. Total gross premiums covered by third party reinsurers in 2011 was ₱31.3 million.

ASSET AND LIABILITY MANAGEMENT AND RISK MANAGEMENT

AXA manages its capital through its compliance with Philippine statutory requirements on solvency margins for insurance companies, minimum paid-up capital and minimum net worth. AXA also complies with Philippine statutory regulations on Risk-based Capital ("RBC") to measure the adequacy of its statutory surplus in relation to the risks inherent in its business. For more information on the regulatory requirements applicable to AXA, see "Regulation – AXA".

AXA has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity, insurance and operational risk. It also supports the effective implementation of policies at the overall company and individual business unit levels. These policies define AXA's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategies to the corporate goals and specific reporting requirements. For further discussion of AXA's management of insurance, financial and other risks, see Note 23 of AXA's audited financial statements included elsewhere in this Prospectus.

PROPERTIES

AXA owns the premises occupied by its corporate office at the ground floor of the Philippine AXA Life Centre in Makati. AXA leases additional space in the Philippine AXA Life Centre from PSBank and Unionseal Plastic, Inc.

AXA owns certain investment properties including office space, seven condominium units and 16 parking slots at the Skyland Plaza in Makati. AXA also owns 24 adjacent lots in Don Enrique Heights Subdivision, Antipolo Rizal and a house and lot at Royale Tagaytay Estates, Buck Estate, Alfonso, Cavite.

AXA's total investment properties accounted for 0.1% of its total assets (net of assets held to cover investment-linked liabilities) as of December 31, 2011. Currently, AXA has no plans for expansion except in the ordinary course of business.

INTELLECTUAL PROPERTY

Under the terms of the joint venture agreement between AXA SA and other shareholders, AXA has the right to use the 'AXA' name in the Philippines. AXA does not own any intellectual property rights.

EMPLOYEES

As of December 31, 2011, AXA had 358 full-time employees and 482 bancassurance employees. AXA has no collective bargaining agreements with its employees and none of its employees belong to a labor union. AXA believes its relationships with its employees are generally good. Currently, AXA has no plans for additional hiring except in the ordinary course of business expansion.

Employee Pension Plan

AXA maintains a non-contributory defined benefit pension plan that covers any regular and permanent employee of AXA who has completed six months of continuous employment. The plan requires contributions to be made to a fund, which is funded solely by contributions from AXA and administered by MBT as the trustee. AXA's pension plan consists of a financial package that provides retirement, disability, death and separation benefits based on a pre-determined schedule.

RESERVES

Insurance companies are required to maintain reserves to ensure that it will be able to meet its obligations to its policyholders. A life insurance company is required to annually make, on a net premium basis, a valuation of all policies, additions thereto, unpaid dividends and all other obligations outstanding on December 31 of the preceding year. The aggregate net reserves on the company's policies shall be deemed its reserve liability for policy holders to provide, for which it shall hold funds in secure investments equal to such net reserves.

For ordinary plans, the legal policy reserve is the sum of the interpolated terminal reserves plus the unearned net premium. AXA maintains legal policy reserves to meet its future benefit obligations under its long-term life and health insurance policies. The legal policy reserves are calculated on the basis of actuarial assumptions, including those regarding mortality and morbidity rates, interest rates and administrative expenses.

Future dividend reserves are set as the earned portion of the dividends due at the end of the policy year.

For disability riders and group policies, reserves are equal to unearned premium reserves.

Incurred but not reported ("IBNR") claims for AXA's group business is calculated based on competition ratios derived from the analysis conducted on the pattern of reported of deaths occurring within the five-year historical period of 2003-2007. IBNR for individual business is based on the product of the actual death claims paid for the year and five-year experience ratio of IBNR to the death claims paid. IBNR for medical claims is computed as the one-month average disability and hospitalization benefits paid for the year.

Figures for accumulated dividends are generated by AXA's accounting systems. However, reasonableness checks are routinely conducted to ensure that the figures are in accordance with AXA's dividend policy.

The establishment of reserves is an inherently uncertain process, and therefore, there is no assurance AXA's ultimate losses will not differ from its initial estimates. See "Risk Factors – AXA – Risk related AXA's Business – Future actual claims results may differ from the assumptions used in pricing and establishing reserves for AXA's life insurance products, which could materially and adversely affect its earnings". For more information about AXA's reserves and reserving practices, see AXA's financial information included in its Independent Auditors' Report set forth in this Prospectus.

LEGAL PROCEEDINGS

AXA is involved in various legal proceedings. AXA believes that these proceedings will not have a material adverse effect on AXA's financial position, operating results or cash flows.

REGULATION – AXA

AXA's operations are subject to the regulatory requirements of the Philippine Insurance Commission and the Department of Finance. The Philippine Insurance Commission prescribes regulations for the approval and monitoring of activities of insurance companies, including restrictive provisions intended to minimize the risk that an insurance company will default. In addition, the Department of Finance imposes fixed capitalization requirements to be met by insurance companies.

For the period from July 1, 2011 to June 30, 2012, the Insurance Commission, through the Certificate of Authority No. 2011/92-R, certified that AXA has the authority to transact life insurance business in the Philippines due to its ongoing compliance with all the requirements of law relating to insurance companies.

Margin of Solvency

Under the Philippine Insurance Code (the "Code"), a life insurance company doing business in the Philippines is required to maintain at all times a Margin of Solvency ("MOS") equal to ₱500,000 or ₱2 for every thousand of the total amount of its insurance in force for traditional plans and ₱2 for every thousand of net amount at risk for investment-linked products as of the preceding calendar year on all policies, except term insurance, whichever is higher. The MOS is required to be the excess of the value of its admitted assets (as defined under the Code), exclusive of paid-up capital, over the amount of its liabilities, unearned premiums and reinsurance reserves. The final amount of the margin of solvency can be determined only after the accounts of AXA have been examined by the Philippine Insurance Commission specifically in terms of admitted and non-admitted assets as defined under the Code.

As of December 31, 2011, the estimated amount of non-admitted assets was ₱228 million.

Fixed Capitalization Requirements

In September 2006, the Department of Finance issued Department Order 27-06 which increased the capitalization requirements for life, non life and reinsurance companies on a staggered basis for 2006 to 2010. Depending on the level of the foreign ownership in the insurance company, the minimum statutory net worth and minimum paid-up capital requirements vary. The statutory net worth includes a company's paid-up capital, capital in excess of par value, contingency surplus, retained earnings and revaluation increments as may be approved by the Philippine Insurance Commission. The minimum paid-up capital is pegged at 50% of the minimum statutory net worth.

As of December 31, 2011, the required minimum statutory net worth and paid-up capital requirements for AXA, being a 45% foreign owned insurance company is ₱700 million and ₱350 million, respectively. As of the date of this Prospectus, AXA is in compliance with the minimum net worth and paid-up capital requirements.

Risk-based Capital Requirements

In October 2006, the Philippine Insurance Commission issued IMC No. 6-2006 which adopted the RBC framework for the life insurance industry to establish the required amounts of capital to be maintained by companies in relation to their investment and insurance risks. Every life insurance company is required to maintain a minimum RBC ratio of 100% on an annual basis. Failure to meet the minimum RBC ratio shall subject the insurance company to the corresponding regulatory intervention which has been defined at various levels.

The RBC ratio is calculated as net worth divided by the RBC requirement. Net worth includes a company's paid-up capital, contributed and contingency surplus and unassigned surplus. Revaluation and fluctuation reserve accounts shall form part of net worth only to the extent authorized by the Philippine Insurance Commission.

AXA's RBC ratio for the years ended December 31, 2009, 2010 and 2011 were 298%, 341% and 325%, respectively.

Consolidated Compliance Framework

IMC 10-2006 integrated the compliance standards for the fixed capitalization and RBC framework. The fixed capitalization requirement for a given period may be suspended for insurers that comply with the required RBC hurdle rate, provided that the industry complies with the required Industry RBC Ratio Compliance Rate. The IMC provides the annual schedule of progressive rates for the Industry RBC Ratio Compliance rates and RBC Hurdle Rates from 2007 to 2011. For the review year 2011, which shall be based on the 2010 synopsis, the Industry RBC Compliance Rate is 90% and the RBC Hurdle Rate is 250%. For the review year 2010, which shall be based on the 2009 synopsis, the Industry RBC Compliance rate is 90% and RBC Hurdle Rate is 200%. Failure to achieve one of the rates will result in the imposition of the fixed capitalization requirement for the period under review.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS AND SENIOR MANAGEMENT OF GT CAPITAL HOLDINGS

Board of Directors of GT Capital Holdings

The Board is entrusted with the responsibility for the Company's overall management and direction. As provided for in the Company's Articles of Incorporation and By-laws, it shall be composed of nine directors, two of whom are independent directors. The roles of the Chairman and President and Chief Executive Officer ("CEO") are separate and clearly defined while the independent directors are expected to provide a source of independent advice and judgment and considerable knowledge and experience to the Board's deliberations. Directors are elected by the shareholders for a period of one year. There are no restrictions on re-election, except with respect to independent directors. See "– Term of office". The chairman has a casting vote in resolutions of the Board, which must be passed by a majority vote. The senior executive officers carry out the Company's day-to-day operations under the direction of the Board.

The current directors of GT Capital Holdings are as follows:

Name	Age	Citizenship	Position	Date Elected
Dr. George S.K. Ty	79	Filipino	Chairman	June 3, 2011
Arthur V. Ty	45	Filipino	Vice Chairman	June 3, 2011
Alfred V. Ty	44	Filipino	Vice Chairman	February 14, 2012
Carmelo Maria Luza Bautista	54	Filipino	President/Director	August 5, 2011
Roderico V. Puno	48	Filipino	Director	August 5, 2011
Solomon S. Cua	56	Filipino	Director	June 3, 2011
Jaime Miguel G. Belmonte	48	Filipino	Independent Director	December 2, 2011
Manuel Q. Bengson	67	American	Independent Director	February 14, 2012
Renato C. Valencia	69	Filipino	Independent Director	February 14, 2012

The following is a brief description of the business experience of each of the Directors:

Dr. George S.K. Ty has served as GT Capital Holdings' Chairman since its inception in 2007. Dr. Ty is also the founder of MBT and served as its Chairman from 1975 until 2006 when he became group Chairman of the Metrobank group of companies. Dr. Ty graduated from the University of Santo Tomas. He is concurrently Chairman of the Board of Trustees of the Metrobank Foundation, Inc. and of the Board of Directors of TMP and Toyota Autoparts Philippines Corporation.

Arthur V. Ty has been the Company's Vice Chairman since 2007 and President of MBT since 2006. He headed the Bank's Consumer Lending Group from 2000 to 2004 and served as Vice Chairman of the Bank from 2004 to 2006. He also serves as the Chairman of Metrobank Technology, Inc., Vice Chairman of PSBank and Metrobank Foundation, Inc. and director of MCC. He earned his Bachelor of Science degree in Economics at the University of California, Los Angeles and obtained his Masters in Business Administration degree from Columbia University, New York in 1991.

Alfred V. Ty has been a Vice Chairman of the Company since February 14, 2012 and has served as a Director of the Company since 2007. He is also the current President of Federal Land Inc. He graduated from the University of Southern California with a degree major in Business Administration in 1989. Some of his other current roles and positions include: Corporate Secretary, MBT; Vice Chairman, TMP; Chairman, Lexus Manila; Director, Philippine Long Distance Telephone Company; Chairman, Asia Pacific Top Management; Director, Vivant Corporation; Corporate Secretary, Metrobank Foundation, Inc.; Director, GBP; Honorary Consul, Consulate of Uruguay; and Former Special Envoy of the President to China, Republic of the Philippines Department of Foreign Affairs.

Carmelo Maria Luza Bautista assumed the role of Director and President of GT Capital Holdings in 2011. Prior to his election, Mr. Bautista joined First Metro Investment Corporation in April of 2008 as Executive Director and was appointed as the head of its Investment Banking Group in 2009. Mr. Bautista has been in the Banking and

Financial Services sector for over 30 years. Some highlights of his previous scope of responsibilities over this period include: Program Director at Citibank Asia Pacific Banking Institute; Vice President and Head of the Local Corporate and Public Sector Groups Citibank Manila; Vice President Real Estate Finance Group Citibank N.A. Singapore branch; and Country Manager ABN AMRO Offshore Bank Philippines. Mr. Bautista has a Masters in Business Management degree from the Asian Institute of Management where he graduated in the Dean's Citation List. He also has a Bachelors degree major in Economics from the Ateneo de Manila University.

Roderico V. Puno is a Senior Partner of Puno & Puno Law Offices. He earned his Bachelor of Laws degree from Ateneo de Manila University in 1989 and currently specializes in general corporate law, banking, corporate and project finance, real estate, utilities regulation, securities and infrastructure. He is currently a Director of GBP; and Corporate Secretary of Atlas Consolidated and Mining and Development Corporation, Banco De Oro Private Bank, Banco De Oro Securities Corporation and First Philippine Industrial Park. He served as the Vice-President-Legal for First Philippine Holdings Corporation.

Solomon S. Cua currently serves as Vice Chairman of the board of directors of FMIC and has been a director since 2001. He has over 20 years' experience in general management, banking, and finance. Prior to joining FMIC, he served as Undersecretary of the Department of Finance (1998-2000). Mr. Cua graduated from the University of Melbourne and the University of Queensland where he earned Bachelor of Arts in Mathematical Sciences and Economics and Bachelor of Laws, respectively. He obtained his Masters of Law from the London School of Economics and Political Sciences. Mr. Cua currently holds the following positions: Chairman of Philippine AXA Life Insurance Corporation (since April, 2010), Director of Omico Corp (since 2006), Vice Chairman and Chief Executive Officer for Arlec Incorporated (since 2002), as well as President/Director of the Philippine Racing Club (since 2001), Venasque Club (since 2002) and Trustee for GT Metro Foundation Incorporated (since May 2010).

Jaime Miguel G. Belmonte has been the President and Chief Executive Officer of The Philippine Star since 1998. He also currently holds the following positions: President, Pilipino Star Printing, Co., Inc.; President/Publisher, Pilipino Star Ngayon; President, The Freeman, Inc. (Cebu); Director, Stargate Media Corporation (People Asia Magazine); and Member – Board of Advisers, Manila Tytana College. Mr. Belmonte earned his undergraduate degree from the University of the Philippines-Diliman.

Manuel Q. Bengson was elected an independent director of GT Capital Holdings on February 14, 2012 and appointed Chairman of the Corporate Governance Committee. At present, he concurrently serves as an independent director of MBT (since 2011) and Energy Opt, Inc. (since 2010); and as a member of the Board of Governance of the Philippine Dealing and Exchange Corporation (since 2011). At MBT, he is the Chairman of the Legal and Tax Committee and a member of both the Trust and Overseas Banking Committees. From 1969 to 2003, he assumed executive functions in several entities such as Ayala Corporation, Ayala Life-FGU, Ayala Life Fixed Income Fund, Bank of the Philippine Island Group and Citibank. He finished his BBA major in Accounting at the University of the East.

Renato C. Valencia was elected an independent director of GT Capital Holdings on February 14, 2012 and appointed Chairman of the Audit Committee. At present, he concurrently holds the following positions: director of MBT (since 1998), President and CEO of Roxas Holdings, Inc. (since 2011), Chairman of i-People (since 2007) and Board Adviser of Philippine Veterans Bank (since 2005). At MBT, he serves as the chairman of the Audit Committee, Related Party Transaction Committee and Nominations Committee; and a member of the Risk Management Committee. From 1963 to 2011, he assumed different executive and non-executive roles in various entities including the Armed Forces of the Philippines, Ayala Investment and Development Corporation, Far East Bank and Trust Company, Manila Electric Company, Philex Mining Corporation, PSBank, Philippine Long Distance Telecommunications, San Miguel Corporation, Philippine Coca-Cola System, Union Bank of the Philippines and the Social Security System. He finished his master's degree in Business Management at the Asian Institute of Management.

The Board meets regularly to ensure a high standard of business practice for GT Capital Holdings and its stakeholders and to ensure soundness, effectiveness, and adequacy of its internal control environment. In the year ended December 31, 2011, the Board had six board meetings inclusive of one organizational, one regular and four special meetings.

Term of office

The Directors are elected during each regular meeting of the Company's stockholders and hold office for one year and until their successors are elected and qualified. Philippine SEC Memorandum Circular No. 9 Series of 2011 on Term Limits for Independent Directors sets the term of an independent director for listed, public and mutual fund companies at five consecutive years. After this period, an independent director shall be eligible for re-election as such in the same company after a two-year period. In case of re-election, such person may serve as an independent director for another consecutive five years, after which he is perpetually barred from serving as an independent director for such company. The Company's regular meetings of stockholders are held on the second Monday of June of each year.

Involvement in certain legal proceedings of directors and executive officers

None of the members of the Board, nor any of the Company's executive officers, has been or is involved in any criminal, bankruptcy or insolvency investigations or proceedings for the past five years and up to the date of this Prospectus. None of the members of the Board, nor any of the executive officers, has been convicted by final judgment of any offense punishable by the laws of the Republic of the Philippines or of any other nation or country. None of the members of the Board nor any of the Company's executive officers have been or are subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities. None of the members of the Board nor any of the Company's executive officers have been found by a domestic or foreign court of competent jurisdiction (in a civil action), commission or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self regulatory organization, to have violated a securities or commodities law or regulation.

Corporate governance

The Company adopted its Manual on Corporate Governance (the "Governance Manual") on December 2, 2011. The policy of corporate governance is based on the Governance Manual. The Governance Manual lays down the principles of good corporate governance in the entire organization. The Governance Manual provides that it is the Board's responsibility to initiate compliance with the principles of good corporate governance, to foster long-term success and to secure the Company's sustained competitiveness in a manner consistent with its fiduciary responsibility.

The Company's By-laws and Manual on Corporate Governance (the "Governance Manual") provide that the Board shall have at least two independent directors. The Company espouses the definition of independence pursuant to the Securities Regulation Code. The Company considers as an independent director one who, except for his director's fees and shareholdings, is independent of management and free from any business or other relationship which, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a Director of GT Capital Holdings.

The Governance Manual embodies the Company's policies on disclosure and transparency, and mandates the conduct of communication and training programs on corporate governance. The Governance Manual further provides for the rights of all shareholders and the protection of the interests of minority stockholders. Commission of any violation of the Governance Manual is punishable by a penalty ranging from reprimand to dismissal, depending on the frequency of commission as well as the gravity thereof.

The Board has constituted four committees to effectively oversee the Company's operations: (i) the Audit Committee; (ii) the Nominations Committee; (iii) the Compensation Committee; and (iv) the Corporate Governance Committee.

Audit committee

The Audit Committee is responsible for assisting the Board in its fiduciary responsibilities by providing an independent and objective assurance to the management and shareholders of the continuous improvement of the Company's risk management systems and business operations; and of the proper safeguarding and use of the Company's resources and assets. The Audit Committee provides a general evaluation of and assistance in the overall improvement of the Company's risk management, control and governance processes.

The Audit Committee must be comprised of at least three Directors, preferably with an accounting and financial background. Two of the members must be independent directors, including the chairman of the committee. The Audit Committee reports to the Board and is required to meet at least once every three months. The Audit Committee includes Renato C. Valencia (Chairman), Manuel Q. Bengson and Solomon S. Cua.

Nominations committee
The Nominations Committee is responsible for providing shareholders with an independent and objective evaluation of and assurance that the members of the Board are competent and will foster the Company's long-term success and secure its competitiveness. The Nominations Committee must comprise at least three Directors, including one independent director. The Nominations Committee reports directly to the Board and is required to meet at least once a year. The Nominations Committee members are Roderico V. Puno (Chairman), Carmelo Maria Luza Bautista and Jaime Miguel G. Belmonte.

Compensation Committee
The Compensation Committee is responsible for assisting the Board in establishing a formal and transparent procedure for developing a policy on remuneration of directors and officers to ensure that their compensation is consistent with the Company's organizational culture, corporate strategy and business environment. The Compensation Committee must comprise at least three Directors, including one independent director. The Compensation Committee reports directly to the Board and is required to meet at least once a year. The Compensation Committee members are Alfred V. Ty (Chairman), Carmelo Maria Luza Bautista and Renato C. Valencia.

Corporate Governance Committee
The Corporate Governance Committee is responsible for ensuring the Board's and the Board committees' effectiveness and compliance with corporate governance principles and guidelines. The Corporate Governance Committee must comprise at least three Directors, including two independent directors; and is required to meet at least every quarter. The Corporate Governance Committee members include Manuel Q. Bengson (Chairman), Roderico V. Puno and Jaime Miguel G. Belmonte.

Executive officers of GT Capital Holdings
GT Capital Holdings' executive officers are responsible for the day-to-day management and operations of the Company. The following table sets forth information regarding its executive officers.

Name	Age	Citizenship	Position	Title
Carmelo Maria Luza Bautista	54	Filipino	President	President
Francisco H. Suarez, Jr.	52	Filipino	Chief Financial Officer	Senior Vice President
Mary Vy Ty	71	Filipino	Treasurer	
Antonio V. Viray	72	Filipino	Corporate Secretary	
Jocelyn Y. Kho	57	Filipino	Assistant Corporate Secretary	
Joselito V. Banaag	41	Filipino	Head, Legal and Compliance Division	Vice President
Anjanette T. Dy Buncio	43	Filipino	Assistant Treasurer	
Alesandra T. Ty	31	Filipino	Assistant Treasurer	
Reyna Rose P. Manon-og	29	Filipino	Head, Accounting and Financial Control	Assistant Vice President

The following is a brief description of the business experience of each of the executive officers:

Carmelo Maria Luza Bautista. See "– Board of Directors of GT Capital Holdings".

Francisco H. Suarez, Jr. has served as GT Capital Holdings' Chief Financial Officer since February 16, 2012. He will bring to the Company over 30 years of experience in the fields of investment banking and corporate finance. He served as Chief Financial Officer of ATR KimEng Group, PSi Technologies, Inc. and SPi Technologies; and assumed various positions in Asian Alliance Investment Corporation, Metrobank, International Corporate Bank, Far East Bank and Trust Company and National Economic Development Authority. He earned his Bachelor of Arts in Applied Economics from De La Salle University in 1981; and is a candidate for a Masters in Business Administration degree at the Ateneo Graduate School of Business.

Mary Vy Ty has served as the Company's Treasurer since its incorporation in 2007. Mrs. Ty has more than 30 years of experience in banking and general business. Concurrently, she holds the following positions: Assistant to the Group Chairman, Metrobank; Adviser, Metrobank (Bahamas); Board of Trustee/Treasurer, Metrobank Foundation, Inc; Director, First Metro Investment Corporation; Vice Chairman, Manila Medical Services Inc.; Board of Trustee, Manila Doctors College, Inc.; Treasurer, GBP; Director, Fed Land; Director, Global Treasure Holdings, Inc.; and Director, Grand Titan Capital Holdings, Inc. Previously, she held the position of Vice Chairman for Federal Homes, Inc. as well as Adviser for MCC. She earned her collegiate degree from the University of Santo Tomas.

Antonio V. Viray first served as the Company's Assistant Corporate Secretary prior to assuming the position of Corporate Secretary in June 2009. He concurrently holds the following positions: Of Counsel, Feria Tantoco Robeniol Law Office; Corporate Secretary, Golden Treasure Holdings Corporation and Grand Titan Capital Holdings, Inc.; Senior Vice President, GBH; and Chairman and President, AVIR Development Corporation. His previous employments include serving as Director, Assistant Corporate Secretary and General Counsel of Metrobank; and as Corporate Secretary of PS Bank. He obtained his associate degree from Letran College; Bachelor of Laws from University of Santo Tomas; and Master of Laws from Northwestern University.

Jocelyn Y. Kho has served as the Company's Assistant Corporate Secretary since June 2011. She concurrently serves as the Corporate Secretary of Federal Homes, Inc.; Controller and Assistant Corporate Secretary of Global Treasure Holdings, Inc. and Grand Titan Capital Holdings, Inc.; Director and Treasurer of Global Business Holdings, Inc.; Chairman and President of MBT-Management Consultancy, Inc.; and Director of Cathay International Resources, Inc. She served as Vice President under the Office of the Assistant to the Group Chairman of MBT from 1978 to 2009. She earned her Bachelor of Science degree in Commerce with a major in Accounting from the University of Santo Tomas in 1975.

Joselito V. Banaag joined the Company on January 2, 2012 as head of its Legal and Compliance Division. Prior to this, he served as General Counsel of the Philippine Stock Exchange and Chief Legal Counsel of the Securities Clearing Corporation of the Philippines. Previous employments include assuming various positions in SGV & Co., Cayetano Sebastian Ata Dado and Cruz Law Offices, PNOC Exploration Corporation and Padilla Jimenez Kintanar & Asuncion Law Offices. He earned his Bachelor of Arts in Political Science from Ateneo de Manila University and Bachelor of Laws from the University of the Philippines.

Anjanette T. Dy Buncio has served as GT Capital Holdings' Assistant Treasurer since 2007. She also is a Senior Vice President and the Treasurer of Fed Land. She graduated from the International Christian University in Tokyo, Japan with a Bachelor of Sciences degree in Economics. Other roles that she occupies include: Director and Vice Chairman of MCC (2003 to present); Corporate Secretary, GBP (2010 to present); Executive Vice President, Proline Sports Center (1994 to present); Corporate Secretary, Pro Oil Corporation (2002 to present).

Alesandra V. Ty was appointed Assistant Treasurer of GT Capital Holdings on February 14, 2012. She finished her Bachelor of Legal Management degree at Ateneo De Manila University and earned her Master in Business Administration at the China Europe International Business School in China. She is currently a director and Treasurer of AXA, and director of Federal Homes, Inc. and Sumisho Motorcycle Finance Corp., Corporate Secretary of FMIC and Treasurer of MCC.

Reyna Rose P. Manon-og was appointed the Company's Controller in October 2011. Prior to joining the Company, she spent seven years at SGV & Co. as an external auditor; and another two years in United Coconut Planters Bank as head of its Financial Accounting Department. She is a Certified Public Accountant and an honors graduate of Bicol University.

Aside from Mary Vy Ty, Anjanette T. Dy and Alesandra V. Ty, none of GT Capital Holdings' executive officers are related to each other or to its Directors and substantial shareholders. Only two of its executive officers owns any Common Shares in GT Capital Holdings.

Significant Employees

The Company does not believe that its business is dependent on the services of any particular employee.

Chief Information Officer and Investor Relations Officer

The Company's CFO, Mr. Francisco H. Suarez, Jr., concurrently assumes the functions of the Company's Investor Relations Officer and Chief Information Officer. His contact details are as follows:

Telephone Number:	+632 836 4500
Mobile Number:	+63 917 887 4538
Email Address:	francis.suarez@gtcapital.com.ph
Office Address:	43rd Floor GT Tower International, 6813 Ayala Avenue corner HV dela Costa St., 1227 Makati City

See "– Board of Directors and Senior Management of GT Capital Holdings – Executive Officers of GT Capital Holdings" for a brief profile of Mr. Suarez.

Executive Compensation of GT Capital Holdings

Summary compensation table

The following table identifies the Company's President and four most highly-compensated executive officers (the "named executive officers") and summarizes their aggregate compensation in 2010, 2011 and 2012. The amounts (in ₱ millions) set forth in the table below have been prepared based on what the Company paid its executive officers in 2010 and 2011 and what the Company expects to pay in 2012.

Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation
Named Executive Officers*	2010	–	–	–
	2011	1.90	0.59	–
	2012	14.09	3.74	–
All other Officers as a Group	2010	–	–	–
	2011	0.26	0.04	–
	2012	1.02	0.26	–

* *Named executive officers include: Carmelo Maria Luza Bautista (President), Francisco H. Suarez, Jr. (Chief Financial Officer), Joselito V. Banaag (Head, Legal and Compliance), Alesandra T. Ty (Assistant Treasurer) and Reyna Rose P. Manon-og (Controller).*

Compensation of key management personnel for the year ended December 31, 2011 was ₱2.5 million, which represents short-term employee benefits.

Employment contracts between the Company and named executive officers

The Company has no special employment contracts with the named executive officers.

Warrants and options outstanding

There are no outstanding warrants or options held by the CEO, the named executive officers, and all officers and directors as a group.

Stock option plan

The Company has no employee stock option plan.

Family Relationships

Mary Vy Ty is the wife of Dr. George S.K. Ty. Arthur V. Ty, Alfred V. Ty, Anjanette T. Dy Buncio and Alesandra T. Ty are the children of Mary Vy Ty and Dr. George S.K. Ty.

BOARD OF DIRECTORS OF MBT

The MBT's board of directors ("MBT Board"), elected on April 15, 2011, is the body ultimately responsible for the management of MBT. The MBT Board is composed of 12 directors, seven of whom are independent directors. The roles of the chairman and president and CEO are separate and clearly defined while the independent directors are a strong source of independent advice and judgment. They bring considerable knowledge and experience to the MBT Board's deliberations. Directors are elected by the shareholders for a period of one year. Generally, there are no restrictions on re-election. However, beginning on January 2, 2012, the SEC set a limit on the term of independent directors serving in listed, public, and mutual fund companies. An independent director may only serve as such for a period of five consecutive years after which the SEC mandates a "cooling off" period of two years. After the cooling off period the independent director may serve as such for another five consecutive years but shall be barred perpetually from being elected as independent director in the same company if he has served as such for ten years. The chairman has a casting vote in resolutions of the MBT Board which must be passed by majority vote. The senior executive officers carry out the day-to-day operations of MBT under the direction of the MBT Board.

MBT's current directors as of December 31, 2011 are as follows:

Name	Age	Citizenship	Position
Dr. George S.K.Ty	79	Filipino	Group Chairman
Antonio S. Abacan Jr.*	68	Filipino	Chairman
Francisco C. Sebastian*	57	Filipino	Vice Chairman
Arthur V. Ty*	45	Filipino	President
Vicente B. Valdepeñas, Jr.	61	Filipino	Independent Director
Renato C. Valencia	69	Filipino	Independent Director
Remedios L. Macalincag	74	Filipino	Independent Director
Jesli A. Lapus	62	Filipino	Independent Director
Robin A. King	64	Filipino	Independent Director
Edmund A. Go	61	Filipino	Director
Manuel Q. Bengson	67	American	Independent Director
Jose P. de Jesus	77	Filipino	Independent Director

Note:
* *indicates GT Capital Holdings appointed member*

The following is a brief description of the business experience of each of the directors:

Dr. George S.K. Ty. See "– Board of Directors and Senior Management of GT Capital Holdings – Board of Directors of GT Capital Holdings".

Antonio S. Abacan, Jr. served as the President of MBT from 1992 to 2006 and became Chairman of the MBT Board in 2006. Mr. Abacan finished his Bachelor of Science degree in Business Administration, majoring in Banking and Finance, at Mapua Institute of Technology. He was the President and a Director of PSBank from 1988 to 1992 and Unibancard Corporation from 1988 to 1991. He is concurrently Vice Chairman of Metrobank Group of Companies, Chairman of the board of directors of Toyota Financial Services Inc. He is also Chairman of Sumisho Motor Finance Corporation, Manila Medical Services, Inc., Federal Homes, Inc., Baywatch Realty Corporation, Circa 2000 Homes, Inc., Baywatch Project Management Corp. and the Honorary Chairman of MBTC Technology, Inc.

Francisco C. Sebastian became Vice Chairman in 2006. He joined the Metrobank group of companies in 1997 as President of FMIC until he was appointed Chairman in 2011. Mr. Sebastian earned his AB degree in Economics (honors), *magna cum laude*, from the Ateneo de Manila University in 1975, after which he worked in Hong Kong as an investment banker from 1977 to 1984 with Ayala International Finance Limited and Filinvest Finance (HK) Ltd. From 1984 until he joined the Metrobank group of companies in 1997, he owned and managed his own business and financial advisory firm in Hong Kong, Integrated Financial Services Ltd. Mr. Sebastian is also currently the Chairman of GBP and Fed Land.

Arthur V. Ty. See "– Board of Directors and Senior Management of GT Capital Holdings – Board of Directors of GT Capital Holdings".

Vicente B. Valdepeñas, Jr. was elected an independent director in 2011 and is currently a member of MBT's Audit and Risk Management Committee. He is a consultant at the BSP and a member of the Advisory Panel to the

ASEAN+3 (China, Japan, S Korea) Macroeconomic Research Office in Singapore. He was enlisted by the Central Bank of the Philippines for the International Settlement to its 2007-2009 Study Group on Dynamics of Policy Committees that included the central banks of Brazil, Canada, England, European Central Bank, Japan, Mexico, the Philippines, Sweden, and the United States. He has served the Government as minister of economic planning and as the Director-General of the National Economic and Development Authority. He was also a member of *Batasang Pambansa* and Chairman of its Committee on Socio-Economic Planning and Development as well as a deputy minister of trade and industry for trade policy and negotiations.

Renato C. Valencia See "– Board of Directors and Senior Management of GT Capital Holdings – Board of Directors of GT Capital Holdings".

Remedios L. Macalincag was elected as an independent director in 2004 and is currently the Chairman of the Risk Management Committee and the Corporate Governance Committee. She previously served as Chairman of LGU Guarantee Corporation and was concurrently President and CEO of the Development Bank of the Philippines.

Jesli A. Lapus was elected an independent director on August 18, 2010. He serves as Chairman of the Trust Committee and a member of Risk Management Committee. He is the immediate past Secretary of the Department of Trade and Industry and prior to that, the Secretary of the Department of Education. He was elected member of the Philippine Congress for three consecutive terms from 1998 to 2007. From 1992-2008, he was the President and CEO of the Land Bank of the Philippines.

Robin A. King was elected an independent director in 2011 and is currently the Chairman of both Domestic Equity Investment and Overseas Banking Committee and a member of both the Corporate Governance and Nomination Committee. He is currently the President of the Angelicum, Garden of Angels. A Certified Public Accountant, Mr. King finished his BS Accountancy & Business Administration at the University of San Carlos, Cebu City.

Edmund A. Go was Senior Executive Vice President and Head of Treasury Group from 2001 to 2007. He was EVP of Solidbank from 1998 to 2000. Prior to Solidbank, he was Vice President of Citibank and held assignments in the U.S. and other Asian countries from 1984 to 1998. He finished his BS Commerce degree, *cum laude*, in San Beda College and earned his Masters in Business Management, with distinction, at the Asian Institute of Management. Mr. Go is a Certified Public Accountant.

Manuel Q. Bengson See "– Board of Directors and Senior Management of GT Capital Holdings – Board of Directors of GT Capital Holdings".

Jose P. de Jesus was elected an independent director in 2011 and is currently a member of the Legal and Tax, Corporate Governance, and Domestic Equity Investment Committees of MBT. He is currently the President of Nationwide Development Corporation. He was elected as President of Manila Electric Company from 2009 to 2010 and was appointed Secretary of the Department of Transportation and Communications from 2010 to 2011. He finished his AB in Economics and Master of Arts in Social Psychology at the Ateneo de Manila University and pursued graduate studies at the University of Chicago between 1966 and 1968.

The MBT Board meets regularly on a monthly basis to ensure a high standard of business practice for MBT and its stakeholders and to ensure soundness, effectiveness, and adequacy of MBT's internal control environment. In the year ended December 31, 2011, the MBT Board had 12 regular board meetings inclusive of one organizational board meeting and one special meeting.

BOARD OF DIRECTORS OF FED LAND

The board of directors of Fed Land ("Fed Land Board"), elected on May 9, 2011, is the body ultimately responsible for the management of Fed Land. The Fed Land Board is composed of seven directors. The roles of the chairman and president and CEO are separate and clearly defined. They bring considerable knowledge and experience to the Fed Land Board's deliberations. Directors are elected by the shareholders for a period of one year. There are no restrictions on re-election. The chairman has a casting vote in resolutions of the Fed Land Board which must be passed by majority vote. The senior executive officers carry out the day-to-day operations of Fed Land under the direction of the Fed Land Board.

Fed Land's current directors and certain of its officers are as follows:

Name	Age	Citizenship	Position
Francisco C. Sebastian*	57	Filipino	Chairman
Vy Tonne So*	72	Filipino	Vice Chairman
Aniceto Sobrepeña *	58	Filipino	Director
Alfred V. Ty*	44	Filipino	Director/President
Arthur V. Ty*	45	Filipino	Director
Anjanette T. Dy Buncio	43	Filipino	Director
Margaret T. Cham	43	Filipino	Director
Jomari Banzon	51	Filipino	Corporate Secretary
Cynthia Ruiz	47	Filipino	Asst. Corporate Secretary

Note:

* *indicates GT Capital Holdings appointed member*

The following is a brief description of the business experience of each of the directors:

Francisco C. Sebastian. See "– Board of Directors of MBT".

Vy Tonne So is the Vice Chairman of Fed Land. He was the head of MBT's General Services Group ("GSG") before he became a Special Assistant of GSG in May 2004. He was also a director of MBT from 2005 to 2006 and in 2009, Chairman of Philippine Charter Insurance Corporation from 2006 to 2009, Director of Philippine Securities Corporation from 2005 to 2009 and President of Federal Homes, Inc. from 2004 to 2009.

Aniceto M. Sobrepeña became Executive Vice President of MBT in 2007. He is currently the President of the Metrobank Foundation, Inc. Mr. Sobrepeña is also President, Manila Medical Services Inc. and Executive Vice Chairman, Manila Tytana Colleges. Mr. Sobrepena graduated *cum laude* from the Ateneo de Manila University, earning an AB degree in Political Science. He later obtained a Master of Arts with a major in Development Economics from Williams College in Massachusetts, U.S.A.

Alfred V. Ty became President of Fed Land in January 2002. See "– Board of Directors and Senior Management of GT Capital Holdings – Board of Directors of GT Capital Holdings".

Arthur V. Ty. See "– Board of Directors and Senior Management of GT Capital Holdings – Board of Directors of GT Capital Holdings".

Anjanette T. Dy Buncio. See "– Board of Directors and Senior Management of GT Capital Holdings – Executive Officers of GT Capital Holdings".

Margaret T. Cham is currently an officer of PSBank. Concurrently she is also Treasurer and Director of the board of PSBank and a member of its executive committee. She graduated with a Bachelor of Sciences degree majoring in Humanities from De La Salle University. Other positions and roles she occupies include: President and Director, Glam Holdings Corp.; Corporate Secretary of the Metrobank Foundation; and Vice President of Global Treasure Holdings, Inc.

Jomari Banzon is currently Executive Vice President/General Manager of Fed Land. During his career, he has acquired extensive experience in banking and the real estate industry. He graduated from De La Salle University with a BA in Economics. Some of his concurrent positions include: Director, Asia Pacific Top Management International Resources Corp; Director/President, Baywatch Project Management; Controller, Cathay International Resources Corp; Director/EVP/Treasurer of Crown Central Properties Corp.; Director/President of FLOC; Director/EVP Horizon Land Property Devt. Corp; Chairman/President Viewmaster Construction Corp.

Cynthia Ruiz has been a Vice President of MBT since June 2010. She graduated with an AB in Political Science from the University of the Philippines, Diliman and acquired her Bachelor of Laws from Ateneo de Manila University College of Law. Ms. Ruiz also occupies the following roles: Assistant Corp Secretary, TMP; Assistant Corporate Secretary, GBH.

The Fed Land Board meets regularly on a monthly basis to ensure a high standard of business practice for Fed Land and its stakeholders and to ensure soundness, effectiveness, and adequacy of Fed Land's internal control environment. In the year ended December 31, 2011, the Fed Land Board had 12 regular board meetings inclusive of one organizational board meeting and one special meeting.

BOARD OF DIRECTORS OF GBP

The board of directors of GBP ("GBP Board"), elected on May 19, 2011, is the body ultimately responsible for the management of GBP. The GBP Board is composed of nine directors. The roles of the chairman and president are separate and clearly defined. They bring considerable knowledge and experience to the GBP Board's deliberations. Directors are elected by the shareholders for a period of one year. There are no restrictions on re-election. Resolutions of the GBP Board must be passed by majority vote of all those present at the meeting at which there is a quorum, except for the election of officers which requires the vote of a majority of all the members of the GBP Board. The senior executive officers carry out the day-to-day operations of GBP under the direction of the GBP Board.

GBP's current directors are as follows:

Name	Age	Citizenship	Position
Francisco C. Sebastian	57	Filipino	Chairman
Elon Ting	73	American	Vice Chairman
Arthur N. Aguilar	65	Filipino	Director/President
Antonio S. Abacan Jr.	68	Filipino	Director
Alfred V. Ty	44	Filipino	Director
Arthur V. Ty	45	Filipino	Director
Alvin V. Ty	36	Filipino	Director
Joshua E. Naing	51	Filipino	Director
Roderico V. Puno	48	Filipino	Director

The following is a brief description of the business experience of each of the directors:

Francisco C. Sebastian became a director in 2003 and Chairman in 2007. See "– Board of Directors of MBT".

Elon Ting became a member in 2007 and was elected as vice chairman in the same year. Mr. Ting earned his Bachelor of Science degree in Mechanical Engineering from the National Taiwan University in Taipei, Taiwan and obtained his Masters in Business Administration degree from the Graduate School of Business of Stanford University in California, U.S.A. He is currently the Chairman and Chief Executive Officer of Trust International Paper Corporation and a director of Asia Pacific Energy Corporation.

Arthur N. Aguilar became a member of the GBP Board and was elected President of GBP in May 2011. He earned his Bachelor's degree in Accounting and Political Science-Economics from De La Salle University in 1969. He obtained his Masters degree in Business Management from the Asian Institute of Management in 1972 and Masters in Public Administration from the Kennedy School of Government at the Harvard University, Cambridge, Massachusetts, U.S.A. in 1986. Prior to joining the GBP, he served as President and CEO of the

National Transmission Corporation from 2006 to 2009, General Manager of the National Development Company from 2004 to 2006, and President and CEO of Victorias Milling Corporation from 2001 to 2004.

Antonio S. Abacan, Jr. became a member of the GBP Board in 2006. See "– Board of Directors of MBT".

Alfred V. Ty became a member of the GBP Board in 2003 and vice chairman in 2009. See "– Board of Directors and Senior Management of GT Capital Holdings – Board of Directors of GT Capital Holdings".

Arthur V. Ty became a member of the GBP Board in 2008. See "– Board of Directors and Senior Management of GT Capital Holdings – Board of Directors of GT Capital Holdings".

Alvin V. Ty became a member of the GBP Board in November 2011. He earned his Bachelor of Science degree in Accountancy from San Beda College in 1995. He is also currently a director of Multi-Gas Corporation; President of Mobile Wonders Inc.; and President of Union Gas Corporation.

Joshua E. Naing became a member of the GBP Board in 2009. He is also currently the EVP and Head of Metrobank's Controllership Group since 2002. He is also a director of the following MBT subsidiaries: MBTC Technology, Inc., since 2006, Metro Remittance Center, Inc. (USA), since June 2008, MBTC Remittance GMbH (Vienna) since September 2008, Metro Remittance (Italia), S.p.A. since May 2008, MB Remittance Center Limited (Hong Kong) since January 2009 and Metro Remittance Center, S.A. (Spain) since May 2009. He is also a Director of CEDC since September 2009.

Roderico V. Puno became a GBP Board member in 2003. See "– Board of Directors and Senior Management of GT Capital Holdings – Board of Directors of GT Capital Holdings".

The GBP Board meets regularly on a quarterly basis to ensure a high standard of business practice for GBP and its stakeholders and to ensure soundness, effectiveness, and adequacy of GBP's internal control environment. In the year ended December 31, 2011, the GBP Board had three regular board meetings inclusive of one organizational board meeting.

BOARD OF DIRECTORS OF TMP

The board of directors of TMP ("TMP Board"), elected on April 12, 2011, is the body ultimately responsible for the management of TMP. It is composed of 11 directors, none of whom are independent directors. The roles of the chairman and president are separate and clearly defined. They bring considerable knowledge and experience to TMP Board's deliberations. Directors are elected by the shareholders for a period of one year. There are no restrictions on re-election. The chairman has a casting vote in resolutions of the TMP Board which must be passed by a majority vote. The senior executive officers carry out the day-to-day operations of TMP under the direction of the board of directors.

TMP's current directors are as follows:

Name	Age	Citizenship	Position
Dr. George S.K. Ty	79	Filipino	Chairman
Alfred V. Ty*	44	Filipino	Vice Chairman
Michinobu Sugata	50	Japanese	President/Director
Takahiro Iwase	59	Japanese	Director
Tatsuo Nakayama	59	Japanese	Director
David T. Go	57	Filipino	Director
Domingo L. Siazon, Jr.	72	Filipino	Director
Kenji Kitamura	62	Japanese	Director
Hector R. R. Villanueva	76	Filipino	Director
Santos Y. Guerrero	62	Filipino	Director
Jeffrey R. Abacan*	40	Filipino	Director

Note:

* *indicates GT Capital Holdings appointed member*

The following is a brief description of the business experience of each of the directors:

Dr. George S. K. Ty. See "– Board of Directors and Senior Management of GT Capital Holdings – Board of Directors of GT Capital Holdings".

Alfred V. Ty. See "– Board of Directors and Senior Management of GT Capital Holdings – Board of Directors of GT Capital Holdings".

Michinobu Sugata has been the President of TMP since January 2010. He first joined TMP in 1997 as Senior Vice President, Comptrollership Division. Following his four-year assignment with TMP, he went back to TMC's Asia Division as a Project Sales Manager. After this time he moved to Toyota Motor Thailand as Executive Managing Director for three years, then on to TMAP in Singapore as Senior Vice President for one year, where he was responsible for Marketing & Sales. He graduated from Kobe University with a bachelor's degree in Economics. He earned his Master of Business Administration degree from the University of Washington in the U.S.A.

Takahiro Iwase has been the Senior Managing Officer of TMC since June 2011. He is concurrently the Vice Chairman of TMAP and President of Toyota Motor Asia Pacific Engineering & Manufacturing in Thailand. He finished his Master's degree in Mechanical Engineering at Nagoya University in Japan.

Tatsuo Nakayama has been the Managing Officer & Chief Operating Officer of Motor Vehicle Business Unit of Mitsui & Co. Ltd. since April 2011. He joined Mitsui & Co. Ltd. in April 1975. Prior to his appointment as Managing Officer, he assumed the position of President, Camara de Comercio e Industria Japonesa in Brazil from January 2010 to March 2011. He graduated from Keio University, Faculty of Economics in Japan.

David T. Go is the Senior Executive Vice President, Treasurer of TMP with extensive experience in marketing and the automobile industry. He was elected Director of MBT in April 2010. He graduated with a degree of Bachelor of Arts / Economics and Political Science, *magna cum laude*, from the New York University, U.S.A. in 1975. He finished his doctorate degree on Philosophy / International Relations also at the New York University in 1982. Dr. Go was appointed to the TMP Board by MBT.

Domingo L. Siazon, Jr. is a Member of the Senior Advisory Group of MBT and concurrently Chairman of the Advisory Board of Metrobank China Ltd. He was formerly Ambassador Extraordinary and Plenipotentiary to Japan from 2001 to 2010. He was Secretary of Foreign Affairs from 1995 to 2001. He graduated from Ateneo de Manila University with a degree in Bachelor of Arts major in Political Science.

Kenji Kitamura has been the Executive Vice President of TMP since 2007. Prior to his assignment in TMP, he was General Manager – Global Production Center for TMC from 1994 to 2006. He finished his Master's degree in Mechanical Engineering from Nagoya University in Japan.

Hector R. R. Villanueva has been the Postmaster General & CEO of the Philippine Postal Corporation since October 2006. He is concurrently the Acting Chairman of Philippine Postal Bank. He graduated from University of London School of Economics and Political Science with a bachelor's degree in Economics. He earned his post-graduate studies on International Banking in Royal Institute of Bankers, United Kingdom.

Santos Y. Guerrero has been the Senior Vice President of TMP since 2002. He is concurrently the President of Toyota Makati Inc. Before joining TMP, he was the General Manager, Sales & Marketing, Al Futtaim Motors, United Arab Emirates from 1990 to 2002. He finished his Bachelor of Business Administration major in Accounting in the University of the East. He is a Certified Public Accountant.

Jeffrey R. Abacan has been the Vice-President of Banco De Oro Unibank, Inc. ("BDO") since August 2010. Before joining BDO, he was connected with the Lucio Tan Group of Companies for 17 years under Allied Banking Corporation and then Philippine National Bank. He was also a Director of Toyota Manila Bay Corporation from 2003 to 2004. He graduated from De La Salle University with a degree in Bachelor of Arts, major in Human Resource Management.

The TMP Board meets regularly to ensure high standards of business practice for TMP and its stakeholders and to ensure the soundness, effectiveness, and adequacy of TMP's internal control environment. In the year ended December 31, 2011, the TMP Board had four meetings inclusive of one organizational board meeting.

BOARD OF DIRECTORS OF AXA

The board of directors of AXA ("AXA Board"), elected on April 28, 2011, is the body ultimately responsible for the management of AXA. The AXA Board is composed of nine directors, one of whom are independent directors, three are AXA Group-nominated directors, and four are FMIC-nominated directors. The roles of the chairman, president and CEO are separate and clearly defined while the independent directors are a strong source of independent advice and judgment. They bring considerable knowledge and experience to the AXA Board's deliberations. Directors are elected by the shareholders and hold office for one year until their successors are elected and qualified. The chairman has a casting vote in resolutions of the AXA Board which must be passed by a majority vote. The senior executive officers carry out the day-to-day operations of AXA under the direction of the AXA Board.

AXA's current directors and certain of its officers are as follows:

Name	Age	Citizenship	Position
Solomon S. Cua*	56	Filipino	Chairperson
Fernand Antonio A. Tansingco	45	Filipino	Vice Chairperson
Severinus P. P. Hermans	46	Dutch	Director
Jaime C. Laya	73	Filipino	Independent Director
Roderick John Shay	55	British	Director
Gerry Y. Tee	65	Filipino	Director
Alesandra V. Ty*	31	Filipino	Director/Treasurer
Kevin John Wright	58	Australian	Director
Lope M. Yuvienco	67	Filipino	Director
Dr. George S.K.Ty	79	Filipino	Senior Adviser to the AXA Board
Antonio S. Abacan Jr.	67	Filipino	Senior Adviser to the AXA Board
Bernardito M. Lapuz	52	Filipino	Corporate Secretary
Carla G. Malicse	47	Filipino	Assistant Treasurer

Note:
* *indicates GT Capital Holdings appointed member, through FMIC*

The following is a brief description of the business experience of each of the Directors:

Solomon S. Cua. See "– Board of Directors and Senior Management of GT Capital Holdings – Board of Directors of GT Capital Holdings".

Fernand Antonio A. Tansingco was elected a director of AXA in September 2009 and became Vice Chairperson in April 2010. Mr. Tansingco finished his Bachelor of Science in Electrical Engineering at the University of the Philippines. He is currently the Head of Treasury Group and Corporate Planning Division of MBT. Before joining MBT, he was the Treasurer and Head of Global Markets of Standard Chartered Bank.

Severinus P. P. Hermans became President and Chief Executive Officer of AXA in 2009. Mr. Hermans is currently a Member of the Executive Committee, Board Investment Committee, and Board Nomination Committee of AXA. He finished his Master of Science in Business Economics at the University of Amsterdam and earned his Master of Marketing at Tilburg Institute for Advanced Studies. He was a board member of ING Life Insurance, executive board member of ING Financial Services in Poland, and executive board member of ING Insurance Malaysia.

Jaime C. Laya is an independent director elected in 2006 and is currently the Chairperson of the Risk Management, Audit and Compliance Committee and Member of the Nomination Committee. Dr. Laya finished his Bachelor of Science in Business Administration at the University of the Philippines and earned his Doctorate Degree at the Stanford University. He is Chairman of Philtrust Bank, Director of Victorias Milling Co. and Trustee of the Cultural Center of the Philippines.

Roderick John Shay was elected a director in 2009. He is the Regional Director for Bancassurance of the AXA Asia Pacific Holdings Limited (now AXA SA). Prior to AXA, he was Managing Director and Joint Chairman of The Bancassurance Company Limited. He finished his Associate of the Chartered Institute of Bankers (UK) at the Leeds Grammar School UK.

Gerry Y. Tee became a director in 2011 and is currently a Member of the Board Investment Committee. He finished his Bachelor of Science in Business Administration at the University of the East. He is concurrently Chairman and President of GAF Export and Import Corp and 3G Toptrends Asia Corp., and Chairman of the Board of Metro Sportswear Mfg. Corp. and G8 Realty Dev. Corp.

Alesandra V. Ty. See "– Board of Directors and Senior Management of GT Capital Holdings – Executive Officers of GT Capital Holdings".

Kevin John Wright became a director in 2011 and is currently the Chairperson of the Board Remuneration Committee and a member of the Executive Committee, the Board Risk Management, Audit and Compliance Committee, the Board Investment Committee. He is concurrently the South East Asia Chief Executive Officer of AXA SA. Prior to AXA, he was the Deputy Chief Executive of Prudential Assurance. He earned his Leaving Certificate at Melville Senior School in Australia and his Agency Management Certificate at LIMRA Regional School for Agency Manager.

Lope M. Yuvienco is an independent director elected in 2008 and is currently a member of the Risk Management, Audit and Compliance Committee and Remuneration Committee. He finished his Bachelor of Science in Business Administration and Master in Business Administration at the University of the Philippines. He was Director of ORIX Metro Leasing, Buenaventura Echauz and Partners and Buenaventura Filamor Echauz.

Dr. George S.K. Ty. See "– Board of Directors and Senior Management of GT Capital Holdings – Board of Directors of GT Capital Holdings".

Antonio S. Abacan, Jr. See "– Board of Directors of MBT".

Bernardito M. Lapuz served as Corporate Secretary of AXA since 2000. He finished his Bachelor of Business Management, Honors Program at the Ateneo de Manila University and earned his Master in Business Administration degree at the California State University. Mr. Lapuz is concurrently Senior Vice President of MBT.

Carla G. Malicse has been the Assistant Treasurer of AXA since 2007. She is currently Investment Manager of AXA. Ms. Malicse finished her Bachelor in Accountancy at the Polytechnic University of the Philippines.

The AXA Board meets once every quarter of the year including special meetings to ensure a high standard of business practice for AXA and its stakeholders and to ensure soundness, effectiveness, and adequacy of AXA's internal control environment. In the year ended December 31, 2011, the AXA Board had four regular board meetings and two special meetings.

RELATED PARTY TRANSACTIONS

GT Capital, in its regular conduct of business, has entered into transactions with its associate and other related parties principally consisting of cash advances for reimbursement of expenses, merger and acquisitions and capital infusion, leasing agreements and management agreements. Transactions with related parties are made at normal market prices. For a description of the related party transactions of GT Capital and each of the GT Capital companies, see also the respective note on Related Party Transactions in GT Capital Holdings and each component company's financial statements.

MBT'S 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 such as subsidiaries and associates of subsidiaries or other related parties. 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, MBT Group has loan transactions with investees and with certain directors, officers, stockholders and related interests ("DOSRI"). Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and book value of their respective investments in the lending company within the MBT Group. In the aggregate, loans to DOSRI generally should not exceed the respective total equity or 15.0% of total loan portfolio, whichever is lower, of MBT, PSBank, FMIC and Orix Metro Leasing.

BSP Circular No. 423 dated March 15, 2004 amended the definition of DOSRI accounts. The following table shows the information relating to the loans, other credit accommodations and guarantees of the MBT Group classified as DOSRI accounts under regulations existing prior to said Circular, and new DOSRI loans, other credit accommodations granted under said circular:

	2009	2010	2011
Total outstanding DOSRI accounts (in millions)	₱12,375	₱16,141	₱17,211
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	0.02%	0.00%	0.00%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	3.50%	4.22%	3.79%
Percent of DOSRI accounts to total loans	3.52%	4.22%	3.79%
Percent of unsecured DOSRI accounts to total DOSRI accounts	16.26%	13.58%	15.85%
Percent of past due DOSRI accounts to total DOSRI accounts	4.88%	3.69%	3.18%
Percent of nonaccruing DOSRI accounts to total DOSRI accounts	4.88%	3.69%	3.18%

BSP Circular No. 560 provides 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 loans, other credit accommodation and guarantees to each of the bank's/quasi-bank's subsidiaries and affiliates shall not exceed 10.0% of the net worth of the lending bank/quasi-bank, provided that the unsecured portion of which shall not exceed 5.0% of such net worth. Further, the total outstanding loans, credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.0% of the net worth of the lending bank/quasi-bank; and the subsidiaries and affiliates of the lending bank/quasi-bank are not related interest of any director, officer and/or stockholder of the lending institution, 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, 2011 and 2010, the total outstanding loans, other credit accommodations and guarantees to each of the MBT's subsidiaries and affiliates did not exceed 10.0% of MBT's net worth, as reported to the BSP, and the unsecured portion did not exceed 5.0% of such net worth and the total outstanding loans, other credit accommodations and guarantees to all such subsidiaries and affiliates represent 8.6% and 9.46%, respectively, of MBT's net worth.

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 25.0% of the net worth of the lending bank/quasi-bank: provided, that the unsecured portion thereof shall not exceed 12.50% 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 BOD or is appointed officer of such corporation as representative of the bank/quasi-bank. As of December 31, 2011 and 2010, the total outstanding loans, other credit accommodations and guarantees to each of MBT's subsidiaries and affiliates engaged in energy and power generation did not exceed 25.0% of MBT's net worth, as reported to the BSP, and the unsecured portion did not exceed 12.5% of such net worth.

Total interest income on the DOSRI loans in 2011, 2010 and 2009 amounted to ₱593.5 million, ₱652.7 million and ₱738.6 million, respectively, for the MBT Group and ₱528.8 million, ₱511.1 million and ₱546.7 million, respectively, for MBT.

Other significant related party transactions of the MBT are discussed in Note 27 to the MBT Group's audited financial statements as of December 31, 2010 and 2011 and for the years ended December 31, 2009, 2010 and 2011. Transactions with subsidiaries have been eliminated in the consolidated financial statements.

Bancassurance

MBT and AXA engage in bancassurance activities whereby AXA personnel market life insurance products to MBT's clients. This bancassurance relationship was memorialized in a Service Level Agreement dated January 25, 2012. This agreement sets out the scope of the relationship between the parties as well as the various responsibilities of both MBT and AXA. The agreement terminates on the date when MBT ceases to be a shareholder of AXA, unless otherwise rendered illegal, preterminated or extended by the parties in writing. AXA pays referral fees for bank and bank staff referrals determined at various rates based on the collected premiums. Referral fees recognized as commission expense amounted to ₱128.3 million in 2011. The outstanding balance included in commissions payable amounted to ₱19.5 million in 2011.

FED LAND'S RELATED PARTY TRANSACTIONS

Joint Development Agreements with MBT

Fed Land entered into joint development agreements with MBT for the construction and development of The Capital Tower in Quezon City, The Oriental Place in Makati City and a multi-phased project in Taguig City. MBT contributed the land for the projects and Fed Land shall provide the necessary expertise and resources for the construction and development of the projects.

Sale and Purchase Agreement with AXA

Fed Land entered into a Contract to Sell with AXA for the purchase of two office units in the Skyland Plaza Building, Makati City. Of the total selling price of ₱15.1 million, exclusive of interest, Fed Land has paid ₱4.5 million representing 30% downpayment. ₱6.0 million representing 40% of the selling price shall be payable over sixty equal and successive monthly installments, starting from the date of the contract to sell, and the remaining 30% in the amount of ₱4.5 million shall be paid in lump sum at the end of sixty months. The instalments constituting 70% of the selling price shall be charged interest at the rate of 8% per annum, payable at the same time as the principal.

Acquisition of Property

On December 14, 2010, certain condominium units in GT Tower International were purchased from Philippine Securities Corporation, a related party for a consideration amounting to ₱101.6 million.

Lease Agreements

Fed Land is leasing its office spaces located at the 2nd Floor of GT Tower International and its showroom at the 3rd Floor of Tytana Plaza in Binondo, Manila from MBT. Fed Land is leasing two commercial units from MBT located at the Oriental Garden Makati.

Fed Land is leasing out a portion of the 15th Floor of Philippine AXA Life Centre, including four parking slots, to AXA while Fed Land is leasing out the 45th Floor of GT Tower International to FMIC.

Financing Agreements

Fed Land entered into various financing agreements with FMIC and MBT. Please see "Material Contracts – Financing Agreements".

In 2011, Fed Land also obtained both partially secured and fully secured peso-denominated loans with an aggregate amount of ₱2,000.00 million from MBT with interest at the prevailing market rate ranging from 7.0981% with spread of 85-100 basis points payable in a lump sum after five years. As of December 31, 2011, the outstanding balance amounted to ₱2,000.0 million.

Interest expense recognized in 2011 amounted to ₱443.5 million.

On April 13, 2011, Fed Land invested long-term cash investments with a local bank to collateralize a loan obtained by an affiliate amounting to ₱2,440.0 million. Fed Land recognized interest income from assigned long term cash investment amounting to ₱40.1 million.

Other Related Party Transactions

As of December 31, 2011, Fed Land entered into contracts with its related parties consisting mainly of joint venture agreements for the development of property, cash advances and reimbursement of expenses and management agreements, among others.

The amount due from related parties stood at ₱938.9 million in 2011 and the amount due to related parties stood at ₱403.6 million. These consist mostly of operational advances, which are non-interest bearing and due and demandable. Fed Land also derived income from management fees in 2011 amounting to ₱36.8 million from the joint venture with FLOC, a jointly controlled entity by Fed Land with Orix Risingsun.

GBP'S RELATED PARTY TRANSACTIONS

Lease Agreements

GBP has existing lease contracts with FMIC involving the staff housing located at 502B Skyland Plaza, Sen. Gil Puyat Avenue, Makati City and parking spaces. The lease is renewed annually. The monthly lease is ₱25,000.

Other Related Party Transactions

The following are the other transactions of GBP with its affiliates and related parties as of December 31, 2011:

- GBP has cash and cash equivalent deposits with MBT amounting to ₱4.9 billion. Interest earned from these deposits amounted to ₱103.9 million.

- GBP made net advances to THC amounting to ₱386.1 million. Interest earned amounted to ₱9.4 million.

TMP'S RELATED PARTY TRANSACTIONS

Distributor Agreement with TMAP/Mitsui

TMP entered into a Distributor Agreement with TMC and Mitsui for the distribution of Toyota vehicles, and parts & components on December 1, 1988 in accordance with which purchases of raw materials, spare parts and vehicles for sale are made by TMP. Total purchases of raw materials, spare parts and vehicles amounted to ₱21,587.9 million in 2011. Amounts payable arising from these purchases amounted to ₱3,681.4 million in 2011.

Technical Assistance Agreement with TMC

TMP has an existing Technical Assistance Agreement with TMC for the manufacture of Toyota vehicles, and parts and components. In 2011, royalty and technical assistance fees incurred by TMP amounted to ₱323.0 million, while the outstanding royalties payable to TMC amounted to ₱245.8 million.

Export Agreement with TMAP

In 2011, TMP's exports of vehicle parts to TMAP amounted to ₱9.6 billion. The trade receivables from TMAP amounted to ₱552.4 million as of December 31, 2011.

Loan Agreement with Toyota Autoparts, Inc.

On February 26, 1991, TMP obtained a five-year interest-bearing loan from Toyota Autoparts, Inc. with an outstanding balance of the amount ₱78.6 million in 2011 with a fixed interest rate of 4.2% per annum. The loan agreement was renewed for three consecutive five-year terms or until February 26, 2016. Total interest paid on the loan amounted to ₱3.3 million in 2011.

Other Related Party Transactions

The following are the other transactions with TMP's affiliates and related parties as of December 31, 2011:

- **Credit lines with MBT**

TMP maintains several credit lines with MBT. No availments were made in 2011.

- **Savings and Current Accounts in MBT**

In 2011, TMP's savings and current accounts and time deposits with MBT and PS Bank stood at ₱181.5 million.

AXA'S RELATED PARTY TRANSACTIONS

Unit-Linked Fund Agreements

From 2003 to 2011, AXA entered into various agreements with MBT-Trust and Banking Group ("MBT-TBG") for the management and investment of separate variable account assets for its peso-denominated variable life insurance contracts (the "Funds"), namely 3GX-B20, Chinese Tycoon Fund, Spanish American Legacy Fund, 3GX-B17 Series 2, 3GX-B18, 3GX-B19, Opportunity Fund, 3GX-B16, 3GX-B19, Philippine Locked and Loaded Fund, Philippine Peso Liquidity Fund, Premium Bond Fund, Wealth Balanced Fund, Wealth Bond Fund, 3GX-B16 Series 2, Wealth Equity Fund, 3GX-B17, Capital Investment Fund and Philippine Armor Fund. Separate investment management accounts were opened in the name of MBT-TBG as agent on behalf of AXA as principal. All investments of the Funds, however, are in the name of AXA.

Service Level Agreements

In relation to the investment management and trust agreements above, AXA entered into various service level agreements with MBT-TBG.The parties entered into a Service Level Agreement for the management of variable life funds 3GX$-B19 in 2010, and for the management of 3GX-B16, 3GX-B19, and Opportunity Fund in 2009. These services include communications with Citibank Manila (the fund custodian), trade summary, monthly reporting quarterly fund review and marketing and promotion.

For the management of 3GX$-B19, 3GX-B19, 3GX-B16, 3GX-B16 Series 2, 3GX-B17, 3GX-B17 Series 2, 3GX-B18 and 3GX-B20, MBT-TBG shall be entitled to a Fund Management Fee of 0.10% of its Net Asset Value. For the management of Philippine Peso Liquidity Fund and Philippine Locked and Loaded Fund, MBT-TBG shall be entitled to a Fund Management Fee of 0.20% of its Net Asset Value. For the management of Premium Bond Fund, Capital Investment Fund, Wealth Bond Fund, Wealth Balanced Fund, Wealth Equity Fund, Opportunity Fund, Chinese Tycoon Fund and Spanish American Legacy Fund, MBT-TBG shall be entitled to a Fund Management Fee of 0.30% of its Net Asset Value.

In 2008, a Service Level Agreement was also entered into with MBT-TBG as a supplement to the Investment Management Agreement and Fund Administration Agreement for Philippine Peso Liquidity Fund (see above). MBT-TBG shall assist in the marketing and training functions of AXA and submit to AXA monthly reports and quarterly fund performance reports.

Derivative Transaction

In July 2009, AXA entered into a derivative transaction with MBT through the AXA Philippine Armor Fund. AXA exchanged ₱223.6 million to buy U.S.$4.7 million at the conversion rate of ₱48.07 to U.S.$1 and used the U.S. dollars to purchase U.S.$4.1 million par value Republic of the Philippines (ROP) bonds maturing on January 14, 2014. Upon maturity, the ROP bonds plus the last coupon payment, both in U.S. Dollars, shall be exchanged for Philippine peso using the pre agreed forward rate of ₱51.62. As of December 31, 2011, the market value of the bonds and the unrealized gain on the derivative asset amounted to ₱136.2 million and ₱20.6 million, respectively.

Corporate Guaranteed Credit Cards

On August 30, 2007, AXA entered into a Memorandum of Agreement with MCC. MCC shall issue corporate guaranteed credit cards to certain authorized employees of AXA. AXA shall bear complete liability for all the obligations incurred by its employee-cardholders arising from the use of the said credit cards and shall pay in full all purchases, fees and charges as shall be indicated in the statement of account to be sent by MCC.

Bills Collection Agreements

On May 26, 2005, AXA entered into three Bills Payment and Collection Agreements (BPCA) with MBT for bill payments from AXA's clients who are depositors of MBT through delivery channels, online bills payment and auto-debit arrangements.

AXA is required to maintain a savings and/or current account at the MBT Skyland Plaza Branch for each of the agreements with an average daily balance of ₱500,000.00. MBTC shall debit the main accounts for the total amount of fees due from AXA's clients at the end of every reference month.

AXA also entered into a Memorandum of Agreement with MBT concerning the use of the internet-based electronic delivery channel MBTC direct to enable customers to perform online banking transactions.

Since 2005, AXA has maintained Bills Payment and Collection Agreements (BPCA) with MBT with MBT for bill payments from AXA's clients who are depositors of MBT through delivery channels, online bills payment and auto-debit arrangements. In 2011, AXA amended its BPCA with MBT. Under the amended agreement, MBT will accept bill payments from AXA's clients through the extensive branch banking system and the use of various delivery channels such as the over-the-counter payment, Metrobank ET, Metrophone, Mobile and Metrobankdirect Banking Facilities.

In consideration of the foregoing, AXA shall maintain an aggregate Average Daily Balance of at least ₱100 million per month for both Peso and Dollar BPCA MOA. MBT may cancel agreement if AXA fails to comply with this requirement for at least three consecutive months.

Retirement Plan Trust Agreement

In 2008, AXA amended its trust agreement with MBT for its retirement plan. AXA's assets constituting the retirement fund amounted to ₱59.7 million as of December 31, 2011.

Lease Agreements

AXA leases commercial floor spaces in the Philippine AXA Life Centre from PSBank, a subsidiary of MBT, for the use of AXA's Head Office. The lease has a term of five years commencing from April 2, 2008. Monthly rental fee escalates yearly, from ₱1.4 million in the first year to ₱1.9 million in the fifth year.

AXA also entered into lease agreements with MBT for its Cebu Regional Office, Cebu Business Park Office and Davao Branch. These agreements had an initial term of three years. In 2011, MBT renewed its lease agreement with AXA for another three years effective January 1, 2011 to December 31, 2013. The monthly rent for the leased premises shall be ₱58,685, exclusive of applicable taxes, for 2011. The monthly rent for the succeeding years shall be increased yearly to the prevailing rate for similar leased premises based on an independent study made by a reputable appraiser exclusively chosen by AXA, but in no case shall the increase be lower than 5% and higher than 10% of the previous year's rental.

On the other hand, AXA also leases out its own property. In January 2011, AXA leased to MBT Unit GF-106 of Skyland Plaza located at Sen. Gil Puyat Ave., Makati. The lease shall end in December 2012.

Other Related Party Transactions

As of December 31, 2011, AXA also has other transactions with its affiliates:

- AXA maintains savings and current accounts and short-term deposits with MBT amounting to ₱377.2 million.

- AXA also maintains savings and current accounts and short-term deposits with PSBank in the total amount of ₱1,198.1 million.

- AXA transacted with affiliates such as MBT, PSBank, Metrohome Financing Program, Toyota Motor AP, MBTC Provident Plan, MCC, MBT-Security Guards, ORIX Metro Leasing, First Metro Investment Corporation, Philippine Charter Insurance Corporation, Fed Land and Metro Invest Plus concerning availments of group policies.

PRINCIPAL AND SELLING SHAREHOLDERS

SHAREHOLDERS

The following table sets forth GT Capital Holdings' shareholders of record as of the date of this Prospectus. Grand Titan Capital Holdings, Inc. is the Company's single largest shareholder and as of the date of this Prospectus, directly owns approximately 91.61% of the Company's issued share capital. As of the date of this Prospectus, the Company has a total of 13 shareholders with the Ty family beneficially owning approximately 100% of the issued common share capital of Grand Titan Capital Holdings, Inc., as well as Titan Resources Corporation and Ausan Resources Corporation. As a result, the Ty family effectively owns and controls the Company.

Shareholders as of the date of this Prospectus

Name of Shareholder	Number of Common Shares held prior to the Offer	Percentage of Common Shares outstanding prior to the Offer
Grand Titan Capital Holdings, Inc.	114,517,452	91.6140%
Titan Resources Corporation	7,530,333	6.0242%
Ausan Resources Corporation	2,447,215	1.9578%
Dr. George S.K. Ty	200,000	0.1600%
Alfred Vy Ty	100,000	0.0800%
Arthur Vy Ty	100,000	0.0800%
Mary Vy Ty	99,000	0.0792%
Carmelo Maria Luza Bautista	1,000	0.0008%
Miguel Belmonte	1,000	0.0008%
Roderico Puno	1,000	0.0008%
Solomon Cua	1,000	0.0008%
Renato C. Valencia	1,000	0.0008%
Manuel Q. Bengson	1,000	0.0008%
Total Outstanding Common Shares	**125,000,000**	**100.00%**

Pursuant to the listing rules of the PSE, the Company's existing shareholders who own an equivalent of at least 10% of the issued and outstanding Common Shares cannot sell, assign or in any manner dispose of their Common Shares for a minimum period of 180 days after the listing of the Offer Shares. A total of 110,095,110 Common Shares, held by Grand Titan Capital Holdings, Inc., will be subject to such 180-day lock-up. In addition, all Common Shares issued within 180 days prior to the commencement of the Offer at an issue price less than the price per Offer Share shall be subject to a lock-up period of at least 365 days from the date that full payment is made on such Common Shares. There are no Common Shares that are subject to such 365-day lock-up. See "– Security Ownership of Record and Beneficial Owners".

SELLING SHAREHOLDERS

The table below shows for each of the Selling Shareholders, the number of Common Shares held before the Offer, the number of Common Shares to be sold in the Offer and the number of Common Shares to be owned immediately after the Offer.

Selling Shareholder	Number of Common Shares held before Offer	% of Common Shares outstanding prior to the Offer	Common Shares to be sold in Offer	Common Shares to be sold pursuant to exercise of Over-allotment Option	No exercise of Over-allotment Option		Exercise of Over-allotment Option	
					Common Shares held after Offer(1)	%	Common Shares held after Offer	%
Grand Titan Capital Holdings, Inc.	114,517,452	91.61%	–	4,422,342	114,517,452	72.48%	110,095,110	69.68%
Titan Resources Corporation.........	7,530,333	6.03%	5,770,085	1,760,248	1,760,248	1.11%	–	0%
Ausan Resources Corporation	2,447,215	1.96%	2,447,215	–	–	0%	–	0%

SECURITY OWNERSHIP OF RECORD AND BENEFICIAL OWNERS

The following table sets forth security ownership of certain record and beneficial owners of more than 5% of the Company's voting securities as of the date of this Prospectus:

Title of class of securities	Name and address of record owner and relationship with the Issuer	Name of beneficial owner and relationship with the Issuer	Citizenship	No. of shares held	Percent
Common Shares	Grand Titan Capital Holdings, Inc. 4th Floor, Metrobank Plaza, Sen. Gil Puyat Ave., Makati City Parent Company of the Issuer	Grand Titan Capital Holdings, Inc.	Filipino	114,517,452	91.6%
Common Shares	Titan Resources Corporation Fortune Bldg., Legaspi St., Legaspi Village, Makati City Shareholder of the Issuer	Titan Resources Corporation	Filipino	7,530,333	6%

Upon completion of the offering, assuming no exercise of the Over-Allotment Option, existing shareholders of GT Capital will hold approximately 73.9% of its Common Shares. Assuming no exercise of the Over-Allotment Option, the Company's level of foreign ownership will be approximately 15.3% of the Common Shares.

SECURITY OWNERSHIP OF DIRECTORS AND MANAGEMENT

The following table sets forth the ownership of directors and management of the Company's Common Shares as of the date of this Prospectus:

Record Owner	Citizenship of Record Owner	Beneficial Owner	Citizenship of Beneficial Owner	Position	Number of Common Shares	Percentage based on outstanding shares
Dr. George S.K. Ty .	Filipino	same/D	Filipino	Chairman	200,000	0.1600%
Alfred Vy Ty	Filipino	same/D	Filipino	Vice Chairman	100,000	0.0800%
Arthur Vy Ty	Filipino	same/D	Filipino	Vice Chairman	100,000	0.0800%
Mary Vy Ty	Filipino	same/D	Filipino	Treasurer	99,000	0.0792%
Carmelo Maria Luza Bautista	Filipino	Grand Titan Capital Holdings, Inc./I	Filipino	Director/President	1,000	0.0008%
Miguel Belmonte	Filipino	Mary Vy Ty/I	Filipino	Independent Director	1,000	0.0008%
Roderico Puno	Filipino	Grand Titan Capital Holdings, Inc./I	Filipino	Director	1,000	0.0008%
Solomon Cua	Filipino	Grand Titan Capital Holdings, Inc./I	Filipino	Director	1,000	0.0008%
Renato Valencia	Filipino	Titan Resources Corporation/I	Filipino	Independent Director	1,000	0.0008%
Manuel Bengson......	American	Titan Resources Corporation/I	Filipino	Independent Director	1,000	0.0008%

* *Indicates direct (D) and indirect (I) ownership*

Voting trust holders of 5% or more

There is no voting trust arrangement executed among the holders of 5% or more of the issued and outstanding shares of common stock of GT Capital Holdings.

Changes in control

There has been no change of control in the Company's beneficial ownership since its incorporation.

RECENT ISSUANCES OF SECURITIES CONSTITUTING EXEMPT TRANSACTIONS BY THE COMPANY

On November 23, 2010, GT Capital availed of a ₱5.0 billion Notes Facility subdivided into a three year tranche amounting to ₱4.2 billion and a five year tranche amounting to ₱0.8 billion. The notes were offered exclusively to, and shall be held only by, Primary Institutional lenders in the Philippines, pursuant to Section 9.2 of the SRC and Rule 9.2.(2)(B) of the SRC rules. As such, the Notes were considered exempt securities and no notice of exemption from the registration requirements under the SRC was required to be filed with the SEC after the sale of the notes.

DESCRIPTION OF SHARE CAPITAL

SHARE CAPITAL INFORMATION

As of December 31, 2011, the Company's authorized capital stock is five billion Pesos divided into 500,000,000 Common Shares with a par value of ₱10.00 per share. As of December 31, 2011, the Company's issued and outstanding share capital consisted of 125,000,000 Common Shares. The Company is authorized to issue only common shares, unless it amends its Articles of Incorporation. A total of 158,000,000 Common Shares are to be registered comprising of 125,000,000 outstanding Common Shares and 33,000,000 Primary Offer Shares.

OBJECTS AND PURPOSES

Pursuant to the Company's Articles of Incorporation, its primary purpose is to invest in, purchase, or otherwise acquire and own, hold, use, sell, assign, transfer, lease, mortgage, exchange, develop or otherwise dispose of real or personal property of every kind and description, including shares of stocks, bonds, debentures, notes, evidences of indebtedness, and other securities or obligations of any corporation or corporations, associations, domestic or foreign, and to possess and exercise in respect thereof all the rights, powers and privileges of ownership, including all voting powers of any stock so owned. The Articles of Incorporation of GT Capital Holdings does not provide for a specific secondary purpose in addition to the express powers of a corporation as stated in Section 36 of the Corporation Code.

Under Philippine law, a corporation may invest its funds in any other corporation or business or for any purpose other than the purpose for which it was organized when approved by a majority of the board of directors and ratified by the stockholders representing at least two-thirds of the outstanding capital stock, at a stockholders' meeting duly called for the purpose; provided, however, that where the investment by the corporation is reasonably necessary to accomplish its purposes, the approval of the stockholders shall not be necessary.

SHARE CAPITAL

A Philippine corporation may issue common or preferred shares, or such other classes of shares with such rights, privileges or restrictions as may be provided for in the Articles of Incorporation and the By-laws of the corporation. Subject to the approval by the Philippine SEC, it may increase or decrease its authorized capital stock by amending its Articles of Incorporation, provided that the change is approved by a majority of the board of directors and by shareholders representing at least two-thirds of the outstanding capital stock of the corporation voting at a shareholders' meeting duly called for the purpose.

A corporation is empowered to acquire its own shares for a legitimate corporate purpose, provided that the corporation has unrestricted retained earnings sufficient to pay for the shares to be acquired. Examples of instances in which the corporation is allowed to purchase its own shares are: elimination of fractional shares arising out of stock dividends, the purchase of shares of dissenting shareholders exercising their appraisal right as referred to below and the collection or compromise of an indebtedness to the corporation arising out of an unpaid subscription in a delinquency sale or to purchase delinquent shares during such sale. When a corporation repurchases its own shares, the shares become treasury shares, which may be resold at a reasonable price fixed by the board of directors.

The board of directors is authorized to issue shares from treasury from time to time. Treasury shares may be issued to any person, corporation or association, whether or not a shareholder of the corporation, including its officers or employees for such consideration in money as the board of directors may determine.

RIGHTS RELATING TO THE SHARES

Voting rights

The Common Shares have full voting rights. Members of the Board are elected by the shareholders at the annual shareholders' meeting. Cumulative voting is allowed whereby a shareholder may cumulate his votes by giving one candidate as many votes as the number of directors to be elected multiplied by the number of his Common Shares.

The Philippine Corporation Code provides that voting rights cannot be exercised with respect to shares declared delinquent, treasury shares, or if the shareholder has elected to exercise his right of appraisal referred to below.

Dividend rights

The Common Shares have full dividend rights. Dividends on the Common Shares, if any, are paid in accordance with Philippine law. Dividends are payable to all shareholders on the basis of outstanding Common Shares held by them, each Common Share being entitled to the same unit of dividend as any other Common Share. Dividends are payable to Shareholders whose names are recorded in the stock and transfer book as of the record date fixed by the Board. The PDTC has an established mechanism for distribution of dividends to beneficial owners of Common Shares which are traded through the PSE and lodged with the PDTC as required for scripless trading.

Under Philippine law, a corporation can only declare dividends to the extent that it has unrestricted retained earnings that represent the undistributed earnings of the corporation which have not been allocated for any managerial, contractual or legal purposes and which are free for distribution to the shareholders as dividends. A corporation may pay dividends in cash, by the distribution of property or by the issuance of shares. Stock dividends may only be declared and paid with the approval of shareholders representing at least two-thirds of the outstanding capital stock of the corporation voting at a shareholders' meeting duly called for the purpose.

The Philippine Corporation Code generally requires a Philippine corporation with retained earnings in excess of 100% of its paid-in capital to declare and distribute as dividends the amount of such surplus. Notwithstanding this general requirement, a Philippine corporation may retain all or any portion of such surplus in the following cases: (i) when justified by definite expansion plans approved by the board of directors of the corporation; (ii) when the required consent of any financing institution or creditor to such distribution has not been secured; (iii) when retention is necessary under special circumstances, such as when there is a need for special reserves for probable contingencies; or (iv) when the non-distribution of dividends is consistent with the policy or requirement of a government office.

Philippine corporations whose securities are listed on any stock exchange are required to maintain and distribute an equitable balance of cash and stock dividends, consistent with the needs of shareholders and the demands for growth or expansion of the business.

Pre-emptive rights

The Philippine Corporation Code confers pre-emptive rights on shareholders of a Philippine corporation entitling such shareholders to subscribe to all issues or other dispositions of equity-related securities by the corporation in proportion to their respective shareholdings, regardless of whether the equity-related securities proposed to be issued or otherwise disposed of are identical to the shares held. A Philippine corporation may provide for the denial of these pre-emptive rights in its articles of incorporation. Currently, the pre-emptive rights is not denied in the amended Articles of Incorporation of GT Capital Holdings.

Derivative rights

Philippine law recognizes the right of a shareholder to institute proceedings on behalf of the corporation in a derivative action in circumstances where the corporation itself is unable or unwilling to institute the necessary proceedings to redress wrongs committed against the corporation, or to vindicate corporate rights as, for example, where the directors themselves are the malefactors.

Appraisal rights

The Philippine Corporation Code grants a shareholder a right of appraisal in certain circumstances where he has dissented and voted against a proposed corporate action, including:

- an amendment of the articles of incorporation which has the effect of adversely affecting the rights attached to his shares or of authorizing preferences in any respect superior to those of outstanding shares of any class or of extending or shortening the term of corporate existence;

- the sale, lease, exchange, transfer, mortgage, pledge or other disposal of all or substantially all the assets of the corporation;

- a merger or consolidation; and
- investment by the corporation of funds in any other corporation or business or for any purpose other than the primary purpose for which it was organized.

In these circumstances, the dissenting shareholder may demand in writing within 30 days after the date on which the vote was taken that the corporation purchase its shares at a fair value. If there is no agreement on what is the fair value, it shall be determined by three disinterested persons, one of whom shall be named by the shareholder, one by the corporation, and the third by the two thus chosen. The appraisal rights will only be available if the corporation has unrestricted retained earnings sufficient for the purchase of the shares of the dissenting shareholders. From the time the shareholder makes a written demand for payment until the corporation purchases such shares, all rights accruing on the shares, including voting and dividend rights, shall be suspended, except the right of the shareholder to receive the fair value of the share.

Right of inspection

A shareholder has the right to inspect the records of all business transactions of the corporation and the minutes of any meeting of the Board of Directors and shareholders at reasonable hours on business days, and he may demand a copy of excerpts from said records or minutes at his expense. However, the corporation may refuse such inspection if the shareholder demanding to examine or copy the corporation's records has improperly used any information secured through any prior examination, or was not acting in good faith or for a legitimate purpose in making his demand.

Right to financial statements

A shareholder has a right to be furnished with the most recent financial statement of a Philippine corporation, which shall include a statement of financial position as of the end of the last taxable year and a profit or loss statement for said taxable year, showing in reasonable details its assets and liabilities and the result of its operations. At the meeting of shareholders, the Board of Directors is required to present to the shareholders a financial report of the operations of the corporation for the preceding year, which shall include financial statements, duly signed and a certificate by an independent certified public accountant.

BOARD OF DIRECTORS

Unless otherwise provided by law or the Company's Articles of Incorporation, the corporate powers of GT Capital Holdings are exercised, its business conducted, and its property controlled by the Board. The Board has nine directors, three of whom are independent directors within the meaning set forth in Section 38 of the SRC. Board members are elected during each regular meeting of shareholders at which shareholders representing at least a majority of the outstanding capital stock are present, either in person or by proxy.

Under Philippine law, representation of foreign ownership on the Board is limited to the proportion of the foreign shareholding. Directors may only act collectively; individual directors have no power as such. Five directors, which is a majority of the Board, constitute a quorum for the transaction of corporate business. Except for certain corporate actions such as the election of officers, which shall require the vote of a majority of all the members of the Board, every decision of a majority of the quorum duly assembled as a board is valid as a corporate act.

SHAREHOLDERS' MEETINGS

Annual or regular shareholders' meetings

The Philippine Corporation Code requires all Philippine corporations to hold an annual meeting of shareholders for the election of directors and for other purposes. The Company's By-laws provide for annual meetings on the second Monday of June of each year at the Company's principal office or at some other place in Makati City as may be designated by the Board and stated in the notice. If the date of the annual meeting falls on a legal holiday, the annual meeting shall be held on the following business day. The Board of Directors may, by majority vote and for good cause, reset the annual meeting to another date.

Special shareholders' meetings

Special meetings of the shareholders may be called by: (i) the Board, at its own instance or upon written request of shareholders representing a majority of the outstanding capital stock, or (ii) the President.

Notice of Shareholders' meetings

The Company's by-laws provide for written notice of annual meetings of Shareholders, stating the date, place and time of the meeting, to be transmitted by personal delivery or mail to each Shareholder of record entitled to vote thereat at such Shareholder's address last known in the stock registry, at least two weeks before the date of the meeting. No publication of any notice of annual meeting of Shareholders is required. The notice of any meeting may be waived by a Shareholder. The requirement for notice of the meeting shall be deemed waived if the Shareholder shall be present at the meeting, in person or by proxy. Notice of any adjourned meeting of the Shareholders shall not be required.

Notwithstanding such notice requirements under the by-laws, the Company is required under the SRC to send to its shareholders of record, at least 15 business days prior to the date of the annual or special meeting, an information statement and proxy form (in case of proxy solicitation) relating to such shareholders' meeting.

Quorum

Except in instances where the assent of shareholders representing two-thirds of the outstanding capital stock is required by the Philippine Corporation Code to approve a corporate act (usually involving fundamental corporate changes), shareholders owning a majority of the Company's subscribed and outstanding capital, present in person or represented by proxy, shall be sufficient at a shareholders' meeting to constitute a quorum for the election of directors and for the transaction of any business. In the absence of a quorum, the meeting shall be adjourned until the required number is present.

Voting

At each meeting of the shareholders, every shareholder who has voting power upon the matter in question shall be entitled to vote, in person or by proxy, one vote for each share of stock held by such Shareholder. Unless otherwise provided in the proxy, it shall be valid only for the meeting at which it has been presented to the Corporate Secretary.

Record dates

The by-laws provide that for the purposes of determining the shareholders entitled to notice of, or to vote or be voted at any meeting of shareholders, or entitled to receive payment of any dividends or other distribution or allotment of any rights, or for the purpose of any other lawful action, or for making any other proper determination of Shareholders, the Board may provide for the record date.

The Board may also fix in advance a date as the record date for any such determination of shareholders. Notwithstanding the provisions of the by-laws on the setting of the record dates, the Philippine SEC may, from time to time, promulgate rules for listed companies such as those relating to the fixing of such record dates. Under existing Philippine SEC rules, the record date for shareholders meetings and for cash dividends shall not be less than ten trading days from the date of the disclosure of such shareholders meeting or declaration of cash dividends. With respect to stock dividends, the record date shall not be less than ten nor more than 30 days from the date of shareholder approval, provided however that the record date set shall not be less than 30 trading days from receipt by the PSE of the notice of declaration of stock dividend. In the event that a stock dividend is declared in connection with an increase in authorized capital stock, the corresponding record date shall be fixed by the Philippine SEC.

PROXIES

Shareholders may vote at all meetings the number of shares registered in their respective names, either in person or by proxy duly given in writing and duly presented to and received by the Corporate Secretary for inspection and recording not later than ten days before the time set for the meeting. Proxies shall be valid and effective only for the meeting that it was issued for, unless the proxy provides for a longer period, not exceeding five years. The proxy is cancelled for any meeting wherein the shareholder appears in person.

No member of the PSE and no broker/dealer shall give any proxy, consent or authorization in respect of any securities carried for the account of a customer to a person other than the customer, without the express written authorization of such customer. The proxy executed by the broker shall be accompanied by a certification under oath stating that before the proxy was given to the broker, he had duly obtained the written consent of the persons in whose account the shares are held. There shall be a presumption of regularity in the execution of proxies and they shall be accepted if they have the appearance of prima facie authenticity in the absence of a timely and valid challenge.

Proxies should comply with the relevant provisions of the Philippine Corporation Code, the SRC and the Philippine SEC Memorandum Circular No. 5 (1996 series) issued by the Philippine SEC.

TRANSFER OF COMMON SHARES AND SHARE REGISTER

All transfers of Common Shares listed on the PSE shall be effected by means of a book-entry system. Under the book-entry system of trading and settlement, a registered stockholder shall transfer legal title over the Common Shares to such nominee, but retains beneficial ownership over the Common Shares. The transfer of legal title is done by surrendering the stock certificate representing the Common Shares to participants of the PDTC System (i.e. brokers and custodian banks) ("PDTC Participant") that, in turn, lodges the same with the PCD Nominee. A stockholder may request upliftment of the Common Shares from the PDTC in which case a certificate of stock will be issued to the stockholder and the Common Shares registered in the stockholder's name in the Company's books. See "The Philippine Stock Market".

Philippine law does not require transfers of the Common Shares to be effected on the PSE, but any off-exchange transfers will subject the transferor to capital gains tax and documentary stamp tax that may be significantly greater than the stock transfer tax applicable to transfers effected on an exchange, if the disposal price is higher than the acquisition cost of the Common Shares. See "Philippine Taxation". Off-exchange transfers will also require the filing of a capital gains tax return and the obtaining of a Certificate Authorizing Registration from the BIR. All transfers of Common Shares on the PSE must be effected through a licensed stock broker in the Philippines.

SHARE CERTIFICATES

The Philippine Corporation Code requires the issuance of stock certificates to evidence shares of stocks issued by a Philippine corporation. Certificates representing the Common Shares will be issued in such denominations as shareholders may request, except that certificates will not be issued for fractional shares. Shareholders wishing to split their certificates may do so upon application to the Company's stock transfer agent. Shares may also be lodged and maintained under the book-entry system of the PDTC. See "The Philippine Stock Market".

MANDATORY TENDER OFFER

A person or group of persons acting in concert are obliged to make a mandatory tender offer in relation to shares of a publicly listed company in the following instances: (i) if it intends to acquire 35.0% or more of the outstanding shares of the target company in a single acquisition; or (ii) if it intends to acquire 35.0% or more of the shares of the target company in one or more transactions within a period of 12 months; or (iii) if any of its acquisitions of less than 35.0% of the target company's shares would result in ownership of over 51.0% of the total outstanding shares of the target company. In the case of (i) and (ii), the acquirer shall be required to acquire the shares offered in response to the tender offer in the same proportion as the percentage of the shares that it proposes to acquire. The offer price shall be the highest price paid by the acquirer during the past six months.

In the case of (iii), the acquirer is required to purchase all shares offered in response to the tender offer. The offer price shall be supported by a fairness opinion provided by an independent financial advisor or equivalent third party. If the highest price paid by the acquirer during the previous six months is less than the price supported by a fairness opinion, the acquirer shall be bound by the higher price.

No mandatory tender offer is required in: (i) purchases of shares from unissued capital stock unless it will result in a 50.0% or more ownership of shares by the purchaser; (ii) purchases from an increase in the authorized capital stock of the target company; (iii) purchases in connection with a foreclosure proceedings involving a pledge or security where the acquisition is made by the debtor or creditor; (iv) purchases in connection with privatization undertaken by the Government; (v) purchases in connection with corporate rehabilitation under court supervision; (vi) purchases through an open market at the prevailing market price; or (vii) purchases resulting from a merger or consolidation.

FUNDAMENTAL MATTERS

The Philippine Corporation Code provides that certain significant acts may only be implemented with shareholders' approval. The following require the approval of shareholders representing at least-two thirds of the issued and outstanding capital stock (including non-voting preferred shares) of the corporation in a meeting duly called for the purpose:

- amendment of the articles of incorporation;
- sale, lease, exchange, mortgage, pledge or other disposition of all or substantially all of the corporate property;
- incurring, creating or increasing bonded indebtedness;
- increase or decrease of capital stock;
- merger or consolidation;
- investment of corporate funds in any other corporation or business or for any purpose other than the purpose for which the corporation was organized;
- issuance of stock dividends;
- dissolution; and
- extension or shortening of corporate term.

The approval of shareholders holding a majority of the outstanding capital stock of a Philippine corporation, including the preferred non-voting shares, is required for the adoption or amendment of the by-laws of such corporation.

In addition to the foregoing, the following significant matters require the approval of at least two-thirds of voting shareholders:

- removal of directors;
- delegation to the Board of Directors of the power to amend or repeal by-laws or adopt new by-laws;
- management contracts with related parties; and
- ratification of contracts between the corporation and its directors.

ACCOUNTING AND AUDITING REQUIREMENTS

Philippine stock corporations are required to file copies of their annual financial statements with the Philippine SEC. Corporations whose shares are listed on the PSE are also required to file quarterly financial statements (for the first three quarters) with the Philippine SEC and the PSE.

MATERIAL CONTRACTS

GT CAPITAL'S MATERIAL CONTRACTS

None.

MBT'S MATERIAL CONTRACTS

MBT has not entered into any material contracts in the last two years.

FED LAND'S MATERIAL CONTRACTS

Property Development Projects

Fed Land has a diverse portfolio of property development projects that focus on master-planned communities and residential developments. Fed Land also develops stand-alone residential projects. Residential properties are developed and sold while commercial and retail properties are generally developed and leased to generate recurring income.

Marquinton Garden Terraces/Tropicana Garden City

Joint Development Agreement dated December 23, 2009

On December 23, 2009, Fed Land entered into a Joint Development Agreement ("2009 Joint Development Agreement") with Heritage Consolidated Assets, Inc. ("HCAI") for the construction and development of a condominium project known as the Marquinton Garden Terraces. HCAI contributed the land with an area 29,637 sq. m. and Fed Land shall in turn provide the necessary expertise and resources for the development and construction of condominium project. In consideration of their respective contributions, the parties shall each be allocated condominium units and parking slots developed in the project, with Fed Land being entitled to 92.7% thereof and HCAI to 7.3%.

When HCAI was renamed Horizon Land Property Dev't. Corp. ("Horizon Land"), a wholly-owned subsidiary of Fed Land, the parties executed an Amended and Restated Joint Venture Agreement on November 4, 2011 to amend HCAI's name and other provisions therein. The parties renamed the condominium project as "Tropicana Garden City" and further agreed that the project shall then on consist of two phases. Phase I shall be composed of the first two high rise condominium buildings with commercial, residential and retail elements, while Phase II shall be composed of the next eight high rise condominium buildings with commercial, residential and retail elements.

Further, since the 2009 Joint Development Agreement only applies to Phase I, Horizon Land shall develop at its sole expense the development of Phase II. However, since Phase I and Phase II belong to one and the same project, all the common areas, facilities and amenities of both phases shall be utilized and shared by all the unit owners of both phases.

The Grand Midori Makati

Joint Venture Agreement with Orix Risingsun dated October 11, 2007

On October 11, 2007, Fed Land entered into a joint venture agreement with Orix Risingsun, relating to the incorporation of FLOC. Orix Risingsun is a domestic corporation wholly owned by Orix.

The parties agreed that FLOC shall enter into a joint venture with MBT in order to develop and eventually sell or otherwise dispose of the MBT's real property in Makati City. FLOC shall finance the joint venture and undertake the sale and/or lease of the condominium units and/or other forms of real property which may become the subject of the joint venture.

Under the agreement, FLOC is obliged to appoint Fed Land or its subsidiaries as its leading marketing agent for all condominium projects to be developed throughout the project. Orix Risingsun shall assist in the sales and marketing of the joint venture in Japan and in other countries where they have offices.

Joint Venture Agreement between FLOC and MBT dated April 15, 2008

In connection with the Joint Venture Agreement between Fed Land and Orix, on April 15, 2008, FLOC and MBT entered into a Joint Venture Agreement for the construction and development of the MBT's property in Makati City which is the same property subject of the 2007 Joint Venture Agreement between Fed Land and Orix Risingsun. The condominium project was designated as The Grand Midori Makati project.

FLOC, as developer, shall develop and construct the property into one or more medium-rise and/or high-rise residential condominium buildings with commercial units on the podium. In consideration for their respective contributions to the project, MBT shall be entitled to an allocation of 17.3% of the total condominium units and parking slots in the project, while FLOC shall be entitled to 82.7%.

The Capital Tower

Joint Development Agreement dated June 2, 2008

Fed Land entered into a Joint Development Agreement with MBT for the construction and development of a condominium project known as The Capital Tower on a parcel of land owned by MBT. The project comprises approximately 8,809 sq. m. of land located at E. Rodriguez, Sr. Avenue, Barangay Kalusugan, Quezon City. Fed Land, as developer, shall contribute the necessary expertise and resources for the construction and development of the project. Fed Land is entitled to 88.5% of the condominium units and parking slots developed therein, while and MBT is entitled to 11.5%.

The Oriental Place

Joint Development Agreement dated June 2, 2008

Fed Land and MBT entered into another Joint Venture Agreement for the construction and development of another condominium project, The Oriental Place. MBT contributed four parcels of land with an aggregate area of approximately 1,667 sq. m., located at Chino Roces Avenue, Makati City. Fed Land shall provide the necessary expertise and resources for the construction and development of the project.

90% of the condominium units and parking slots to be developed shall be allocated to Fed Land, while the remaining 10% shall be allocated to MBT. They shall bear the taxes on the open spaces and common areas, as well as the expenses for the maintenance of the project based on the foregoing sharing ratio, prior to its turn over to the condominium corporation.

Bonifacio, Taguig

Joint Development Agreement dated September 8, 2008

On September 8, 2008, Fed Land as developer and MBT as landowner entered into a Joint Development Agreement for purposes of pooling their resources into an unincorporated joint venture arrangement for the master planning and development of a multi-phased project to be composed of commercial, residential and retail elements in accordance with general development plans to be prepared by Fed Land and approved by MBT for each phase of the development.

The project is located at Fort Bonifacio Global City, Taguig, Metro Manila, and consists of 27 parcels of land, with an aggregate area of 104,491 sq. m., more or less, registered in the name of MBT. Fed Land shall undertake the development of such property by providing the necessary expertise and resources for the master planning, development and construction, and by performing all development work for the project.

MBT and Fed Land have ownership interests of 80% and 20%, respectively, in the lots to be developed for the first phase of the development, based on the proportion that their respective contributions bear to the project. The sharing ratio may be adjusted upon mutual agreement of the parties in the event of any change in the contribution of either party during the succeeding phases of the project, as a result of an increase in the total project cost or any other reason which may effect a change in the contribution of either party vis-à-vis the entire project.

Peninsula Midtown Garden Homes

Joint Venture Agreement dated December 29, 2009
Fed Land entered into a Joint Venture Agreement with Paco Realty Development, Inc. ("PRDI") wherein Fed Land undertook to develop certain real property owned by PRDI into a condominium project, designated as the Peninsula Midtown Garden Homes. The subject property consists of three parcels of land, with an aggregate area of 21,959.70 sq. m., and is located at Peñafrancia Ext., Brgy. 831, City of Manila.

Based on the proportion that the parties' respective contributions bear to the project, PRDI shall be allocated 7.2% and Fed Land shall be allocated 92.8% of the developed property in the project. Upon mutual agreement of the parties, the foregoing sharing ratio may be adjusted, particularly in the event of any change in the contribution of either party during the succeeding phases of the project, as a result of an increase in the total project cost or any other reason which may effect change in the contribution of either party. The sharing ratio shall, however, reflect the actual contribution of the parties vis-à-vis the entire project, at all times.

Amended and Restated Joint Venture Agreement dated November 4, 2011
On November 4, 2011, Fed Land and PRDI entered into an Amended and Restated Joint Venture Agreement as a consequence of the merger of PRDI with HCAI (which was renamed Horizon Land Property Dev't. Corp. or Horizon Land). By virtue of the merger, all assets and interests of PRDI were transferred to Horizon Land.

The Amended and Restated Joint Venture Agreement contains the subsequent agreement of the parties to divide the project in two phases: Phase I to be composed of the first two high rise condominium and/or parking buildings (Molave Tower and PGMH Parking Building) with commercial, residential and retail elements, and Phase II shall be composed of the next seven high rise condominium and/or parking buildings with commercial, residential and retail elements. The parties further agreed that the Joint Venture Agreement shall apply only to Phase I and HLPDC shall undertake to develop at its sole expense the Phase II of the project. Nevertheless, despite the division of the project in two phases, all the common areas, facilities and amenities of both phases shall be utilized and shared by all the unit owners of both phases. The project was thereafter renamed "Peninsula Garden Midtown Homes Project".

The Axis Project

Joint Venture Agreement dated February 7, 2011
On February 7, 2011, Fed Land entered into a Joint Venture Agreement with HLRDC, a wholly-owned subsidiary of Fed Land, and Robinsons Land Corporation ("RLC"), for the development of a residential complex consisting of a cluster of six residential condominium buildings, with podium and common facilities and amenities, in accordance with the Master Development Plan drawn by the parties' jointly designated architectural/consultancy firm.

Development of the project shall be undertaken by RLC, and is divided into two phases: Phase I consisting of two residential condominium buildings, with podium and corresponding common facilities/amenities, with a land area of 10,061 sq. m., more or less; and Phase II, consisting of four residential condominium buildings, with podium and corresponding common facilities/amenities, with a land area of 11,048 sq. m., more or less.

HLRDC shall contribute four parcels of land located at Pioneer Street, Mandaluyong City, with an aggregate area of 21,109 sq. m., more or less, and RLC shall also contribute property with an area 2,538 sq. m., more or less (the "Road Lot") which shall serve as an access road to link RLC's adjacent lots to the main property. HLRDC, Fed Land and its affiliate companies were given the perpetual right to use the Road Lot as an access to their own properties starting three years from the date of signing of the agreement.

The parties shall share in the project by dividing the saleable condominium units and parking slots among themselves, so that HLRDC and Fed Land shall be entitled to 25% each and RLC to 50% of the saleable units.

Supplement to Joint Venture Agreement dated February 7, 2011
On the same date, February 7, 2011, the parties executed a Supplement to Joint Venture Agreement mainly for the purpose of clarifying the cash management of the sales proceeds from the project.

The parties shall manage the cash proceeds from sales of the project, such that HLRDC, Fed Land and RLC shall be entitled to 25%-25%-50% of the gross proceeds, respectively, regardless of the units sold. They shall moreover manage the cash disbursements pertaining to the development cost of the project, such that Fed Land, HLRDC, and RLC shall share in the same proportion with respect to cash payments to suppliers and vendors of the project.

The Supplement also contains provisions regulating sales and marketing activities, period of development, and administration and collection of proceeds.

Marco Polo Residences

Joint Venture Agreement dated November 4, 2011

On November 4, 2011, Fed Land entered into a Joint Venture Agreement with CIR. The joint venture envisions the development of a residential and/or commercial complex with the construction of five high rise condominium buildings, with common facilities/amenities, on property to be contributed by CIR. The property consists of eight parcels of land located at Veterans Drive, Nivel Hills, Barangay Apas, Cebu City, with an aggregate area of 31,541.7 sq. m., more or less.

The project was initially valued at ₱5.9 billion to which CIR shall contribute ₱1.8 billion or 30% of the value of the project, consisting of the property valued at ₱240.8 million and a development cost of ₱1.5 billion. Fed Land shall contribute a financial capital of ₱4.1 billion over the lifetime of the project also as development cost constituting 70% of the value of the project. Fed Land shall moreover contribute the necessary expertise and resources for the master planning and development of the project, and shall perform all development works therefor.

In consideration of the capital contributed by the parties to the project, specifically-designated developed units and parking slots in the project shall be allocated in separate legal ownership between the parties, in accordance with the following ratio: CIR – 30% and Fed Land – 70%.

Sale and/or Purchase Agreements

Contract to Sell dated January 14, 2009

Fed Land entered into a Contract to Sell with AXA, wherein Fed Land agreed to buy two office units in the Skyland Plaza Building, located at Sen. Gil Puyat Avenue corner Tindalo Street, Makati City, particularly Units 112 and 113 with an area of approximately 161.2 sq. m. and 127 sq. m., respectively.

Of the total selling price of ₱15.1 million, exclusive of interest, Fed Land has paid ₱4.5 million representing 30% downpayment. ₱6.0 million representing 40% of the selling price shall be payable over sixty equal and successive monthly installments, starting from the date of the contract to sell, and the remaining 30% in the amount of ₱4.5 million shall be paid in lump sum at the end of sixty months. The instalments constituting 70% of the selling price shall be charged interest at the rate of 8% per annum, payable at the same time as the principal.

AXA will execute the deed of absolute sale and deliver the same to Fed Land upon full payment of the selling price. Capital gains tax on the transaction shall be for the account of AXA and all other taxes and expenses for the registration of the sale and transfer of titles shall be for the account of Fed Land.

Lease Agreements with Fed Land as Lessee

Contract of Lease dated November 6, 2007 with MBT

On November 6, 2007, Fed Land entered into a Contract of Lease with MBT, under which Fed Land agreed to lease from MBT office premises with a floor area of 987.6 sq. m., more or less, at the 2nd Floor of GT Tower International.The lease shall be for a period of five years starting October 1, 2007 which shall expire automatically at the close of business hours on September 30, 2012. Fed Land shall pay a monthly rent of ₱478,966.6, exclusive of taxes, subject to an annual escalation rate of 8% per annum starting on the second year and every year thereafter. The leased property is presently utilized by Fed Land as office space.

Contract of Lease dated February 2, 2010 with MBT at the Tytana Plaza

On February 2, 2010, Fed Land entered into a Contract of Lease with MBT wherein Fed Land shall lease from MBT the 3rd Floor of Tytana Plaza, with a floor area of 591.2 sq. m., more or less, located at Plaza San Lorenzo Ruiz, Binondo, Manila. The lease contract shall be for a period of two years starting from February 1, 2010 and will expire automatically at the close of business hours of January 31, 2012. Fed Land agreed to pay a monthly rent of ₱88,680.0, exclusive of taxes.The leased property is being used as a showroom for model units.

Lease Agreements with Fed Land as Lessor

GT Tower International

On July 22, 2011, Fed Land and FMIC executed a deed designated as Change of Lessor, through which Fed Land assumed PSC's rights and obligations as lessor as a consequence of PSC's sale to Fed Land of the property leased by FMIC. Based on the original Contract of Lease, as amended by the Addendum to Contract of Lease, FMIC leased a 1,247 square meter area of the 45th Floor of GT Tower International for a period of five years from August 1, 2008 to July 31, 2013, and for a total rent of ₱82.2 million.

Philippine AXA Life Centre

On August 24, 2011, Fed Land and AXA executed a deed of Change of Lessor, through which Fed Land assumed Unilonseal Plastic, Inc.'s ("UPI") rights as lessor under the Contract of Lease with AXA as a consequence of UPI's sale to Fed Land of the property leased by UPI. Based on the original Contract of Lease, AXA leased from UPI a 993.1 sq. m. portion of the 15th Floor of Philippine AXA Life Centre, including four parking slots, for a period of five years from March 1, 2008 to March 1, 2013.

Contract of Lease (Vacant Lot) dated April 1, 2009

On April 1, 2009, Fed Land entered into a Contract of Lease with Manila Medical Services, Inc. ("MMSI"), wherein MMSI agreed to lease from Fed Land a 4,000 sq. m. portion of a parcel of land, with an aggregate area of 5,554.2 sq. m., located at T.M. Kalaw Street corner San Marcelino Street, Ermita, Manila. The lease is for a period of five years starting from March 1, 2009 until February 28, 2014. Fed Land shall derive a total rent income of ₱13.0 million from the lease.

Contract of Lease (Vacant Lot) dated May 10, 2011 with Zhongfa Development, Inc.

On May 10, 2011, Fed Land entered into a Contract of Lease with Zhongfa Development, Inc. ("ZDI"), under which ZDI agreed to lease from Fed Land a parcel of land with an aggregate area of approximately 4,835.0 sq. m., located at B6-A Property, Central Business Park 1A, Pasay City. The lease period is from May 5, 2011 to November 4, 2011, renewable upon mutual agreement of the parties, provided a notice of renewal is served by the renewing party at least two months before the expiration of the term of the lease. Fed Land shall derive rental income in the total amount of ₱870,300.0 plus VAT for the entire lease period.

Contract of Lease dated March 2, 2010 with National Bookstore Corporation

On March 2, 2010, Fed Land entered into a Contract of Lease with National Bookstore Corporation ("NBC"), under which NBC agreed to lease a commercial unit, Retail Space Nos. 2, 3 and 5, with a total area of 440.2 sq. m., located at the Ground Floor of the Capital Towers. The lease shall be for a period of five years from December 1, 2009 to November 30, 2014. Fed Land shall derive a total rental income of ₱18.6 million plus VAT for the entire lease period.

Contract of Lease with individuals and corporations for commercial spaces in Oriental Garden Makati

Fed Land has subsisting leases with certain individuals and corporations over a number of commercial units in Oriental Garden Makati, located at the corner of Chino Roces Avenue and Urban Avenue, Makati City, as follows:

Date of Contract of Lease	Lessee	Space Rented/Area	Lease Term	Total Rent for entire Lease Period
September 21, 2010	Ricardo de Lucia	Commercial Unit C, 57 sq. m.	3 years (1 September 2010 to 31 August 2013)	₱1,711,292.8
November 10, 2010	Golden Kitchen Food Corporation	Commercial Unit D, 57 sq. m.	3 years (1 August 2010 to 31 July 2013)	₱1,711,292.8

Contract of Lease with individuals and corporations for commercial spaces in Oriental Garden Residences

Fed Land entered into lease agreements for the lease of commercial spaces of the Oriental Garden Residences, located at the Governor's Drive, Barangay Manggahan, Gen. Trias, Cavite, as follows:

Date of Contract of Lease	Lessee	Space Rented/Area	Lease Term	Total Rent for entire Lease Period
March 18, 2010	Mang Inasal	G/F, 193 sq. m.	7 years (15 May 2010 to 14 May 2017)	₱9,937,932.8
January 10, 2011	Robinsons Supermarket	Commercial building with a total area of 3,155.30 sq. m.	10 years (15 December 2010 to 14 December 2020)	₱113,162,562.7
June 28, 2011	Handyman	412.70 sq. m. portion of commercial building	5 years (15 December 2010 to 14 December 2015)	₱9,577,797.6

Financing Agreements

Notes Facility Agreement dated March 18, 2011

On March 18, 2011, Fed Land entered into a Notes Facility Agreement with FMIC as Arranger, MBT-TBG as Notes Facility Agent, and various financial institutions as Initial Note Holders. Pursuant to the Notes Facility Agreement, Fed Land shall offer and issue a principal amount of ₱6.6 billion worth of fixed rate notes outstanding at any one time. The net proceeds from the issuance of the notes shall be used to finance projects, working capital and for general corporate purposes. Fed Land is required to pay interest on the outstanding principal amount of the notes. Fed Land is obliged to redeem all the notes on the fifth anniversary of the issue date of the notes, or on March 25, 2016.

The agreements covering the above mentioned notes provide for restrictions and requirements with respect to, among others, declaration or making payment of cash dividends/retirement of shares (other than dividends payable solely in shares of its capital stock and cash dividends due on its then-outstanding preferred shares), making distribution on its share capital, purchase, redemption or acquisition of any share of stock, incurrence or assumption of indebtedness, sale or transfer and disposal of all or a substantial part of its capital assets, restrictions on use of funds, maintaining certain financial ratios, and entering into any partnership, merger, consolidation or reorganization.

Deed of Assignment with Power of Attorney dated July 2, 2010

On July 2, 2010, Fed Land and MBT executed a Deed of Assignment with Power of Attorney with Fed Land as Assignor/Borrower and MBTC as Assignee. Under the deed, Fed Land ceded, transferred and assigned to MBT all rights, title and interest of Fed Land in its Time-Peso Deposit under Account No. 066-1-06610498-0 in the amount of ₱10 million, together with any interest and/or income thereon. This function as consideration and security for certain loans, credit lines and other credit accommodations in the amount of ₱10 million granted or to be granted to Fed Land by MBT, including any extension, renewal, modification or novation thereof, and/or increases/additions thereto. The deed matures only upon full payment or discharge thereof.

Mortgage Indenture Agreement dated October 29, 2009

On October 29, 2009, Fed Land and MBT entered into a Mortgage Indenture Agreement, under which Fed Land established and constituted in favor of MBT as Trustee, acting on behalf of and for the pro-rata and pari-passu benefit of the lenders, a first mortgage and a security interest in and to the properties defined therein, including real property located in Pasay City.

The Mortgage Indenture Agreement established a security for the performance of Fed Land's obligations under certain credit or loan agreements it has entered into or may enter into with certain banks and financial institutions as lenders to finance its working capital requirements or business operations, as well as the obligations of Fed Land under all instruments and documents executed or which may be executed in the implementation of the said credit or loan agreements or in connection therewith, up to the aggregate amount of ₱337.0 million.

The Mortgage Indenture Agreement shall terminate only upon payment in full of all obligations, and performance of all covenants, undertakings and agreements thereunder and in the credit or loan agreements.

TMP'S MATERIAL CONTRACTS

Toyota and Lexus Distributor Agreements

TMP, TMC and TMAP have existing Toyota Distributor Agreement and Lexus Distributor Agreement (the "Agreements") wherein TMP is appointed as the exclusive distributor of Toyota and Lexus vehicles, parts, and accessories in the Philippines. Under the Agreements, TMC supplies TMP with Toyota and Lexus vehicles in completely built-up form, cab and chassis form, or knock-down form. In turn, TMP continuously purchases Toyota products from TMC and TMAP while establishing the Toyota sales and service network in the Philippines. TMP is likewise given the license to use Toyota trademarks in accordance with the instructions of TMAP.

The Agreements are effective until November 30, 2012 and shall terminate automatically: (i) at the end of its term; (ii) by written agreement of the parties; (iii) by the dissolution, admission of insolvency or the filing of a petition for the appointment of a receiver, corporate reorganization or bankruptcy of any party; or (iv) by the termination of the Amended and Restated Basic Agreement on Joint Venture dated September 21, 1999 by and among TMC, Mitsui, Metropolitan Bank and Trust Company, Titan Resources Corporation, and Maximus Management Holdings, Inc. The Toyota Distributor Agreement may be terminated by any party upon breach by any other party of the provision prohibiting the assignment of any rights under the agreement without the prior written consent of the other parties or by the failure of any other party to address any material breach of any provision of the agreement within sixty days after such party received a request to remedy such breach. TMC may terminate the Toyota Distributor Agreement upon: (i) discontinuance of a material part of the business activities of TMP as a distributor; (ii) the issuance of an order by a relevant authority for TMP to discontinue its business; (iii) the election by TMC to terminate the agreement upon failure of TMP to meet its business targets; (iv) when TMP implements significant changes in its organization without prior approval of TMC and TMAP; or (v) the commission of any crime by the executives or high-ranked employees of TMP that may discredit the image of Toyota products.

Dealership Agreements

To facilitate local distribution of Toyota products, TMP has existing dealership agreements with the following corporations (the "Dealers"): (i) Toyota Manila Bay Corporation; (ii) Toyota Makati, Inc.; (iii) Toyota Shaw, Inc.; (iv) Toyota Cubao Inc.; (v) Toyota Alabang, Inc.; (vi) Toyota Pasong Tamo, Inc.; (vii) Toyota Balintawak, Inc.; (viii) Toyota Cebu City, Inc.; (ix) Toyota Quezon Avenue, Inc.; (x) Toyota Otis, Inc.; (xi) Toyota Dagupan City, Inc.; (xii) Toyota Commonwealth, Inc.; (xiii) Toyota Iloilo, Inc; (xiv) Toyota Davao City, Inc.; (xv) Toyota Cagayan de Oro, Inc.; (xvi) Toyota San Fernando Pampanga, Inc; (xvii) Toyota Cabanatuan City, Inc. (xviii) Toyota Batangas City, Inc.; (xix) Toyota General Santos, Inc.; and (xx) Toyota Global City, Inc. Covered under the Dealership Agreements are the following branches: (i) Toyota Bicutan, Parañaque; (ii) Toyota Marikina Service Station; (iii) Toyota Bacolod City; (iv) Toyota Cebu-Mandaue; (v) Toyota Pasig; (vi) Toyota North EDSA; (vii) Toyota Baguio City; (viii) Toyota Dasmariñas, Cavite; (ix) Toyota Abad Santos, Manila; and (x) Toyota La Union.

In 2010, TMP also entered into a dealership agreement with Lexus Manila, Inc. for the sale of Lexus brand vehicles. Except for Toyota Makati, Inc., Toyota San Fernando Pampanga, Inc., and Lexus Manila, Inc. which are subsidiaries of TMP, ownership and management of each dealership are retained by the respective Dealers, subject to minimum standards and policies determined by TMP.

Under the dealership agreements, TMP grants Dealers the non-exclusive right to buy and resell Toyota vehicles and spare parts, to identify itself as an authorized Toyota dealer, and to use the name Toyota and all related marks in advertising, promotion, and sale of Toyota products. In turn, the Dealer shall sell, promote, and service Toyota products by means of dealership facilities within its authorized market area. Transactions between TMP and the dealers are on an individual sales contract basis subject to the Dealer's accurate estimates and fulfillment of the number of units ordered, with ownership of products transferred to the Dealer upon full payment of purchase price to TMP.

The dealership agreements are renewed on a yearly basis, taking into consideration the results of the Dealer's performance evaluation according to sales, after-sales service, facilities, finance, and customer satisfaction criteria. Apart from Lexus Manila, Inc., TMP has a right of first refusal over the shares of stocks and assets of the Dealers in the event that the latter decides to cease business operations. TMP may terminate a dealership agreement in the event of breach by such Dealer of any provision thereof without justifiable cause. On the other hand, the Dealer may terminate the dealership agreement by giving written notice to TMP. dealership agreements are automatically terminated by: (i) mutual written agreement of the parties thereto; (ii) when either party is dissolved, admits insolvency or is subject to a petition for appointment of a receiver, corporate reorganization or bankruptcy; or (iii) by the termination of the distributor agreement between TMP and TMC.

Technical Assistance Agreements

Technical Assistance Agreement between Toyota Motor Corporation and Toyota Motor Philippines Corporation

TMP and TMC have an existing Technical Assistance Agreement granting TMP the license for the manufacture of Toyota vehicles and parts and components. TMP is granted the non-exclusive and non-transferable license to manufacture Toyota vehicles, namely the Camry, Corolla, Tamaraw, Innova, and Vios series, as well as Toyota licensed parts. In turn, TMC provides TMP with technical know-how and information relating to such Toyota products, including manufacturing and engineering data and training of TMP personnel. TMP shall pay TMC royalties on all products manufactured under the Technical Assistance Agreement.

The Technical Assistance Agreement is effective until April 30, 2014 and may be terminated: (i) by the expiration of the term; (ii) by mutual written agreement of the parties; (iii) when TMP loses the distributorship of Toyota products in the Philippines; (iv) when either party is dissolved, admits insolvency or is subject to a petition for appointment of a receiver, corporate reorganization or bankruptcy; (v) upon breach by either other party of any of its obligations under the agreement and such party fails to rectify such breach within sixty days after such party received a request to remedy such breach.

Technical Assistance Agreement for Accessory Parts between Toyota Motor Philippines Corporation and Toyota Motor Asia Pacific Engineering & Manufacturing Co., Ltd.

Similar to the Technical Assistance Agreement between TMP and TMC, TMP has an existing Technical Assistance Agreement with TMAP-EM for the manufacture or assembly of Toyota accessory parts. TMP is given a license to manufacture while TMAP-EM provides technical assistance relative thereto. Royalties are paid by TMP to TMAP-EM on all accessory parts manufactured under the agreement. The Technical Assistance Agreement was entered into on January 1, 2010 and shall remain effective unless otherwise terminated by either party.

Lease Agreements

TMP entered into individual lease agreements with Toyota Autoparts Philippines, Inc., TRP, Inc., and Philippine HKR, Inc. (the "Lessees") over TMP's land situated in Sta. Rosa Laguna. The lease covers a total area of 227,411 square meters. Under lease agreements, TMP receives an amount of ₱7.8 million annually as rent. The Lessees are prohibited from subleasing or assigning any rights under their respective Lease Agreements to any third party without the prior written consent of TMP.

The term of the lease agreements is for fifty years, subject to prior termination by the party on any of the following grounds: (i) written agreement of termination by the parties; (ii) expiry of the term of the lease without renewal; (iii) upon option of the Lessee; (iv) when either party is dissolved, bankrupt or insolvent; or (v) upon breach by either other party of any of its obligations under the agreement and such party fails to rectify such breach within sixty days after request by the other party and the non-defaulting party gives written notice of termination of the agreement.

AXA'S MATERIAL CONTRACTS

Agreements for Medical Referrals

AXA entered into agreements with hospitals and clinics within and outside Metro Manila concerning referrals for medical services of its clients required to undergo medical examination, laboratory and diagnostic tests. All these agreements carry similar terms and provisions. Charges for medical examinations, laboratory and diagnostic tests for the referrals made by AXA will be for its own account. The agreements took effect in 2003 for an initial term of 1 year, with an automatic renewal for period from year to year, unless terminated by one party at least 30 days prior to date of termination.

GBP'S MATERIAL CONTRACTS

Power Projects

Panay Energy Development Corporation

Operations and Maintenance

Operations and maintenance services for the PEDC plant are provided by FHIC under the PEDC Contract of Services. The PEDC Contract of Services is for a term of two years, beginning January 1, 2011 and renewable for another six months upon mutual agreement up to three years from the date of effectivity of the agreement.

In consideration of the performance of the services, PEDC shall pay quarterly service fees in the sum per the actual computation until termination or expiration of the agreement, which fee includes all costs, expenses and charges of the assigned personnel including lodging and travel, which may be incurred by FHIC in connection with the performance of the service.

Fuel Supply

PEDC procures 90% of its coal supply requirements from PT Sion, Samtan and Semirara for its thermal power plant located in Brgy. Ingore, La Paz, Iloilo City. The remaining 10% requirement is sourced on a spot basis.

The supply contract with Semirara dated May 31, 2010 is for an annual contracted volume of 60,000MT for November to December 2010 and annual contracted volume of 300,000MT with an option for an additional volume, subject to availability, for years 2011 to 2019.

The coal supply is subject to a 10% upward or downward volume adjustment to accommodate variances during loading. The base price is ₱2,300/MT, which is to be adjusted quarterly by both parties. The pricing scheme is further subject to payment of premiums and penalties, including penalty on total moisture sulfur, ash and coal fines in case shipments are not in accordance with the agreed specifications.

Title and risk of loss passes to PEDC as soon as the cargo passes the rail of the bulk cargo while loading at the Semirara port. All taxes, duties, etc. in connection with the loading of the goods shall be for the account of Semirara, while those on unloading shall be for the account of PEDC.

In December 2010, PEDC engaged the services of Sycamore Global Shipping Corporation for freight and logistics services to transport the coal from Semirara to its power plant for a term until December 31, 2020. The fees for the services include fuel fee, foreign operations and maintenance fee, local operations and maintenance fee, lubricants fee and capacity fee.

The supply contract with Samtan dated June 9, 2010 is for a term of ten years, commencing on January 1, 2011 to December 31, 2020, subject to an extension of three years upon mutual agreement of the parties in writing but in no case beyond the Coal Contracts of Work. The supply contract with PT Sion dated January 31, 2011 is for a term of five years, commencing on January 1, 2011 to December 31, 2015, subject to extension of five years upon mutual agreement of the parties in writing but in no case beyond the Coal Cooperation Agreement. Under the said agreements, the supply of coal is for a total of 150,000 tons per year, which volume is subject to a 10% upward or downward adjustment, and PEDC has the option to call for an additional 50,000 tons per year, subject also to the same volume adjustment. The pricing scheme is further subject to payment of premiums and penalties, including penalty on total moisture sulfur, ash and coal fines in case shipments are not in accordance with the agreed specifications.Further, title and risk of loss passes to PEDC when the coal passes the vessel's rail and is dumped into the holds at the load port.

Cebu Energy Development Corporation

Operations and Maintenance

Operations and maintenance services for the CEDC plant are provided by FHIC under the CEDC Contract of Services for the operations and maintenance of the power plant, coal handling facilities, pier facilities and desalination and demineralized water plant. The CEDC Contract of Services is for a term of two years, beginning January 1, 2011 and renewable for another six months upon mutual agreement up to three years from the date of effectivity of the agreement.

In consideration of the performance of the services, CEDC shall pay quarterly service fees in the sum per the actual computation until termination or expiration of the agreement, which fee includes all costs, expenses and charges of the assigned personnel, including lodging and travel, which may be incurred by FHIC in connection with the performance of the service.

Fuel Supply

CEDC procures 90% of its coal supply requirements from PT Adaro, Coal Orbis and Semirara for its thermal power plant located in Daanlungsod, Toledo City, Cebu. The remaining 10% is sourced on a spot basis.

The supply contract with Semirara dated May 31, 2010 is for an annual contracted volume of 250,000MT for April to December 2010 and annual contracted volume of 400,000MT for years 2011 to 2019, with an option for additional volume, subject to availability.

The coal supply is subject to a 10% upward or downward volume adjustment to accommodate variances during loading. The base price is ₱2,300/MT, which is to be adjusted quarterly by the parties. The pricing scheme is further subject to payment of premiums and penalties, including penalty on total moisture sulfur, ash and coal fines in case shipments are not in accordance with the agreed specifications.

Title and risk of loss passes to CEDC as soon as the cargo passes the rail of the bulk cargo while loading at Semirara port. All taxes, duties, etc. in connection with the loading of the coal shall be for the account of Semirara, while those on unloading shall be for the account of CEDC.

The supply contract with PT Adaro is for a term of ten years, commencing on January 1, 2010 until December 31, 2019, subject to an extension upon mutual agreement of the parties in writing. The term may be extended beyond October 1, 2022, subject to the Coal Cooperation Agreement being extended, renewed, or replaced allowing PT Adaro to continue its mining operations.

The supply from PT Adaro is for a total of 250,000 tons per year, which volume is subject to a 10% upward or downward adjustment, and CEDC has the option to call for an additional 100,000 tons per year, subject also to the same volume adjustment.

The supply contract with Coal Orbis is for a term of five years, commencing on January 1, 2010 until December 31, 2016, subject to extension for another five years upon mutual agreement of the parties in writing, but in no event beyond the Coal Cooperation Agreement. The supply is for a total of 150,000 tons per year, and CEDC has the option to call for an additional 50,000 tons per year, subject to a 10% upward or downward volume adjustment.

Under both contracts, the pricing scheme is further subject to payment of premiums and penalties. Further, title and risk of loss passes to the CEDC when coal passes the vessel's rail and is dumped into the holds at the load port.

Toledo Power Corporation

Operations and Maintenance
Operations and maintenance services for the TPC plants are done in house by TPC staff. When maintenance requires specific expertise, TPC hires independent consultants to conduct the maintenance activities.

Fuel Supply
TPC obtains its coal requirements from Semirara for its thermal power plant located in Sangi, Toledo City until December 13, 2013 with an annual contracted volume of 15,000-18,000 metric tons of coal per month.

The coal supply is subject to a 10% upward or downward volume adjustment to accommodate variances during loading. The base price is ₱2,300/MT, which is to be adjusted quarterly by the parties.The price of the coal under the agreement is indexed to Newcastle Coal prices and is subject to payment of premiums and penalties, including penalty on total moisture sulfur, ash and coal fines in case shipments are not in accordance with the agreed specifications.

Title and risk of loss passes to TPC as soon as the cargo passes the rail of the bulk cargo while loading at Semirara port. All taxes, duties, etc. onloading of the goods shall be for the account of Semirara, while those on unloading shall be for the account of TPC.

The supply of bunker fuel oil and related technical support and training for the operation and maintenance of the power plant of TPC located in Carmen Power Station, Toledo City was procured from Shell Oil with a contracted capacity of 2,600,000 liters, beginning July 2011 to July 2012. In the event that the volume is not lifted within the specified period, the term shall be extended until September 2012.

The supply by Shell Oil is subject to payment of fee, indexed to the Mean of Platt's Singapore and with premium of U.S.$1. 0 per barrel for July to December 2011 and U.S.$1.60 per barrel for deliveries made from January to July 2012, freight, transshipment VAT and other duties and costs. Title and risk of loss transfers to TPC when the goods have been transferred and placed in the proper containers or storage tanks located at the delivery points.

Panay Power Corporation

Operations and Maintenance
Operations and maintenance services for the PPC plants are done in house by PPC staff. When maintenance requires specific expertise, PPC hires independent consultants to conduct the maintenance activities.

Fuel Supply
Petron provides for the continuous supply of low sulfur fuel oil and related technical support and training services for the operation and maintenance of the power plants of PPC.

The contracted capacity is 6,463,829 liters of fuel beginning March 2011 to March 2012 for delivery to Panay Power Plant 2 in Iloilo (3,525,000 liters) and New Washington Power Station in Aklan (2,938,839 liters).

For the Nabas Power Station in Aklan, PPC has a contract with Petron for 112,000 liters beginning January 2012 to April 2012 with an option to extend for a period of two months until the volume is fully lifted.

The supply of fuel is subject to payment of a fee, indexed to the Mean of Platt's Singapore, and with additional charges for premium of U.S.$12.5 per barrel, insurance and freight, transshipment value-added tax and other duties and costs.

Petron is responsible for all business taxes imposed by national or municipal laws, which shall be deducted and withheld by PPC. Any extension or renewal of the necessary permits, licenses, registration and other authorizations shall be for the account of Petron.

In 18 June 1998, PPC procured from Shell Oil petroleum products to be made available for the Panay Power Plant I located in Brgy. Ingore, La Paz, Iloilo City, for a term of 15 years commencing on the start of commercial operations or in 1998 and shall continue indefinitely subject to six days prior written notice of termination by either party. The supply by Shell Oil is subject to payment of fee, indexed to the Mean of Platt's Singapore, and with additional charges for insurance, freight, transshipment, value-added tax and other duties and costs.

Shell Oil will further provide for certain equipment and facilities to be used for the exclusive receipt, storage and servicing of products from Shell Oil for the duration of the agreement, in consideration for the exclusive purchase its total requirement of petroleum products.

GBH Power Resources, Inc.

Operations and Maintenance

Operations and maintenance services for the GPRI plant are done in house by GPRI staff. When maintenance requires specific expertise, GPRI hires independent consultants to conduct the maintenance activities.

Fuel Supply

Petron supplies 11,582,110 liters of bunker fuel oil to GPRI under the fuel oil supply agreement ("GPRI FOSA") for the operation and maintenance of its power plant at its Mindoro Power Station beginning February 2011 until February 2012. As agreed upon by GPRI and Petron, notwithstanding the expiration of the GPRI FOSA, Petron will continue to supply GPRI with fuel oil and diesel oil in accordance with the terms of the GPRI FOSA for a period of 90 days from expiration, if GPRI does not take the full contracted amount of fuel.

The supply of fuel is subject to payment of a fee, indexed to the Mean of Platt's Singapore, and with additional charges for premium of U.S.$4.50 per barrel, transshipment VAT and other duties and costs. The said is subject to adjustment depending on whether the fuel delivered conforms to the specifications agreed upon.

Petron is responsible for all business and taxes imposed by the national or municipal laws, which shall be deducted and withheld by GPRI. Any extension or renewal of the necessary permits, licenses, registration and other authorizations shall be for the account of Petron.

Electric Power Purchase Agreements

GBP enters into bi-lateral off-take arrangements through EPPAs between its Generation Subsidiaries and the power-off-takers, which carry terms of 25 years and with certain key industrial customers under 15-year contracts, all of which are approved by the ERC.

For a summary of the EPPAs of the Generation Subsidiaries, see "Business – GBP – Power Generation Facilities – Electric Power Purchase Agreements".

CEDC

CEDC and VECO entered into an EPPA on October 16, 2009 wherein CEDC agreed to supply and deliver to VECO and for which VECO agreed to pay in accordance with the provision of the EPPA, electricity at a contracted capacity of 105 MW for a period of 25 years, commencing upon commencement of commercial operations or when all of CEDC's three units have been completed, inspected and tested, which date should not be later than March 31, 2011. CEDC declared commercial operations on February 26, 2011. The agreed fees are denominated in Philippine peso.

In 2010, CEDC entered into various EPPAs with BOHECO, MEC, CEBECO 1, CEBECO 2, CEBECO 3, PEZA-MEZ 1 and BEZ. Under the agreements, CEDC will supply electric power at the agreed minimum supply levels for a fee denominated in Philippine peso. The agreements further provide for the payment of liquidated damages in case of termination due to the default of the customer.

Under the agreement, CEDC may assign its rights, benefits and obligations in favor of its senior lender under any long term financing agreement to fund the construction, development, operation and maintenance of the power plant without the consent of the customers.

The cooperation period for the CEDC EPPAs range from ten to 25 years, commencing on the commercial operations date, which date should not be later than 31 March 31, 2011. CEDC commenced commercial operations on February 26, 2011.

PEDC

PEDC entered into EPPAs with various customers, including ILECO 1, ILECO 2, ILECO 3, PECO, CAPELCO, AKELCO and ANTECO for the supply of electric power at the agreed minimum supply levels for a fee denominated in Philippine peso. The agreements further provide for the payment of liquidated damages in case of termination due to the default of the customer.

Under the agreement, PEDC may assign its rights, benefits and obligations in favor of its senior lender under any long term financing agreement to fund the construction, development, operation and maintenance of the power plant without the consent of the customers.

The cooperation period for the PEDC EPPAs range from 15 to 25 years, commencing date of the start commercial operations, or March 26, 2011.

PPC

PPC entered into EPPAs with various customers, including PECO, ILECO 1, and AKELCO for the supply of electric power at the agreed minimum supply levels for a fee denominated in Philippine peso. The agreements further provide for the payment of liquidated damages in case of termination due to the default of the customer.

Under the agreement, neither party may assign or transfer all or any part of its rights, benefits or obligations under the agreement, without the prior written consent of the other party. In certain instances, assignment may be made by PPC of its rights, benefits and obligations in favor of its senior lender under any long term financing agreement to fund the construction, development, operation and maintenance of the power plant without the consent of the customers.

The cooperation period for the PPC EPPAs range from 16 to 20 years, commencing on the commercial operations date.

PPC also entered into a Memorandum of Agreement with NGCP for the provision of ancillary services to the grid at agreed minimum supply levels for a fee denominated in Philippine peso. The term of the agreement is three years, commencing on the date when all conditions precedent are met.

TPC

Based on EPPAs dated August 9, 2002 (as amended in February 2011) and December 1, 2009, TPC agreed to supply CEBECO 3 and Carmen Copper, respectively, at the agreed minimum supply levels for fees denominated in Philippine peso. These agreements, provide among others, the payment of termination fees/penalty or liquidated damages in the event of termination of agreement under certain circumstances, or default or breach of agreement by any of the parties and the recovery of any costs incurred as a result of the change in circumstances including change in any law or regulations of the Philippines, among others from TPC's customers.

Under the Memorandum of Agreement dated May 4, 2009 with BEZ, TPC also agreed to supply the power requirement of BEZ up to the uncontracted capacity of its plants on an "as available" basis, subject to payment of electricity fees.

GPRI

GPRI has an EPPA with ORMECO for the supply of a minimum number of kilowatt-hours of net electrical output in each contract year for a cooperation period of 20 years. The agreed fees are denominated in Philippine peso. This agreement also provides, among others, for the payment of termination fees/penalty or liquidated damages in the event of termination of agreement under certain circumstances, or default or breach of agreement by any parties. While GPRI has been delivering energy to ORMECO, GPRI and ORMECO have not yet agreed on the date of start of cooperation period.

THE PHILIPPINE STOCK MARKET

The information presented in this section has been extracted from publicly available documents which have not been prepared or independently verified by the Company, the Selling Shareholders, the Sole Global Coordinator, Sole International Bookrunner and Lead Manager, the Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter or any of their respective subsidiaries, affiliates or advisors in connection with the sale of the Offer Shares.

BRIEF HISTORY

The Philippines initially had two stock exchanges, the Manila Stock Exchange, which was organized in 1927, and the Makati Stock Exchange, which began operations in 1963. Each exchange was self-regulating, governed by its respective Board of Governors elected annually by its members.

Several steps initiated by the Government resulted in the unification of the two bourses into the PSE. The PSE was incorporated in 1992 by officers of both the Makati Stock Exchange and the Manila Stock Exchange. In March 1994, the licenses of the two exchanges were revoked. While the PSE maintains two trading floors, one in Makati City and the other in Pasig City, these floors are linked by an automated trading system which integrates all bid and ask quotations emanating from both floors.

In June 1998, the Philippine SEC granted the PSE "Self-Regulatory Organization" status, allowing it to implement its own rules as well as impose penalties on erring trading participants and listed companies. On August 8, 2001, the PSE completed its demutualization, converting from a non-stock member governed institution into a stock corporation in compliance with the requirements of the SRC. The PSE has an authorized capital stock, in compliance with the requirements of the SRC, of ₱97,800,000, of which ₱30,704,370 is subscribed and fully paid-up. Each of the 184 member-brokers was granted 50,000 shares of the new PSE at a par value of ₱1.00 per share. In addition, a trading right evidenced by a "Trading Participant Certificate" was immediately conferred on each member broker allowing the use of the PSE's trading facilities. As a result of the demutualization, and in compliance with the SRC, the composition of the PSE's Board of Governors was changed, requiring the election of not more than seven broker directors and at least eight non-broker directors, one of whom is the President. On December 15, 2003, the PSE listed its shares by way of introduction at its own bourse as part of a series of reforms aimed at strengthening the Philippine securities industry.

Classified into financial, industrial, holding firms, property, services, and mining and oil sectors, companies are listed either on the PSE's First Board, Second Board or the Small and Medium Enterprises Board. Each index represents the numerical average of the prices of component stocks. The PSE had an index, referred to as the PHISIX, which as of the date thereof reflects the price movements of 34 selected stocks listed on the PSE, based on traded prices of stocks from the various sectors. The PSE shifted from full market capitalization to free float market capitalization with effect from April 3, 2006, simultaneous with the migration to the free float index and the renaming of the PHISIX as PSEi. The PSEi includes 30 selected stocks listed on the PSE.

With the increasing calls for good corporate governance, the PSE has adopted an online daily disclosure system to improve the transparency of listed companies and to protect the investing public.

The table below sets forth movements in the composite index from December 31, 1995 to December 31, 2011, and shows the number of listed companies, market capitalization, and value of shares traded for the same period:

SELECTED STOCK EXCHANGE DATA

Calendar year	Composite index at closing	Number of listed companies	Aggregate market capitalization	Combined value of turnover
			(in ₱ billions)	(in ₱ billions)
1995	2,594.2	205	1,545.7	379.0
1996	3,170.6	216	2,121.8	668.8
1997	1,869.2	221	1,251.3	586.2
1998	1,968.8	221	1,373.7	407.3
1999	2,143.0	223	1,936.5	781.0
2000	1,494.5	226	2,576.5	357.7
2001	1,168.1	228	2,147.4	159.6
2002	1,018.4	232	2,083.1	159.7
2003	1,442.4	235	2,973.9	145.4
2004	1,822.8	234	4,766.7	206.6
2005	2,096.0	236	5,948.7	383.5
2006	2,982.5	239	7,173.2	572.6
2007	3,621.6	244	7,977.6	1,338.3
2008	1,872.9	246	4,069.2	763.9
2009	3,052.7	248	6,032.2	994.2
2010	4,201.1	253	8,866.1	1,207.4
2011	4,372.0	253	8,697.0	1,422.6

Source: PSE. Data in the table above is as of the last trading day of each year.

TRADING

The PSE is a double auction market. Buyers and sellers are each represented by stock brokers. To trade, bids or ask prices are posted on the PSE's electronic trading system. A buy (or sell) order that matches the lowest asked (or highest bid) price is automatically executed. Buy and sell orders received by one broker at the same price are crossed at the PSE at the indicated price. Transactions are generally invoiced through a confirmation slip sent to customers on the trade date (or the following trading day). Payment of purchases of listed securities must be made by the buyer on or before the third trading day after the trade.

Trading on the PSE starts at 9:30 a.m. with a trading recess from 12:00 p.m.. Trading resumes at 1:30 p.m. and ends at 3:30 p.m. with a ten-minute extension during which transactions may be conducted, provided that they are executed at the last traded price and are only for the purpose of completing unfinished orders. Trading days are Monday to Friday, except legal and special holidays and when the BSP is closed for various reasons, including inclement weather.

Minimum trading lots range from five to 1,000,000 shares, depending on the price range and nature of the security traded. Odd-sized lots are traded by brokers on a board specifically designed for odd-lot trading.

To maintain stability in the stock market, daily price swings are monitored and regulated. Under current PSE regulations, when the price of a listed security moves up by 50.0% or down by 50.0% in one day (based on the reference price, which is generally the previous day's closing price), the price of that security is automatically frozen by the PSE, unless there is an official statement from the issuer or a government agency justifying such price fluctuation, in which case the affected security can still be traded but only at or within the frozen price. If the issuer fails to submit such explanation, a trading halt is imposed by the PSE on the listed security the following day. Resumption of trading shall be allowed only when the disclosure of the issuer is disseminated, subject again to the trading band.

NON-RESIDENT TRANSACTIONS

When the purchase/sale of Philippine shares of stock involves a non-resident, whether the transaction is effected in the domestic or foreign market, it will be the responsibility of the securities dealer/broker to register the transaction with the BSP. The local securities dealer/broker shall file with the BSP, within three business days of the transaction date, an application in the prescribed registration form. After compliance with other required undertakings, the BSP shall issue a Certificate of Registration. Under Bangko Sentral rules, all registered foreign investments in Philippine securities, including profits and dividends, net of taxes and charges, may be repatriated.

SETTLEMENT

The Securities Clearing Corporation of the Philippines ("SCCP") is a wholly-owned subsidiary of the Philippine Stock Exchange, Inc., and was organized primarily as a clearance and settlement agency for SCCP-eligible trades executed through the facilities of the PSE. It is responsible for (i) synchronizing the settlement of funds and the transfer of securities through Delivery versus Payment clearing and settlement of transactions of Clearing Members, who are also PSE Trading Participants; (ii) guaranteeing the settlement of trades in the event of a Trading Participant's default through the implementation of its Fails Management System and administration of the Clearing and Trade Guaranty Fund; and (iii) implementing Risk Management and Monitoring measures to ensure final and irrevocable settlement.

Generally, SCCP settles PSE trades on a three-day rolling settlement environment, which means that settlement of trades takes place three business days after transaction date (T+3). In specific instances of risk management, SCCP may require same-day settlement (T+0). The deadline for settlement of trades is 12:00 noon of T+3. Securities sold should be in dematerialized or scripless form and lodged under PDTC's book entry system. Each Trading Participant maintains a Cash Settlement Account with one of the four existing Settlement Banks of SCCP, which are BDO Unibank, Inc., Deutsche Bank AG (Manila Branch), MBT and Rizal Commercial Banking Corporation. Payment for securities bought should be in good, cleared funds and should be final and irrevocable. Settlement is presently on a broker level.

SCCP implemented its new clearing and settlement system called Central Clearing and Central Settlement System ("CCCS") on May 29, 2006. CCCS employs multilateral netting whereby the system automatically offsets "buy" and "sell" transactions on a per issue and a per flag basis to arrive at a net receipt or a net delivery security position for each Clearing Member. All cash debits and credits are also netted into a single net cash position for each Clearing Member. Novation of the original PSE trade contracts occurs, and SCCP stands between the original trading parties and becomes the Central Counterparty to each PSE-Eligible trade cleared through it.

SCRIPLESS TRADING

In 1995, the Philippine Depository & Trust Corporation (formerly the Philippine Central Depository, Inc.), was organized to establish a central depository in the Philippines and introduce scripless or bookentry trading. On December 16, 1996, the PDTC was granted a provisional license by the Philippine SEC to act as a central securities depository.

All listed securities at the PSE have been converted into book-entry settlement in the PDTC. The depository service of the PDTC provides the infrastructure for lodgement (deposit) and upliftment (withdrawal) of securities, pledge of securities, securities lending and borrowing and corporate actions including shareholders' meetings, dividend declarations and rights offerings. The PDTC also provides depository and settlement services for non-PSE trades of listed equity securities. For transactions on the PSE, the security element of the trade will be settled through the book-entry system, while the cash element will be settled through the current settlement banks mentioned above.

In order to benefit from the book-entry system, securities must be immobilized into the PDTC system through a process called lodgement. Lodgement is the process by which shareholders transfer legal title (but not beneficial title) over their shares of stock in favor of PCD Nominee, a corporation wholly-owned by the PDTC and whose sole purpose is to act as nominee and legal title holder of all shares of stock lodged into the PDTC, or to any entity authorized by the Philippine SEC. "Immobilization" is the process by which the warrant or share certificates of lodging holders are cancelled by the transfer agent and the corresponding transfer of beneficial ownership of the immobilized shares in the account of PCD Nominee through the PDTC Participant will be recorded in the issuer's registry. This trust arrangement between the participants and PDTC through PCD Nominee is established by and explained in the PDTC Rules and Operating Procedures approved by the Philippine SEC. No consideration is paid for the transfer of legal title to PCD Nominee. Once lodged, transfers of beneficial title to the securities are accomplished via book-entry settlement.

Under the current PDTC system, only participants (e.g. brokers and custodians registered as such with and/or members of PDTC) will be recognized by the PDTC as the beneficial owners of the lodged equity securities. Thus, each beneficial owner of shares, through his participant, will be the beneficial owner to the extent of the number of shares held by such participant in the records of the PCD Nominee. All lodgements, trades and uplifts on these shares will have to be coursed through a participant. Ownership and transfers of beneficial interests in the shares will be reflected, with respect to the participant's aggregate holdings, in the PDTC system, and with respect to each beneficial owner's holdings, in the records of the participants. Beneficial owners are thus advised that, in order to exercise their rights as beneficial owners of the lodged shares, they must rely on their participant-brokers and/or participant-custodians.

Any beneficial owner of shares who wishes to trade his interests in the shares must course the trade through a participant. The participant can execute PSE trades and non-PSE trades of lodged equity securities through the PDTC system. All transactions matched in the PSE trading system will be fed through the SCCP, and into the PDTC system. Once it is determined on the settlement date (usually trading date plus three trading days) that there are adequate securities in the securities settlement account of the participant-seller and adequate cash or an appropriate bank limit in the system cash account of the participant-buyer, the PSE trades are automatically settled in the PDTC system, in accordance with the PDTC Rules and Operating Procedures. Once settled, the beneficial ownership of the securities is transferred from the participant-seller to the participant-buyer without the physical transfer of stock certificates covering the traded securities.

If a shareholder wishes to withdraw his stockholdings from the PDTC system, the PDTC has a procedure for upliftment under which the PCD Nominee will transfer back to the shareholder the legal title to the share lodged. The uplifting shareholder shall follow the Rules and Operating Procedures of the PDTC for the upliftment of shares lodged under the name of PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under PCD Nominee. The expenses for upliftment are for the account of the uplifting shareholder.

As earlier discussed, the SCCP launched its CCCS in May 2006. Under this system, the current securities in the Philippines are composed of a depository and a registry system wherein listed shares are traded and settled as book-entry shares.

The difference between the depositary and the registry would be in the recording of ownership of the shares in the issuing corporations' books. In the depository set-up, shares are simply immobilized, wherein customers' certificates are cancelled and a new certificate is issued in the name of PCD Nominee. Transfers among/between broker and/or custodian accounts, as the case may be, will only be made within the book-entry system of PDTC. However, as far as the issuing corporation is concerned, the underlying certificates are in the nominee's name. In the registry model, settlement and recording of ownership of traded securities will already be directly made in the corresponding issuing company's transfer agents' books or system. Likewise, recording will already be at the beneficiary level (whether it be a client or a registered custodian holding securities for its clients), thereby removing from the broker its current "de facto" custodianship role.

The option of whether a listed security should be "housed" in the depository or registry is at the issuer's discretion. The migration from the depository to the registry model aims to eliminate the legal and operational risk brought about by a depository infrastructure. Likewise, the migration is expected to strengthen measures to protect public investors/shareholders and decrease transactions costs resulting from additional layers in the settlement process. At present, the depository model is the most widely used and recognized system, being utilized by nearly all jurisdictions around the world.

Once the CCCS is in place, custodians holding Philippine listed equity securities will have the following options:

- Stay with the depositary for all its securities, whereby PDTC acts as their implied "Custodian". For shares under the PDTC, custodians are direct PDTC account holders with the shares still recorded in the PCD Nominee's name as far as the corporation/transfer agent is concerned; for shares under the registry, the custodian appears to be a "client" under "PCD", such that shares are recognized or recorded with PCD as the master/controlling account.

- Be a system participant of the SCCP wherein the CCCS would offer to the custodians the interface to both the depositary and registry systems. In this option, for shares under the PDTC, custodians will still have the option to maintain their own accounts in the PDTC or have an omnibus account together with the broker accounts in the PDTC as shares are accounted for or segregated per account holder in the CCCS. This simplifies the custodian's interface into only one connectivity for both the depositary and the registry systems; for shares under the registry system, the custodian will have its own master account, having the control over its own account. In the registry scenario, custodians are already recognized as the beneficiary holder of the securities on behalf of its clients. The custodian effectively is given a direct relationship with the issuing company wherein it receives the annual reports, dividends, the other communications and information directly. Prospectively, when the custodian is accredited as an indirect clearing member of the SCCP, straight-through processing of trades or settlement can already be done directly with the custodian or with its client.

AMENDED RULE ON LODGMENT OF SECURITIES

On June 24, 2009, the PSE apprised all listed companies and market participants through Memorandum No. 2009-0320, as amended by Memorandum No. 2010-0203, that, commencing on July 1, 2009, as a condition for the listing and trading of the securities of an applicant company, the applicant company shall electronically lodge its registered securities with the PDTC or any other entity duly authorized by the Philippine SEC, without any jumbo or mother certificate, in compliance with the requirements of Section 43 of the SRC. In compliance with the foregoing requirement, actual listing and trading of securities on the scheduled listing date shall take effect only after submission by the applicant company of the documentary requirements stated in Article III Part A of the Revised Listing Rules.

Further, the PSE apprised all listed companies and market participants on May 21, 2010, through Memorandum No. 2010-0246, that the Amended Rule on Lodgment of Securities under Section 16 of Article III, Part A of the Revised Listing Rules of the Exchange shall apply to all securities that are lodged with the PDTC or any other entity duly authorized by the Philippine SEC.

For listing applications, the amended rule on lodgment of securities is applicable to:

- the offer shares/securities of the applicant company in the case of an initial public offering;

- the shares/securities that are lodged with the PDTC, or any other entity duly authorized by the Commission in the case of a listing by way of introduction;

- new securities to be offered and applied for listing by an existing listed company; and

- additional listing of securities of an existing listed company.

Pursuant to the said amendment, the PDTC issued an implementing procedure in support thereof to wit:

For new companies to be listed at the PSE as of July 1, 2009 the usual procedure will be observed but the Transfer Agent of the companies shall no longer issue a certificate to PCD Nominee but shall issue a Registry Confirmation Advice, which shall be the basis for the PDTC to credit the holdings of the Depository Participants on listing date.

On the other hand, for existing listed companies, the PDTC shall wait for the advice of the Transfer Agents that it is ready to accept surrender of the PCD Nominee jumbo certificates and upon such advice the PDTC shall surrender all of the PCD Nominee jumbo certificates to the Transfer Agents for cancellation. The Transfer Agents shall issue a Registry Confirmation Advice to PCD Nominee evidencing the total number of shares registered in the name of PCD Nominee in the issuer's registry as of confirmation date.

ISSUANCE OF CERTIFICATED SHARES

On or after the listing of the shares on the PSE, any beneficial owner of the shares may apply to PDTC through his broker or custodian-participant for a withdrawal from the book-entry system and return to the conventional paper-based settlement. If a stockholder wishes to withdraw his stockholdings from the PDTC System, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the stockholder the legal title to the shares lodged by surrendering the PCD Nominee certificate to a transfer agent which then issues a new stock certificate in the name of the uplifting shareholder and a new PCD Nominee certificate for the balance of the lodged shares. The expenses for upliftment are for the account of the uplifting shareholder. Pending completion of the upliftment process, the beneficial interest in the shares covered by the application for upliftment is frozen and no trading or book-entry settlement will be permitted until certificated shares have been issued by the relevant company's transfer agent.

Upon the issuance of certificated shares in the name of the person applying for upliftment, such shares shall be deemed to be withdrawn from the PDTC book-entry settlement system. Such shares cannot be traded on the PSE without lodging them once again in the depository, in accordance with existing PSE and PDTC rules that were approved by the Philippine SEC pursuant to the policy of dematerialization of securities.

PHILIPPINE FOREIGN EXCHANGE AND FOREIGN OWNERSHIP CONTROLS

REGISTRATION OF FOREIGN INVESTMENTS AND EXCHANGE CONTROLS

Under current BSP regulations, an investment in Philippine securities (such as the Offer Shares) must be registered with the BSP if the foreign exchange needed to service the repatriation of capital and the remittance of dividends, profits and earnings derived from such shares is to be sourced from the Philippine banking system. If the foreign exchange required to service capital repatriation or dividend remittance is sourced outside the Philippine banking system, registration is not required. Current BSP Circular No. 471 (Series of 2005), however, subjects foreign exchange dealers and money changers to Republic Act No. 9160 (the Anti-Money Laundering Act of 2001, as amended) and requires these non-bank sources of foreign exchange to require foreign exchange buyers to submit, among others, the original BSP registration document in connection with their application to purchase foreign exchange exceeding U.S.$5,000 for purposes of capital repatriation and remittance of dividends.

The application for registration may be done directly with the BSP or through a custodian bank duly designated by the foreign investor. A custodian bank may be a commercial bank or an offshore banking unit registered with the BSP to act as such and appointed by the investor to register the investment, hold shares for the investor, and represent the investor in all necessary actions in connection with his investments in the Philippines. Applications for registration must be accompanied by: (i) purchase invoice, subscription agreement and proof of listing on the PSE (either or both); (ii) credit advice or bank certificate showing the amount of foreign currency inwardly remitted and converted into Pesos; and (iii) transfer instructions from the stockbroker or dealer, as the case may be.

Upon registration of the investment, proceeds of divestments, or dividends of registered investments, are repatriable or remittable immediately and in full through the Philippine banking system, net of applicable tax, without need of BSP approval. Remittance is permitted upon presentation of the BSP registration document, at the exchange rate applicable on the date of actual remittance. Pending registration or reinvestment, divestment proceeds, as well as dividends of registered investments, may be lodged temporarily in interest-bearing deposit accounts. Interest earned thereon, net of taxes, may also be remitted in full. Remittance of divestment proceeds or dividends of registered investments may be reinvested in the Philippines if the investments are registered with the BSP or the investor's custodian bank.

The foregoing is subject to the power of BSP, with the approval of the President of the Philippines, to restrict the availability of foreign exchange during an exchange crisis, when an exchange crisis is imminent, or in times of national emergency. Furthermore, there can be no assurance that BSP foreign exchange regulations will not be made more restrictive in the future.

The registration with the BSP of all foreign investments in any Shares received in exchange for Offer Shares shall be the responsibility of the foreign investor.

FOREIGN OWNERSHIP CONTROLS

The Philippine Constitution and related statutes set forth restrictions on foreign ownership of companies that own land in the Philippines.

In connection with the ownership of private land, Article XII, Section 7 of the Philippine Constitution, in relation to Article XII, Section 2 of the Philippine Constitution and Chapter 5 of Commonwealth Act No. 141, states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines, at least 60.0% of whose capital is owned by such citizens.

Republic Act No. 7042, as amended, otherwise known as the Foreign Investments Act of 1991, reserves to Philippine Nationals all areas of investment in which foreign ownership is limited by mandate of the Constitution and specific laws. Section 3(a) of said law defines a "Philippine National" as:

- a citizen of the Philippines;

- a domestic partnership or association wholly owned by citizens of the Philippines;

- a trustee of funds for pension or other employee retirement or separation benefits where the trustee is a Philippine National and at least 60.0% of the fund will accrue to the benefit of the Philippine Nationals;

- a corporation organized under the laws of the Philippines of which at least 60.0% of the capital stock outstanding and entitled to vote is owned and held by citizens of the Philippines; and

- a corporation organized abroad and registered as doing business in the Philippines under the Corporation Code of the Philippines of which 100.0% of the capital stock outstanding and entitled to vote is wholly owned by Filipinos.

However, the Foreign Investments Act of 1991 states that where a corporation (and its non-Filipino shareholders) own stock in a Philippine SEC-registered enterprise, at least 60.0% of the capital stock outstanding and entitled to vote of both the investing corporation and the investee corporation must be owned and held by citizens of the Philippines. Further, at least 60.0% of the members of the board of directors of both the investing corporation and the investee corporation must be Philippine citizens in order for the investee corporation to be considered a Philippine National.

Considering the foregoing, for as long as GT Capital Holdings or any of its subsidiaries own land in the Philippines, foreign ownership in GT Capital Holdings is limited to a maximum of 40.0% of GT Capital Holdings' outstanding capital stock entitled to vote. Accordingly, the Company shall disallow the issuance or the transfer of Common Shares to persons other than Philippine Nationals and shall not record transfers in the Company's books if such issuance or transfer would result in GT Capital Holding ceasing to be a Philippine National for purposes of complying with the restrictions on foreign ownership discussed above.

Compliance with the required ownership by Philippine Nationals of a corporation is to be determined on the basis of outstanding capital stock whether fully paid or not, but only such stocks which are generally entitled to vote are considered.

PHILIPPINE TAXATION

The statements herein regarding taxation are based on the laws in force as of the date of this Prospectus. The following summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Common Shares and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules. Prospective purchasers of the Common Shares are advised to consult their own tax advisors concerning the overall tax consequences of their ownership of the Common Shares.

As used herein, the term "non-resident holder" means a holder of the Common Shares (a) who is an individual who is neither a citizen nor a resident of the Philippines or an entity which is a foreign corporation not engaged in trade or business in the Philippines and (b) should a tax treaty be applicable, whose ownership of the Common Shares is not effectively connected with a fixed base in the Philippines.

TAX ON DIVIDENDS

Cash and property dividends received from a domestic corporation by individual stockholders who are either citizens or alien residents of the Philippines are subject to a final withholding tax at the rate of 10%. Non-resident alien individuals, engaged in a trade or business in the Philippines (an alien individual who comes to the Philippines and stays for an aggregate period of more than 180 days during any calendar year), are subject to a final withholding tax on dividends derived from Philippine sources at the rate of 20% subject to applicable preferential tax rates under tax treaties in force between the Philippines and the country of domicile of such non-resident alien individual. Non-resident alien individuals not engaged in trade or business in the Philippines are subject to a final withholding tax on dividends derived from Philippine sources at the rate of 25% subject to applicable preferential tax rates under tax treaties in force between the Philippines and the country of domicile of such non-resident alien individual.

Both cash and property dividends received from a domestic corporation by another domestic corporation or by resident foreign corporations are not subject to tax while those received by non-resident foreign corporations are subject to final withholding tax at the rate of 30%.

The 30% rate for dividends paid to a non-resident foreign corporation is subject to an applicable preferential tax rate of between 10% and 25% depending on the provisions of the tax treaty in force between the Philippines and the country of domicile of such non-resident foreign corporation. The 30% rate may be reduced to a special 15% rate if (a) the country in which the non-resident foreign corporation is domiciled imposes no taxes on foreign sourced dividends or (b) the country in which the non-resident foreign corporation is domiciled allows a credit against the tax due from the non-resident corporation taxes deemed to have been paid in the Philippines equivalent to 15%, which represents the difference between the regular income tax of 30% and the 15% tax on dividends.

Philippine tax authorities have prescribed, through an administrative issuance, procedures for availment of tax treaty relief. Subject to the approval by Philippine tax authorities of the Company's application for tax treaty relief, GT Capital Holdings will withhold at a reduced rate on dividends paid to a non-resident holder of the Common Shares or interest paid to a non-resident holder if such non-resident holder provides GT Capital Holdings with proof of residence and, if applicable, individual or corporate status. Proof of residence for an individual consists of a certification from his embassy, consulate or other proper authority as to his citizenship and residence. Proof of residence and corporate status for a corporation consists of authenticated copies of its articles of association, or other equivalent certifications issued by the proper government authority, or any other official document proving residence.

A certificate from the tax authority of the recipient's country is a generally accepted proof of residence, for both individuals and corporations. Aside from proof of residence, the BIR also requires the following documents: (a) special power of attorney duly executed by recipient in favor of its Philippine agent to file a claim for tax treaty relief; (b) certification from the Philippine SEC that the recipient company is not registered to engage in business in the Philippines; (c) documents pertaining to the acquisition and transfer of the shares involved; (d) duly notarized certificate of the corporate secretary of the corporation declaring the dividend showing the number and value of the shares of recipient and its percentage ownership of the company declaring the dividend as of the date of sale; (e) comparative schedule of property, plant and equipment of the corporation in the prescribed format; and (f) audited financial statements of the corporation as of the date of sale. If unavailable, the most recent financial statements adjusted up to the date of sale may be used.

If the regular rate of tax is withheld by GT Capital Holdings instead of the reduced rates applicable under a treaty, the non-resident holder of Common Shares may file a claim for a refund from the Philippine taxing authorities. However, because the refund process in the Philippines requires the filing of an administrative claim and the submission of supporting information, and may also involve the filing of a judicial appeal, it may be impractical to pursue such a refund.

Stock dividends distributed pro-rata to any stockholder are not subject to Philippine income tax. However, the sale, exchange or disposition of shares received as stock dividends by the holder is subject to the applicable capital gains or stock transaction tax.

SALE, EXCHANGE OR OTHER DISPOSITION OF THE SHARES

Sales, exchanges or other dispositions of Common Shares which are effected through the PSE are subject to a stock transaction tax at the rate of 0.5% based on the gross selling price or gross value in money of the shares of stock sold or otherwise disposed. This tax is required to be collected by and paid to the BIR by the selling stockbroker on behalf of his client and is imposed whether gain is derived or not. The stock transaction tax is classified as a percentage tax in lieu of a capital gains tax. Under certain tax treaties, the exemptions from capital gains tax discussed herein may not be applicable to stock transaction tax.

In addition, a VAT of 12.0% is imposed on the commission earned by the PSE-registered broker, and is generally passed on to the client.

Subject to applicable tax treaty rates, a capital gains tax of 5% on the net capital gains realized during the taxable year, not in excess of ₱100,000, and 10% on the net capital gains realized during the taxable year, in excess of ₱100,000, is imposed on sales, exchanges or other dispositions of shares of stock not traded through a local stock exchange. In order to obtain an exemption under a tax treaty, application for tax treaty relief must be filed (and approved) by the BIR. A non-resident holder must submit proof of residence as described above.

TAX TREATIES

The following table lists some of the countries with which the Philippines has tax treaties and the tax rates currently applicable to non-resident holders who are residents of those countries:

	Dividends (%)	Stock transaction tax on sale or disposition effected through the PSE(%)[9]	Capital gains tax due on disposition of shares outside the PSE (%)
Canada	25[1]	0.5	Exempt[11]
China	15[2]	Exempt[10]	Exempt[11]
France	25[3]	0.5	Exempt[11]
Germany	15[4]	0.5	5/10[12]
Japan	25[5]	0.5	Exempt[11]
Singapore	25[6]	0.5	Exempt[11]
United Kingdom	25[7]	0.5	Exempt[13]
United States	25[8]	0.5	Exempt[11]

Notes:

(1) *15% if recipient company controls at least 10% of the voting power of the company paying the dividends.*

(2) *10% if the recipient company holds directly at least 10% of the capital of the company paying the dividends.*

(3) *15% if the recipient company holds directly at least 15% of the voting shares of the company paying the dividends.*

(4) *10% if the recipient company owns directly at least 25% of the capital of the company paying the dividends.*

(5) *10% if the recipient company holds directly at least 25% of either the voting shares of the company paying the dividends or of the total shares issued by that company during the period of six months immediately preceding the date of payment of the dividends.*

(6) *15% if during the part of the paying company's taxable year which precedes the date of payment of dividends and during the whole of its prior taxable year at least 15% of the outstanding shares of the voting stock of the paying company was owned by the recipient company.*

(7) *15% if the recipient company is a company which controls directly or indirectly at least 10% of the voting power of the company paying the dividends.*

(8) *20% if during the part of the paying corporation's taxable year which precedes the date of payment of dividends and during the whole of its prior taxable year at least 10% of the outstanding shares of the voting stock of the paying corporation was owned by the recipient corporation.*

(9) *Exempt if the stock transaction tax is expressly covered by the applicable tax treaty or is deemed by the relevant authorities as an identical or substantially similar tax to the Philippine income tax. In BIR Ruling No. ITAD 22-07 dated February 9, 2007, the BIR held that the stock transaction tax cannot be considered as an identical or substantially similar tax on income, and, consequently, ruled that a Singapore resident is not exempt from the stock transaction tax on the sale of its shares in a Philippine corporation through the PSE.*

(10) *Exempt under Article 2(b) of the RP-China Tax Treaty.*

(11) *Capital gains are taxable only in the country where the seller is a resident, provided the shares are not those of a corporation, the assets of which consist principally of real property situated in the Philippines, in which case the sale is subject to Philippine taxes.*

(12) *Under the RP-Germany Tax Treaty, capital gains from the alienation of shares of a Philippine corporation may be taxed in the Philippines irrespective of the nature of the assets of the Philippine corporation. Tax rates are 5% on the net capital gains realized during the taxable year not in excess of ₱100,000 and 10% on the net capital gains realized during the taxable year in excess of ₱100,000.*

(13) *Under the RP-UK Tax Treaty, capital gains on the sale of the stock of Philippine corporations are subject to tax only in the country where the seller is a resident, irrespective of the nature of the assets of the Philippine corporation.*

DOCUMENTARY STAMP TAXES

The Philippines imposes a documentary stamp tax on the issuance by a corporation of shares at the rate of ₱1.00 on each ₱200, or fraction thereof, of the par value of the shares. The Philippines also imposes a DST upon transfers of shares of stock issued by a Philippine corporation at a rate of ₱0.75 on each ₱200, or fractional part thereof, of the par value of the shares. However, the sale, barter or exchange of shares of stock listed and traded through the local stock exchange shall not be subject to documentary stamp tax for a period of five years from the effectivity of Republic Act No. 9243 dated February 17, 2004, which exemption expired on March 20, 2009. However, on June 30, 2009. President Gloria Macapagal-Arroyo signed Republic Act 9648, which permanently exempts the sale, barter or exchange of shares of stock listed and traded through the local stock exchange from the documentary stamp tax and was made retroactive to March 20, 2009.

The DST is imposed on the person making, signing, issuing, accepting or transferring the document and is thus payable by the vendor and the purchaser of the shares.

In addition, the borrowing and lending of securities executed under the Securities Borrowing and Lending Program of a registered exchange, or in accordance with regulations prescribed by the appropriate regulatory authority, are likewise exempt from documentary stamp tax. However, the securities borrowing and lending agreement should be duly covered by a master securities borrowing and lending agreement acceptable to the appropriate regulatory authority, and should be duly registered and approved by the BIR.

ESTATE AND GIFT TAXES

The transfer of the shares of a Philippine corporation upon the death of a registered holder to his heirs by way of succession, whether such an individual was a citizen of the Philippines or an alien, regardless of residence, will be subject to Philippine estate tax at progressive rates ranging from 5% to 20% if the net estate is over ₱200,000. Individual and corporate registered holders, whether or not citizens or residents of the Philippines, who transfer shares by way of gift or donation will be liable for Philippine donor's tax on such transfers at progressive rates ranging from 2% to 15% if the net gifts made during the year exceed ₱100,000. The rate of tax with respect to net gifts made to a stranger (one who is not a brother, sister, spouse, ancestor, lineal descendant or relative by consanguinity within the fourth degree of relationship) is a flat rate of 30%.

The following obligations of a foreign corporation are deemed to have a Philippine situs and are subject to Philippine estate and gift taxes: (a) obligations of a foreign corporation, 85% of the business of which is located in the Philippines; and (b) obligations issued by a foreign corporation if such obligation has acquired a business situs in the Philippines.

Estate and gift taxes will not be collected in respect of intangible personal property (a) if the deceased at the time of death, or the donor at the time of donation, was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country, or (b) if the laws of the foreign country of which the deceased or the donor was a citizen and resident at the time of his death or donation allow a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

PLAN OF DISTRIBUTION

17,105,180 of the Offer Shares (the "Domestic Offer Shares") are being offered and sold by the Company and the Selling Shareholders at the Offer Price in the Philippines (the "Domestic Offer"). 24,112,120 Offer Shares, or 58.5% of the Offer Shares comprising the Firm Offer, are being offered for subscription outside the Philippines by the Sole Global Coordinator, Sole International Bookrunner and Lead Manager (the "International Offer"). The Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter will underwrite, on a firm commitment basis, the Offer Shares relating to the Domestic Offer and the Sole Global Coordinator, Sole International Bookrunner and Lead Manager will underwrite, on a firm commitment basis, the Offer Shares relating to the International Offer. There is no arrangement for either the Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter or the Sole Global Coordinator, Sole International Bookrunner and Lead Manager to return any of the Offer Shares relating to the Domestic Offer or the International Offer to the Company.

THE DOMESTIC OFFER

The Domestic Offer Shares shall initially be offered by the Company and the Selling Shareholders to all of the PSE Trading Participants and small investors ("LSIs") in the Philippines. 4,739,990 of the Offer Shares are being offered and sold to Philippine QIBs. The PSE shall allocate approximately 8,243,460 Domestic Offer Shares among the PSE Trading Participants. Each PSE Broker shall initially be allocated approximately 61,980 Offer Shares (computed by dividing the Domestic Offer Shares allocated to the PSE Trading Participants between 133 PSE Trading Participants) and subject to reallocation as may be determined by the PSE. In addition, approximately 4,121,730, or 24% of the Domestic Offer Shares shall be allocated to the LSIs. Prior to the closing of the Domestic Offer, any allocation of Domestic Offer Shares not taken up by the PSE Trading Participants and the LSIs shall be distributed by the Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter, together with the syndicate of Participating Domestic Underwriters, to their clients or the general public in the Philippines or as otherwise agreed with the Sole Global Coordinator, Sole International Bookrunner and Lead Manager. Domestic Offer Shares not taken up by the PSE Trading Participants, the LSIs, the clients of the Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter, the clients of the Participating Domestic Underwriters, and the general public shall be purchased by the Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter and the Participating Domestic Underwriters.

To facilitate the Domestic Offer, the Company and the Selling Shareholders have appointed First Metro Investment Corporation, who shall act as the Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter. The Company, the Selling Shareholders and the Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter shall enter into a Domestic Underwriting Agreement to be dated on or about April 3, 2012, whereby the Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter agrees to underwrite the Domestic Offer Shares, subject to agreement between the Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter and the Sole Global Coordinator, Sole International Bookrunner and Lead Manager, on any clawback, clawforward or other such mechanism, on a firm commitment basis.

First Metro Investment Corporation was incorporated in the Philippines in 1972. It is duly licensed by the Philippine SEC to operate as an investment house and was licensed by the Philippine SEC to engage in underwriting or distribution of securities to the public. As of December 31, 2011, its total assets amounted to ₱78.7 billion and its capital base amounted to approximately ₱11.4 billion. It has an authorized capital stock of ₱8.0 billion, of which approximately ₱6.3 billion represents its paid-up capital. Its senior executives have extensive experience in the capital markets and were involved in a lead role in a substantial number of major equity and debt issues, both locally and internationally. FMIC and its affiliates have engaged in transactions with, and performed various investment banking and securities brokerage services for, the Company and its affiliates in the past and may do so from time to time in the future. As of December 31, 2011, the Company has a 24.6% indirect ownership interest in FMIC through MBT's 98.1% direct ownership in FMIC. FMIC does not have any right to designate or nominate a member of the Board. FMIC has agreed to underwrite, on a firm commitment basis, approximately 17,105,180 Domestic Offer Shares.

On or before April 12, 2012, the PSE Trading Participants shall submit to the designated representative of the PSE Listing Department their respective firm orders and commitments to purchase Offer Shares. Domestic Offer Shares not taken up by PSE Trading Participants will be distributed by the Domestic Lead Underwriter directly to its clients and the general public and whatever remains will be purchased by the Domestic Lead Underwriter.

With respect to the LSIs, all applications to purchase or subscribe for the Offer Shares must be evidenced by a duly accomplished and completed application form. An application to purchase Offer Shares shall not be deemed as a duly accomplished and completed application unless submitted with all required relevant information and applicable supporting documents to the Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter or such other financial institutions that may be invited to manage the LSI program. Payment for the Offer Shares must be made upon submission of the duly completed application form.

The Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter shall receive from the Company a fee equivalent to 2.0% of the gross proceeds of the Domestic Offer. The underwriting fees shall be withheld by the Sole Domestic Coordinator, Bookrunner, Lead Manager and Domestic Lead Underwriter from the proceeds of the Domestic Offer. PSE Trading Participants who take up Domestic Offer Shares shall be entitled to a selling fee of 1.0% of the Domestic Offer Shares taken up and purchased by the relevant PSE Trading Participants. The selling fee, less a withholding tax of 10%, will be paid by the Company to the PSE Trading Participants within ten banking days of the Listing Date.

All of the Domestic Offer Shares are or shall be lodged with the PDTC and shall be issued to the PSE Trading Participants and LSIs in scripless form. They may maintain the Domestic Offer Shares in scripless form or opt to have the stock certificates issued to them by requesting an upliftment of the relevant Domestic Offer Shares from the PDTC's electronic system after the closing of the Domestic Offer.

THE INTERNATIONAL OFFER

The Company and the Selling Shareholders, through UBS AG (the "Sole Global Coordinator, Sole International Bookrunner and Lead Manager"), are offering 24,112,120 Offer Shares in the International Offer (i) outside the Philippines and the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act and (ii) in the United States to qualified institutional buyers in reliance on Rule 144A under the U.S. Securities Act.

The International Underwriting Agreement dated as of April 3, 2012, entered into among the Company, the Selling Shareholders and the Sole Global Coordinator, Sole International Bookrunner and Lead Manager is subject to certain conditions and may be subject to termination by the Sole Global Coordinator, Sole International Bookrunner and Lead Manager if certain circumstances, including force majeure, occur on or before the Offer Shares are listed on the PSE. Under the terms and conditions of the International Underwriting Agreement, the Sole Global Coordinator, Sole International Bookrunner and Lead Manager are committed to underwrite the International Offer on a firm-commitment basis and to purchase or procure purchasers for all of the Offer Shares to be offered in the International Offer. The closing of the Domestic Offer is conditional on the closing of the International Offer. The closing of the Domestic Offer and the International Offer are expected to occur concurrently.

UBS AG and its affiliates have engaged in transactions with, and have performed various investment banking, commercial banking and other services for, the Company, the Selling Shareholders and their subsidiaries and affiliates in the past and may do so from time to time in the future. However, all services provided by UBS AG, including in connection with the Offer, have been provided as an independent contractor and not as a fiduciary to the Company or the Selling Shareholder. UBS AG does not have any right to designate or nominate a member of the Board. UBS AG has no direct relationship with the Company in terms of share ownership and, other than as a Sole Global Coordinator, Sole International Bookrunner and Lead Manager for the Offer, it does not have any material relationship with the Company. UBS AG has agreed to underwrite, on a firm commitment basis, 24,112,120 International Offer Shares.

Investors in the International Offer (but not the Domestic Offer) will be required to pay, in addition to the Offer Price, a brokerage fee of 1.0% of the Offer Price and a transaction fee of 0.021% of the Offer Price.

THE OVER-ALLOTMENT OPTION

In connection with the Offer, Grand Titan Capital Holdings, Inc. and Titan Resources Corporation have granted the Stabilizing Agent an Over-Allotment Option, which is exercisable in whole or in part beginning on or after the Listing Date and ending on the date 30 days from the Listing Date, to purchase up to 15% of the total number of Firm Shares on the same terms and conditions as the Firm Shares, as set forth herein. In connection therewith, the Stabilizing Agent has entered into a greenshoe agreement with Grand Titan Capital Holdings, Inc. and Titan Resources Corporation to utilize up to an additional 6,182,590 Common Shares to cover over-allocations under the International Offer. Any Common Shares that may be delivered to the Stabilizing Agent under the greenshoe agreement will be conveyed to Grand Titan Capital Holdings, Inc. and Titan Resources Corporation either through the purchase of Common Shares in the open market by the Stabilizing Agent in the conduct of stabilization activities or through the exercise of the Over-Allotment Option by the Stabilizing Agent. The Optional Shares may be over-allotted and the Stabilizing Agent may effect price stabilization transactions for a period beginning on or after the Listing Date, but extending no later than 30 days from the Listing Date. The Stabilizing Agent may purchase Common Shares in the open market only if the market price of the Common Shares falls below the Offer Price. Such activities may stabilize, maintain or otherwise affect the market price of the Common Shares, which may have the effect of preventing a decline in the market price of the Common Shares and may also cause the price of the Common Shares to be higher than the price that otherwise would exist in the open market in the absence of these transactions. If the Stabilizing Agent commences any of these transactions, it may discontinue them at any time. Once the Over-Allotment Option has been exercised by the Stabilizing Agent, it will no longer be allowed to purchase Common Shares in the open market for the conduct of stabilization activities.

LOCK-UP

Pursuant to the listing rules of the PSE, the Company's existing shareholders who own an equivalent of at least 10% of the issued and outstanding Common Shares cannot sell, assign or in any manner dispose of their Common Shares for a minimum period of 180 days after the listing of the Offer Shares. A total of 110,095,110 Common Shares, held by Grand Titan Capital Holdings, Inc. will be subject to such 180-days lock-up. See "Principal and Selling Shareholders – GT Capital Holdings – Security Ownership of Record and Beneficial Owners" in this Prospectus.

In addition, all Common Shares issued within 180 days prior to the commencement of the Offer at an issue price less than the price per Offer Share shall be subject to a lock-up period of at least 365 days from the date that full payment is made on such Common Shares, as required by the PSE. There are no Common Shares that are subject to such 365-day lock-up. See "Principal and Selling Shareholders – Security Ownership of Record and Beneficial Owners".

In addition to the lock-up obligations required by the PSE, the Company and Grand Titan Capital Holdings, Inc. have agreed with the Underwriters that, they will not, without the prior written consent of the Sole Global Coordinator, Sole International Bookrunner, Bookrunner, and Lead Manager, issue, offer, pledge, sell, contract to sell, pledge or otherwise dispose of (or publicly announce any such issuance, offer, sale or disposal of) any Common Shares or securities convertible or exchangeable into or exercisable for any Common Shares or warrants or other rights to purchase Common Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options for a period of 180 days after the listing of the Offer Shares.

SELLING RESTRICTIONS

Philippines

No securities, except of a class exempt under Section 9 of the SRC or unless sold in any transaction exempt under Section 10 thereof, shall be sold or distributed by any person within the Philippines, unless such securities shall have been registered with the Philippine SEC on Form 12-1 and the registration statement has been declared effective by the Philippine SEC.

LEGAL MATTERS

Certain legal matters in connection with the Offer will be passed upon for the Company by Sidley Austin with respect to matters of U.S. federal law. The validity of the Offer Shares and certain legal matters in connection with this Offer will be passed upon for the Company by Feria Tantoco Robeniol Law Offices with respect to matters of Philippine law.

Certain legal matters in connection with this Offer will be passed upon for the Sole Global Coordinator, Sole International Bookrunner and Lead Manager by Allen & Overy, with respect to matters of U.S. federal law. Certain matters as to Philippine law will be passed upon for the Sole Global Coordinator, Sole International Bookrunner and Lead Manager by Picazo, Buyco, Tan, Fider and Santos.

None of the forgoing legal counsel has any direct or indirect interest in the Company.

INDEPENDENT AUDITORS

The consolidated financial statements of the Company and its subsidiaries as of and for the years ended December 31, 2009, 2010 and 2011; the consolidated financial statements of the MBT Group as of and for the years ended December 31, 2009, 2010 and 2011; the consolidated financial statements of Fed Land as of and for the years ended December 31, 2009, 2010 and 2011; the consolidated financial statements of GBP as of and for the years ended December 31, 2009, 2010 and 2011; the consolidated financial statements of TMP as of and for the years ended December 31, 2009, 2010 and 2011; and the financial statements of AXA as of and for the years ended December 31, 2009, 2010 and 2011 have been audited by SGV & Co. (a member firm of Ernst & Young Global Limited), independent auditors, as stated in their reports appearing herein.

Jessie D. Cabaluna is the current audit partner and has served as such since 2007. The Company has not had any disagreements on accounting and financial disclosures with its current external auditors for the same periods or any subsequent interim period. SGV & Co. has neither shareholdings in the Company nor any right, whether legally enforceable or not, to nominate persons or to subscribe for the securities in the Company. SGV & Co. will not receive any direct or indirect interest in the Company or in any securities thereof (including options, warrants or rights thereto) pursuant to or in connection with the Offer. The foregoing is in accordance with the Code of Ethics for Professional Accountants in the Philippines set by the Board of Accountancy and approved by the Professional Regulation Commission.

In relation to the audit of the Company's annual financial statements, its Corporate Governance Manual provides that the audit committee shall, among other activities (i) evaluate significant issues reported by the external auditors in relation to the adequacy, efficiency and effectiveness of the Company's policies, controls, processes and activities; (ii) ensure that other non-audit work provided by the external auditors is not in conflict with their functions as external auditors; (iii) ensure the Company's compliance with acceptable auditing and accounting standards and regulations; and (iv) approve all related fees paid to the independent auditors.

The following table sets out the aggregate fees billed for each of the years ended December 31, 2009, 2010 and 2011 for professional services rendered by SGV & Co. to the Company, excluding fees directly related to the Offer.

	For the year ended December 31		
	2009	2010	2011
	(in ₱ thousands)		
Audit and Audit-Related Services	100	110	300
Non-Audit Services	–	–	–
Total	100	110	300

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORTS

Audited Consolidated Financial Statements of GT Capital as of December 31, 2011 and 2010 and January 1, 2010 and for the years ending December 31, 2011, 2010 and 2009

Pro Forma Condensed Consolidated Financial Statements of GT Capital as of and for the year ending December 31, 2011

Audited Consolidated Financial Statements of the MBT Group as of December 31, 2011 and 2010 and for the years ending December 31, 2011, 2010 and 2009

Audited Consolidated Financial Statements of the MBT Group as of December 31, 2010 and 2009 and for the years ending December 31, 2010, 2009 and 2008

Audited Consolidated Financial Statements of Fed Land as of December 31, 2011 and 2010 and January 1, 2010 and for the years ending December 31, 2011, 2010 and 2009

Audited Consolidated Financial Statements of GBP as of and for the years ending December 31, 2011, 2010 and 2009

Audited Consolidated Financial Statements of TMP as of and for the years ending December 31, 2011 and 2010

Audited Consolidated Financial Statements of TMP as of and for the years ending December 31, 2010 and 2009

Audited Financial Statements of AXA as of and for the years ending December 31, 2011 and 2010

Audited Financial Statements of AXA as of and for the years ending December 31, 2010 and 2009

GT Capital Holdings, Inc. and Subsidiaries

Consolidated Financial Statements
December 31, 2011, 2010 and January 1, 2010
and for the Years Ended December 31, 2011, 2010 and 2009

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

GT CAPITAL
HOLDINGS, INCORPORATED

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

The management of GT Capital Holdings, Inc. (the Company) is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2011, 2010 and 2009, including the additional components attached therein, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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

Ty Siao Kian
Chairman of the Board

Carmelo Maria Luza Bautista
President

Francisco H. Suarez, Jr.
Chief Financial Officer

February 17, 2012

43RD FLOOR, GT TOWER INTERNATIONAL 6813 AYALA AVENUE CORNER H.V. DELA COSTA STREET,
MAKATI CITY, PHILIPPINES TEL.: 836-4500

SUBSCRIBED AND SWORN to before me this MAR 0 9 2012; affiants exhibiting to me the following:

Ty Siao Kian	TIN No. 121-526-603
Carmelo Maria L. Bautista	TIN No. 106-903-668
Francisco H. Suarez Jr.	TIN No. 126-817-465

CECILIA M. TUAZON
NOTARY PUBLIC
Notary Public Makati City
Until December 31, 2012
Roll No. 58750 (p. 313, Bk. 24)
PTR No. 9254933 / 01-06-11 / Manila
IBP No. 858475 / 03-18-11 / Manila IV

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Book No. 2
Series of 2012

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BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
GT Capital Holdings, Inc.

We have audited the accompanying consolidated financial statements of GT Capital Holdings, Inc. and its Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011 and 2010 and January 1, 2010, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the three years ended December 31, 2011, 2010 and 2009, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

SGV&Co
Ernst & Young

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of GT Capital Holdings, Inc. and its Subsidiaries as at December 31, 2011 and 2010 and January 1, 2010, and their financial performance and their cash flows for the three years December 31, 2011 and 2010 and 2009, in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-AR-2 (Group A),
February 11, 2010, valid until February 10, 2013
Tax Identification No. 102-082-365
BIR Accreditation No. 08-001998-10-2009,
June 1, 2009, valid until May 31, 2012
PTR No. 3174583, January 2, 2012, Makati City

February 17, 2012

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31		January 1, 2010
	2011	2010	(see Note 2)
ASSETS			
Current Assets			
Cash and cash equivalents (Notes 4, 23 and 26)	**₱454,421,565**	₱3,064,941,846	₱198,498,584
Receivables (Notes 5 and 26)	**4,864,096,896**	1,175,627,247	754,968,420
Inventories (Note 6)	**11,338,367,323**	7,889,219,200	6,927,608,992
Due from related parties (Notes 23 and 26)	**938,859,224**	558,144,260	872,062,998
Prepayments and other current assets (Note 7)	**974,997,209**	752,475,791	563,638,483
Total Current Assets	**18,570,742,217**	13,440,408,344	9,316,777,477
Noncurrent Assets			
Noncurrent receivables (Notes 5 and 26)	**1,114,943,862**	908,865,891	284,535,117
Long - term cash investments (Note 23)	**2,440,084,378**	–	–
Deposits (Note 11)	**4,085,000,000**	–	–
Investments and advances (Note 8)	**38,112,517,612**	31,123,061,558	22,761,246,838
Investment properties (Note 9)	**5,227,423,530**	5,299,217,182	3,906,242,718
Property and equipment (Note 10)	**396,367,203**	430,887,963	373,046,962
Deferred tax assets (Note 25)	**3,791,675**	6,746,662	759,255
Other noncurrent assets (Notes 12 and 26)	**111,893,447**	94,509,242	95,714,605
Total Noncurrent Assets	**51,492,021,707**	37,863,288,498	27,421,545,495
	₱70,062,763,924	₱51,303,696,842	₱36,738,322,972
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts and other payables (Notes 13 and 26)	**₱4,573,419,840**	₱1,935,865,840	₱570,745,974
Current portion of liabilities on purchased land (Notes 16 and 26)	–	118,989,240	112,254,000
Short term loans payable (Notes 14 and 26)	**7,648,700,000**	7,182,191,076	4,257,000,000
Customers' deposits (Note 15)	**457,625,624**	417,461,273	615,365,978
Due to related parties (Notes 23 and 26)	**403,598,150**	320,571,614	500,992,878
Dividends payable	**244,000**	244,000	1,956,766
Income tax payable	–	1,982,814	–
Other current liabilities (Note 17)	**57,884,393**	23,808,095	29,652,205
Total Current Liabilities	**13,141,472,007**	10,001,113,952	6,087,967,801
Noncurrent Liabilities			
Pension liabilities (Note 24)	**₱28,111,610**	₱24,448,701	₱24,894,733
Long- term loans payable (Notes 14 and 26)	**19,600,000,000**	9,000,000,000	1,638,891,076
Non-current portion of liabilities on purchased land (Notes 16 and 26)	–	397,856,760	516,846,000
Deferred tax liabilities (Note 25)	**80,613,144**	7,294,339	35,241,965
Other noncurrent liabilities (Note 18)	**62,932,335**	52,663,113	38,338,257
Total Noncurrent Liabilities	**19,771,657,089**	9,482,262,913	2,254,212,031
	32,913,129,096	19,483,376,865	8,342,179,832

(Forward)

	December 31		January 1,
	2011	2010	2010 (see Note 2)
Equity (Note 19)			
Equity attributable to equity holders of GT Capital Holdings, Inc.			
Capital Stock	**1,250,000,000**	1,250,000,000	1,250,000,000
Additional paid-in capital	**23,071,664,419**	23,071,664,419	23,071,664,419
Retained earnings	**7,801,755,408**	5,377,356,029	2,875,735,063
Other comprehensive income	**2,805,451,828**	(90,153,139)	(322,556,599)
	34,928,871,655	29,608,867,309	26,874,842,883
Non-controlling interests	**2,220,763,173**	2,211,452,668	1,521,300,257
Total equity	**37,149,634,828**	31,820,319,977	28,396,143,140
	₱70,062,763,924	₱51,303,696,842	₱36,738,322,972

See accompanying Notes to Consolidated Financial Statements.

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2011	2010	2009
REVENUE			
Equity in net income of associates (Note 8)	**₱3,567,873,099**	₱2,948,879,125	₱2,089,845,209
Real estate sales	**2,512,196,616**	2,160,695,953	1,148,005,785
Sale of goods and services	**764,665,350**	644,692,097	584,192,149
Commission income	**95,970,876**	47,054,822	–
Rent income (Notes 9 and 27)	**238,001,688**	197,991,209	176,853,527
Interest and other income (Note 20)	**786,772,891**	307,496,714	330,679,234
	7,965,480,520	6,306,809,920	4,329,575,904
COSTS AND EXPENSES			
Cost of real estate sales (Note 6)	**1,553,768,313**	1,364,808,171	636,731,568
Cost of goods and services (Notes 6 and 21)	**709,726,583**	584,566,497	497,583,999
General and administrative expenses (Note 22)	**1,109,747,048**	893,294,486	755,346,193
Interest expense (Note 14)	**989,749,556**	281,920,080	169,849,306
	4,362,991,500	3,124,589,234	2,059,511,066
INCOME BEFORE INCOME TAX	**3,602,489,020**	3,182,220,686	2,270,064,838
PROVISION FOR INCOME TAX (Note 25)	**148,779,135**	70,203,309	59,302,159
NET INCOME	**₱3,453,709,885**	₱3,112,017,377	₱2,210,762,679
Attributable to:			
Equity holders of the GT Capital Holdings, Inc.	**₱3,324,399,379**	₱3,001,620,966	₱2,183,991,521
Non-controlling interest	**129,310,506**	110,396,411	26,771,158
	₱3,453,709,885	₱3,112,017,377	₱2,210,762,679

See accompanying Notes to Consolidated Financial Statements.

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2011	2010	2009
NET INCOME	**₱3,453,709,885**	₱3,112,017,377	₱2,210,762,679
Equity in other comprehensive income of associates (Note 8):			
Net unrealized gain (loss) on available for sale of associates	**2,762,533,470**	345,327,351	1,733,349,175
Revaluation reserve on investment property of associates	–	(113,611)	(927,022)
Revaluation increment on property and equipment of associates	–	(238,918)	(133,680)
Translation adjustment of associates	**133,071,497**	(112,571,362)	(53,064,619)
TOTAL OTHER COMPREHENSIVE INCOME	**2,895,604,967**	232,403,460	1,679,223,854
TOTAL COMPREHENSIVE INCOME	**₱6,349,314,852**	₱3,344,420,837	₱3,889,986,533
Attributable to:			
Equity holders of the GT Capital Holdings, Inc.	**₱6,220,004,346**	₱3,234,024,426	₱3,863,215,375
Non-controlling interest	**129,310,506**	110,396,411	26,771,158
	₱6,349,314,852	₱3,344,420,837	₱3,889,986,533

See accompanying Notes to Consolidated Financial Statements.

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to Equity Holders of GT Capital Holdings, Inc								
	Capital Stock (Note 19)	Additional Paid-in Capital (Note 19)	Retained Earnings (Note 19)	Net Unrealized gain (loss) on available for sale of associates (Note 8)	Revaluation reserve on investment property of associates (Note 8)	Revaluation increment on property and equipment of associates (Note 8)	Translation adjustment of associates (Note 8)	Attributable to Non-controlling interest of subsidiary	Total
At January 1, 2011	**₱1,250,000,000**	**₱23,071,664,419**	**₱4,937,094,253**	**(₱216,343,953)**	**(₱1,302,061)**	**(₱594,450)**	**₱128,087,325**	**₱2,090,485,609**	**₱31,259,091,142**
Effect of uniting of interest	–	–	**440,261,776**	–	–	–	–	**120,967,058**	**561,228,834**
As restated	**1,250,000,000**	**23,071,664,419**	**5,377,356,029**	**(216,343,953)**	**(1,302,061)**	**(594,450)**	**128,087,325**	**2,211,452,667**	**31,820,319,976**
Consideration transferred on acquisition of a subsidiary under common control (Note 28)	–	–	**(336,000,000)**	–	–	–	–	**(84,000,000)**	**(420,000,000)**
Dividends declared	–	–	**(564,000,000)**	–	–	–	–	**(36,000,000)**	**(600,000,000)**
Total comprehensive income	–	–	**3,324,399,379**	**2,762,533,470**	–	–	**133,071,497**	**129,310,506**	**6,349,314,852**
At December 31, 2011	**₱1,250,000,000**	**₱23,071,664,419**	**₱7,801,755,408**	**₱2,546,189,517**	**(1,302,061)**	**(₱594,450)**	**₱261,158,822**	**₱2,220,763,173**	**₱37,149,634,828**
At January 1, 2010	₱1,250,000,000	₱23,071,664,419	₱2,518,654,607	(₱561,671,304)	(₱1,188,450)	(₱355,532)	₱240,658,687	₱1,421,333,054	₱27,939,095,481
Effect of uniting of interest	–	–	357,080,456	–	–	–	–	99,967,203	457,047,659
As previously restated	1,250,000,000	23,071,664,419	2,875,735,063	(561,671,304)	(1,188,450)	(355,532)	240,658,687	1,521,300,257	28,396,143,140
Increase in non-controlling interest	–	–	–	–	–	–	–	600,000,000	600,000,000
Dividends declared	–	–	(500,000,000)	–	–	–	–	(20,244,000)	(520,244,000)
Total comprehensive income	–	–	3,001,620,966	345,327,351	(113,611)	(238,918)	(112,571,362)	110,396,411	3,344,420,837
At December 31, 2010	₱1,250,000,000	₱23,071,664,419	₱5,377,356,029	(₱216,343,953)	(₱1,302,061)	(₱594,450)	₱128,087,325	₱2,211,452,668	₱31,820,319,977
At January 1, 2009	₱1,250,000,000	₱23,071,664,419	₱1,466,428,530	(₱2,295,020,479)	(₱261,428)	(₱221,852)	₱293,723,306	₱1,022,457,862	₱24,808,770,358
Effect of uniting of interest	–	–	359,252,060	–	–	–	–	100,298,105	459,550,165
Consideration transferred on acquisition of a subsidiary under common control (Note 28)	–	–	(81,600,000)	–	–	–	–	(20,400,000)	(102,000,000)
Increase in non-controlling interest	–	–	–	–	–	–	–	400,000,000	400,000,000
Acquisition of non-controlling interest	–	–	(337,048)	–	–	–	–	(4,826,868)	(5,163,916)
Dividends declared	–	–	(1,052,000,000)	–	–	–	–	(3,000,000)	(1,055,000,000)
Total Comprehensive income	–	–	2,183,991,521	1,733,349,175	(927,022)	(133,680)	(53,064,619)	26,771,158	3,889,986,533
At December 31, 2009/ January 1, 2010	₱1,250,000,000	₱23,071,664,419	₱2,875,735,063	(₱561,671,304)	(₱1,188,450)	(₱355,532)	₱240,658,687	₱1,521,300,257	₱28,396,143,140

See accompanying Notes to Consolidated Financial Statements.

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱3,602,489,020**	₱3,182,220,686	₱2,270,064,838
Adjustments for:			
Interest expense	**989,749,556**	281,920,080	169,849,306
Depreciation and amortization (Notes 9, 10, 12 and 22)	**71,352,576**	72,251,958	72,346,926
Unrealized foreign exchange losses	**193,784**	604,708	219,715
Gain on disposal of property and equipment	**(302,584)**	(4,844,081)	(2,087,833)
Equity in net income of associates and a joint venture (Note 8)	**(3,567,873,099)**	(2,948,879,125)	(2,089,845,209)
Interest income	**(598,227,699)**	(184,374,971)	(192,342,838)
Pension expense	**16,621,998**	9,368,388	5,695,785
Loss on disposal of assets	**–**	448,931	–
Operating income (loss) before changes in working capital	**514,003,552**	408,716,574	233,900,690
Decrease (increase) in:			
Receivables	**(4,203,893,169)**	(1,068,313,992)	(147,540,574)
Due from related parties	**(380,714,964)**	313,918,738	155,807,882
Inventories	**(3,228,592,505)**	(820,933,594)	(820,561,067)
Prepayments and other current assets	**(282,455,718)**	(188,837,310)	(111,192,288)
Increase (decrease) in:			
Accounts and other payables	**2,632,476,447**	1,302,037,270	(55,279,275)
Customers' deposits	**40,164,351**	(197,904,705)	134,758,727
Other current liabilities	**34,076,298**	34,542,139	7,083,408
Cash used in operations	**(4,874,935,708)**	(216,774,880)	(603,022,497)
Contributions to pension plan assets (Note 24)	**(12,959,089)**	(9,814,420)	(3,000,000)
Interest received	**353,463,140**	207,699,362	341,926,054
Interest paid	**(1,087,246,900)**	(374,660,184)	(292,854,026)
Dividends received	**1,495,803,180**	604,780,787	1,107,468,133
Income taxes paid	**(14,553,856)**	(102,155,530)	(68,872,057)
Net cash provided by (used in) operating activities	**(3,586,319,126)**	109,075,135	481,645,607
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales of:			
Investment in an associate	**–**	142,218,325	–
Property and equipment	**475,003**	112,714	1,807,406
Refund of advances	**602,879,241**	–	–
Additions to:			
Investment properties (Note 9)	**(57,705,511)**	(1,411,585,709)	(57,550,246)
Property and equipment (Note 10)	**(18,540,327)**	(117,646,488)	(34,769,861)
Investment and advances	**(2,624,660,409)**	(5,927,980,178)	(240,000,000)
Long term investment	**(2,440,084,378)**	–	–
Deposit	**(4,085,000,000)**	–	–
Decreased in other noncurrent asset	**(24,329,670)**	(8,901,393)	(26,795,483)
Acquisition of subsidiary through business combinations - net of cash acquired	**(420,000,000)**	–	(107,163,916)
Net cash used in investing activities	**(9,066,966,051)**	(7,323,782,729)	(464,472,100)

(Forward)

	Years Ended December 31		
	2011	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loan availments	**₱19,305,000,000**	₱14,189,000,000	₱3,235,257,743
Payment of:			
Cash dividends (Note 19)	**(600,000,000)**	(521,956,766)	(1,113,043,234)
Loans payable	**(8,238,491,076)**	(3,902,700,000)	(514,000,000)
Increase (decrease) in:			
Noncontrolling interests	–	600,000,000	400,000,000
Liabilities on purchased land	**(516,846,000)**	(112,254,000)	(230,868,600)
Due to related parties	**83,026,536**	(174,741,264)	96,569,215
Other noncurrent liabilities	**10,269,219**	4,407,592	(1,816,940,536)
Net cash provided by financing activities	**10,042,958,679**	10,081,755,562	56,974,588
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(193,784)**	(604,708)	(219,715)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(2,610,520,282)**	2,866,443,262	73,928,380
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**3,064,941,846**	198,498,584	124,570,204
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱454,421,565**	₱3,064,941,846	₱198,498,584

See accompanying Notes to Consolidated Financial Statements.

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Corporate Information**

GT Capital Holdings, Inc. (the Parent Company) was organized and registered with the Philippine Securities and Exchange Commission (SEC) on July 26, 2007. The primary purpose of the Parent Company is to invest in, purchase, or otherwise acquire and own, hold, use, sell, assign, transfer, lease, mortgage, exchange, develop or otherwise dispose of real property of every kind and description, including shares of stocks, bonds, debentures, notes, evidences of indebtedness, and other securities or obligations of any corporation or corporations, associations, domestic or foreign, and to possess and exercise in respect thereof all the rights, powers and privileges of ownership, including all voting powers of any stock so owned. The ultimate parent is Grand Titan Capital Holdings, Inc.

The Parent Company owns 80% of Federal Land, Inc. (Fed Land) and has significant shareholdings in Metropolitan Bank & Trust Co. (MBTC), Toyota Motor Philippines, Inc. (Toyota) and Philippine AXA Life Insurance Corp. (Phil AXA) (see Note 8).

Group Activities
The Parent Company and Fed Land Group are collectively referred herein as the "Group". The Parent Company, holding company of Fed Land Group, is engaged in investing, purchasing and holding shares of stock, notes and other securities and obligations. The principal business interests of Fed Land Group are real estate development and leasing and sell properties and act as a marketing agent for and in behalf of any real estate development company or companies.

The Fed Land Group is also engaged in:
a) the business of trading of goods such as petroleum, non-fuel products on wholesale or retail basis;
b) maintaining a petroleum service station and;
c) food and restaurant service.

The registered office address of the Parent Company is at 43rd Floor, GT Tower International, Ayala Avenue corner H.V. de la Costa St., Makati City.

The accompanying consolidated financial statements were authorized for issue by the Board of Directors (BOD) on February 17, 2012.

2. **Summary of Significant Accounting Policies**

Basis of Preparation
The accompanying consolidated financial statements of the Group have been prepared using the historical cost basis. The Group's consolidated financial statements are presented in Philippine Peso (₱), the Group's functional currency. Values are rounded to the nearest peso unless otherwise indicated.

Statement of Compliance
The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation

Basis of consolidation from January 1, 2010

The consolidated financial statements comprise the financial statements of the Group as at December 31, 2011, 2010 and January 1, 2010, and for the years then ended December 31, 2011, 2010 and 2009.

The consolidated financial statements comprise the financial statements of the Parent Company, consolidated financial statements of Fed Land Group and Group's share in the net assets of the associates plus cost of investment. The consolidated statement of financial position as of January 1, 2010, as presented herein, represents the retrospective restatement of items in the consolidated financial statements of Fed Land Group and was consequently consolidated to the Group's financial statements (see Notes 19 and 28). The Group provides full set of notes for the consolidated statement financial position as of January 1, 2010, including the related notes that were affected by the restatement.

The subsidiary is fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiary are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Non-controlling interests (NCI) represent the portion of profit or loss and net assets in a subsidiary not wholly owned and are presented separately in the consolidated statement of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and within equity in the consolidated statements of financial position, separately from the Parent Company's equity.

Losses within a subsidiary are attributed to the NCI even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any NCI and the cumulative translation differences, recorded in equity.
- Recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss.
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Basis of consolidation prior to January 1, 2010

Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests, prior to January 1, 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognized in goodwill.
- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to January 1, 2010 were not reallocated between NCI and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying values of such investments at January 1, 2010 have not been restated.

The consolidated financial statements include the financial statements of the Parent Company and the following domestic subsidiaries of Fed Land:

	Effective Percentages of Ownership		
	December 31		January 1,
	2011	2010	2010
Federal Land Inc. (Fed Land)[1]	**80.00%**	80.00%	80.00%
Subsidiaries of Fed Land:			
Southern Horizon Development Corp. (SHDC)	**80.00**	80.00	80.00
Federal Land - Management and Consultancy, Inc. (FMCI)	**80.00**	80.00	80.00
Fedsales Marketing, Inc. (FMI)	**80.00**	80.00	80.00
Baywatch Realty Corporation (BRC)[a]	–	–	80.00
Baywatch Project Management Corporation (BPMC)	**80.00**	80.00	80.00
Paco Realty Development, Inc. (PRDI)[b]	–	–	80.00
Horizon Land Property and Development Corporation previously known as Heritage Consolidated Assets, Inc.(HCAI)[b]	**80.00**	80.00	80.00
Morano Holdings Corporation (MHC)	**80.00**	80.00	80.00
Promenade Construction and Realty Development Corp. (PCRDC)[b]	–	–	80.00
Omni-Orient Marketing Network, Inc. (OOMNI)	**70.24**	70.24	70.24
Federal Brent Retail, Inc. (FBRI)[2]	**41.33**	41.33	41.33
Top Leader Property Management Corp. (TLPMC)	**80.00**	–	–
Central Realty and Development Corp. (CRDC)[c]	**60.64**	60.64	60.64
Harbour Land Realty Corporation (HLRC)[c]	**80.00**	80.00	80.00

[1] Subsidiary
[2] Engaged in trading of petroleum and non-fuel products and food and restaurant services
a - BRC was merged to Fed Land in 2010
b - Merged witn HCAI in 2010 and SEC approved the change of name in December 23, 2010
c - Effective ownership in 2010 and 2009 was the effect of uniting of interest method

TLPMC
On April 27, 2011, the SEC approved the Articles of Incorporation and by Laws of TLPMC, a wholly owned subsidiary of Fed Land for a total subscription of ₱0.50 million. TLPMC started its operations in May 2011.

CRDC
On June 23, 2011, CRDC issued its remaining unissued capital stock to Fed Land consisting of 375,000 common shares with ₱100 par value share for ₱37.50 million. As a result, the Group obtained a 60.64% interest through Fed Land's 75.8% direct interest of CRDC after the issuance. The Group accounted the business combination under common control using uniting of interest method (see Note 28).

HLRC
In 2011, the Group acquired effective interest holdings of 80% in HLRC, a wholly owned subsidiary of Fed Land, from affiliated companies for a total consideration of ₱420.00 million. Such transaction involving business combination under common control was accounted for using uniting of interest method (see Note 28).

FBRI
FBRI is 51.66% owned by Fed Land and was consolidated to Fed Land Group. Effective ownership of the Parent Company over FBRI through Fed Land is 41.33%.

BLRDC
In 2011, Fed Land and MHC entered into a Deed of Assignment and Subscription Agreement under a joint venture arrangement with ORIX Risingsun Properties II, Inc. (Orix) (see Note 31).

On January 25, 2012, the SEC approved the change in corporate name of MHC from Morano Holdings Corporation to Bonifacio Landmark Realty and Development Corporation (BLRDC).

Combinations of Entities Under Common Control
Business combination of entities under common control is accounted for using the uniting of interest method. The combined entities accounted for by the uniting of interests method reports results of operations for the period in which the combination occurs as though the entities had been combined as of the beginning of the period. Financial statements of the separate entities presented for prior years are also restated on a combined basis to provide comparative information. The effects of intercompany transactions on current assets, current liabilities, revenues, and cost of sales for the periods presented and on retained earnings at the beginning of the periods presented are eliminated to the extent possible.

Under the uniting of interest method, the acquirer accounts for the combination as follows:
- the assets and liabilities of the acquire are consolidated using the existing carrying values instead of fair values;
- intangible assets and contingent liabilities are recognized only to the extent that they were recognized by the acquire in accordance with applicable PRFS;
- no amount is recognized as goodwill.
- any non-controlling interest is measured as a proportionate share of the book values of the related assets and liabilities; and
- comparative amounts are restated as if the combination had taken place at the beginning of the earliest comparative period presented.

The acquiree's equity are included in the opening balances of the equity as a restatement and are presented as "Effect of uniting of interest" in the consolidated statement of changes in equity. Cash consideration transferred on acquisition of a subsidiary under common control are deducted in the "Retained earnings" at the time of business combination.

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended PFRSs and Philippine Interpretations which were adopted as of January 1, 2011. Adoption of these changes in PFRS did not have any significant effect on the Group's consolidated financial statements.

- PAS 24, *Related Party Transactions* (Amendment)
  PAS 24 clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons

and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

- PAS 32, *Financial Instruments: Presentation* (Amendment)
  The amendment alters the definition of a financial liability in PAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have these type of instruments.

- Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement* (Amendment)
  The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognized as a pension asset. The Group is not subject to minimum funding requirements in the Philippines, therefore the amendment of the interpretation has no effect on the financial position nor performance of the Group.

Improvements to PFRSs
Improvements to PFRSs, an omnibus of amendments to standards, deal primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments did not have any impact on the consolidated financial position or performance of the Group.

Improvements to PFRS 2010
- PFRS 3, *Business Combinations*: The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

  The amendments to PFRS 3 are effective for annual periods beginning on or after July 1, 2011. The Group, however, adopted these as of January 1, 2011 and changed its accounting policy accordingly as the amendment was issued to eliminate unintended consequences that may arise from the adoption of PFRS 3.

- PFRS 7, *Financial Instruments- Disclosures*: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

- PAS 1, Presentation of Financial Statements: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements.

Other amendments resulting from the 2010 Improvements to PFRSs to the following standards did not have any impact on the accounting policies, consolidated financial position or performance of the Group.

- PFRS 3, *Business Combinations* (Contingent consideration arising from business combination prior to adoption of PFRS 3 (as revised in 2008))
- PFRS 3, *Business Combinations* (Un-replaced and voluntarily replaced share-based payment awards)
- PAS 27, *Consolidated and Separate Financial Statements*
- PAS 34, *Interim Financial Statements*

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* (determining the fair value of award credits)
- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*

<u>New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2011</u>
The Group will adopt the following standards and interpretations 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 consolidated financial statements.

- PAS 1, *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income*
  The amendments to PAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has therefore no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012.

- PAS 12, *Income Taxes - Recovery of Underlying Assets*
  The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after January 1, 2012.

- PAS 19, *Employee Benefits* (Amendment)
  Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group is currently assessing the impact of the amendment to PAS 19. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

- PAS 27, *Separate Financial Statements* (as revised in 2011)
  As a consequence of the new PFRS 10, *Consolidated Financial Statement* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

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

- PFRS 7, *Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements*
  The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

- PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*
  These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

  a) The gross amounts of those recognized financial assets and recognized financial liabilities;
  b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
  c) The net amounts presented in the statement of financial position;
  d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
     i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
     ii. Amounts related to financial collateral (including cash collateral); and
  e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

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

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

- PFRS 11, *Joint Arrangements*
  PFRS 11 replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities -* Non-monetary Contributions by Venturers. PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will not have significant impact to the financial position of the Group since the Group accounts its jointly controlled under equity method of accounting. This standard becomes effective for annual periods beginning on or after January 1, 2013.

- PFRS 12, *Disclosure of Involvement with Other Entities*
  PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after January 1, 2013.

- PFRS 13, *Fair Value Measurement*
  PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after January 1, 2013.

- PFRS 9, *Financial Instruments: Classification and Measurement*
  PFRS 9 as issued reflects the first phase 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, 2015. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

- PAS 32*, Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities*
  These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While the amendment is expected not to have any impact on the net assets of the Group, any changes in offsetting is expected to impact leverage ratios and regulatory capital requirements. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014. The Group is currently assessing impact of the amendments to PAS 32.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
  The interpretation 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. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue Standard is issued by International Accounting Standards Board (IASB) and an evaluation of the requirements and guidance of the final Revenue Standard in relation to the practices of the Philippine real estate industry is completed

  The adoption of this Philippine Interpretation may significantly affect the determination of the revenue from real estate sales and the corresponding costs, and the related trade receivables, deferred tax liabilities and retained earnings accounts. The Group is in the process of quantifying the impact of adoption of this Interpretation.

<u>Cash and Cash Equivalents</u>
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of placement and that are subject to an insignificant risk of changes in value.

<u>Long Term Cash Investments</u>
Long term cash investments are highly liquid investment that are subject to explicit time restriction under the provisions on the contracts.

<u>Financial Instruments</u>
Date of recognition
The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. 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 trade date, which is the date when the group commits to purchase or sell assets.

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

As of December 31, 2011, 2010 and January 1, 2010, the Group's financial assets are of the nature of loans and receivables and AFS financial assets while financial liabilities are of the nature of other financial liabilities.

Determination of fair value
The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price 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 ask 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. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

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

Loans and receivables
Loans and receivables are 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 designated as AFS or financial assets at FVPL. This accounting policy relates to the consolidated statement of financial position captions "Cash and cash equivalents", "Receivables except for advances to contractors and suppliers", "Due from related parties" and "Long term cash investment" which in included in receivables account.

Receivables are recognized initially at fair value which normally pertains to the billable amount. After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in the consolidated statement of income. The losses arising from impairment of such loans and receivables are recognized in the consolidated statement of income.

AFS financial assets
AFS financial assets are non-derivative financial assets those which are designated as such or do not qualify to be classified as designated as securities of 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. The Group's AFS financial assets pertain to unquoted equity securities included under the consolidated statement of financial position caption "Other noncurrent assets".

These are carried at cost less impairment and approximate fair value because fair value cannot be measured reliably due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

Other financial liabilities
Other financial liabilities are financial liabilities not designated at FVPL 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. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate 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 effective interest rate.

This accounting policy applies primarily to the Group's accounts and other payables, loans payable, liabilities for purchased land, due to related parties and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

Impairment of Financial Assets
The Group assesses at each reporting date whether there is 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.

Loans and receivables
For loans and receivables carried at amortized cost, 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. 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. 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.

If there is objective evidence that an impairment loss has been incurred, 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 carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the consolidated statement of income. Interest income continues to be recognized based on the original effective interest rate of the asset. Receivable, 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 reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as 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. 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.

AFS financial assets
In case of equity investments classified as AFS financial assets, 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 consolidated statement of income is removed from the statement of changes in equity and recognized in consolidated comprehensive income. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in other comprehensive income.

Derecognition of Financial Assets and Liabilities
Financial asset
A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:
a. the rights to receive cash flows from the asset have expired;

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

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

Financial liability
A financial liability is derecognized when the obligation under the liability is discharged, 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 consolidated statement of income.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated 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, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Inventories
Inventories consist of condominium units held for sale, gasoline retail and petroleum products, food and nonfood products that are available for sale in the Group's ordinary course of business and land and improvements and will be part of the Group's future real estate projects. These are carried at the lower of cost or net realizable value (NRV). NRV is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs to make the sale. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Real Estate Inventories
Property acquired are being developed or constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as real estate inventory. Real estate inventories consists of land and improvements and condominium held for sale.

Land and improvements consists of properties that is held for future real estate projects and are carried at the lower of cost or NRV. Cost includes the acquisition cost of the land and those costs incurred for development and improvement of the properties. Upon commencement of real estate project, the subject land is transferred under "Condominium units held for sale".

Costs of condominium held for sale includes the carrying amount of the land transferred from "Land and improvements" at the commencement of its real estate projects and those costs incurred for construction, development and improvement of the properties, including capitalized borrowing costs.

Gasoline retail, petroleum products and chemicals
Cost is determined using first-in, first-out method. The costs of oil, petroleum products and chemicals include cost incurred for acquisition and freight charges.

Investments and Advances
This account includes advances for future stocks acquisition on investee companies. Investments in associates and jointly controlled entity are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group. A joint venture is a contractual agreement whereby two or more parties undertake an economic activity that is subject to joint control.

An investment is accounted for using the equity method from the day it becomes an associate or jointly controlled entity. On acquisition of investment, the excess of the cost of investment over the investor's share in the net fair value of the investee's identifiable assets, liabilities and contingent liabilities is accounted for as goodwill and included in the carrying amount of the investment and neither amortized nor individually tested for impairment. Any excess of the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment, and is instead included as income in the determination of the share in the earnings of the investees.

Under the equity method, the investments and advances to in associate and jointly controlled entity are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share in the net assets of the investees, less any impairment in value.

The consolidated statement of income reflects the Group's share in the results of operations of the investee companies and the Group's share on movements in the investee's other comprehensive income are recognized directly in other comprehensive income in the consolidated financial statements. The Group's share on total comprehensive income of an associate is shown in the statement of income and statement of comprehensive income. This is the profit attributable to equity holders of the associate and, therefore, is profit after tax and non-controlling interests in subsidiaries of the associate.

Profits and losses resulting from transactions between the Group and the investee companies are eliminated to the extent of the interest in the investee companies and for unrealized losses to the extent that there is no evidence of impairment of the assets transferred. Dividends received are treated as a reduction of the accumulated earnings under "Investment in associate" account.

The Group discontinues applying the equity method when its investments in investee companies are reduced to zero. Accordingly, additional losses are not recognized unless the Group has guaranteed certain obligations of the associates or jointly controlled entity. When the investees subsequently report net income, the Group will resume applying the equity method but only after its share in the net income equals the share of net losses not recognized during the period the equity method was suspended.

Investment Properties
Investment properties consist of properties that are held to earn rentals and that are not occupied by the companies in the Group. Investment properties, except for land, are carried at cost less accumulated depreciation and amortization and any impairment in residual value. Land is carried at cost less any impairment in value.

Depreciation and amortization of investment properties are computed using the straight-line method over the estimated useful lives of the properties which is 25 years.

Investment properties are derecognized when either they have been disposed of, or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of retirement or disposal.

Transfers are made to investment property when there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property 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. Transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value. The initial cost of property and equipment comprises its purchase price, including import duties, taxes and any directly attributable costs of bringing the property and equipment to its working condition and location for its intended use, including capitalized borrowing costs.

Construction-in-progress (CIP) is stated at cost. This includes cost of construction and other direct costs. CIP is not depreciated until such time that the relevant assets are completed and put into operational use.

Major repairs are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance are charged against operations as incurred.

Depreciation and amortization of property and equipment commences once the property and equipment are available for use and are calculated on the straight-line basis over the following estimated useful lives (EUL) of the property and equipment as follows:

	Years
Transportation equipment	5
Furniture, fixtures and equipment	5
Leasehold improvements	2 to 10 or lease term (whichever is shorter)
Machineries, tools and equipment	3 to 5
Building	20 to 40

The assets' residual values, EUL and depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

Transfers are made from property and equipment, when there is a change in use, evidenced by ending of owner-occupation, and with a view of sale.

Franchise
Franchise fee is amortized over the franchise period which ranges from three (3) to five (5) years. Accumulated depreciation and amortization and provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Software Costs
Costs related to software purchased by the Group for use in the operations are amortized on a straight-line basis over a period of 3 years.

Costs that are directly associated with identifiable and unique software controlled by the Group and will generate economic benefits exceeding costs beyond one year, are recognized as intangible assets to be measured at cost less accumulated amortization and provision for impairment losses, if any. Expenditures which enhance or extend the performance of computer software programs beyond their original specifications are recognized as capital improvements and added to the original cost of the software.

Deposits
Deposits are stated at cost. Cost is the fair value of the asset given up at the date transfer to the affiliates. This account is treated as a real option money to purchase and develop a property that is held by a related party or an equity instrument to be issued upon exercise of option. The deposit granted to affiliates charges an interest and other related expenses in lieu of the time value in use of option money granted to the affiliates.

Impairment of Non-financial Assets
The Group assesses at each financial reporting date whether there is an indication that their nonfinancial assets (e.g. investments and advances to in associates and jointly controlled entity, investment properties, property and equipment, software costs and franchise and deposits), may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit'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 of those from other assets or groups of assets. 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. Impairment losses of continuing operations are recognized in consolidated statement of income in those expense categories consistent with the function of the impaired asset.

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

This accounting policy applies primarily to the Group's property and equipment.

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

Investments and advances
After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in its associates and jointly controlled entity. The Group determines at each financial reporting date whether there is any objective evidence that the investments and advances to associates and jointly controlled entity is impaired.

If this is the case, the Group calculates the amount of impairment as being the difference between the fair value of the associate and jointly controlled entity and the carrying cost and recognizes the amount in the consolidated statement of income.

Intangible assets
Costs that are directly associated with identifiable and unique software controlled by the Group and will generate economic benefits exceeding costs beyond one year, are recognized as intangible assets to be measured at cost less accumulated amortization and accumulated impairment, if any. Otherwise, such costs are recognized as expense as incurred.

Expenditures which enhance or extend the performance of computer software programs beyond their original specifications are recognized as capital improvements and added to the original cost of the software. The Group's intangible assets consist of software costs and franchise. Intangible assets have an estimated useful life of 2 to 5 years. Where an indication of impairment exists, the carrying amount of computer system development costs is assessed and written down immediately to its recoverable amount.

Impairment of AFS financial assets
The Group treats AFS financial assets as 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. The determination of what is 'significant' or 'prolonged' requires judgment. The Group treats 'significant' generally as 20% or more of the original cost of investment and 'prolonged' as greater than 6 months for quoted equity securities. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Customers' Deposits
The Group requires buyers of condominium units to pay a minimum percentage of the total selling price before the two parties enter into a sale transaction. The minimum percentage is on the basis of the level of buyer's commitment to pay and is part of the revenue recognition criteria. When the revenue recognition criteria are met, sales are, then, recognized and these deposits and downpayments will be applied against the related installment contracts receivable. In the event that the customer decides to terminate the purchase prior to recognition of sale, an amount equivalent to the cash surrender value of the deposit will be refunded to the buyer.

In relation to this, the customer's deposits consists of payment from buyers which have not reached the minimum required percentage and any excess of collections over the recognized receivables.

Equity
The Group records common stocks at par value and additional paid-in capital in excess of the total contributions received over the aggregate par values of the equity share. Incremental costs incurred directly attributable to the issuance of new shares are deducted from proceeds.

Retained earnings represent(s) accumulated earnings (losses) of the Group less dividends declared, if any.

Acquisition of Non-controlling Interest in a Subsidiary
Acquisition of non-controlling interest is accounted for using the parent entity extension method, whereby the difference between the fair value of consideration given and the share in the net book value of the net assets acquired is recognized in equity. When the consideration is less than the net assets acquired, the difference is recognized as a gain in the consolidated statement of income. In an acquisition without consideration involved, the difference between the share of the non-controlling interests in the net assets at book value before and after the acquisition is treated as transaction between equity owners.

Revenue and Cost Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue can be reliably measured. 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 principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Real estate sales
For real estate sales, the Group assesses whether it is probable that the economic benefits will flow to the Group when the sales prices are collectible. Collectibility of the sales price is demonstrated by the buyer's commitment to pay, which in turn is supported by substantial initial and continuing investments that give the buyer a stake in the property sufficient that the risk of loss through default motivates the buyer to honor its obligation to the seller. Collectibility is also assessed by considering factors such as the credit standing of the buyer, age and location of the property.

Real estate revenue and cost from completed projects is accounted for using the full accrual method. In accordance with Philippine Interpretations Committee (PIC) Q&A No. 2006-01, the percentage of completion method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold, the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished), and the costs incurred or to be incurred can be measured reliably. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

When the sale of real estate does not meet the requirements for revenue recognition, the sale is accounted under the deposit method until all the conditions are met. Under this method, revenue is not recognized, the receivable from the buyer is not recorded and the cash received from buyers are presented under the "Customers' deposits" account in the "Liabilities" section of the consolidated statement of financial position. The related real estate inventories continue to be reported in the consolidated statement of financial position as "Inventories".

Cost of condominium units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works, as determined by the Group's in-house technical staff.

Sale of goods
Sale of goods is recognized from retail customers at the point of sale in the stores. This is measured at the fair value of the consideration received, excluding (or 'net of,' or 'reduced for') discounts, returns, rebates and sales taxes.

Management fees
Management fees from administrative, property management and other fees are recognized when services are rendered.

Commission income
Commission income is recognized by reference to the percentage of collection of the agreed sales price or depending on the term of the sale as provided under the marketing agreement.

Rental income
Rental income under noncancellable leases is recognized in the consolidated statement of income on a straight-line basis over the lease term and the terms of the lease, respectively, or based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract.

Interest income
Interest is recognized as it accrues using the effective interest method.

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

Other income
Other customer related fees such as penalties and surcharges are recognized as they accrue, taking into account the provisions of the related contract.

Expense Recognition
Commission expenses
Commissions paid to sales or marketing agents on the sale of pre-completed real estate units are deferred when recovery is reasonably expected and are charged to expense in the period in which the related revenue is recognized as earned. Accordingly, when the percentage of completion method is used, commissions are likewise charged to expense in the period the related revenue is recognized. These are recorded as "Prepaid expenses" under "Prepayments and other current assets" account.

General and administrative expenses
General and administrative expenses constitute costs of administering the business and are expensed as incurred.

Pension Costs
The Group has a funded, noncontributory defined benefit retirement plan, administered by trustees, covering their permanent employees.

Pension cost is actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur. Pension cost includes current service cost, interest cost, expected return on any plan assets, actuarial gains and losses and the effect of any curtailment or settlement.

The liability recognized in the consolidated statement of financial position in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the financial reporting date less the fair value of the plan assets and less any actuarial gains or losses not recognized. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using risk-free interest rates that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses is recognized as income or expense if the cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded the greater of 10% of the present value of defined benefit obligation or 10% of the fair value of plan assets. These gains and losses are recognized over the expected average remaining working lives of the employees participating in the plans.

Income Tax

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 at the financial reporting dates.

Deferred tax

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

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized.

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rate and tax laws that have been enacted or substantively enacted at the reporting date.

Foreign Currency Transactions
The functional and presentation currency of the Group is Philippine Peso. Transactions denominated in foreign currency are recorded using the exchange rate prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are restated using the closing exchange rates prevailing at reporting date. Exchange gains or losses resulting from rate fluctuations upon actual settlement and from restatement at year-end are credited to or charged against current operations.

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 the Group's business segments is presented in Note 30.

Leases
Leases where the lessor retains substantially all the risks and benefits of the ownership of the asset are classified as operating leases. Fixed lease payments are recognized on a straight-line basis over the lease term. Variable rent is recognized as an income based on the terms of the lease contract.

Borrowing Costs
Borrowing costs are generally expensed as incurred. Interest and other financing costs incurred during the construction period on borrowings used to finance property development are capitalized as part of development costs. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalization of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Capitalized borrowing cost is based on applicable weighted average borrowing rate.

Provisions
Provisions are recognized when the Group has: (a) a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. 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. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

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

Events after Reporting Date
Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

3. **Management's Judgments and Use of Estimates**

The preparation of the consolidated financial statements in compliance with PFRS requires the Group's management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including future events that are believed to be reasonable under circumstances.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Revenue and cost recognition
Selecting an appropriate revenue recognition method for a particular real estate sale transaction requires certain judgments based on, among others:
- Buyer's commitment on the sale which may be ascertained through the significance of the buyer's initial investment; and
- Stage of completion of the project.

Collectibility of the sales price
In determining whether the sales prices are collectible, the Group considers that initial and continuing investments by the buyer of about 10% would demonstrate the buyer's commitment to pay.

Operating lease commitments - the Group as lessee
The Group has entered into a lease contract with its related parties with respect to the parcels of land where its retail malls are located. The Group has determined that all significant risks and rewards of ownership of the leased property remains to the lessor since the leased property, together with the buildings thereon, and all permanent fixtures, will be returned to the lessor upon termination of the lease.

Operating lease commitment - the Group as lessor
The Group entered into commercial property leases on its retail mall, investment properties and certain units of its real estate projects to different parties for a specific amount depending on the lease contracts. The Group has determined that it retains all significant risks and rewards of ownership on the properties as the Group considered risks and rewards of ownership on the properties as the Group considered among others the length of the lease as compared with the estimated life of the assets.

A number of the Group's operating lease contracts are accounted for as noncancellable operating leases. In determining whether a lease contract is cancellable or not, the Group considered among others, the significance of the penalty, including the economic consequences to the lessee (see Note 27).

Finance lease commitments - Group as Lessee
The Group has entered into finance leases on certain parcel of land. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that the lessor transfers substantially all the risks and benefits incidental to ownership of the leased equipment to the Group thus, it recognized these leases as finance leases.

Impairment of AFS financial assets
The Group treats AFS financial assets as impaired when there has been a significant or prolonged decline or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Group treats 'significant' generally as 20% or more and 'prolonged' as greater than six months for quoted equity securities. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

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.

Distinction between real estate inventories and investment properties
The Group determines whether a property will be classified as real estate inventories or investment properties. In making this judgment, the Group considers whether the property is held for sale in the ordinary course of business (real estate inventories) or which are held primarily to earn rental and capital appreciation and are not occupied substantially for use by, or in the operations of the Group (investment properties).

Distinction between investment properties and owner-occupied properties
The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions cannot be sold separately as of financial reporting date, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

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

Management's Use of Estimates
The key assumptions concerning the future and other key sources of estimation and uncertainty at the financial reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Revenue recognition
The Group's revenue recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenues and costs. The Group's revenue from real estate sales recognized based on the percentage of completion are measured principally on the basis of the estimated completion of a physical proportion of the contract work, and by reference to the actual costs incurred to date over the estimated total costs of the project. The carrying amount of installment contract receivable amounted to ₱1,924.21 million in December 31, 2011, ₱1,361.19 million in December 31, 2010, and ₱750.93 million in January 1, 2010 (see Note 5). The Group recognized real estate sales in 31, 2011, 2010, and 2009 amounting to ₱2,512.20 million, ₱2,160.70 million, and ₱1,148.00 million, respectively.

Estimating allowance for impairment losses
The Group reviews its loans and receivables at each reporting date to assess whether an allowance for impairment should be recorded in the consolidated statement of financial position and any changes thereto in profit or loss. In particular, judgment by 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. Actual results may also differ, resulting in future changes to the allowance.

The Group maintains allowance for impairment losses based on the result of the individual and collective assessment under PAS 39. Under the individual assessment, the Group is required to obtain the present value of estimated cash flows using the receivable's original effective interest rate. Impairment loss is determined as the difference between the receivable's carrying balance and the computed present value. The collective assessment would require the Group to group its receivables based on the credit risk characteristics (industry, customer type, customer location, past-due status and term) of the customers. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile. 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. The methodology and assumptions used for the individual and collective assessments are based on management's judgment and estimate. Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year.

Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year. As of December 31, 2011, 2010 and January 1, 2010, the carrying values of these assets are as follows:

	December 31		January 1,
	2011	2010	2010
Receivables (Note 6)	**₱4,864,096,896**	₱1,175,627,247	₱754,968,420
Due from related parties	**938,859,224**	558,144,260	872,062,998

Evaluating net realizable value of real estate inventories
The Group adjusts the cost of its real estate inventories to net realizable value based on its assessment of the recoverability of the inventories. In determining the recoverability of the inventories, management considers whether those inventories are damaged or if their selling prices have declined. Likewise, management also considers whether the estimated costs of completion or the estimated costs to be incurred to make the sale have increased. The amount and timing of recorded expense for any period would differ if different judgments were made or different estimates were utilized. The carrying value of the Group's inventories amounted to ₱11,338.37 million, ₱7,889.22 million, and ₱6,927.61 million as of December 31, 2011, 2010 and January 1, 2010, respectively (see Note 6).

Estimating useful lives of property and equipment, investment properties and intangibles assets
The Group estimated useful lives (EUL) of its property and equipment, investment properties, and intangibles assets based on the period over which the assets are expected to be available for use. The Group reviews annually the EUL of property and equipment, investment properties and intangible assets based on factors that include asset utilization, internal technical evaluation, and anticipated use of the assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the EUL of property and equipment, investment properties and intangible assets would increase the recorded depreciation and amortization expense.

As of December 31, 2011, 2010 and January 1, 2010, the carrying values of property and equipment, investment property, software costs and franchise are as follow:

	December 31		January 1, 2010
	2011	2010	(See Note 2)
Investment properties (Note 9)	**₱5,227,423,530**	₱5,299,217,182	₱3,906,242,718
Property and equipment (Note 10)	**396,367,203**	430,887,963	373,046,962
Software costs (Note 12)	**8,425,386**	8,386,285	13,840,392
Franchise (Note 12)	**72,697**	145,424	2,063,057

Evaluating asset impairment
The Group reviews investment properties, investments in and advances to associates and a jointly controlled entity, property and equipment, software costs and franchise. This includes considering certain indications of impairment such as significant changes in asset usage, significant decline in assets' market value, obsolescence or physical damage of an asset, plans in the real estate projects, significant underperformance relative to expected historical or projected future operating results and significant negative industry or economic trends.

As described in the accounting policy, the Group estimates the recoverable amount as the higher of the fair value less cost to sell and value in use. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that may affect investments and advances to in associates and jointly controlled entity, property and equipment, software cost and franchise. The following table sets forth the carrying values of investment properties, investments and advances to in associates and jointly controlled entity, property and equipment, software costs and franchise as of December 31, 2011, 2010 and January 1, 2010:

	December 31		January 1, 2010
	2011	2010	(See Note 2)
Investments and advances to in associates and a joint venture (Note 8)	**₱38,112,517,612**	₱31,123,061,558	₱22,761,246,838
Investment properties (Note 9)	**5,227,423,530**	5,299,217,182	3,906,242,718
Property and equipment (Note 10)	**396,367,203**	430,887,963	373,046,962
Software (Note 12)	**8,425,386**	8,386,285	13,840,392
Franchise (Note 12)	**72,697**	145,424	2,063,057

Deferred tax assets
The Group reviews the carrying amounts of deferred taxes at each reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable profit to allow all or part of deferred income tax assets to be utilized. The Group looks at its projected performance in assessing the sufficiency of future taxable income.

The recognized deferred tax assets and unrecognized temporary differences of the Group are disclosed in Note 25.

Estimating pension and other retirement benefits
The determination of the obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include are described in Note 24 to the consolidated statement of financial position and include among others, discount rates, expected returns on plan assets and rates of salary increase. While the Group believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions materially affect retirement obligations.

As of December 31, 2011, 2010 and January 1, 2010, the present value of defined benefit obligations and unrecognized actuarial losses are as follows (see Note 24):

	December 31		January 1, 2010
	2011	2010	(See Note2)
Present value of funded defined benefit obligations	**₱94,019,346**	₱78,287,581	₱51,699,062
Unrecognized actuarial losses	**(42,949,696)**	(42,807,415)	(6,311,230)

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation (see Note 26).

4. **Cash and Cash Equivalents**

This account consists of:

	December 31		January 1,
	2011	2010	2010
Cash on hand and in banks	**₱383,635,340**	₱2,731,763,350	₱164,857,911
Cash equivalents	**70,786,225**	333,178,496	33,640,673
	₱454,421,565	₱3,064,941,846	₱198,498,584

Cash in banks earns interest at the prevailing bank deposit rates. Cash equivalents are made for varying periods of up to three months depending on the immediate cash requirements of the Group, and earn interest at the prevailing short-term investment rates ranging from 2.3% to 4.0% interest per annum.

Interest income from deposits and savings accounts of the Group amounted to ₱24.52 million, ₱9.81 million and ₱3.28 million in 2011, 2010 and 2009, respectively.

5. **Receivables**

This account consists of:

	December 31		January 1,
	2011	2010	2010
Installment contracts receivable	**₱1,924,210,550**	₱1,361,188,994	₱750,928,270
Loans receivable (Note 31)	**2,602,879,241**	–	–
Advances to contractors and suppliers	**890,524,121**	479,942,744	151,154,261
Dividend receivable (Note 31)	**157,156,316**	–	–
Trade receivables	**178,816,574**	93,286,102	75,151,800
Advances to officers, employees and agents	**39,780,012**	12,010,584	7,141,616
Accrued commission income	**21,252,081**	26,256,933	4,519,931
Accrued rent income	**5,300,029**	14,703,308	8,378,764
Accrued interest receivable	**2,269,418**	34,559,913	24,984,384
Others	**160,620,804**	65,475,121	18,939,085
Total	**5,982,809,146**	2,087,423,699	1,041,198,111
Less noncurrent portion	**1,114,943,862**	908,865,891	284,535,117
Total current	**4,867,865,284**	1,178,557,808	756,662,994
Less allowance for impairment losses	**3,768,388**	2,930,561	1,694,574
	₱4,864,096,896	₱1,175,627,247	₱754,968,420

The details of installment contracts receivable follow:

	December 31		January 1,
	2011	2010	2010
Installment contracts receivable	**₱2,348,347,412**	₱1,508,270,802	₱865,110,158
Less unearned interest income	**424,136,862**	147,081,808	114,181,888
Net installment contracts receivable	**1,924,210,550**	1,361,188,994	750,928,270
Less noncurrent portion	**1,104,578,763**	908,865,891	284,535,117
Current portion	**₱819,631,787**	₱452,323,103	₱466,393,153

Noninterest-bearing installment contracts receivables are collected over a period of one to ten years. The fair value upon initial recognition is derived using discounted cash model using the discount rate ranging from 8% to 18% in December 31, 2011, 2010 and January 1, 2010. Interest income recognized from these receivables amounted to ₱195.92 million, ₱174.57 million, and ₱180.64 million in 2011, 2010 and 2009, respectively. Unamortized discount amounted to ₱424.14 million, ₱147.08 million, and ₱114.18 million as of December 31, 2011, 2010 and January 1, 2010, respectively.

Movements in the unamortized discount as of December 31, 2011, 2010 and January 1, 2010 follow:

	December 31		January 1,
	2011	2010	2010
Balance at beginning of year	**₱147,081,808**	₱114,181,888	₱187,551,788
Additions	**472,979,186**	207,467,520	107,273,723
Accretion	**(195,924,132)**	(174,567,600)	(180,643,623)
Balance at end of year	**₱424,136,862**	₱147,081,808	₱114,181,888

Advances to contractors and suppliers pertain to advances and initial payment for the purchase of construction materials and supplies and contractor services. These are recouped upon every progress billing payments and will be due and demandable upon breach of contract.

Trade receivables pertain to tenants' rentals already billed but not yet collected and their share in utilities (electricity, water and liquefied petroleum gas).

Accrued rent income and accrued commission pertain to commission and rent earned but not yet collected, with a 15- to 30- day term.

Advances to officers and employees pertain to cash advances for representation and entertainment and employee cash loans. Advances for representation and entertainment are liquidated within 30 days after incurrence of expense while employee cash loans are collected through salary deduction. Cash advances to agents pertain to mobilization funds granted to agents to finance their sales-related needs. These advances are subjected to liquidation within 30 days after the release of cash advance.

Other receivables pertain to the claims on late payments and other non trade receivables.

Loan receivable represents a short term loan granted by the Parent Company to a third party on December 27, 2011 amounting to ₱2.6 billion with fixed interest rate of 4.00% per annum.

As of December 31, 2011, 2010 and January 1, 2010, the Group's other receivables which are past due were provided with full allowance amounting to ₱3.77 million, ₱2.93 million, and ₱1.69 million, respectively. The impairment loss pertains to individually impaired accounts. These are presented as gross amounts before directly deducting impairment allowance. No impairment losses resulted from performing collective impairment test.

The movement in the Group's allowance for impairment losses follows:

	December 31		January 1,
	2011	2010	2010
Balance at beginning of year	**₱2,930,561**	₱1,694,574	₱1,374,510
Provision for the year	**879,708**	1,235,987	320,064
Write off	**(41,881)**	–	–
Balance at end of year	**₱3,768,388**	₱2,930,561	₱1,694,574

6. **Inventories**

This account consists of:

	December 31		January 1,
		2010	2010
	2011	(As restated)	(As restated)
Condominium units held for sale	**₱5,931,704,263**	₱3,154,520,645	₱1,882,373,019
Land and improvements at cost	**4,653,076,618**	4,279,214,214	4,492,170,030
Materials, supplies and others	**743,058,180**	443,479,143	544,370,758
Crude oil and petroleum products (Note 21)	**8,367,927**	10,014,263	5,620,580
Food (Note 21)	**2,160,335**	1,990,935	3,074,605
	₱11,338,367,323	₱7,889,219,200	₱6,927,608,992

The Group started the development of its parcels of land previously accounted for as property and equipment amounting to ₱4.22 million and investment properties amounting to ₱2.41 million both in 2009. The transfers of properties into "Inventories" account are in line with the Group's intention of constructing condominium units for sale and as evidenced by its commencement of development with the view to sale (see Notes 9 and 10).

The rollforward of land for development is as follows:

	December 31		January 1,
	2011	2010	2010
Balance at beginning of year	**₱4,279,214,214**	₱4,492,170,030	₱4,233,598,038
Acquisitions	**7,165,853**	1,281,774,720	446,537,537
Transfers from materials, supplies and others	**475,473,513**	–	–
Transfers to condominium units held for sale	**(108,776,962)**	(1,494,730,536)	(187,965,545)
Balance at end of year	**₱4,653,076,618**	₱4,279,214,214	₱4,492,170,030

As of December 31, 2011, 2010 and 2009, inventories recognized as "Cost of real estate sales" amounted to ₱1,553.77 million, ₱1,364.81 million and ₱636.73 million, respectively, while other inventory items recognized as "Cost of goods and services sold" amounted to ₱709.73 million, ₱584.57 million, and ₱497.58 million, respectively.

Certain parcels of land were transferred to the inventories account with carrying amount of ₱117.98 million ₱9.12 million and ₱2.41 million in 2011, 2010 and 2009, respectively (see Note 9).

The Group capitalized borrowing cost on real estate inventories amounting to ₱171.54 million, ₱174.54 million and ₱155.86 million in 2011, 2010 and 2009, respectively for loans with interest rates ranging from 2.89% to 8.00% used to finance the Group's project construction. Also, the Group capitalized borrowing with regards to its general borrowing amounting to ₱79.28 in 2011. The average capitalization rate used to determine the amount of borrowing costs eligible for capitalization is 7.29% in 2011. Said capitalized interest is added to "Condominium units held for sale" account and recognized as expense upon the sale of condominium units. The Group expensed out capitalized interest amounted to ₱59.81 million in 2011 and ₱36.06 million in 2010 (see Note 14).

7. Prepayments and Other Current Assets

This account consists of:

	December 31		January 1,
	2011	2010	2010
Input value-added tax (VAT)	**₱695,928,291**	₱626,513,862	₱408,690,591
Creditable withholding taxes	**186,685,573**	42,401,104	144,949,966
Prepaid expenses	**90,924,676**	31,505,623	5,644,923
Others	**1,458,669**	52,055,202	4,353,003
	₱974,997,209	₱752,475,791	₱563,638,483

Input VAT will be applied against output VAT in the succeeding periods.

Creditable withholding taxes (CWT) are attributable to taxes withheld by third parties arising from real estate revenue, rental income and service fees.

Input VAT and CWT are fully realizable and will be applied against future taxes payable.

Prepaid expenses mainly include unrecognized commission expense for incomplete real estate units and prepayments for supplies, taxes and licenses, rentals and insurance.

8. Investments and Advances

This account consists of:

	December 31		January 1,
	2011	2010	2010
Investments in associates	**₱34,268,458,613**	₱26,763,676,334	₱22,442,662,461
Investment in a joint venture	**446,938,240**	359,385,224	318,584,377
Advances to GBPC	**3,397,120,759**	4,000,000,000	–
	₱38,112,517,612	₱31,123,061,558	₱22,761,246,838

The movements in the Group's investment and advances follow:

	December 31		January 1,
	2011	2010	2010
Associates:			
Balance at beginning of year	**₱21,923,397,617**	₱20,145,417,439	₱20,145,417,439
Additions during the year			
Additional investments	**2,624,660,409**	1,927,980,178	–
Disposal	**–**	(150,000,000)	–
	24,548,058,026	21,923,397,617	20,145,417,439
Accumulated equity in total comprehensive income (loss)			
Balance at beginning of year	**4,840,278,717**	2,297,245,022	(366,445,264)
Equity in net income	**3,480,320,083**	2,908,078,278	2,091,934,566
Equity in other comprehensive income (loss)	**2,895,604,967**	232,403,460	1,679,223,854
Dividends received	**(1,495,803,180)**	(604,780,787)	(1,107,468,134)
Disposal	**–**	7,332,744	–
	9,720,400,587	4,840,278,717	2,297,245,022
	34,268,458,613	30,763,676,334	22,442,662,461
Joint venture:			
Cost			
Balance at beginning of year	**330,000,000**	330,000,000	90,000,000
Additions	–	–	240,000,000
	330,000,000	330,000,000	330,000,000
Accumulated equity in net income (loss)			
Balance at beginning of year	**29,385,224**	(11,415,623)	(9,326,266)
Equity in net income (loss)	**87,553,016**	40,800,847	(2,089,357)
	116,938,240	29,385,224	(11,415,623)
	446,938,240	359,385,224	318,584,377
Advances: (Notes 23 and 31)			
Balance at the beginning of year	**4,000,000,000**	–	–
Deposit for future stocks subscriptions	**–**	4,000,000,000	–
Refund	**(602,879,241)**	–	–
	3,397,120,759	4,000,000,000	–
	₱38,112,517,612	₱31,123,061,558	₱22,761,246,838

The following tables summarize cash dividends declared and paid by the Group's associates:

Associate	Declaration date	Per share	Total (in millions)	Record Date	Payment Date
2011					
Phil AXA	December 14, 2011	₱177.43	₱621	December 14, 2011	February 9, 2012
Phil AXA	April 28, 2011	143.13	501	April 28, 2011	June 6, 2011
TMPC	April 12, 2011	209.51	3,246	December 31, 2010	April 13, 2011
MBTC	March 25, 2011	1.00	2,111	May 16, 2011	May 23, 2011
2010					
TMPC	May 20, 2010	102.52	1,588	December 31, 2009	May 21, 2010
MBTC	February 17, 2010	0.60	1,084	March 25, 2010	April 15, 2010
2009					
Phil AXA	December 15, 2009	184.00	399	December 15, 2009	December 23, 2009
MBTC	August 19, 2009	0.40	723	October 7, 2009	November 10, 2009
TMP	May 21, 2009	170.37	2,644	May 21, 2009	May 22, 2009
MBTC	March 11, 2009	0.60	1,084	April 30, 2009	May 18, 2009

Advances to GBPC
As of December 31, 2011, investments and advances include deposits for future subscription (DFS) amounting to ₱3,397.12 million advanced by the Parent Company to GBPC in August 2010, net of ₱602.88 million refund of DFS in December 2011.

On December 9, 2011, the Parent Company and GBPC entered into a Subscription Agreement which provides that of the planned increase of ₱760.00 million in GBPC's authorized capital stock, the Parent Company shall subscribe to and purchase, and GBPC agrees to issue and sell, 117,067,800 shares with par value of ₱1.00 per share, for a total consideration of ₱3,397.12 million (see Note 31).

Investment in MBTC
In 2011, FMIC, a majority owned subsidiary of MBTC participated in a bond exchange transaction under the liability management exercise of the Philippine government. The SEC granted an exemptive relief from the existing tainting rule on held-to-maturity (HTM) investment under Philippine Accounting Standard (PAS) 39, Financial Instruments: Recognition and Measurement while the Bangko Sentral ng Pilipinas (BSP) also provided the same exemption for prudential reporting to the participants. Following the exemption granted, the 2011 consolidated financial statements of MBTC have been prepared in compliance with Philippine GAAP. For the purpose of computing the Group's share in 2011 net income and other comprehensive income of MBTC, certain adjustments were made in MBTC's 2011 consolidated financial statements to comply with PFRS.

In January 2011, the Parent Company exercised its stock rights and subscribed for additional shares which aggregated to 52,201,070 million shares with a cost of ₱2.61 billion.

In October 2010, the Board of Directors of MBTC approved the entitlement to subscribe to one (1) share for every 9.557 common shares held by eligible shareholders as of December 20, 2010, which is the Record Date. The offer price is ₱50.00 per share and the offer period is from January 5 to 15, 2011. At the Record Date, the Parent Company held 478,000,000 shares, and had been entitled to 50,015,695 stock rights valued at ₱722.30 million. The fair value of stock rights was estimated at the date of entitlement using the Black-Scholes model. The inputs on the model included price history time period, and exercise price. With an assumption on the volatility of 40.96%, valuation resulted to an intrinsic value of ₱720.23 million and time value of ₱2.07 million for the stock rights.

In December 2010, the Parent Company purchased 26.00 million shares of MBTC with a par value of ₱20.00 per share for a total consideration of ₱1,822.00 million.

Investment in Phil AXA
In 2011 and 2010, the Parent Company agreed to increase its subscription in Phil AXA amounting to ₱14.61 million and ₱105.98 million, respectively.

On December 15, 2009, the BOD of Phil AXA authorized the declaration of 16% stock dividends or a total of ₱34.30 million (see Note 23).

On October 6, 2009, to comply with the capitalization requirement, the Insurance Commission granted the request of Phil AXA for the conversion of its contingency surplus into paid-up capital.

Disposal of an associate
In December 2010, Fed Land sold its interest in Cathay International Resources Corporation (CIRC) to a third party for a consideration of ₱142.22 million. The disposal of the investment resulted to a loss amounting to ₱0.45 million (see Note 23).

The details of the net assets of the Group's associates and equity in the net assets of jointly controlled entity and the corresponding percentages of ownership follow:

	Associates				Joint Venture
	Cathay Int'l. Resources Corp	MBTC	Phil AXA	Toyota	Federal Land Orix Corp.
Nature of Business	Real estate	Banks	Insurance	Motor	Real estate
	In thousands (except for percentage)				
2011					
Percentage of ownership.	–%	25.11%	25.31%	21.00%	60.00%
Net assets	₱–	₱116,504,000	₱3,667,751	₱7,340,419	₱446,938
Comprehensive income (loss)	–	22,322,534*	2,199,222	1,218,872	87,553
2010					
Percentage of ownership.	–%	25,0123.65%	25.00%	21.00%	60.00%
Net assets	475,557,518	93,017,000	3,565,937	8,666,458	359,385
Comprehensive income (loss)	1,180,185	9,079,000	1,043,720	3,485,782	40,801
2009					
Percentage of ownership.	30.00%	25.01%	25.00%	21.00%	60.00%
Net assets	474,377,333	80,318,000	2,519,403	6,756,361	318,584
Comprehensive income (loss)	6,406,074	12,423,716	1,167,051	1,763,346	(2,089)

**Total comprehensive income under PFRS*

9. **Investment Properties**

The composition and rollforward analysis of this account follow:

	December 31, 2011		
	Land	**Buildings**	**Total**
Cost			
At January 1,	**₱5,091,340,619**	**₱305,138,230**	**₱5,396,478,849**
Additions	**57,180,342**	**525,169**	**57,705,511**
Transfer	**(117,980,723)**	**–**	**(117,980,723)**
At December 31	**5,030,540,238**	**305,663,399**	**5,336,203,637**
Accumulated Depreciation			
At January 1,	**–**	**97,261,667**	**97,261,667**
Depreciation (Note 21)	**–**	**11,518,440**	**11,518,440**
At December 31	**–**	**108,780,107**	**108,780,107**
Net Book Value at December 31	**₱5,030,540,238**	**₱196,883,292**	**₱5,227,423,530**

	December 31, 2010 (As restated)		
	Land	Buildings	Total
Cost			
At January 1,	₱3,786,488,826	₱207,878,788	₱3,994,367,614
Additions	1,305,590,709	105,995,000	1,411,585,709
Transfer (Note 6)	(738,916)	(8,735,558)	(9,474,474)
At December 31	5,091,340,619	305,138,230	5,396,478,849

(Forward)

	December 31, 2010 (As restated)		
	Land	Buildings	Total
Accumulated Depreciation			
At January 1,	₱–	₱88,124,896	₱88,124,896
Depreciation (Note 21)	–	9,136,771	9,136,771
At December 31	–	97,261,667	97,261,667
Net Book Value at December 31	₱5,091,340,619	₱207,876,563	₱5,299,217,182

	January 1, 2010 (As restated)		
	Land	Buildings	Total
Cost			
At January 1,	₱3,788,161,462	₱151,067,457	₱3,939,228,919
Additions	738,915	56,811,331	57,550,246
Transfer (Note 6)	(2,411,551)	–	(2,411,551)
At December 31	3,786,488,826	207,878,788	3,994,367,614
Accumulated Depreciation			
At January 1,	–	81,300,957	81,300,957
Depreciation (Note 21)	–	6,823,939	6,823,939
At December 31	–	88,124,896	88,124,896
Net Book Value at December 31	₱3,786,488,826	₱119,753,892	₱3,906,242,718

Certain parcels of land were transferred to the "Inventories" account with a carrying amount of ₱117.98 million, ₱9.12 million and ₱2.41 million as of December 31, 2011 and 2010 and January 1, 2010, respectively (see Note 6). The transferred properties are already intended for the construction of condominium units for sale.

In December 2010, Fed Land acquired additional office space in GT Tower which is currently being leased out to third parties.

Various parcels of land are leased to several individuals and corporations. Some of the lease contracts provide, among others, that within a certain period from the expiration of the contracts, the lessee will have to demolish and remove any and all improvements or built within the leased properties. Otherwise, the lessor will cause the demolition and removal thereof and charge the cost to the lessee unless the lessor occupies and appropriates the same for its use and benefit. Rental income recognized from these properties amounted to ₱238.00 million, ₱197.99 million and ₱176.85 million in 2011, 2010 and 2009, respectively (see Note 27).

The depreciation of the investment properties amounting to ₱11.52 million, ₱9.14 million and ₱6.82 million in 2011, 2010 and 2009, respectively, is included in the "General and administrative expenses" account in the consolidated statements of income (see Note 22).

The aggregate fair value of the Group's investment properties amounted to ₱8.01 billion and ₱3.26 billion as of December 31, 2011 and 2010, respectively and ₱1.87 billion as of January 1, 2010. The fair value of the Group's investment properties has been determined based on valuations performed by Philippine Appraisal Company, Inc., an accredited independent appraiser. Philippine Appraisal Company, Inc. is an industry specialist in valuing these types of investment properties. The value of the land was estimated by using the Market Data Approach, a valuation approach that considers the sales, listings and other related market data within the vicinity of the subject properties and establishes a value estimate by processes involving comparison. Valuation of the Group's investment properties are done every three years with the latest valuation report issued in February 2012.

10. **Property and Equipment**

The composition and rollforward analysis of this account follow:

	December 31, 2011						
	Transportation Equipment	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Machinery, Tools and Equipment**	**Construction-in-Progress**	**Building**	**Total**
Cost							
At January 1,	**₱21,596,996**	**₱86,919,287**	**₱476,541,640**	**₱13,700,765**	**₱1,660,746**	**₱116,712,824**	**₱717,132,258**
Additions	**2,938,513**	**8,880,581**	**5,241,206**	**444,218**	**203,500**	**832,309**	**18,540,327**
Transfer	–	**283,085**	**101,831**	–	**(384,916)**	–	–
Disposals	**(1,354,630)**	–	–	–	–	–	**(1,354,630)**
At December 31	**23,180,879**	**96,082,953**	**481,884,677**	**14,144,983**	**1,479,330**	**117,545,133**	**734,317,955**
Accumulated Depreciation and Amortization							
At January 1,	**13,142,437**	**76,158,106**	**186,229,157**	**9,063,060**	–	**1,651,535**	**286,244,295**
Depreciation and amortization (Note 21)	**3,325,198**	**8,338,910**	**36,700,081**	**1,233,172**	–	**3,291,307**	**52,888,668**
Disposals/Reclassification	**(1,182,211)**	–	–	–	–	–	**(1,182,211)**
Reclassification	**326,392**	–	**(326,392)**	–	–	–	–
Adjustment	–	–	–	–	–	–	–
At December 31	**15,611,816**	**84,497,016**	**222,602,846**	**10,296,232**	–	**4,942,842**	**337,950,752**
Net Book Value at December 31	**₱7,569,063**	**₱11,585,937**	**₱259,281,831**	**₱3,848,751**	**₱1,479,330**	**₱117,545,133**	**₱396,367,203**

	December 31, 2010						
	Transportation Equipment	**Furniture, Fixtures and Equipments**	**Leasehold Improvements**	**Machinery, Tools and Equipment**	**Construction-in-Progress**	**Building**	**Total**
Cost							
At January 1	₱20,193,247	₱93,884,649	₱484,681,051	₱13,700,765	₱182,233	₱15,077,824	₱627,719,769
Additions	4,237,845	4,563,062	5,549,836	–	1,660,746	101,635,000	117,646,489
Transfer	–	(11,528,424)	182,233	–	(182,233)	–	(11,528,424)
Disposals	(2,834,096)	–	(13,871,480)	–	–	–	(16,705,576)
At December 31	21,596,996	86,919,287	476,541,640	13,700,765	1,660,746	116,712,824	717,132,258
Accumulated Depreciation and Amortization							
At January 1	12,784,281	77,593,713	155,782,031	7,821,715	–	691,067	254,672,807
Depreciation and amortization	2,883,574	9,806,046	38,116,998	1,241,345	–	960,468	53,008,431
Disposals	(2,525,418)	(11,241,653)	(7,669,872)	–	–	–	(21,436,943)
At December 31	13,142,437	76,158,106	186,229,157	9,063,060	–	1,651,535	286,244,295
Net Book Value at December 31	₱8,454,559	10,761,181	₱290,312,482	₱4,637,706	₱1,660,746	₱115,061,289	₱430,887,963

	January 1, 2010						
	Transportation Equipment	**Furniture, Fixtures and Equipments**	**Leasehold Improvements**	**Machinery, Tools and Equipment**	**Construction-in-Progress**	**Building**	**Total**
Cost							
At January 1	₱ 18,019,937	₱89,238,340	₱389,913,128	₱13,700,765	₱88,147,743	₱–	₱599,019,913
Additions	3,980,716	4,685,755	10,843,333	–	182,233	15,077,824	34,769,861
Transfer	–	(39,446)	83,924,590	–	(88,147,743)	–	(4,262,599)
Disposals	(1,807,406)	–	–	–	–	–	(1,807,406)
At December 31	20,193,247	93,884,649	484,681,051	13,700,765	182,233	15,077,824	627,719,769
Accumulated Depreciation and Amortization							
At January 1	10,956,518	62,750,887	120,331,300	6,346,111	–	–	200,384,816
Depreciation and amortization	2,910,170	14,842,826	35,450,731	1,289,993	–	691,067	55,184,787
Disposals	(1,082,407)	–	–	–	–	–	(1,082,407)
Adjustments	–	–	–	185,611	–	–	185,611
At December 31	12,784,281	77,593,713	155,782,031	7,821,715	–	691,067	254,672,807
Net Book Value at December 31	₱7,408,966	₱16,290,936	₱3 328,899,020	₱5,879,050	₱182,233	₱14,386,757	₱373,046,962

The additional office space pertain to the 20th floor of GT Tower International, which were acquired by the Group on December 14, 2010.

Construction-in-progress (CIP) amounting to ₱0.38 million, ₱0.18 million and ₱88.15 million was reclassified to leasehold improvements as of December 31, 2011, 2010 and January 1, 2010 and inventories amounting to ₱83.92 million and ₱4.22 million, respectively (see Note 6). There were no capitalized borrowing cost on CIP as of December 31, 2011 and 2010. These assets were not pledged as collateral for securing bank loans (see Note 14).

11. Deposits

Deposit represents option money to a related party for the exclusive rights for three years either (a) to purchase the property, (b) to purchase shares of stock of the third party which own the property, (c) to develop the property as developer in joint venture with third party or (d) to undertake a combination of any of the foregoing, as may be agreed upon by the parties.

Interest income on deposit represents reimbursement of interest expense from option money granted to affiliates amounting to ₱337.71 million (see Note 23).

12. Other Noncurrent Assets

This account consists of:

	December 31		January 1,
	2011	2010	2010
Rental and other deposits	**₱88,146,272**	₱44,160,132	₱42,137,873
AFS financial assets (Note 25)	**9,921,760**	27,632,005	29,642,215
Software costs - net	**8,425,386**	8,386,285	13,840,392
Franchise - net	**72,697**	145,424	2,063,057
Others	**5,327,332**	14,185,396	8,031,068
	₱111,893,447	₱94,509,242	₱95,714,605

Rental and other deposits include deposits for the leased offices of the Group and deposits for the initial set-up of the services rendered by public utility companies. Rental deposits are to be applied on the last month's rent of the lease contract.

Others include deferred charges and guarantee deposits on obtaining security collateral for loan obtained from an affiliated bank.

The rollforward analysis of the Group's software cost and franchise fee is as follows:

Software Cost

	December 31		January 1,
	2011	2010	2010
Cost			
Balance at beginning of year	**₱30,408,860**	₱26,253,970	₱18,646,311
Additions	**6,911,842**	4,154,890	7,607,659
	37,320,702	30,408,860	26,253,970
Accumulated Amortization			
Balance at beginning of year	**22,022,575**	12,413,578	4,222,821
Amortization (Note 22)	**6,872,741**	9,608,997	8,190,757
	28,895,316	22,022,575	12,413,578
Net Book Value	**₱8,425,386**	₱8,386,285	₱13,840,392

Fed Land maintains a Systems, Applications and Products in Data Processing (SAP) system rights which was fully implemented on July 1, 2008. Additions in 2011, 2010 and 2009 pertain to acquisitions of software licenses, programs and upgrade of SAP. The said system has an estimated useful life of three (3) years.

Franchise

	December 31		January 1,
	2011	2010	2010
Cost			
Balance at beginning of year	**₱800,000**	₱4,671,713	₱4,671,713
Terminations	**–**	(3,871,713)	–
	800,000	800,000	4,671,713
Accumulated Amortization			
Balance at beginning of year	**654,576**	2,608,656	1,912,032
Amortization (Note 22)	**72,727**	497,760	696,624
Terminations	**–**	(2,451,840)	–
	727,303	654,576	2,608,656
Net Book Value	**₱72,697**	₱145,424	₱2,063,057

Franchise fee pertains to the Group's operating rights for its fast food stores with estimated useful lives of three (3) to five (5) years.

The amortization of the franchise fee amounting to ₱0.07 million, ₱0.50 million and ₱0.70 million in 2011, 2010 and 2009, respectively, is included in the "General and administrative expenses" account in the consolidated statements of income (see Note 22).

AFS financial assets are carried at cost due to the unpredictable nature of future cash flows and the lack of suitable valuation of arriving at a reliable fair value. The AFS financial assets are preferred shares of utility company issued to the Group as a consequence of its subscription to the electricity services of said utility company needed for the Group's real estate projects. The said preferred shares have no active market and the Group does not intend to dispose of these because these are directly related to the continuity of its business.

13. **Accounts and Other Payables**

This account consists of:

	December 31		January 1,
	2011	2010	2010
Trade	**₱3,794,271,504**	₱1,386,602,710	₱254,148,832
Deferred output tax	**269,881,627**	133,831,105	55,133,950
Retentions payable	**213,576,285**	176,605,322	80,572,092
Accrued expenses	**108,948,627**	137,862,666	64,828,714
Accrued interest	**64,866,452**	69,957,743	32,855,285
Accrued commission	**46,428,903**	30,824,294	12,087,650
Others	**75,446,442**	182,000	71,119,451
	₱4,573,419,840	₱1,935,865,840	₱570,745,974

Trade payables pertain to billings received from contractors for construction costs incurred on a per project basis and commissaries for food products ordered.

Retentions payable represent a portion of construction cost withheld by the Group and paid to the contractors upon completion of the project.

Accrued expenses are noninterest-bearing and are normally settled within a fifteen (15) to sixty (60) day term.

Deferred output tax mostly pertains to VAT on the uncollected portion of the contract price of sold units.

Accrued interest are normally settled within a fifteen (15) to sixty (60) day term.

Accrued commissions are settled within one year.

Other payables are noninterest-bearing and are normally settled within one year.

14. **Loans Payable**

This account consists of:

	December 31		January 1,
	2011	2010	2010
Loans payable			
Affiliated loans:			
Loans from local banks	**₱9,091,700,000**	₱7,335,000,000	₱1,263,700,000
Non-affiliated loans:			
Loans from local banks	**6,557,000,000**	3,847,191,076	4,632,191,076
Corporate Notes	**11,600,000,000**	5,000,000,000	–
	27,248,700,000	16,182,191,076	5,895,891,076
Less: Short term loans from local banks			
Affiliated	**3,091,700,000**	3,335,000,000	1,263,700,000
Non-affiliated loans	**4,557,000,000**	3,847,191,076	2,993,300,000
	7,648,700,000	7,182,191,076	4,257,000,000
	₱19,600,000,000	₱9,000,000,000	₱1,638,891,076

The details of the obligation follow:

Loan from local banks has interest rates ranging from 3.09% to 9.50% lump sum with maturity within one year and interest payable quarterly in arrears.

Corporate Notes - Fed Land
On March 18, 2011, Fed Land entered into a Notes Facility Agreement with First Metro Corporation, Metropolitan Bank & Trust Company - Trust Banking Group and various Institutions whereby Fed Land will issue ₱6,600.00 million of fixed rate notes to finance projects, working capital and for general corporate purposes. The Notes is payable in five years with interest rate based on the latest PDST-F plus a spread of 85 basis points per annum. The Notes constitute direct, unconditional, unsubordinated and unsecured obligations, ranking pari passu with all other present and future direct, unconditional, unsubordinated and unsecured obligations.

Corporate Notes - Parent Company
On October 12, 2010, the BOD authorized the Parent Company to issue, offer, and sell peso-denominated fixed rate notes at a principal amount up to ₱5.00 billion. In connection with this, a

Notes Facility Agreement was entered by Parent Company with First Metro Investment Corporation (FMIC). Per indicative terms and conditions of the agreement, the notes were offered through a private placement and were issued at face value on November 10, 2010 with maturities of up to five (5) years with interest based on latest PDST-F rate plus a spread of 75 basis points per annum.

The agreements covering the above mentioned Corporate Notes provide for restrictions and requirements with respect to, among others, declaration or payment of cash dividends/retirement of shares (other than dividends payable solely in shares of its capital stock and cash dividends due on its then-outstanding preferred shares); making distribution on its share capital; purchase, redemption or acquisition of any share of stock; incurrence or assumption of indebtedness; sale or transfer and disposal of all or a substantial part of its capital assets; restrictions on use of funds; maintaining certain financial ratios; and entering into any partnership, merger, consolidation or reorganization. As of December 31, 2011, the Group is in compliance with the covenants as aforementioned.

Affiliated Bank Loan
This account consists of unsecured, partially secured and secured peso-denominated short-term borrowings (see Note 22) by the Group from a local bank with floating interest rates at 1.5% spread over benchmark 90-day PDST-R2 plus gross receipts tax. The interest rates ranges from 5.77% to 9.50% in 2010 and 5.77% to 7.00% in 2009.

In 2011, Fed Land also obtained both partially secured and fully secured peso-denominated loans with an aggregate amount of ₱2,000.00 million from an affiliated local bank with interest at prevailing market rate of 3.75%, payable in lump sum after 5 years (see Note 23).

As of December 31, 2011, the Parent Company has outstanding both partially secured and fully secured peso-denominated loans with an aggregate amount of ₱7.091 billion from an affiliated local bank with interest at prevailing market rate ranging from 3.53% to 5.40%. This included a ₱4.00 billion fully secured loan to fund equity infusion for power-related projects, specifically in support of the construction of the 246 MW coal-fired plant (see note 23).

These loans were obtained primarily to fund the Parent Company's investing activities.

In 2009, the Parent Company also obtained from an affiliated local bank unsecured peso-denominated loans with interest at prevailing market rate of 5.36% with maturities of three (3) months.

Interest expense recognized in 2011, 2010 and 2009 amounted to ₱989.75 million, ₱281.92 million and ₱169.85 million, respectively.

In 2011, 2010 and 2009, the Group has capitalized interest expense amounting to ₱171.54 million, ₱174.54 million and ₱155.86 million for loans specifically used to finance the Group's project construction. Said capitalized interest is added to "Condominium units held for sale" account and recognized as expense upon the sale of condominium units (see Note 6).

15. **Customers' Deposits**

The Group requires buyers of condominium units to pay a minimum percentage of the total selling price before the two parties enter into a sale transaction. In relation to this, the customers' deposits represent payment from buyers which have not reached the minimum required percentage. When the revenue recognition criteria are met, sales are recognized and these deposits and down payments will be applied against the related installment contracts receivable. In the event that the customer decides to terminate the purchase prior to recognition of sale, an amount equivalent to the repossessed value of deposit less charges and penalties incurred will be refunded to the buyer.

This account also includes excess of collections over the recognized receivables based on percentage of completion.

16. Liabilities on Purchased Land

Liabilities on purchased land are payables to various real estate property sellers. Under the terms of the agreements executed by the Group covering the purchase of certain real estate properties, the titles of the subject properties shall be transferred to the Group only upon full payment of the real estate loans. As of December 31, 2010, the current and non-current portion of the liabilities on this purchased land amounted to ₱118.99 million and ₱397.86 million, respectively. In 2010, the Group has capitalized interest expense on liabilities on purchase land to "Inventories" account amounting to ₱32.70 million, respectively.

During the year, the Group paid in full the remaining balance to property sellers.

17. Other Current Liabilities

This account consists of:

	December 31		January 1,
	2011	2010	2010
Withholding taxes payable	**₱39,280,476**	₱11,189,434	₱26,945,685
Unearned rent income	**4,895,613**	1,959,842	–
VAT payable	**1,946,421**	–	886,585
Others	**11,761,883**	10,658,819	1,819,935
	₱57,884,393	₱23,808,095	₱29,652,205

Other payables pertain to payable on utilities, contracted maintenance and security agencies and regulatory premium or contribution payable of the Group. These are normally payable within one year.

18. Other Noncurrent Liabilities

This account consists of:

	December 31		January 1,
	2011	2010	2010
Refundable and other deposits	**₱35,748,452**	₱45,584,635	₱32,730,720
Unearned rental income	**15,275,028**	1,398,478	997,356
Finance Lease - obligation - net of discount on finance lease amounting to ₱127.70	**11,908,855**	–	–
Others	–	5,680,000	4,610,181
	₱62,932,335	₱52,663,113	₱38,338,257

Refundable and other deposits consist mainly of tenants' rental deposit from operating lease contracts with terms ranging from 5 to 10 years (see Note 26). Rental deposits are obtained to secure faithful compliance of tenants' obligation under the lease contract and to answer for unpaid bills of lessees affecting the leased premises, any damage to the leased premises, and other similar costs. Rental deposits may also be applied for the unpaid rentals upon termination of the lease contract.

19. **Equity**

As of December 31, 2011, 2010 and January 1, 2010, this account consists of:

Common stock - ₱10 par value	
Authorized - 500,000,000 shares	
Issued and outstanding - 125,000,000 shares	₱1,250,000,000
APIC	23,071,664,419
	₱24,321,664,419

Retained earnings
Retained earnings amounting to ₱7,169.82 million, ₱4,937.09 million and ₱2,518.65 million as of December 31, 2011, 2010 and January 1, 2010, respectively include the accumulated equity in undistributed net earnings of consolidated subsidiaries , associates and jointly controlled entities accounted for under equity method. The amounts are not available for dividends until declared by the subsidiaries, associates and the jointly controlled entities.

Retained earnings are further restricted for the payment of dividends to the extent of the cost of the common shares held in treasury.

Effect of uniting on HLRDC and CRDC
The net effect of uniting of interest on the acquisition of HLRDC and CRDC amounted to ₱104.26 million as of December 31. 2011. This represents the difference between the Fed Land's aggregate consideration transferred on the acquisition and the respective HLRDC and CRDC's equity as of December 31, 2010 attributable to parent and to non controlling interest as at the time of the combination (see Note 27):

Net asset (deficiency) of HLRDC and CRDC attributable to parent at the time of business combination:

	December 31	
	2010	2009
HLRDC	**₱442,944,672**	₱360,275,850
CRDC	**(2,682,896)**	(3,195,394)
	₱440,261,776	₱357,080,456

Net asset of HLRDC and CRDC attributable to non-controlling interest at the time of business combination:

	December 31	
	2010	2009
HLRDC	**₱110,736,168**	₱90,068,962
CRDC	**10,230,890**	9,898,241
	₱120,967,058	₱99,967,203

The aggregate cost of investment of ₱420.00 million is presented as a reduction to the net assets pooled to the Group's financial statements at the time of combination for year ended December 31, 2011.

Consideration transferred on acquisition of subsidiary
The effect of uniting of interest on the acquisition of PCRDC, representing the difference between Fed Land's cost of investment amounted to ₱102.00 million.

Acquisition of Minority interest
In 2009, the Group's acquisition of an additional 4.47% interest in FBRI resulted to a difference between the acquisition cost and equivalent net asset acquired amounting to ₱4.83 million. This difference was treated as a transaction between equity owners.

Increase in Non-controlling interests of Subsidiary
Increase in non-controlling interest represents additional capital infusion to Fed Land from its non-controlling interests for the subscription of issued shares amounted to ₱600.00 million and 2010, respectively, and a deposit for future stocks subscription of ₱400.00 million in 2009.

Dividend declaration
On August 5, 2011, the BOD of the Parent Company approved the declaration of cash dividends of ₱4.00 per share on the outstanding 125,000,000 shares of stock or a total of ₱500.00 million out of the retained earnings of the Parent Company to all stockholders of record as of August 31, 2011.

On April 8, 2010, the BOD of the Parent Company approved the declaration of cash dividends of ₱2.00 per share on its 125,000,000 outstanding shares or a total of ₱250.00 million, from the unappropriated retained earnings of the Parent Company to all stockholders of record as of March 25, 2010, payable not later than April 15, 2010.

On October 12, 2010, the BOD of the Parent Company approved the declaration of cash dividends of ₱2.00 per share on its 125,000,000 outstanding shares or a total of ₱250.00 million, out of the retained earnings of the Parent Company to all stockholders of record as of October 31, 2010, payable not later than November 22, 2010.

On April 30, 2009, the BOD of the Parent Company approved the declaration of cash dividends amounting to ₱8.32 per share or a total of ₱1,040.00 million payable to all stockholders of record as of the same date. The cash dividends were paid on May 9, 2009.

On September 15, 2009, PCRDC paid cash dividends to its prior stockholders amounting ₱15.00 million or ₱15.00 cash dividends per its outstanding share.

Capital Management
The primary objective of the Group's capital management is to ensure that it maintains a strong and healthy consolidated statement of financial position to support its current business operations and drive its expansion and growth in the future.

The Group maintains its current capital structure, and will make adjustments, if necessary, in order to generate a reasonable level of returns to shareholders over the long term. Equity, which the Group considers as capital, pertains to the equity attributable to equity holders of the Parent Company excluding effect of uniting of interest.

The Group's sources of capital are capital stock and retained earnings. No changes were made in the objectives, policies or processes during 2011, 2010 and 2009.

20. **Interest and Other Income**

This account consists of:

	2011	2010	2009
Interest income:			
Interest on deposit	**₱337,707,830**	₱–	₱–
Interest income on real estate sales (Note 5)	**195,924,132**	174,567,600	180,643,623
Interest income from banks (Note 4)	**64,595,737**	9,807,371	3,283,102
	598,227,699	184,374,971	183,926,725
Other income:			
Real estate forfeitures, charges and penalties	**₱92,926,119**	72,115,558	65,801,313
Management fee	**36,834,278**	20,807,368	42,924,978
Gain on sale of shares	**2,304,422**	–	–
Dividend income	**25,200**	408,600	95,131
Others	**56,455,173**	29,790,217	37,883,637
	188,545,192	123,121,743	146,705,059
	₱786,772,891	₱307,496,714	₱330,679,234

Real estate forfeitures, charges and penalties are earned when a buyer is delinquent on his payment or cancels his purchase of condominium units, after deducting any cash surrender value.

Management fee pertains to services rendered by Fed Land in the administration of the different projects related to the joint venture.

Others consist of gain on sale of assets and miscellaneous income.

21. **Cost of Goods and Services**

This account consists of:

	2011	2010	2009
Beginning inventory			
Gasoline retail and petroleum products	**₱10,014,263**	₱5,620,580	₱5,117,142
Food, materials, supplies and others	**1,990,935**	3,074,605	2,778,165
	12,005,198	8,695,185	7,895,307
Add net purchases	**665,201,705**	545,247,436	450,936,768
Total inventories available for sale	**677,206,903**	553,942,621	458,832,075
Less ending inventory (Note 6)			
Gasoline retail and petroleum products	**8,367,927**	10,014,263	5,620,580
Food, materials, supplies and others	**2,160,335**	1,990,935	3,074,605
	666,678,641	541,937,423	450,136,890
Direct labor	**15,196150**	16,669,340	18,237,037
Overhead (Note 26)	**27,851,792**	25,959,734	29,210,072
	₱709,726,583	₱584,566,497	₱497,583,999

22. **General and Administrative Expenses**

This account consists of:

	2011	2010	2009
Salaries, wages and employee benefits (Note 23)	**₱231,469,966**	₱186,755,996	₱174,598,371
Commissions	**168,976,570**	114,758,144	83,624,516
Taxes and licenses	**137,666,355**	165,006,087	143,879,997
Advertising and promotions	**102,547,029**	69,679,634	48,152,427
Professional fees	**102,053,104**	64,648,305	20,288,275
Light, water and other utilities	**77,958,384**	49,303,905	46,969,505
Depreciation and amortization (Notes 9, 10 and 11)	**71,352,576**	72,251,958	72,346,926
Outside services	**54,291,761**	51,405,519	41,873,844
Administrative and management fees	**54,236,786**	4,847,937	21,573,268
Rent	**18,338,131**	10,556,281	22,587,694
Entertainment, amusement and recreation	**18,014,503**	11,525,022	10,076,555
Repairs and maintenance	**13,080,654**	18,476,567	12,906,098
Office supplies	**12,197,808**	13,504,274	12,582,465
Transportation and travel	**7,678,012**	5,239,710	5,033,678
Royalty and service fees	**5,600,385**	6,667,898	7,786,000
Foreign exchange loss	**193,784**	604,708	219,715
Others	**34,091,240**	48,062,541	30,846,859
	₱1,109,747,048	₱893,294,486	₱755,346,193

Other expenses include allowance for impairment losses on receivables (see Note 5), communication expenses, insurance, representation and directors' fees.

23. **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 and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

The Group, in its regular conduct of its business, has entered into transactions with its associate and other related parties principally consisting of cash advances for reimbursement of expenses merger and acquisitions and capital infusion, leasing agreements, management agreements and dividends received from associates. Transactions with related parties are made at normal market prices.

As of December 31, 2011, 2010 and January 1, 2010, the Group has not made any provision for probable losses relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

The consolidated financial statements include the following amounts resulting from the above transactions with related parties:

	December 31		January 1,
	2011	2010	2010
Cash and cash equivalents (Note 4)	**₱363,478,335**	₱2,733,341,599	₱120,638,215
Land for development (Note 6)	**7,165,853**	9,048,551	–
Due from related parties	**938,859,224**	558,144,260	872,062,998
Long-term cash investments	**2,440,084,378**	–	–
Deposits	**4,085,000,000**	–	–
Investment properties	**–**	105,995,000	–
Property and equipment	**–**	101,640,000	–
Investments and advances	**602,879,241**	4,000,000,000	–
Loans payable (Note 14)	**9,091,700,000**	7,335,000,000	1,263,700,000
Due to related parties	**403,598,150**	320,571,614	500,992,878
Interest income	**32,337,080**	9,807,371	3,283,102
Management fee (Note 20)	**36,834,278**	20,807,368	42,924,978

Details of the transactions with affiliates are as follows:

Land for development
Certain parcels of land were acquired on February 2011 and March 2010 from an affiliated company and an affiliated local bank, respectively. These parcels of land were acquired at their fair market value at time of acquisition.

Operating advances
Due from and to related parties consist mostly of operating advances which are noninterest-bearing and due and demandable.

Long term cash investment
On April 13, 2011, Fed Land invested long-term cash investments with a local bank to secure a loan obtained by an affiliate amounting to ₱2,440.08 million. Fed Land recognized interest income from the assigned long term cash investment amounting to ₱40.08 million.

Deposit
Deposit pertains to option money granted by Fed Land to a related party for the exclusive rights over three years to either (a) to purchase the property, (b) to purchase shares of stock of the third party which own the property, (c) to develop the property as developer in joint venture with the third party or (d) to undertake a combination of any of the foregoing, as may be agreed upon by the parties (see Note 11). Fed Land recognized interest income amounting to ₱337.71 million representing reimbursement of interest expense incurred.

Investment property and property and equipment
On December 2010, certain condominium units in GT Tower International were purchased from a related party for a consideration amounting to ₱101.64 million (See Note 10).

In December 2010, certain condominium units in GT Tower International were purchased from a related party for a consideration amounting to ₱106.00 million and ₱101.64 million which were classified as "Investment Properties" and "Property and Equipment", respectively.

Investments and advances
The Parent Company advanced ₱4.0 billion to GBPC in August 2010 as deposit for future stock subscription with equivalent interest of 21.04% (see Note 30). Out of the total advances, GBPC returned ₱602.88 million to the Parent Company in 2011.

Affiliated bank loans
The Group's loans payable to an affiliated commercial bank bears interest rates ranging from 3.75% to 4.5% per annum in 2011 and 6.52% to 6.78% per annum in 2010 and 2009, respectively.

Management fee
Management fee amounting to ₱36.83 million, ₱20.81 million and ₱42.92 for 2011, 2010 and 2009, pertains to the income received from a joint venture of Fed Land with Fed Land Orix Corporation (FLOC) and MBTC (see Note 20).

Lease Agreements
In 2011, the Fed Land also leased its mall to some of its associates and affiliates. The lease term ranged from 5 to 10 years. The rental income on these leases amounted to ₱10.03 million and ₱8.57 million for 2011 and 2010, respectively.(See Note 27).

The details of the Group's due from related parties as of December 31, 2011 and 2010 and January 1, 2010 follow:

	December 31		January 1,
	2011	2010	2010
Due from:			
Affiliates	**₱907,105,814**	₱542,927,773	₱401,170,145
Jointly controlled entity	**31,753,410**	15,216,487	5,896,056
Associate	–	–	464,996,797
	938,859,224	₱558,144,260	₱872,062,998

The details of the Group's due to related parties as of 2011 and 2010 follow:

	December 31		January 1,
	2011	2010	2010
Due to:			
Affiliates	**₱403,306,150**	₱318,940,868	₱500,992,878
Jointly controlled entity	**292,000**	1,630,746	–
	₱403,598,150	₱320,571,614	₱500,992,878

An entity is considered an affiliate if such entity and the Parent Company have common shareholders. In effect, such entity is a sister company of the Parent Company by virtue of ownership and common control. It is neither a subsidiary or associate of the Group

Compensation of key management benefits for the years ended December 31, 2011 and 2010 follow:

	December 31		January 1,
	2011	2010	2010
Short-term employee benefits	**₱58,406,499**	₱55,917,574	₱47,037,826
Post employment benefits	**3,469,682**	3,469,682	2,392,276
	₱61,876,181	₱59,387,256	₱49,430,102

24. **Pension Plan**

The Group provides defined benefit pension plans for substantially all of its employees. Provisions for pension obligations are established for benefits payable in the form of retirement pensions. Benefits are dependent on years of service and the respective employee's final compensation.

Actuarial valuations are made at least every one to three years.

The components of pension expense (included in "Salaries, wages and employee benefits" under "General and administrative expenses" in the consolidated statements of comprehensive income) follow:

	2011	2010	2009
Current service cost	**₱9,137,003**	₱6,027,767	₱3,367,280
Interest expense on obligations	**6,899,167**	5,333,901	4,241,596
Net actuarial gains (losses) recognized	**1,688,974**	56,030	(521,189)
Expected return on plan assets	**(1,103,146)**	(2,049,310)	(1,391,902)
Total pension expense	**₱16,621,998**	₱9,368,388	₱5,695,785

The following table reconciles the funded status of defined benefit plans to the amounts recognized in the consolidated statement of financial position as of December 31, 2011, 2010 and January 1, 2010:

	December 31		January 1,
	2011	2010	2010
Present value of funded defined benefit obligations	**₱94,019,346**	₱78,287,581	₱51,699,062
Fair value of plan assets	**22,958,040**	11,031,465	20,493,099
Unfunded obligations	**71,061,306**	67,256,116	31,205,963
Unrecognized actuarial losses	**(42,949,696)**	(42,807,415)	(6,311,230)
Liability recognized in the consolidated statement of financial position	**₱28,111,610**	₱24,448,701	₱24,894,733

Changes in the present value of the defined benefit obligation follow:

	2011	2010	2009
Balance at beginning of year	**₱78,287,581**	₱51,699,062	₱27,549,257
Current service cost	**9,137,003**	6,027,767	3,367,280
Interest cost on benefit obligation	**6,899,167**	5,333,901	4,241,596
Actuarial (gains) losses	**835,456**	22,730,279	16,540,929
Benefits paid	**(1,139,861)**	(7,503,428)	–
Balance at end of year	**₱94,019,346**	₱78,287,581	₱51,699,062

The Group does not expect to contribute into the pension fund in 2012.

Changes in the fair value of plan assets follow:

	December 31		January 1,
	2011	2010	2009
Balance at beginning of year	**₱11,031,465**	₱20,493,099	₱13,919,017
Expected return on plan assets	**1,103,146**	2,049,310	1,391,902
Actuarial gains (losses)	**(995,799)**	(13,821,936)	2,182,180
Contributions paid	**12,959,089**	9,814,420	3,000,000
Benefits paid	**(1,139,861)**	(7,503,428)	–
Balance at December 31	**₱22,958,040**	₱11,031,465	₱20,493,099

Actual return on plan assets is computed as follows:

	2011	2010	2009	2008	2007
Expected return on plan assets	**₱1,103,146**	₱2,049,310	₱1,391,902	₱614,090	₱2,293,275
Actuarial gains (losses)	**1,688,974**	(13,821,936)	2,182,180	9,223,153	(16,476,837)
	₱2,792,120	(₱11,772,626)	₱3,574,082	₱9,837,243	(₱14,183,562)
Experience adjustments on plan liabilities	**₱–**	₱22,730,279	₱16,540,929	(₱26,192,959)	(₱5,202,750)
Experience adjustments on plan assets	–	(13,821,936)	2,182,180	9,223,153	(16,476,837)

There are no reimbursement rights recognized as a separate asset as of December 31, 2011, 2010 and January 1, 2010. The Group's plan assets consist of investments in government bonds and time deposits.

Principal actuarial assumptions used to determine pension obligations follow:

	2011	2010	2009
Discount rate	**8.81%**	**8.81%**	15.40%
Expected return on plan assets	**10.00**	**10.00**	10.00
Salary increase rate	**10.00**	**10.00**	10.00

The overall expected rate of return on plan assets is determined based on the market prices prevailing on that date applicable to the period over which the obligation is to be settled.

Amounts for the current and the previous periods follow:

	2011	2010	2009
Defined benefit obligation	**₱94,019,346**	₱78,287,581	₱51,699,062
Plan assets	**22,058,040**	11,031,465	20,493,099
Deficit	**₱71,961,306**	₱67,256,116	₱31,205,963

25. **Income Taxes**

Provision for income tax account consists of:

	2011	2010	2009
Current	**₱59,934,300**	₱102,609,138	₱58,973,949
Final	**12,571,044**	1,529,204	582,045
Deferred	**76,273,791**	(33,935,033)	(253,835)
	₱148,779,135	₱70,203,309	₱59,302,159

The components of the Group's deferred taxes as of December 31, 2011, 2010 and January 1, 2010 are as follows:

Net deferred tax assets:

	December 31		January 1
	2011	2010	2010
Deferred tax assets on:			
Excess of tax basis over book basis of deferred gross profit	**₱–**	₱33,080,050	₱–
Accrued expenses	**2,777,036**	10,897,944	112,737
Provision for impairment losses on receivables	**568,380**	799,722	428,926
Unearned income	**2,462,937**	369,510	217,592
Customers' deposits	**–**	(79,599)	–
	5,808,353	45,067,627	759,255
Deferred tax liabilities on:			
Excess of book basis over tax basis of deferred gross profit	**426,669**	1,271,917	–
Capitalized borrowing cost	**–**	28,736,626	–
Unamortized discount on receivables	**–**	6,017,855	–
Accrued income	**1,590,009**	2,048,397	–
Lease differential	**–**	246,170	–
	2,016,678	38,320,965	–
Net deferred tax assets	**₱3,791,675**	₱6,746,662	₱759,255

Net deferred liabilities:

	December 31		January 1
	2011	2010	2010
Deferred tax assets on:			
Accrued expenses	**₱3,736,604**	₱3,157,026	₱11,993,896
Accrued retirement	**10,487,842**	–	–
Earned interest income	**7,849,950**	–	–
NOLCO	**–**	725,096	725,096
Provision for impairment losses on receivables	**495,254**	–	79,446
Unearned income	**1,014,184**	–	
MCIT	**432,073**	432,073	432,073
	24,015,907	4,314,195	13,230,511
Deferred tax liabilities on:			
Accrued income	**3,838,931**	11,608,534	15,263,135
Excess of book basis over tax basis of deferred gross profit	**31,234,526**	–	10,622,619
Unrealized foreign exchange gain	–	–	–
Capitalized borrowing cost	**53,386,194**	–	15,463,536
Lease differential	**3,427,862**	–	–
Excess of book basis over tax basis of deferred gross profit	**4,971,935**	–	7,123,186
Others	**7,769,603**	–	–
	104,629,051	11,608,534	48,472,476
Net deferred tax liabilities	**₱80,613,144**	₱7,294,339	₱35,241,965

The Group has deductible temporary differences for which deferred tax assets have not been recognized since management believes that it is not probable that sufficient taxable income will be available against which the said deductible temporary differences can be utilized. As of December 31, 2011, 2010 and 2009, the Group's unrecognized deductible temporary differences pertain to its NOLCO and MCIT with details as follows:

NOLCO

Year Incurred	Amount	Expired	Balance	Expiry Date
2011	₱190,311,525	₱–	₱190,311,525	2014
2010	331,942,224	–	331,942,224	2013
2009	48,181,897	–	48,181,897	2012
2008	115,419,806	115,419,806	–	2011
	₱685,855,452	₱115,419,806	₱570,435,646	

MCIT

Year Incurred	Amount	Expired/Applied	Balance	Expiry Date
2011	₱17,559	₱–	₱17,559	2014
2010	1,587,387	–	1,587,387	2013
2009	1,707,384	–	1,707,384	2012
2008	540,080	540,080	–	2011
	₱3,852,410	₱540,080	₱3,312,330	

The reconciliation of the provision for income tax computed at the statutory income tax rate to the provision for income tax shown in the consolidated statements of income follows:

	2011	2010	2009
Provision for income tax computed at statutory rate	**30.00%**	30.00%	30.00%
Tax effects of:			
Interest income subjected to final tax	**(0.17)**	(0.08)	(0.08)
Nondeductible interest and other expenses	**0.23**	(0.23)	1.99
Change in unrecognized deferred tax assets	**5.16**	8.50	0.29
Income subject to tax holiday	**(31.09)**	(36.36)	(30.81)
	4.13%	1.83%	1.39%

Board of Investments (BOI) Incentives of Fed Land

On various dates in 2009 and 2008, the BOI issued a Certificate of Registrations as a New Developer of Mass Housing Project for its 2 real estate projects in accordance with the Omnibus Investment Code of 1987. Pursuant thereto, the registered projects have been granted Income Tax Holiday (ITH) for a period of three to four years. The projects namely: Marquinton-Cordova Tower and The Oriental Place are entitled to ITH in years 2008 to 2012. The projects namely: The Capital Towers-Beijing, Marquinton Gardens Terraces-Toledo, Oriental Gardens-Lilac and Peninsula Garden Midtown Homes-Tower A are entitled to ITH in years 2009 to 2013. Oriental Garden Heights – A, B and C in 2010 to 2014 and Marquinton Garden Terraces – Valderrama Tower in 2010 to 2013.

26. Financial Instruments

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities in the Group's consolidated statements of financial position as of December 31, 2011, 2010 and 2009:

	December 31				January 1,	
	2011		2010		2010	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:						
Loans and Receivables						
Cash and cash equivalents	**₱451,514,915**	**₱451,514,915**	₱3,063,140,196	₱3,063,140,196	₱197,873,584	₱197,873,584
Receivables						
Installment contracts receivable	**1,924,210,550**	**3,815,196,771**	1,361,188,994	2,686,665,556	750,928,270	754,073,163
Dividend receivable	**157,156,316**	**157,156,316**	–	–	–	–
Trade receivables	**178,816,574**	**178,816,574**	93,286,102	93,286,102	75,151,800	75,151,800
Accrued commission income	**21,252,081**	**21,252,081**	26,256,933	26,256,933	4,519,931	4,519,931
Accrued rent income	**5,300,029**	**5,300,029**	14,703,308	14,703,308	8,378,764	8,378,764
Accrued interest receivable	**2,269,418**	**2,269,418**	34,559,913	34,559,913	24,984,384	24,984,384
Others*(net of allowance)	**156,852,416**	**156,852,416**	62,544,560	62,544,560	17,244,511	17,244,511
Long term cash investment	**2,440,084,378**	**2,440,084,378**	–	–	–	–
Due from related parties	**938,859,224**	**938,859,224**	558,144,260	558,144,260	872,062,998	872,062,998
	6,276,315,901	**8,167,302,122**	5,213,824,266	6,539,300,828	1,951,144,242	1,954,289,135
AFS financial assets - unquoted	**9,921,760**	**9,921,760**	27,632,005	27,632,005	29,642,215	29,642,215
	₱6,286,237,661	**₱8,177,223,882**	₱5,241,456,271	₱6,566,932,833	₱1,980,786,457	₱1,983,931,350
Financial Liabilities						
Other financial liabilities						
Accounts and other payables						
Trade payables	**₱3,794,271,504**	**₱3,794,271,504**	₱1,386,602,710	₱1,386,602,710	₱254,148,832	₱254,148,832
Retentions payable	**213,576,285**	**213,576,285**	176,605,322	176,605,322	80,572,092	80,572,092
Accrued expenses	**108,948,627**	**108,948,627**	137,862,666	137,862,666	64,828,714	64,828,714
Accrued interest	**64,866,452**	**64,866,452**	69,957,743	69,957,743	32,855,285	32,855,285
Others	**75,446,441**	**75,446,441**	182,000	182,000	71,119,451	71,119,451
Loans payable	**27,248,700,000**	**27,248,700,000**	16,182,191,076	16,182,191,076	5,895,891,076	5,895,891,076
Liabilities on purchased land	–	–	516,846,000	516,846,000	629,100,000	629,100,000
Due to related parties	**403,598,150**	**403,598,150**	320,571,614	320,571,614	500,992,878	500,992,878
	₱31,909,407,459	**₱31,909,407,459**	₱18,790,819,131	₱18,790,819,131	₱7,529,508,328	₱7,529,508,328

** Excluding VAT remitted in advance amounting to ₱21.80 million as of December 31, 2010*

The carrying amounts for cash and cash equivalents, due from related parties, accounts and other payables, loans payable and due to related parties approximate their fair values due to their short-term maturity.

Installment contracts receivable - The fair values of installment contracts receivable are based on the discounted value of future cash flows using the applicable rates for similar types of instruments. The discount rates used ranged from 8.00 to 12.00%, 3.91% to 8.27% and 5.38% to 7.40% as of December 31, 2011, 2010 and January 1, 2010, respectively.

AFS unquoted financial assets - These are carried at cost less allowance for impairment losses because fair value cannot be measured reliably due to lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value. The AFS financial assets at the cost are preferred shares of utility company issued to the Group as a consequence of its subscription to the electricity services of said utility company needed for the Group's real estate projects. The said preferred shares have no active market and the Group does not intend to dispose these because these are directly related to the continuity of its business.

Financial Risk Management and Objectives

The Group's principal financial instruments comprise cash and cash equivalents, receivables, due from related parties, AFS financial assets, accounts and other payable, due to/from related parties, and loans payable.

Exposure to credit, liquidity and foreign currency risks, interest rate arise in the normal course of the Group's business activities. The main objectives of the Group's financial risk management are as follows:

- to identify and monitor such risks on an ongoing basis;
- to minimize and mitigate such risks; and
- to provide a degree of certainty about costs.

The use of financial derivative instruments (if any) is solely for management of the Group's financial risk exposures. It is the Group's policy not to enter into derivative transactions for speculative purposes.

The Group's financing and treasury function operates as a centralized service for managing financial risks and activities as well as providing optimum investment yield and cost-efficient funding for the Group.

Credit risk

The Group's credit risks are primarily attributable to its financial assets. To manage credit risks, the Group maintains defined credit policies and monitors on a continuous basis its exposure to credit risks. Given the Group's diverse base of counterparties, it is not exposed to large concentrations of credit risk.

Financial assets comprised cash and cash equivalents, receivables, due from related parties and AFS financial assets. The Group adheres to fixed limits and guidelines in its dealings with counterparty banks and its investment in financial instruments. Bank limits are established on the basis of an internal rating system that principally covers the areas of liquidity, capital adequacy and financial stability. The rating system likewise makes use of available international credit ratings. Given the high credit standing of its accredited counterparty banks, management does not expect any of these financial institutions to fail in meeting their obligations.

In respect of installment receivables from the sale of properties, credit risk is managed primarily through credit reviews and an analysis of receivables on a continuous basis. The Group also undertakes supplemental credit review procedures for certain installment payment structures. Customer payments are facilitated through various collection modes including the use of post dated checks and auto-debit arrangements. Exposure to bad debts is not significant and the requirement for remedial procedures is minimal given the profile of buyers.

The table below shows the maximum exposure to credit risk for the components of the Group's statement of financial position.

	December 31		January 1,
	2011	2010	2010
Cash and cash equivalents (excluding cash on hand)	**₱451,514,915**	₱3,063,140,196	₱197,873,584
Receivables (Note 5)			
Installment contracts receivable	**1,924,210,550**	1,361,188,994	750,928,270
Dividend receivable	**157,156,316**	–	–
Trade receivable	**178,816,574**	93,286,102	75,151,800
Accrued commission income	**21,252,081**	26,256,933	4,519,931
Accrued rent income	**5,300,029**	14,703,308	8,378,764
Accrued interest receivable	**2,269,418**	34,559,913	24,984,384
Others	**160,620,804**	65,475,121	18,939,085
Due from related parties	**938,859,224**	558,144,260	872,062,998
Long term cash investment	**2,440,084,378**	–	–
AFS financial assets	**9,921,760**	27,632,005	29,642,215
Total credit risk exposure	**₱6,290,006,049**	₱5,246,386,832	₱1,982,481,031

The table below shows the credit quality of the Group's financial assets:

December 31, 2011

	Neither past due nor impaired				Past Due but		
	High Grade	**Medium Grade**	**Low Grade**	**Total**	**not Impaired**	**Impaired**	**Total**
Receivables (Note 5)							
Installment contracts receivable	**₱1,063,555,960**	**₱212,810,388**	**₱428,063,313**	**₱1,704,429,661**	**₱219,780,889**	**₱–**	**₱1,924,210,550**
Dividend receivable	**157,156,316**	–	–	**157,156,316**	–	–	**157,156,316**
Trade receivables	**141,093,905**	**333,121**	**4,218,877**	**145,646,903**	**33,170,671**	–	**178,817,574**
Accrued commission income	**21,252,081**	–	–	**21,252,081**	–	–	**21,252,081**
Accrued rent income	**5,300,029**	–	–	**5,300,029**	–	–	**5,300,029**
Accrued interest receivable	**2,269,418**	–	–	**2,269,418**	–	–	**2,269,418**
Others	**156,852,416**		–	**156,852,416**	–	**3,768,389**	**160,620,805**
Due from related parties (Note 22)	**938,859,224**	–	–	**938,859,224**	–	–	**938,859,224**
AFS financial assets (Note 11)	**9,921,760**	–	–	**9,921,760**	–	–	**9,921,760**
	₱2,496,261,109	**₱213,143,509**	**₱432,282,190**	**₱3,141,686,808**	**₱252,951,560**	**₱3,768,389**	**₱3,398,406,757**

December 31, 2010

	Neither past due nor impaired				Past Due but		
	High Grade	Medium Grade	Low Grade	Total	not Impaired	Impaired	Total
Receivables (Note 5)							
Installment contracts receivable	₱779,267,067	₱209,642,508	₱65,838,517	₱1,054,748,092	₱306,440,902	₱–	₱1,361,188,994
Trade	63,998,598	2,032,551	3,500,632	69,531,781	23,754,321	–	93,286,102
Accrued commission income	26,256,933	–	–	26,256,933	–	–	26,256,933
Accrued rent income	14,703,308	–	–	14,703,308	–	–	14,703,308
Accrued interest receivable	34,559,913	–	–	34,559,913	–	–	34,559,913
Others	62,544,560	–	–	62,544,560		2,930,561	65,475,121
Due from related parties (Note 22)	558,144,260	–	–	558,144,260	–	–	558,144,260
AFS financial assets (Note 11)	27,632,005	–	–	27,632,005	–	–	27,632,005
	₱12,261,803,632	₱216,041,849	₱69,339,149	₱11,261,092,194	₱330,195,223	₱2,930,561	₱14,105,659,837

January 1, 2010

	Neither past due nor impaired				Past Due but		
	High Grade	Medium Grade	Low Grade	Total	not Impaired	Impaired	Total
Receivables (Note 5)							
Installment contracts receivable	₱315,256,437	₱128,163,977	₱74,613,611	₱518,034,025	₱232,894,245	₱–	₱750,928,270
Trade	41,691,447	–	–	41,691,447	33,460,353	–	75,151,800
Accrued commission income	4,519,931	–	–	4,519,931	–	–	4,519,931
Accrued rent income	8,378,764	–	–	8,378,764	–	–	8,378,764
Accrued interest receivable	24,984,384	–	–	24,984,384	–	–	24,984,384
Others	17,244,511	–	–	17,244,511	–	1,694,574	18,939,085
Due from related parties (Note 22)	872,062,998	–	–	872,062,998	–	–	872,062,998
AFS financial assets (Note 11)	29,642,215		–	29,642,215	–	–	29,642,215
	₱1,313,780,687	₱128,163,977	₱74,613,611	₱1,516,558,275	₱266,354,598	₱1,694,574	₱1,784,607,447

The credit quality of the financial assets was determined as follows:

Cash and cash equivalents and Long term cash investment- based on the nature of the counterparty and the Group's internal rating system.

Receivables - high grade pertains to receivables that had no default in payment; medium grade pertains to receivables with a history of being 30 to 90 days past due; and low grade pertains to receivables with a history of being over 120 days past due.

AFS financial assets - the unquoted financial assets are unrated.

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As of December 31, 2011, 2010 and January 1, 2010, the aging analysis of past due but not impaired financial assets presented per class, is as follows:

December 31, 2011

	Neither Past Due nor Impaired	Past Due but not Impaired						Impaired	Total
		<30 days	30-60 days	61-90 days	91-120 days	>120 days	Total		
Receivables (Note 5)									
Installment contracts receivable	₱1,704,429,661	₱31,947,598	₱5,376,647	₱10,583,380	₱16,398,117	₱155,475,147	₱219,780,889	₱–	₱1,924,210,550
Dividend receivable	157,156,316	–	–	–	–	–	157,156,316	–	157,156,316
Trade	103,803,601	10,194,950	5,146,173	4,002,196	4,257,716	9,569,636	33,170,671	–	136,974,272
Accrued commission income	145,645,903	–	–	–	–	–	75,012,973	–	178,816,574
Accrued rent income	5,300,029	–	–	–	–	–	–	–	5,300,029
Accrued interest receivable	2,269,418	–	–	–	–	–	–	–	2,269,418
Others	156,852,416	–	–	–	–	–	–	3,768,389	160,620,805
Due from related parties (Note 22)	938,859,224	–	–	–	–	–	–	–	938,859,224
AFS Financial assets (Note 11)	9,921,760	–	–	–	–	–	–	–	9,921,760
	₱2,942,688,190	₱42,142,548	₱10,522,820	₱14,585,576	₱20,655,833	₱165,044,783	₱252,951,560	₱1,394,600	₱3,199,408,139

December 31, 2010

	Neither Past Due nor Impaired	Past Due but not Impaired						Impaired	Total
		<30 days	30-60 days	61-90 days	91-120 days	>120 days	Total		
Receivables (Note 5)									
Installment contracts receivable	₱1,054,748,092	₱68,654,115	₱20,913,921	₱17,666,086	₱13,051,124	₱186,155,656	₱306,440,902	₱–	₱1,361,188,994
Trade	71,426,817	1,217,150	3,344,084	2,428,464	3,737,285	13,027,338	25,649,357	–	95,181,138
Accrued commission income	26,256,933	–	–	–	–	–	–	–	26,256,933
Accrued rent income	14,703,308	–	–	–	–	–	–	–	14,703,308
Accrued interest receivable	34,559,913	–	–	–	–	–	–	–	34,559,913
Others	62,544,560	–	–	–	–	–	–	2,930,561	65,475,121
Due from related parties (Note 22)	558,144,260	–	–	–	–	–	–	–	558,144,260
AFS Financial assets (Note 11)	27,632,005	–	–	–	–	–	–	–	27,632,005
	₱1,850,015,888	₱69,871,265	₱24,258,005	₱20,094,550	₱16,788,409	₱199,182,994	₱330,195,223	₱2,930,561	₱2,183,141,672

January 1, 2010

	Neither Past Due nor Impaired	Past Due but not Impaired						Impaired	Total
		<30 days	30-60 days	61-90 days	91-120 days	>120 days	Total		
Receivables (Note 5)									
Installment contracts receivable	₱285,139,780	₱41,726,684	₱16,168,769	₱10,706,887	₱9,147,169	₱155,144,736	₱232,894,245	₱–	₱750,928,270
Trade	8,231,094	10,227,100	10,706,887	3,854,949	8,671,417	–	38,172,967	–	75,151,800
Accrued commission income	4,519,931	–	–	–	–	–	–	–	4,519,931
Accrued rent income	8,378,764	–	–	–	–	–	–	–	8,378,764
Accrued interest receivable	24,984,384	–	–	–	–	–	–	–	24,984,384
Others	17,244,511	–	–	–	–	–	–	1,694,574	18,939,085
Due from related parties (Note 22)	872,062,998	–	–	–	–	–	–	–	872,062,998
AFS Financial assets	29,642,215	–	–	–	–	–	–	–	29,642,215
	₱1,278,951,414	₱51,953,784	₱26,875,656	₱14,561,836	₱17,818,586	₱155,144,736	₱266,354,598	₱1,694,574	₱1,742,916,000

Liquidity risk
The Group monitors its cash flow position, debt maturity profile and overall liquidity position in assessing its exposure to liquidity risk. The Group maintains a level of cash and cash equivalents deemed sufficient to finance operations and to mitigate the effects of fluctuation in cash flows. Accordingly, its loan maturity profile is regularly reviewed to ensure availability of funding through an adequate amount of credit facilities with financial institutions.

Overall, the Group's funding arrangements are designed to keep an appropriate balance between equity and debt, to give financing flexibility while continuously enhancing the Group's businesses. To serve as back-up liquidity, management develops variable funding alternatives either by issuing debt or raising capital.

The table summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

December 31, 2011

	< 1 year	> 1 to < 5 years	> 5 years	Total
Financial assets				
Cash and cash equivalents (Note 4)	₱451,514,915	₱–	₱–	₱451,514,915
Receivables (Note 5)				
Installment contracts receivable	819,631,787	1,104,578,763	–	1,924,210,550
Dividend receivable	157,156,316	–	–	157,156,316
Trade receivable	168,451,475	10,365,099	–	178,816,574
Accrued commission income	21,252,081	–	–	21,252,081
Accrued rent income	5,300,029	–	–	5,300,029
Accrued interest receivable	2,269,418	–	–	2,269,418
Others	156,852,416	–	3,768,388	160,620,804
Due from related parties (Note 22)	938,859,224	–	–	938,859,224
Long term cash investment	–	2,440,084,378	–	2,440,084,378
AFS financial assets - unquoted (Note 22)	–	9,921,760	–	9,921,760
Total undiscounted financial assets	₱2,721,287,661	₱3,564,950,000	₱3,768,388	₱6,290,006,049
Other financial liabilities				
Accounts and other payables (Note 12)				
Trade	3,794,271,504	–	–	3,794,271,504
Retentions payable	213,576,285	–	–	213,576,285
Accrued expenses	108,948,627	–	–	108,948,627
Accrued interest	64,866,452	–	–	64,866,452
Others	75,446,441	–	–	75,446,441
Loans payable (Note 13)	7,648,700,000	19,600,000,000	–	27,248,700,000
Due to related parties (Note 22)	403,598,150	–	–	403,598,150
Total undiscounted financial liabilities	₱12,234,205,018	₱20,003,598,150	₱–	₱31,833,961,018
Liquidity Gap	(₱9,512,917,357)	(₱16,438,648,150)	₱3,768,388	(₱25,543,954,969)

December 31, 2010

	< 1 year	> 1 to < 5 years	> 5 years	Total
Financial assets				
Cash and cash equivalents (Note 4)	₱3,063,140,196	₱–	₱–	₱3,063,140,196
Receivables (Note 5)				
Installment contracts receivable	452,323,103	908,865,891	–	1,361,188,994
Trade	93,286,102	–	–	93,286,102
Accrued commission income	26,256,933	–	–	26,256,933
Accrued rent income	14,703,308	–	–	14,703,308
Accrued interest receivable	34,559,913	–	–	34,559,913
Others	62,544,560	–	2,930,561	65,475,121
Due from related parties (Note 23)	558,144,260	–	–	558,144,260
AFS financial assets - unquoted (Note 23)	–	27,632,005	–	27,632,005
Total undiscounted financial assets	₱4,304,958,375	₱936,497,896	₱2,930,561	₱5,244,386,832
Other financial liabilities				
Accounts and other payables (Note 13)				
Trade	1,386,602,710	–	–	1,386,602,710
Retentions payable	176,605,322	–	–	176,605,322
Accrued expenses	137,862,666	–	–	137,862,666
Accrued interest	69,957,743	–	–	69,957,743
Others	182,000	–	–	182,000
Loans payable (Note 14)	7,182,191,076	9,000,000,000	–	16,182,191,076
Liabilities on purchased land (Note 16)	118,989,240	397,856,760	–	516,846,000
Due to related parties (Note 23)	320,571,614	–	–	320,571,614
Total undiscounted financial liabilities	₱9,392,962,371	₱9,397,856,760	₱–	₱18,790,819,131
Liquidity Gap	(₱5,088,003,996)	(₱8,461,358,864)	₱–	(₱13,546,432,299)

January 1, 2010

	< 1 year	> 1 to < 5 years	> 5 years	Total
Financial assets				
Cash and cash equivalents (Note 4)	₱197,873,584	₱–	₱–	₱197,873,584
Receivables (Note 5)				
Installment contracts receivable	469,538,046	219,056,900	62,333,324	750,928,270
Trade	75,151,800	–	–	75,151,800
Accrued commission income	4,519,931	–	–	4,519,931
Accrued rent income	8,378,764	–	–	8,378,764
Accrued interest receivable	24,984,384	–	–	24,984,384
Others	17,244,511	–	1,694,574	18,939,085
Due from related parties (Note 23)	872,062,998	–	–	872,062,998
AFS financial assets - unquoted (Note 23)	–	29,642,215	–	29,642,215
Total undiscounted financial assets	₱1,669,754,018	₱248,699,115	₱64,027,898	₱1,982,481,031
Other financial liabilities				
Accounts and other payables (Note 13)				
Trade	₱254,148,832	₱–	₱–	₱254,148,832
Retentions payable	80,572,092	–	–	80,572,092
Accrued expenses	64,828,714	–	–	64,828,714
Accrued interest	32,855,285	–	–	32,855,285
Others	71,119,451	–	–	71,119,451
Loans payable (Note 14)	2,479,300,000	3,416,591,076	–	5,895,891,076
Liabilities on purchased land (Note 16)	112,254,000	516,846,000	–	629,100,000
Due to related parties (Note 23)	500,992,878	–	–	240,158,903
Total undiscounted financial liabilities	₱1,794,784,386	₱3,933,437,076	₱–	₱7,166,656,383
Liquidity Gap	(₱125,030,368)	(₱3,684,737,961)	₱64,027,898	(₱5,184,175,352)

Foreign currency risk
Financial assets and financing facilities extended to the Group were mainly denominated in Philippine Pesos. As such, the Group's foreign currency risk is very minimal.

The Group's foreign currency-denominated financial instruments are included in cash and cash equivalents amounting to US$0.23 million, US$0.26 million and US$0.23 million in December 31, 2011, 2010 and January 1, 2010, respectively. The Philippine peso value of these instruments amounted to ₱10.08 million and ₱11.92 million as at December 31 2011 and 2010 and January 1, 2010, respectively.

In translating the foreign currency-denominated monetary assets and liabilities into peso amounts, the exchange rates used were ₱43.84 to US$1.00, ₱43.84 to US$1.00 and ₱46.20 to US$1.00, the Philippine peso-U.S. dollar exchange rates as at December 31, 2011, 2010 and January 1, 2010, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in the Philippine peso-US dollar exchange rate, with all variables held constant, of the Group's income before tax (due to changes in the fair value of monetary assets and liabilities) on December 31, 2010, and 2008. There is no other impact on the Group's equity other than those already affecting the consolidated statements of comprehensive income.

	Increase (decrease) in income before tax		
	December 31		January 1,
US$ appreciates (depreciates)	**2011**	2010	2010
₱1.00	**₱7,207**	₱232,662	₱258,051
(1.00)	**(7,207)**	(232,662)	(258,051)

Interest rate risk
The Group's interest rate exposure management policy centers on reducing the Group's overall interest expense and exposure to changes in interest rates. Changes in market interest rates relate primarily to the Group's interest-bearing debt obligations with floating interest rate as it can cause a change in the amount of interest payments.

The Group manages its interest rate risk by leveraging on its premier credit rating and maintaining a debt portfolio mix of both fixed and floating interest rates. The portfolio mix is a function of historical, current trend and outlook of interest rates, volatility of short-term interest rates, the steepness of the yield curve and degree of variability of cash flows.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all variables held constant, of the Group's income before tax (through the impact on floating rate borrowings).

	Increase (decrease) in income before tax		
	December 31		January 1,
Change in basis points	**2011**	2010	2010
₱1.00	**(₱817,461,000)**	(₱485,465,732)	(₱176,876,732)
(1.00)	**817,461,000**	485,465,732	176,876,732

The Group follows a prudent policy in managing its assets and liabilities so as to ensure that exposure to fluctuation in interest rates are kept within acceptable limits.

27. **Lease Commitment**

The Group as a lessee
The Group started leasing land for its mall and gasoline station in 2005. The operating lease agreement is for a period of 10 years. The Group also leases its office space under an operating lease agreement for 2 years renewable under certain terms and conditions. The Group's rentals incurred on this lease, presented as "Overhead" and included in the cost of goods sold account, amounted to ₱27.85 million, ₱25.96 million and ₱29.21 million in December 31, 2011 and 2010 and January 1, 2010, respectively (see Note 21).

As of December 31, 2011 and 2010 and January 1, 2010, the future minimum rental payments are as follows:

	December 31		January 1,
	2011	2010	2010
Within one year	**₱13,967,515**	₱48,939,003	₱43,789,694
After one year but not more than five years	**29,677,138**	122,536,962	135,105,717
More than five years	–	137,382,645	153,522,667
	₱43,646,664	₱308,858,610	₱332,418,078

The Group as a lessor
The Group also leases its mall to different parties. The lease term ranges from 5 to 10 years. The Group's rental income on these leases amounted to ₱238.00 million, ₱173.61 million and ₱153.41 million in 2011, 2010 and 2009, respectively (see Note 9).

As of December 31, 2011, 2010 and 2009, the future minimum receipts from these lease commitments are as follows:

	December 31		January 1,
	2011	2010	2010
Within one year	**₱133,483,943**	₱114,298,064	₱89,321,336
After one year but not more than five years	**259,667,873**	343,987,463	240,689,477
More than five years	**42,734086**	26,320,697	203,346,080
	₱435,885,902	₱484,606,224	₱533,356,893

28. **Business Combinations**

2011
<u>Common control business combination</u>
On October 03, 2011, East West Investment Ltd. (EIL), Great Co. Limited (GCL) and Titan Resources Corporation (TRC) (collectively referred herein as "Seller") and Fed Land entered into a deed of sale agreement to transfer its respective shares of stock held over HLRDC for a total consideration of ₱420.00 million.

Equivalent number of shares transferred is detailed below:

	Number of Shares Transferred
East West (EIL)	200,000
Great Co. (GCL)	200,000
Titan Resources (TRC)	3,600,000

On June 23, 2011, Fed Land subscribed additional common shares issued by CRDC of 400,000 common shares obtaining an effective interest of 75.8% over CRDC after issuance. Before the acquisition, CRDC was majority owned by City Tower Realty Corporation (CTRC) which resulted to a dilution of its shares to Fed Land.

The two acquisitions were accounted for using the uniting of interest method and accordingly, the December 31, 2010 and December 31, 2009 comparatives were restated to reflect the following changes in consolidated balances as of December 31, 2010 and January 1, 2010:

	Increase due to uniting of:	
	HLRC	CRDC
Total assets	2,362,397,880	530,083,728
Total liabilities	1,808,717,040	522,535,734
Total revenue	135,503,171	4,475,619
Total costs and expenses	25,539,444	2,981,516
Net income	103,336,030	974,367

The net assets of HLRC and CRDC as of December 31, 2010 and 2009 were pooled to the Group's financial statements as at January 1, 2011 and 2010 presented in the statement of changes in equity at the earliest period presented of January 1, 2010 as "Effect of uniting of interest" (see Note 19).

2009 Acquisitions
PCRDC
In September 2009, the Fed Land acquired 100% interest of PCRDC from an affiliated company for a consideration of ₱102.00 million. Said acquisition was accounted for using the of interest method and accordingly, the 2008 comparatives were restated to reflect the following changes in consolidated balances as of December 31, 2008:

	Increase in:
Total assets	₱1,339,584,611
Total liabilities	1,223,653,727
Total revenue	34,547,359
Total costs and expenses	30,907,933
Net income	2,365,751

PCRDC's equity at the time of the combination, amounted to ₱115.93million as of December 31, 2008 and ₱113.56 million for the year ended January 1, 2008, are already pooled and effected in 2009.

FBRI
In 2009, the Fed Land acquired 4.47% equity interest of FBRI from Toyota Manila Bay for a total consideration of ₱5.16 million. Consequently, Fed Land's equity interest in FBRI has increased from 47.19% to 51.66%. The entire difference between the acquisition cost and non-controlling interest in net assets acquired amounting to ₱0.42 million is treated as an equity transaction and presented separately in the consolidated statement of changes in equity.

29. Basic/Diluted Earnings Per Share

The basic/diluted earnings per share amounts for the years ended December 31, 2011, 2010 and January 1, 2010 were computed as follows:

	December 31		January 1,
	2011	2010	2010
Net income attributable to Parent Company	**₱3,324,399,379**	₱3,001,620,966	₱2,183,991,521
Weighted average number of shares	**125,000,000**	125,000,000	125,000,000
	₱26.60	₱24.01	₱17.47

Basic and diluted earnings per share are the same due to the absence of dilutive potential common shares.

30. Operating Segments

Segment Information
For management purposes, the Group is organized into business units based on their products and activities and has four reportable segments as follows:

- Real estate segment is engaged in real estate and leasing, development and selling of properties of every kind and description
- Financial institutions are engaged in the banking and insurance industry
- Motor segment is engaged in the assembly, manufacture, importation, sale and distribution of all kinds of automobiles including automobile parts, accessories, and instruments.
- Other segments have been aggregated to form a reportable segment are engaged in the following business:
  a) trading of goods such as petroleum, non-fuel products on wholesale or retail basis, maintains a petroleum service station and
  b) engaged in the food and restaurant service
  c) to act as a marketing agent for and in behalf of any real estate development company or companies.

The chief operating decision maker (CODM) monitors the operating results of the Group for making decisions about resource allocation and performance assessment. Segment performance is evaluated based on revenue, operating profit and pretax income which are measured similarly in the consolidated financial statements.

Transfer prices between operating segments are on arm's length basis in a manner similar to third parties.

Year ended December 31, 2011 (Amounts in Thousands)

	Real Estate	Financial Institution	Motor	Power	Others	Total
Revenue	₱ 3,175,103	₱–	₱–	₱–	₱860,636	₱4,035,739
Rentals	117,712	–	–	–	120,289	238,001
Equity in net income of associates	87,552	3,018,484	461,837	–	–	3,567,873
	3,380,368	3,018,484	461,837	–	980,925	7,841,613
Cost of sales and services	1,553,768	–	–	–	709,726	2,263,494
General and administrative expense (before depreciation and amortization)	545,152	–	–	–	493,243	1,038,395
	2,098,919	–	–	–	1,202,969	3,301,889
EBITDA	1,281,449	3,018,484	461,837	–	(162,774)	4,598,994
Other income (expenses)		–	–	–		
Finance income	57,682	–	–	–	6,914	64,596
Finance cost	(432,809)				(556,940)	(989,749)
Depreciation and amortization	(29,346)	–	–	–	(42,006)	(71,352)
Pretax income	876,976	3,018,484	461,837	–	(754,806)	3,602,489
Provision for income tax	138,339	–	–	–	10,440	148,779
Income before income from discontinued operations	738,637	3,018,484	461,837	–	(765,246)	3,453,710
Post-tax income from discontinued operations	–	–	–	–	–	–
	₱738,637	₱3,018,484	₱461,837	₱–	(₱765,246)	₱3,453,710
Net income attributable to non-controlling interest	₱117,663	₱–	₱–	₱–	₱11,648	₱129,311
Net income attributable to equity holders	₱620,994	₱3,018,484	₱461,837	₱–	(₱753,598)	₱3,324,399
Segment Assets						
Receivables	₱3,087,870	₱–	₱–	₱–	₱2,891,170	₱5,979,040
Inventories	11,327,839	–	–	–	10,528	11,338,367
Investment and advances	446,938	32,196,747	2,071,712	3,397,121	–	38,112,518
Property, plant and equipment	126,208	–	–	–	270,159	396,367
Deposits	4,085,000	–	–	–	–	4,085,000
Others	15,327,075	–	–	–	271,645	15,598,720
	₱34,400,930	₱32,196,747	₱2,071,712	₱3,397,121	₱3,443,502	₱75,510,012
Eliminating/Consolidating Entries	(5,447,249)	–	–	–	–	(5,447,249)
	28,953,681	32,196,747	2,071,712	3,397,121	3,443,502	70,062,763
Segment Liabilities						
Accounts and other payables	₱4,390,283	₱–	₱–	₱–	₱183,136	₱4,573,419
Customers' advances and deposits	457,626	–	–	–	–	457,626
Loans payable	13,032,000	–	–	–	14,216,700	27,248,700
Others	5,866,356	–	–	–	214,277	6,080,633
	₱23,746,265	₱–	₱–	₱–	₱14,614,113	₱38,360,378
Eliminating/Consolidating Entries	(5,447,249)	–	–	–	–	(5,447,249)
	18,299,016	₱–	₱–	₱–	₱14,614,113	₱32,913,129

Year ended December 31, 2010 (Amounts in Thousands)

	Real Estate	Financial Institution	Motor	Others	Total
Revenue	₱2,335,264	₱–	₱–	₱843,685	₱3,178,949
Equity in net income of associates and joint controlled entity	41,155	2,173,023	734,701	–	2,948,879
	2,376,419	2,173,023	734,701	843,685	6,127,828
Cost of sales and services	1,364,808	–	–	584,566	1,949,374
General and administrative expense (before depreciation and amortization)	421,434	–	–	399,609	821,043
	1,786,242	–	–	984,175	2,770,417
EBITDA	590,177	2,173,023	734,701	(140,490)	3,357,411
Other income (expenses)					
Finance cost – net	(13,384)	–	–	(84,161)	(97,545)
Depreciation and amortization	(28,244)	–	–	(44,008)	(72,252)
Pretax income	548,549	2,173,023	734,701	(268,659)	3,187,614
Provision for income tax	70,198	–	–	5,399	75,597
Income before income from discontinued operations	478,351	2,173,023	734,701	(274,058)	3,112,017
Post-tax income from discontinued operations	–	–	–	–	–
	₱478,351	₱2,173,023	₱734,701	(₱274,058)	₱3,112,017
Net income attributable to non-controlling interest	₱80,486	₱–	₱–	₱29,910	₱110,396
Net income attributable to equity holders	₱397,865	₱2,173,023	₱734,701	(₱303,968)	₱3,001,621
Segment Assets					
Receivables	₱1,976,469	₱–	₱–	₱ 109,780	₱2,086,249
Inventories	7,877,214	–	–	12,005	7,889,219
Investment and advances	359,385	24,472,093	2,291,583	4,000,000	31,123,061
Property, plant and equipment	127,329	–	–	303,559	430,888
Others	10,265,942	–	–	3,189,643	13,455,585
	₱20,606,339	₱24,472,093	₱2,291,583	₱7,614,987	₱54,985,002
Eliminating/Consolidating entries	(3,681,305)	–	–	–	(3,681,305)
	₱16,925,034	–	–	7,614,987	51,303,697
Segment Liabilities					
Accounts and other payables	₱1,775,390	₱–	₱–	₱160,476	₱1,935,866
Customers' advances and deposits	417,461	–	–	–	417,461
Loans payable	16,182,191	–	–	–	16,182,191
Others	4,311,680	–	–	317,485	4,629,165
	₱22,686,722	₱–	₱–	₱183,080	₱23,164,683
Eliminating/Consolidating entries	(3,681,305)	–	–	454,389	(3,226,916)
	₱9,798,515	₱–	₱–	₱637,469	₱19,937,767

Year ended December 31, 2009 (Amounts in thousands)

	Real Estate	Financial Institution	Motor	Others	Total
Revenue	₱1,355,289	₱–	₱–	₱700,514	₱2,055,804
Equity in net income of associates	(167)	1,719,948	370,064	–	2,089,845
	1,355,122	1,719,948	370,064	700,514	4,145,649
Cost of sales and services	636,732	–	–	497,584	1,134,316
General and administrative expense (before depreciation and amortization)	402,708	–	–	287,909	690,617
	1,039,440	–	–	785,493	1,824,933
EBITDA	315,682	1,719,948	370,064	(84,979)	2,320,716
Other income (expenses)					
Finance income (cost)	46,341	–	–	(32,264)	14,077
Depreciation and amortization	(20,975)	–	–	(43,754)	(64,729)
Pretax income	341,048	1,719,948	370,064	(160,997)	2,270,064
Provision for income tax	55,036	–	–	4,266	59,302
Income before income from discontinued operations	286,012	1,719,948	370,064	(165,263)	2,210,762
Post-tax income from discontinued operations	–	–	–	–	–
	₱(210,313)	₱1,719,948	₱370,064	₱(165,263)	₱2,210,762
Net income attributable to non-controlling interest	₱32,861	₱–	₱–	(₱6,090)	₱26,771
Net income attributable to equity holders	₱253,152	₱1,719,948	₱370,064	(₱159,173)	₱2,183,991
Segment Assets					
Receivables	₱964,522	₱–	₱–	₱74,981	₱1,039,503
Inventories	6,918,914	–	–	8,695	6,927,609
Investment and advances	460,898	20,407,199	1,893,150	–	22,761,247
Property, plant and equipment	30,385	–	–	342,662	373,047
Others	9,313,727	–	–	147,453	9,461,180
	₱17,688,446	₱20,407,199	₱1,893,150	₱573,791	₱40,562,586
Eliminating/Consolidating Entries	(3,824,263)	–	–	–	(3,824,263)
	₱13,864,183	₱20,407,199	₱1,893,150	₱573,791	₱36,738,323
Segment Liabilities					
Accounts and other payables	₱485,943	₱–	₱–	₱84,803	₱570,746
Customers' advances and deposits	615,366	–	–	–	615,366
Loans payable	4,449,191	–	–	1,446,700	5,895,891
Others	4,881,744	–	–	202,696	5,084,440
	₱10,432,244	₱–	₱–	₱1,554,493	₱12,166,443
Eliminating/Consolidating Entries	(3,824,263)	–	–	–	(3,824,263)
	₱6,607,981	₱–	₱–	₱573,791	₱8,342,180

31. **Events after Financial Reporting Date**

Acquisition of GBPC
On December 20, 2011, GBPC filed an application for the increase in its authorized capital stock and reduction in the par value of its common shares to ₱1 per share. Upon application of increase in authorized capital stock, the Parent Company intends to convert the deposit for future stocks subscription (DFS) through issuance of new common shares by GBPC. As a result, Parent Company's direct interest will be 21.04% with equivalent subscription of 117,067,800 new common shares (see Note 8). These advances are carried at cost and did not apply equity method of accounting due to pending regulatory approval as of December 31, 2011.

On January 16, 2012, the SEC approved the application of the increase in authorized capital stock of GBPC.

On February 15 and 16, 2012, the Parent Company entered into a Deed of Absolute Sale with GBHI for the sale and transfer of 35,504,900 and 38,863,000 common shares of GBPC, respectively, with GBHI as the seller and the Parent Company as the buyer for a consideration amounting to ₱1.24 billion and ₱1.36 billion, respectively. Such shares aggregating to 74,367,900 common shares represent 13.37 % direct interest of the Parent Company over GBPC.

With the result of foregoing transaction, the Parent Company has an effective interest of 46.41% which accounted from the direct interest obtained of 34.41% plus indirect interest through FMIC, majority owned subsidiary by MBTC of 12.00%. The Group will account the transaction under purchase accounting method.

As of February 16, 2012, loans receivable amounting to ₱2.6 billion was fully paid.

On February 9, 2012, cash dividends from Phil AXA amounting to ₱157.56 million were received.

Fed Land and MHC Omnibus Agreement
Fed Land, together with ORIX, executed a memorandum of agreement (MOA) dated December 8, 2011 and an Omnibus Subscription Agreement (OSA) dated December 21, 2011.

Under the MOA, Fed Land shall make additional capital contributions in the form of cash and property and ORIX shall make capital contributions in the form of cash in exchange for shares of stock of MHC pursuant to the terms and conditions set forth in the Omnibus Subscription Agreement; Orix contributions shall be placed in an escrow account until increase in subscription has been finally made.

Fed Land and Orix intends to (i) develop a residential condominium and a hotel/retail/ office building on two (2) parcels of land located in Bonifacio Global City, Fort Bonifacio, Taguig City, Metro Manila, Philippines , with an aggregate area of 12,984 square meters, and (ii) engage in the operations of the hotel.

Fed Land intends to transfer a certain parcel of land as full payment for its subscription of 12,074,800 MHC's common shares. As of December 31, 2011, title to land was not yet been transferred to MHC, thus, the transaction was not yet consummated and therefore, there is no dilution of interest of the Group as of December 31, 2011.

On January 31, 2012, the Escrow has been released resulting to the increase in deposit for future subscription and APIC of MHC by ₱307.15 million and ₱44.76 million.

32. **Notes to Cash Flows Statements**

Below are the noncash operating, investing and financing transactions of the Company:

	December 31		
	2011	2010	2009
Transfers from investment property to inventories	**₱117,980,714**	₱9,474,472	₱2,411,551
Transfers from property and equipment to inventories	–	11,528,424	4,262,599
Borrowing cost capitalized to inventories	**141,978,879**	119,673,718	155,860,005

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BOA/PRC Reg. No. 0001,
January 25, 2010, valid until December 31, 2012
SEC Accreditation No. 0012-FR-2 (Group A),
February 4, 2010, valid until February 3, 2013

**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY SCHEDULES**

The Stockholders and Board of Directors
GT Capital Holdings, Inc.
43rd Floor, GT Tower International,
Ayala Avenue corner H.V. dela Costa St.
Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of GT Capital Holdings, Inc. as at and for the years ended December 31, 2011 and 2010, included in this Form 17-A, and have issued our report thereon dated February 17, 2012. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the Index to the Consolidated Financial Statements and Supplementary Schedules[A] are the responsibility of the Company's management. These schedules are presented for the purpose of complying with Securities Regulation Code Rule 68. As Amended (2011) are not part of the basic financial statements. These schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

[A]These schedules may include the following:
- Supplementary schedules required by Annex 68-E
- Schedule of all the effective standards and interpretations (Part 1, 4J)
- Reconciliation of Retained Earnings Available for Dividend Declaration (Part 1, 4C; Annex 68-C)
- Map of the relationships of the companies within the group (for investments houses that are part of a conglomerate; Part 1, 4H)

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-AR-2 (Group A),
February 11, 2010, valid until February 10, 2013
Tax Identification No. 102-082-365
BIR Accreditation No. 08-001998-10-2009,
June 1, 2009, valid until May 31, 2012
PTR No. 3174583, January 2, 2012, Makati City

February 17, 2012

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

SCHEDULE OF ALL THE EFFECTIVE STANDARDS AND INTERPRETATIONS
[which consist of PFRSs, Philippine Accounting Standards (PASs) and Philippine Interpretations] effective as of December 31, 2011

PFRSs	Adopted/Not adopted/Not applicable
PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*	Not applicable
PFRS 2, *Share-based Payment*	Not applicable
PFRS 3, *Business Combinations*	Adopted
PFRS 4, *Insurance Contracts*	Not applicable
PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*	Not applicable
PFRS 6, *Exploration for and Evaluation of Mineral Resources*	Not applicable
PFRS 7, *Financial Instruments: Disclosures*	Adopted
PFRS 8, *Operating Segments*	Adopted
PAS 1, *Presentation of Financial Statements*	Adopted
PAS 2, *Inventories*	Adopted
PAS 7, *Statement of Cash Flows*	Adopted
PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*	Adopted
PAS 10, *Events after the Reporting Period*	Adopted
PAS 11, *Construction Contracts*	Adopted
PAS 12, *Income Taxes*	Adopted
PAS 16, *Property, Plant and Equipment*	Adopted
PAS 17, *Leases*	Adopted
PAS 18, *Revenue*	Adopted
PAS 19, *Employee Benefits*	Adopted
PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*	Not applicable
PAS 21, *The Effects of Changes in Foreign Exchange Rates*	Not applicable
PAS 23, *Borrowing Costs*	Adopted
PAS 24, *Related Party Disclosures*	Adopted
PAS 26, *Accounting and Reporting by Retirement Benefit Plans*	Not applicable
PAS 27, *Consolidated and Separate Financial Statements*	Adopted
PAS 28, *Investments in Associates*	Adopted
PAS 29, *Financial Reporting in Hyperinflationary Economies*	Not applicable
PAS 31, *Interests in Joint Ventures*	Adopted
PAS 32, *Financial Instruments: Presentation*	Adopted
PAS 33, *Earnings per Share*	Adopted
PAS 34, *Interim Financial Reporting*	Not applicable
PAS 36, *Impairment of Assets*	Adopted
PAS 37, *Provisions, Contingent Liabilities and*	Adopted

PFRSs	Adopted/Not adopted/Not applicable
Contingent Assets	
PAS 38, *Intangible Assets*	Adopted
PAS 39, *Financial Instruments: Recognition and Measurement*	Adopted
PAS 40, *Investment Property*	Adopted
PAS 41, *Agriculture*	Not applicable
Philippine Interpretation IFRIC–1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*	Not applicable
Philippine Interpretation IFRIC–2, *Members' Shares in Co-operative Entities and Similar Instruments*	Not applicable
Philippine Interpretation IFRIC–4, *Determining whether an Arrangement contains a Lease*	Adopted
Philippine Interpretation IFRIC–5, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*	Not applicable
Philippine Interpretation IFRIC–6, *Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*	Not applicable
Philippine Interpretation IFRIC–7, *Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies*	Not applicable
Philippine Interpretation IFRIC–9, *Reassessment of Embedded Derivatives*	Not applicable
Philippine Interpretation IFRIC–10, *Interim Financial Reporting and Impairment*	Not applicable
Philippine Interpretation IFRIC–12, *Service Concession Arrangements*	Not applicable
Philippine Interpretation IFRIC–13, *Customer Loyalty Programmes*	Not applicable
Philippine Interpretation IFRIC–14, *PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*	Not applicable
Philippine Interpretation IFRIC–16, *Hedges of a Net Investment in a Foreign Operation*	Not applicable
Philippine Interpretation IFRIC–17, *Distributions of Non-cash Assets to Owners*	Not applicable
Philippine Interpretation IFRIC–18, *Transfers of Assets from Customers*	Not applicable
Philippine Interpretation IFRIC–19, *Extinguishing Financial Liabilities with Equity Instruments*	Not applicable
Philippine Interpretation SIC–7, *Introduction of the Euro*	Not applicable
Philippine Interpretation SIC–10, *Government Assistance - No Specific Relation to Operating Activities*	Not applicable
Philippine Interpretation SIC–12, *Consolidation - Special Purpose Entities*	Not applicable
Philippine Interpretation SIC–13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*	Not applicable
Philippine Interpretation SIC–15, *Operating Leases – Incentives*	Not applicable

PFRSs	Adopted/Not adopted/Not applicable
Philippine Interpretation SIC–21, *Income Taxes - Recovery of Revalued Non-Depreciable Assets*	Not applicable
Philippine Interpretation SIC–25, *Income Taxes - Changes in the Tax Status of an Entity or its Shareholders*	Not applicable
Philippine Interpretation SIC–27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*	Not applicable
Philippine Interpretation SIC–29, *Service Concession Arrangements: Disclosures*	Not applicable
Philippine Interpretation SIC–31, *Revenue - Barter Transactions Involving Advertising Services*	Not applicable
Philippine Interpretation SIC–32, *Intangible Assets - Web Site Costs*	Not applicable
PIC Q&A No. 2011-01: PAS 1 – Requirements for a Third Statement of Financial Position	Adopted
PIC Q&A No. 2011-02: PFRS 3.2 – Common Control Business Combinations	Adopted
PIC Q&A No. 2011-03: Accounting for Inter-company Loans	Adopted
PIC Q&A No. 2011-04: PAS 32.37-38 - Costs of Public Offering of Shares	Not applicable
PIC Q&A No. 2011-05: PFRS 1.D1-D8 - Fair Value or Revaluation as Deemed Cost	Not applicable

We have not adopted the following accounting standards in 2011 which were allowed for early adoption:

Standard(s)/Interpretation(s)/Amendment(s) issued but not yet effective	**Applicable to annual period beginning on or after**
Amendments to PFRS 7: *Disclosures—Transfers of Financial Assets*	July 1, 2011
Amendments to PFRS 7: *Disclosures—Offsetting Financial Assets and Financial Liabilities*	January 1, 2013
PFRS 9, *Financial Instruments*	January 1, 2015
PFRS 11, *Joint Arrangements*	January 1, 2013
PFRS 12, *Disclosure of Interests in Other Entities*	January 1, 2013
PFRS 13, *Fair Value Measurement*	January 1, 2013
Amendments to PAS 1: *Presentation of Items of Other Comprehensive Income*	July 1, 2012
Amendments to PAS 12–*Deferred Tax: Recovery of Underlying Assets*	January 1, 2012
PAS 19, *Employee Benefits* (Revised)	January 1, 2013
PAS 27, *Separate Financial Statements*	January 1, 2013
PAS 28, *Investments in Associates and Joint Ventures*	January 1, 2013
Amendments to PAS 32, *Offsetting Financial Assets and Financial Liabilities*	January 1, 2014
Philippine Interpretation IFRIC–15, *Agreements for the Construction of Real Estate*	Deferred by SEC and FRSC
Philippine Interpretation IFRIC–20, *Stripping Costs in the Production Phase of a Surface Mine*	January 1, 2013

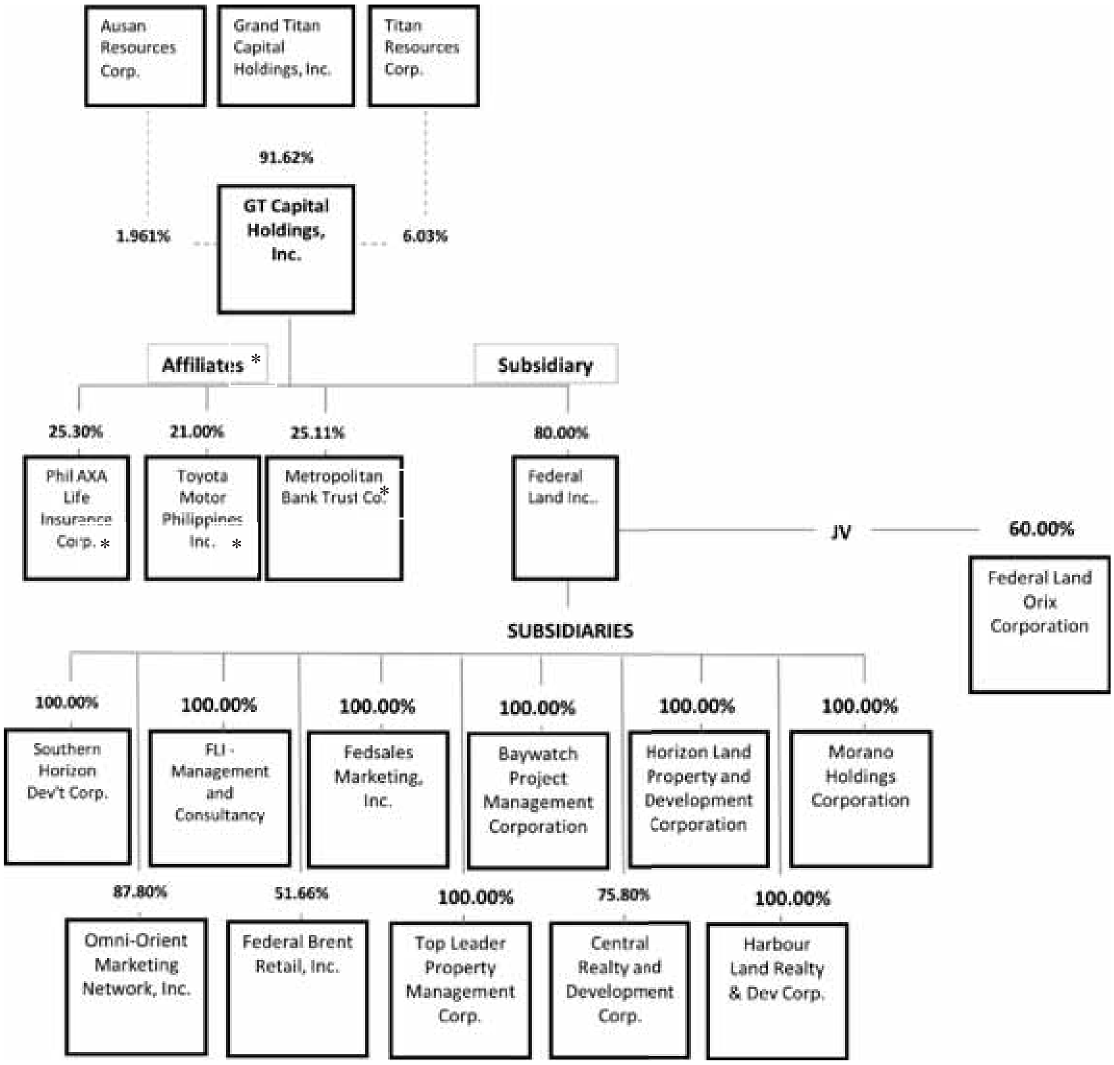
GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

FOR THE YEAR ENDED DECEMBER 31, 2011

Retained earnings available for dividend declaration as of December 31, 2010	₱183,826,665
Net income for the year	948,109,001
Dividend declaration during the period	(500,000,000)
Retained earnings available for dividend declaration as of December 31, 2011	₱631,935,666

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP
FOR THE YEAR ENDED DECEMBER 31, 2011



* The specific relationship with these entities is that of an associate as defined under PAS 28

GT Capital Holdings, Inc. and Subsidiaries

Pro forma Condensed Consolidated Financial Information
December 31, 2011

and

Report on Review of Pro forma Condensed Consolidated Financial Information

SyCip Gorres Velayo & Co.

SGV & Co
Ernst & Young

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1226 Makati City
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BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

REPORT ON REVIEW OF PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The Board of Directors
GT Capital Holdings, Inc.
43rd Floor, GT Tower International
Ayala Ave. cor. H.V. dela Costa Street
Makati City

We have reviewed the pro forma adjustments reflecting the transactions described in Note 2 and the application of those adjustments to the historical amounts in the accompanying pro forma condensed consolidated statement of financial position of GT Capital Holdings, Inc. and Subsidiaries (the Group), as at December 31, 2011, the pro forma condensed consolidated statement of comprehensive income, pro forma condensed consolidated statement of changes in equity and pro forma condensed consolidated statement of cash flows for the year then ended. The 2011 historical financial information is derived from the historical financial statements of GT Capital Holdings, Inc. and Subsidiaries (GTCHI Group) as at December 31, 2011 and for the year then ended, which were audited by us. Such pro forma adjustments are based on the Group's assumptions as described in Note 2 to the pro forma condensed consolidated financial information. The Group's management is responsible for the pro forma condensed consolidated financial information.

Our review was conducted in accordance with the Philippine Standard on Assurance Engagements 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information (PSAE 3000)* and Philippine Securities and Exchange Commission Memorandum Circular No. 2, Series of 2008, *Guidelines on Reporting and Attestation of Pro Forma Financial Information Securities Regulation Code Rule 68, as amended,* and, accordingly, included such procedures as we considered necessary under the circumstances. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on management's assumptions, the pro forma adjustments and the application of those adjustments to historical financial information. Accordingly, we do not express an audit opinion.

The objective of this pro forma condensed consolidated financial information is to show what the significant effects on the historical financial information might have been had the transactions occurred at an earlier date. However, the pro forma condensed consolidated financial information is not necessarily indicative of the results of operations or related effects on the consolidated financial position that would have been attained had the above-mentioned transaction, actually occurred at an earlier date.

SGV & Co
ERNST & YOUNG

Based on our review, nothing has come to our attention that causes us to believe that the management's assumptions do not provide a reasonable basis for presenting the significant effects directly attributable to the transactions described in Note 2, that the related pro forma adjustments do not give appropriate effect to those assumptions, or that the pro forma column does not reflect the proper application of those adjustments to the historical financial statements in the pro forma condensed consolidated statement of financial position as at December 31, 2011 and the pro forma condensed consolidated statement of comprehensive income, pro forma condensed consolidated statement of changes in equity and pro forma condensed consolidated statement of cash flows for the year then ended.

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-AR-2 (Group A),
February 11, 2010, valid until February 10, 2013
Tax Identification No. 102-082-365
BIR Accreditation No. 08-001998-10-2009,
June 1, 2009, valid until May 31, 2012
PTR No. 3174583, January 2, 2012, Makati City

March 8, 2012

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2011

		Pro forma adjustments (Note 2) (Unaudited)		
	GTCHI Group Balances (Audited)	Acquisition of Non-controlling Interests (I)	Acquisition of GBPC Group (II)	**Pro forma Consolidated Balances (Unaudited)**
ASSETS				
Current Assets				
Cash and cash equivalents	₱454,421,565	₱–	₱8,606,665,944	**₱9,061,087,509**
Receivables (Notes 2 and 3)	4,864,096,896	–	1,653,717,766	**6,517,814,662**
Inventories (Note 4)	11,338,367,323	–	1,114,633,912	**12,453,001,235**
Due from related parties (Note 11)	938,859,224	–	414,305,739	**1,353,164,963**
Prepayments and other current assets	974,997,209	–	2,019,722,947	**2,994,720,156**
Total Current Assets	18,570,742,217	–	13,809,046,308	**32,379,788,525**
Noncurrent Assets				
Noncurrent receivables (Note 3)	1,114,943,862	–	1,083,560,553	**2,198,504,415**
Investments and advances (Notes 2 and 5)	38,112,517,612	–	(3,397,120,759)	**34,715,396,853**
Long-term cash investments	2,440,084,378	–	–	**2,440,084,378**
Deposits	4,085,000,000	–	–	**4,085,000,000**
Investment properties (Note 6)	5,227,423,530	–	–	**5,227,423,530**
Property, plant and equipment (Note 7)	396,367,203	–	41,980,604,762	**42,376,971,965**
Deferred tax assets	3,791,675	–	147,208,290	**150,999,965**
Other noncurrent assets	111,893,447	–	1,260,784,686	**1,372,678,133**
Total Noncurrent Assets	51,492,021,707	–	41,075,037,532	**92,567,059,239**
Total Assets	₱70,062,763,924	₱–	₱54,884,083,840	**₱124,946,847,764**

(Forward)

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	GTCHI Group Balances (Audited)	Pro forma adjustments (Note 2) (Unaudited) Acquisition of Non-controlling Interests (I)	Acquisition of GBPC Group (II)	**Pro forma Consolidated Balances (Unaudited)**
LIABILITIES AND EQUITY				
Current Liabilities				
Accounts and other payables (Note 8)	₱4,573,419,840	₱–	₱3,789,614,957	**₱8,363,034,797**
Liabilities for purchased shares (Notes 2 and 9)	–	2,700,000,000	893,224,500	**3,593,224,500**
Current portion of loans payable (Note 10)	7,648,700,000	–	964,633,246	**8,613,333,246**
Customers' deposits	457,625,624	–	–	**457,625,624**
Due to related parties (Note 11)	403,598,150	–	577,782,858	**981,381,008**
Dividends payable	244,000	–	29,425,000	**29,669,000**
Income tax payable	–	–	36,633,536	**36,633,536**
Other current liabilities	57,884,393	–	–	**57,884,393**
Total Current Liabilities	13,141,472,007	2,700,000,000	6,291,314,097	**22,132,786,104**
Noncurrent Liabilities				
Pension liabilities	28,111,610	–	64,611,638	**92,723,248**
Loans payable - noncurrent portion (Note 10)	19,600,000,000	–	29,176,410,074	**48,776,410,074**
Deferred tax liabilities	80,613,144	–	1,854,570,302	**1,935,183,446**
Decommissioning liability	–	–	61,656,006	**61,656,006**
Other noncurrent liabilities	62,932,335	–	18,183,358	**81,115,693**
Total Noncurrent Liabilities	19,771,657,089	–	31,175,431,378	**50,947,088,467**
Total Liabilities	32,913,129,096	2,700,000,000	37,466,745,475	**73,079,874,571**

(Forward)

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	GTCHI Group Balances (Audited)	Pro forma adjustments (Note 2) (Unaudited) Acquisition of Non-controlling Interests (I)	Acquisition of GBPC Group (II)	**Pro forma Consolidated Balances (Unaudited)**
Equity				
Equity attributable to GT Capital Holdings, Inc.				
Capital stock	₱1,250,000,000	₱–	₱–	**₱1,250,000,000**
Additional paid-in capital	23,071,664,419	(555,862,496)	–	**22,515,801,923**
Retained earnings	7,801,671,145	–	736,048,079	**8,537,719,224**
Other comprehensive income	2,805,451,828	–	–	**2,805,451,828**
	34,928,787,392	(555,862,496)	736,048,079	**35,108,972,975**
Non-controlling interests	2,220,847,436	(2,144,137,504)	16,681,290,286	**16,758,000,218**
Total Equity	37,149,634,828	(2,700,000,000)	17,417,338,365	**51,866,973,193**
	₱70,062,763,924	₱–	₱54,884,083,840	**₱124,946,847,764**

See accompanying Notes to Pro forma Condensed Consolidated Financial Information.

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2011

		Pro forma adjustments (Note 2) (Unaudited)		
	GTCHI Group Balances (Audited)	Acquisition of Non-controlling Interests (I)	Acquisition of GBPC Group (II)	**Pro forma Consolidated Balances (Unaudited)**
REVENUE AND OTHER INCOME	₱7,965,480,520	₱–	₱17,800,085,806	**₱25,765,566,326**
COST AND EXPENSES	4,362,991,500	–	14,698,060,564	**19,061,052,064**
INCOME BEFORE INCOME TAX	3,602,489,020	–	3,102,025,242	**6,704,514,262**
PROVISION FOR INCOME TAX	148,779,135	–	136,498,668	**285,277,803**
NET INCOME	3,453,709,885	–	2,965,526,574	**6,419,236,459**
OTHER COMPREHENSIVE INCOME				
Change in net unrealized gain on available-for-sale investments	–	–	(101,403,331)	**(101,403,331)**
Share in other comprehensive income of associates	2,895,604,967	–	(15,869,472)	**2,879,735,495**
TOTAL COMPREHENSIVE INCOME	₱6,349,314,852	₱–	₱2,848,253,771	**₱9,197,568,623**
Net income attributable to:				
GT Capital Holdings, Inc.	₱3,324,399,379	₱117,967,119	₱1,352,244,010	**₱4,794,610,508**
Non-controlling interests	129,310,506	(117,967,119)	1,613,282,564	**1,624,625,951**
	₱3,453,709,885	₱–	₱2,965,526,574	**₱6,419,236,459**
Earnings per share attributable to GT Capital Holdings, Inc.:				
Basic and Diluted (Note 12)	₱26.60			**₱38.36**
Total comprehensive income attributable to:				
GT Capital Holdings, Inc.	₱6,220,004,346	₱117,967,119	₱1,296,827,239	**₱7,634,798,704**
Non-controlling interests	129,310,506	(117,967,119)	1,551,426,532	**1,562,769,919**
	₱6,349,314,852	₱–	₱2,848,253,771	**₱9,197,568,623**

See accompanying Notes to Pro forma Condensed Consolidated Financial Information.

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
DECEMBER 31, 2011

	Equity attributable to Equity Holders of GT Capital Holdings, Inc								
	Capital Stock	Additional Paid-in Capital	Retained Earnings	Net Unrealized gain (loss) on available-for-sale investments of associates	Revaluation reserve on investment property of associates	Revaluation increment on property and equipment of associates	Translation adjustment of associates	Non-controlling Interests	Total Equity
At January 1, 2011	₱1,250,000,000	₱23,071,664,419	₱4,937,094,253	(₱216,343,954)	(₱1,302,060)	(₱594,450)	₱128,087,325	₱2,090,485,609	₱31,259,091,142
Effect of business combination	–	–	440,177,512	–	–	–	–	121,051,322	561,228,834
As restated	1,250,000,000	23,071,664,419	5,377,271,765	(216,343,954)	(1,302,060)	(594,450)	128,087,325	2,211,536,931	31,820,319,976
Effect of business combination	–	–	(336,000,000)	–	–	–	–	(84,000,000)	(420,000,000)
Dividends declared	–	–	(564,000,000)	–	–	–	–	(36,000,000)	(600,000,000)
Pro forma acquisition of non-controlling interests (Note 2)	–	(555,862,496)	–	–	–	–	–	(2,144,137,504)	(2,700,000,000)
Pro forma consolidation adjustments (Note 2)	–	–	(734,163,049)	55,416,771	–	–	–	15,247,830,872	14,569,084,594
Pro forma total comprehensive income	–	–	4,794,610,508	2,707,116,699	–	–	133,071,497	1,562,769,919	9,197,568,623
At December 31, 2011 (Unaudited)	₱1,250,000,000	₱22,515,801,923	₱8,537,719,224	₱2,546,189,516	(₱1,302,060)	(₱594,450)	₱261,158,822	₱16,758,000,218	₱51,866,973,193

See accompanying Notes to Pro forma Condensed Consolidated Financial Information.

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
DECEMBER 31, 2011

	GTCHI Group Balances (Audited)	Acquisition of GBPC Group (II)	**Pro forma Consolidated Balances (Unaudited)**
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱3,602,489,020	₱3,102,025,242	**₱6,704,514,262**
Adjustments for:			
Interest expense	989,749,556	2,587,952,111	**3,577,701,667**
Depreciation and amortization	71,352,576	1,569,597,811	**1,640,950,387**
Accretion of decommissioning liability	–	6,149,717	**6,149,717**
Unrealized foreign exchange losses	193,784	43,747,762	**43,941,546**
Loss (gain) on disposal of property, plant and equipment	(302,584)	8,318,397	**8,015,813**
Negative goodwill		(736,048,079)	**(736,048,079)**
Equity in net income of associates and a Jointly controlled entity (Note 5)	(3,567,873,099)	(4,376,357)	**(3,572,249,456)**
Interest income	(260,519,869)	(191,414,489)	**(451,934,358)**
Dividend income	–	(20,700,266)	**(20,700,266)**
Pension expense	16,621,998	31,954,190	**48,576,188**
Operating income before changes in working capital	851,711,382	6,397,206,039	**7,248,917,421**
Decrease (increase) in:			
Receivables	(4,203,893,169)	(1,726,357,980)	**(5,930,251,149)**
Due from related parties (Note 11)	(380,714,964)	–	**(380,714,964)**
Inventories	(3,228,592,505)	(281,383,380)	**(3,509,975,885)**
Prepayments and other current assets	(282,455,718)	1,276,606,863	**994,151,145**
Increase (decrease) in:			
Accounts and other payables	2,632,476,447	(2,305,623,262)	**326,853,185**
Customers' deposits	40,164,351	–	**40,164,351**
Other current liabilities	34,076,298	–	**34,076,298**
Net cash used in operations	(4,537,227,878)	3,360,448,280	**(1,176,779,598)**
Dividends received	1,495,803,180	20,700,266	**1,516,503,446**
Interest received	569,865,418	191,414,489	**761,279,907**
Interest paid	(1,087,246,900)	(2,564,770,268)	**(3,652,017,168)**
Income taxes paid	(14,553,856)	(259,014,220)	**(273,568,076)**
Contributions to pension plan	(12,959,089)	–	**(12,959,089)**
Net cash provided by (used in) operating activities	(3,586,319,125)	748,778,547	(2,837,540,578)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales of:			
Property, plant and equipment	475,003	–	**475,003**
Refund of advances	602,879,241	–	**602,879,241**
Additions to:			
Investment properties (Notes 6)	(57,705,511)	–	**(57,705,511)**
Property, plant and equipment (Notes 7)	(18,540,327)	(3,567,128,919)	**(3,585,669,246)**
Investments and advances	(2,624,660,409)	–	**(2,624,660,409)**
Long-term cash investments	(2,440,084,378)	–	**(2,440,084,378)**
Deposits	(4,085,000,000)	–	**(4,085,000,000)**
Acquisition of subsidiary through business combinations - net of cash acquired	(420,000,000)	–	**(420,000,000)**
Decrease in other noncurrent asset	(24,329,670)	49,526,267	**25,196,597**
Net cash used in investing activities	(9,066,966,051)	(3,517,602,652)	**(12,584,568,703)**

(Forward)

	GTCHI Group Balances (Audited)	Acquisition of GBPC Group (II)	**Pro forma Consolidated Balances (Unaudited)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loan availments	₱19,305,000,000	₱5,095,361,471	**₱24,400,361,471**
Payments of:			
Cash dividends	(564,000,000)	(27,820,000)	**(591,820,000)**
Loans payable	(8,238,491,076)	(429,617,446)	**(8,668,108,522)**
Increase (decrease) in:			
Non-controlling interests	(36,000,000)	–	**(36,000,000)**
Liabilities on land purchased	(516,846,000)	–	**(516,846,000)**
Due to related parties	83,026,536	648,643,173	**731,669,709**
Other noncurrent liabilities	10,269,219	–	**10,269,219**
Net cash provided by financing activities	10,042,958,679	5,286,567,198	**15,329,525,877**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(193,784)	(43,747,762)	**(43,941,546)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,610,520,281)	2,473,995,331	**(136,524,950)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,064,941,846	6,132,670,613	**9,197,612,459**
CASH AND CASH EQUIVALENTS AT END OF YEAR	₱454,421,565	₱8,606,665,944	**₱9,061,087,509**

See accompanying Notes to Pro forma Condensed Consolidated Financial Information.

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO THE PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. **Corporate Information**

GT Capital Holdings, Inc. (the Parent Company) was organized and registered with the Philippine Securities and Exchange Commission (SEC) on July 26, 2007. The primary purpose of the Parent Company is to invest in, purchase, or otherwise acquire and own, hold, use, sell, assign, transfer, lease, mortgage, exchange, develop or otherwise dispose of real property of every kind and description, including shares of stocks, bonds, debentures, notes, evidences of indebtedness, and other securities or obligations of any corporation or corporations, associations, domestic or foreign, and to possess and exercise in respect thereof all the rights, powers and privileges of ownership, including all voting powers of any stock so owned. The ultimate parent is Grand Titan Capital Holdings, Inc.

The Parent Company owns 80.0% of Federal Land, Inc. (Fed Land) and has significant shareholdings in Metropolitan Bank & Trust Co. (MBTC), Toyota Motor Philippines, Inc. (Toyota) and Philippine AXA Life Insurance Corp. (Phil AXA).

The registered office address of the Parent Company is at 43rd Floor, GT Tower International, Ayala Avenue corner H.V. de la Costa St., Makati City.

Pro-forma Information
Acquisition of non-controlling interest in Fed Land
In 2012, the Parent Company entered into a Memorandum of Agreement (MOA) to acquire additional 20.0% equity interest in Fed Land to increase ownership over Fed Land to 100.0% for a total consideration of ₱2.70 billion to be paid out of the proceeds of the Parent Company's initial public offering.

Acquisition of Global Business Power Corporation
In 2012, the Parent Company acquired direct interest totaling to 39.0% over Global Business Power Corporation (GBPC) through: (a) conversion of the Parent Company's deposits on future stock subscriptions; (b) purchase of secondary shares from Global Business Holdings, Inc. (GBHI); and (c) option to purchase from GBHI an additional 4.6% interest over GBPC. After considering these transactions (GBPC Acquisition Transactions), the Parent Company has an effective interest totaling to 51.0% over GBPC.

GBPC was registered with the Philippine Securities and Exchange Commission (SEC) on March 13, 2002 primarily to invest in, hold, purchase, import, acquire (except land), lease, contract or otherwise, with the limits allowed for by law, any and all real and personal properties of every kind and description, whatsoever, and to do acts of being a holding company except to act as brokers dealers in securities. As of December 31, 2011, GBPC is 69%-owned by GBHI and 31%-owned by First Metro Investments Corporation, a subsidiary of MBTC.

The objective of this pro forma condensed financial information is to show what the significant effects of the historical financial information might have been had the transactions described in Note 2 occurred at an earlier date. However the pro forma condensed consolidated financial information is not necessarily indicative of the results of operations or related effects on the consolidated financial statements that would have been attained had the above-mentioned transaction actually occurred earlier.

The accompanying pro forma condensed consolidated financial information were authorized for issue by the Board of Directors (BOD) on March 8, 2012.

2. **Basis of Preparing the Pro Forma Condensed Financial Information**

The pro forma condensed financial information has been prepared in accordance with paragraph 8 of the Rule 68 of the SEC's Implementing Rules and Regulations of the Securities Regulation Code, as amended.

The pro forma condensed consolidated financial information is based on the historical information of GTCHI Group and GBPC Group as shown in the 2011 audited consolidated financial statements of GTCHI and GBPC as of and for the year ended December 31, 2011, after considering the transactions described below that occurred after December 31, 2011 and after giving effect to the assumptions and adjustments described below:

Acquisition of non-controlling interests in Fed Land

a) Acquisition of additional 20.0% equity interest in Fed Land pursuant to the MOA dated March 8, 2012 for a total consideration of ₱2.70 billion. The consideration for the acquisition will be paid from the proceeds of the initial public offering.

b) In the preparation of the pro forma condensed financial information, it is assumed that the Parent Company accounted for the acquisition of non-controlling interests as equity transaction, where any excess of the consideration paid to acquire non-controlling interests over the carrying amount of non-controlling interests is recorded as a reduction in "Additional paid-in capital" account.

Acquisition of GBPC Group

c) GBPC's application for its increase in authorized capital stock has been approved by the SEC on January 16, 2012. As a result, the Parent Company's deposits on future stock subscriptions amounting to ₱3.39 billion as of December 31, 2011, was converted to common shares representing 21.0% direct interest over GBPC.

d) Acquisition of secondary shares from Global Business Holdings, Inc. (GBHI) for a total consideration of ₱2.60 billion representing 13.4% direct interest over GBPC was consummated on February 16, 2012.

e) Pro forma adjusting entries to effect the consolidation of GBPC Group to GTCHI as of and for the year ended December 31, 2011, assuming the Parent Company has control over GBPC based on the former's 51.0% effective interest in GBPC Group. The 51.0% equity interest includes direct and indirect ownership through an associate and the exercise of an option to purchase additional shares, equivalent to 4.6% direct interest over GBPC (see table below). The control of GTCHI over the indirect ownership is assumed to be covered by a voting agreement between GTCHI and the other stockholders of GBPC. The consideration for the exercise of the option amounting to ₱893.22 million will be paid from the proceeds of the public offering.

The 51.0% effective ownership interest is computed as follows:

Nature	Effective interest
Direct interest	
Conversion of Deposit on Future Stock Subscriptions	21.0%
Acquisition of secondary shares from GBHI	13.4%
Option to purchase additional shares from GBHI	4.6%
Indirect interest through an associate	12.0%
	51.0%

Non-controlling interests for GBPC remains to be at 61% as the Parent Company only has 39% direct interest over GBPC. Thus, the Parent Company only shares 39% in the net assets attributable to GBPC and results of operations attributable to GBPC.

The Parent Company and the associate are currently working on an agreement that would eventually transfer the voting rights of the 12% indirect interest to the Parent Company.

f) For the acquisition of GBPC, pro forma condensed financial information was prepared using the acquisition method.

In addition, the Parent Company measures the qualifying non-controlling interests at the proportionate share of the value of the net identifiable assets acquired.

Other assumptions

g) Pro forma adjustments related to the pro forma condensed statement of financial position assumed that the transactions occurred as of December 31, 2011, while the pro forma adjustments related to the pro forma condensed consolidated statements of comprehensive income, changes in equity and cash flows assumed that the transactions occurred on January 1, 2011, the beginning of the period presented.

h) The pro forma adjustments are based upon available information and certain assumptions that the Parent Company believes are reasonable under the circumstances. The pro forma condensed financial information does not purport to represent what the results of operations and financial position of the Parent Company and its subsidiaries would have been had the acquisition of control over GBPC and the acquisition of Fed Land's non-controlling interests in fact occurred on January 1, 2011 or December 31, 2011, as the case may be, nor does it purport to project the results of operations of the Parent Company and its subsidiaries for any future period or date.

Pro forma condensed financial information is not intended to be considered in isolation from; or as a substitute for financial position or results of operations prepared in accordance with Philippine Financial Reporting Standards.

The pro forma condensed financial information has not been prepared in accordance with the requirements of Article 11 of the Regulation S-X under the U.S. Exchange Act.

Pro forma adjustments include the following:

I. Acquisition of non-controlling interests in Fed Land

a. Adjustment to eliminate the balance of non-controlling interests amounting to ₱2.14 billion which represents the remaining 20.0% non-controlling interests in Fed Land.

b. Adjustment to recognize liability payable to non-controlling shareholders of Fed Land amounting to ₱2.70 billion representing the total amount of consideration for the acquisition of non-controlling interests (included in "Liabilities for purchased shares" in the pro forma condensed statement of financial position).

c. Adjustment in equity to reduce the balance of "Additional paid-in capital" by ₱555.86 million representing the excess of consideration payment over the carrying amount of the 20.0% non-controlling interests.

d. Adjustment to reflect transfer of the share of non-controlling interests in the net income of Fed Land to the Parent Company amounting to ₱117.97 million.

II. Acquisition of GBPC

a. The acquisition cost for the 39.0% interest in GBPC for purposes of the pro forma condensed financial information is assumed to be based on the purchase price agreed for the (a) conversion of deposit for stock subscription equivalent to 21.0% interests; (b) acquisition of shares from GBHI for the 13.4% interest; and (c) the exercise price for the option to purchase additional shares from GBHI for the 4.6% interest. The total cost amounted to ₱6.89 billion.

   The agreed price for the acquisition of 21.0% and 13.4% have been advanced or paid to GBPC and GBHI, respectively, as of December 31, 2011.

   The consideration to be paid for the exercise of the option for the 4.6% interest amounting to ₱893.22 million is recognized as "Liabilities for purchased shares" in the pro forma condensed statement of financial position. This liability is expected to be paid from the proceeds of the initial public offering.

b. The preliminary allocation of the cost of the acquisition to the assets and liabilities of GBPC is based on provisional estimates using currently available information, is presented on the table below. Given the size and complexity of the transaction, the preliminary allocation of the cost of the acquisition is subject to revision to reflect the final determination of fair values. The preliminary accounting will be completed based on further valuations and studies carried out within twelve months from the acquisition date. The Parent Company has limited information with respect to the fair values of assets and liabilities acquired and possible recognition of certain intangible assets, deferred income tax and contingent liabilities arising from the acquisition.

Assets	
Cash and cash equivalents	₱8,606,665,944
Receivables	4,256,597,007
Inventories	1,114,633,912
Due from related parties	414,305,739
Prepayments and other current assets	2,019,722,947
Long-term receivables - net of current portion	1,083,560,553
Property, plant and equipment	41,980,604,762
Deferred tax assets	147,208,290
Other noncurrent assets	1,260,784,686
	60,884,083,840
Liabilities	
Accounts and other payables	3,789,614,957
Loans payable	964,633,246
Due to related parties	577,782,858
Dividends payable	29,425,000
Income tax payable	36,633,536
Pension liabilities	64,611,638
Loans payable - noncurrent portion	29,176,410,074
Deferred tax liabilities	1,854,570,302
Decommissioning liability	61,656,006
Other noncurrent liabilities	18,183,358
	36,573,520,975
Net assets	24,310,562,865
Less non-controlling interests	(4,748,325,483)
Net assets attributable to GBPC Parent	19,562,237,382
Acquisition cost	(6,893,224,500)
Non-controlling interests (61.0% x ₱19,562,237,382)	(11,932,964,803)
Negative goodwill (included in "Revenue and other income" in the pro forma condensed consolidated statement of comprehensive income)	₱736,048,079

For purposes of the pro forma condensed statement of financial position, the GBPC Acquisition Transactions were assumed to have happened on December 31, 2011 and accordingly, provisional accounting was applied to account for the goodwill in the initial purchase price allocation.

c. Adjustments include consolidating the following balances of GBPC Group in the pro forma condensed consolidated statement of comprehensive income:

Revenue and other income	₱17,064,037,727
Cost and expenses	14,698,060,564
Provision for income tax	136,498,668
Net income	2,229,478,495
Other comprehensive income	(101,403,331)

For purposes of the pro forma condensed statement of comprehensive income, the GBPC Acquisition Transactions were assumed to have happened on January 1, 2011.

d. Pro forma consolidation adjustments included in the pro forma condensed consolidated statement of equity pertain to the following:

   i. Adjustment to show the pro forma comprehensive income amounting to ₱9.20 billion

   ii. Adjustment to show the pro forma acquisition of non-controlling interests in Fed Land with equity adjustment of ₱555.86 million

   iii. Adjustment to show the non-controlling interests share on the net assets of GBPC upon consolidation with GTCHI amounting to ₱15.25 billion

   iv. Adjustments to take into account the different assumptions in preparing the pro forma condensed consolidated statement of financial position (assumed transactions have occurred at December 31, 2011) and the pro forma condensed consolidated statement of comprehensive income (assumed transactions have occurred as of January 1, 2011) with net effect of reduction in retained earnings of ₱734.16 million and additional net unrealized gain on available-for-sale investments ₱55.42 million.

e. Adjustments also include the following eliminating entries in the pro forma condensed statement of financial position:

   Elimination of (a) the advances of GTCHI, included in "Receivables", for the acquisition of 13.4% interests amounting to ₱2.60 billion and (b) advances to GBPC in the form of deposits on future stock subscriptions, included in "Investments and advances", for the acquisition of the 21.0% interests amounting to ₱3.39 billion. Both amounts are considered as part of the cost of the business combination in the pro forma condensed financial information.

f. Homogenization of Accounting Policies

   The Parent Company is pursuing the work of homogenization of accounting policies of GBPC and the former and consequently, additional adjustments may be necessary upon completion of this work.

3. Receivables

This account consists of:

	(Unaudited)
Trade receivables	₱3,576,741,474
Installment contracts receivable	1,924,210,550
Long-term receivables	1,497,391,329
Advances to contractors and suppliers	1,120,673,865
Dividend receivable	157,156,316
Receivable from customers	41,842,302
Advances to officers, employees and agents	39,780,012
Accrued commission income	21,252,081
Accrued rent income	5,300,029
Accrued interest receivable	2,269,418
Others	369,032,795
Total	8,755,650,171
Less noncurrent portion	2,198,504,415
Total current	6,557,145,756
Less allowance for impairment losses	39,331,094
	₱6,517,814,662

The details of installment contracts receivable follow:

	(Unaudited)
Installment contracts receivable	₱2,348,347,412
Less unearned interest income	424,136,862
Net installment contracts receivable	1,924,210,550
Less noncurrent portion	1,104,578,763
Current portion	₱819,631,787

The details of long-term receivables follow:

	(Unaudited)
Long-term receivables	₱1,648,617,697
Less unearned interest income	151,226,368
Net long-term receivable	1,497,391,329
Less noncurrent portion	1,083,560,553
Current portion	₱413,830,776

Noninterest-bearing installment contracts receivable and long-term receivables are collected over a period of one (1) to twenty five (25) years. The fair value upon initial recognition is derived using discounted cash model using the discount rate ranging from 8% to 18%. Interest income recognized from these receivables amounted to ₱234.79 million in 2011. Unearned interest income amounted to ₱575.37 million as of December 31, 2011.

Movements in the unearned interest income as of December 31, 2011 follow:

	(Unaudited)	
	Installment contracts receivable	Long-term receivables
At January 1	₱147,081,808	₱102,585,823
Additions	472,979,186	87,512,462
Accretion	(195,924,132)	(38,871,917)
At December 31	₱424,136,862	₱151,226,368

Advances to contractors and suppliers pertain to advances and initial payment for the purchase of construction materials and supplies and contractor services. These are recouped upon every progress billing payments and due and demandable.

Trade receivables pertain to tenants' rentals already billed but not yet collected and their share in utilities (electricity, water and liquefied petroleum gas). This account also represents outstanding billings for energy fees and passed through fuel costs arising from the delivery of electricity. The Group's normal credit term is 30 days from the date of receipt of billing.

Accrued commission income and accrued rent income and pertain to commission and rent earned but not yet collected, with a 15- to 30- day term.

Advances to officers and employees pertain to cash advances for representation and entertainment and employee cash loans. Advances for representation and entertainment are liquidated within 30 days after incurrence of expense while employee cash loans are collected through salary deduction.

Cash advances to agents pertain to mobilization funds granted to agents to finance their sales-related needs. These advances are subjected to liquidation within 30 days after the release of cash advance.

Other receivables pertain to the value-added tax (VAT) remitted in advance and other nontrade receivables.

The movement in the Group's allowance for impairment losses follows:

	(Unaudited)
At January 1	₱33,231,025
Provision for the year	6,141,950
Write off	(41,881)
At December 31	₱39,331,094

Additional provision totaling to ₱6.14 million were made during 2011 in which ₱5.26 million was attributable to impaired advances to contractors and suppliers while ₱0.88 million pertains to other receivables that were past due. The impairment loss pertains to individually impaired accounts. These are presented as gross amounts before directly deducting impairment allowance. No impairment losses resulted from performing collective impairment test.

4. **Inventories**

This account consists of:

	(Unaudited)
Condominium units held for sale	₱5,931,704,263
Land for development (at cost)	4,653,076,618
Materials, supplies and others	743,058,180
Coal (at cost)	575,961,788
Spare parts and supplies (at NRV)	404,229,678
Crude oil and petroleum products	142,810,373
Food	2,160,335
	₱12,453,001,235

The rollforward of land for development is as follows:

	(Unaudited)
At January 1	₱4,279,214,214
Acquisitions	7,165,853
Transfers from materials, supplies and others	475,473,513
Transfers to condominium units held for sale	(108,776,962)
At December 31	₱4,653,076,618

As of December 31, 2011, inventories recognized as "Cost of real estate sales" amounted to ₱1.55 billion, while other inventory items recognized as "Cost of goods and services sold" amounted to ₱709.73 million.

Certain parcels of land were transferred to the inventories account with carrying amount of ₱117.98 million in 2011.

The Group capitalized borrowing cost on real estate inventories amounting to ₱171.54 million in 2011 for loans with interest rates ranging from 2.89% to 8.00% used to finance the Group's project construction. Also, the Group capitalized borrowing with regards to its general borrowing amounting to ₱79.28 million in 2011. The average capitalization rate used to determine the amount of borrowing costs eligible for capitalization is 7.29% in 2011. Said capitalized interest is added to Condominium units held for sale under "Inventories" account and recognized as expense upon the sale of condominium units. The Group expensed out capitalized interest amounted to ₱59.81 million in 2011.

Movements in the allowance for spare parts and supplies inventory losses are as follows:

	(Unaudited)
At January 1	₱4,718,832
Provision for inventory losses	–
Reversal of allowance for inventory losses	(4,558,461)
At December 31	₱160,371

5. **Investments in Associates and a Jointly Controlled Entity**

This account consists of:

	(Unaudited)
Investments in associates	₱34,129,761,892
Investment in a joint venture	446,938,240
	₱34,576,700,132

The movements in the Group's investment in associates and a jointly controlled entity follow:

	(Unaudited)
Associates:	
Cost	
At January 1	₱21,923,397,617
Additions	2,624,660,409
At December 31	24,548,058,026
Accumulated equity in total comprehensive income	
At January 1	4,840,278,717
Equity in net income	3,357,492,834
Equity in other comprehensive income	2,879,735,495
Dividends received	(1,495,803,180)
At December 31	9,581,703,866
	34,129,761,892
Jointly controlled entity:	
Cost	
At January 1 and December 31	330,000,000
Accumulated equity in net income	
At January 1	29,385,224
Equity in net income	87,553,016
At December 31	116,938,240
	446,938,240
	₱34,576,700,132

The following tables summarize cash dividends declared and paid by the Group's associates:

Associate	Declaration date	Per share	Total (in millions)	Record Date	Payment Date
Phil AXA	December 14, 2011	₱177.43	₱621	December 14, 2011	February 9, 2012
Phil AXA	April 28, 2011	143.13	501	April 28, 2011	June 6, 2011
TMPC	April 12, 2011	209.51	3,246	December 31, 2010	April 13, 2011
MBTC	March 25, 2011	1.00	2,111	May 16, 2011	May 23, 2011

Investment in MBTC
In 2011, FMIC, a majority owned subsidiary of MBTC participated in a bond exchange transaction under the liability management exercise of the Philippine government. The SEC granted an exemptive relief from the existing tainting rule on held-to-maturity (HTM) investment under Philippine Accounting Standard (PAS) 39, Financial Instruments: Recognition and Measurement while the Bangko Sentral ng Pilipinas (BSP) also provided the same exemption for prudential reporting to the participants. Following the exemption granted, the 2011 consolidated financial statements of MBTC have been prepared in compliance with Philippine GAAP. For the purpose of computing the Group's share in 2011 net income and other comprehensive income of MBTC, certain adjustments were made in MBTC's 2011 consolidated financial statements to comply with PFRS.

In January 2011, the Parent Company exercised its stock rights and subscribed for additional shares which aggregated to 52,201,070 shares with a cost of ₱2.61 billion.

Investment in Phil AXA
In 2011, the Parent Company agreed to increase its subscription in Phil AXA amounting to ₱14.61 million.

The financial highlights of the Group's associates and jointly controlled entity and the related percentage of ownership follow:

	Associates			Joint Venture
	MBTC	Phil AXA	Toyota	Federal Land Orix Corp.
Nature of Business	Banks	Insurance	Automotive Manufacturing and Dealership	Real Estate
	In thousands (except for percentage)			
Percentage of ownership	25.11%	25.31%	21.00%	60.00%
Net assets	₱116,504,000	₱3,667,751	₱7,340,419	₱744,897
Comprehensive income	22,322,534*	2,199,222	1,218,872	87,553

**Total comprehensive income under PFRS*

6. **Investment Properties**

The composition and rollforward analysis of this account follow:

	(Unaudited)		
	Land	Buildings	Total
Cost			
At January 1	₱5,091,340,619	₱305,138,230	₱5,396,478,849
Additions	57,180,342	525,169	57,705,511
Transfer	(117,980,723)	–	(117,980,723)
At December 31	5,030,540,238	305,663,399	5,336,203,637
Accumulated Depreciation			
At January 1	–	97,261,667	97,261,667
Depreciation	–	11,518,440	11,518,440
At December 31	–	108,780,107	108,780,107
Net Book Value at December 31	₱5,030,540,238	₱196,883,292	₱5,227,423,530

7. Property, Plant and Equipment

(Unaudited)

	Boilers and Powerhouse	Turbine Generators and Desox System	Buildings and Land Improvements	Electrical Distribution System	Other Property and Equipment	Construction in Progress	Total
Cost:							
At January 1	₱–	₱–	₱593,254,464	₱–	₱122,217,048	₱1,660,746	₱717,132,258
Additions	–	–	6,073,515	–	12,263,312	203,500	18,540,327
Acquisition through business combination	33,027,938,814	537,413,222	2,936,795,933	2,913,343,543	2,243,871,126	321,242,124	41,980,604,762
Disposals	–	–	–	–	(1,354,630)	–	(1,354,630)
Reclassifications	–	–	101,831	–	283,085	(384,916)	–
At December 31	33,027,938,814	537,413,222	3,536,225,743	2,913,343,543	2,377,279,941	322,721,454	42,714,922,717
Accumulated depreciation:							
At January 1	–	–	187,880,692	–	98,363,603	–	286,244,295
Depreciation	–	–	39,991,388	–	12,897,280	–	52,888,668
Disposals	–	–	–	–	(1,182,211)	–	(1,182,211)
Reclassifications	–	–	(326,392)	–	326,392	–	–
At December 31	–	–	227,545,688	–	110,405,064	–	337,950,752
Net book value at December 31	₱33,027,938,814	₱537,413,222	₱3,308,680,055	₱2,913,343,543	₱2,266,874,877	₱322,721,454	₱42,376,971,965

8. **Accounts and Other Payables**

This account consists of:

	(Unaudited)
Trade	₱4,087,326,196
Output VAT	1,114,871,564
Payable to contractors and suppliers	1,044,370,045
Accrued interest	364,725,728
Deferred output VAT	269,881,627
Retentions payable	213,576,285
Accrued expenses	
Accrued importation cost	174,720,365
Accrued regulatory fees	88,006,011
Accrued commission	46,428,903
Other accrued expenses	883,681,631
Others	75,446,442
	₱8,363,034,797

Trade payables pertain to billings received from contractors for construction costs incurred on a per project basis and commissaries for food products ordered.

Retentions payable represent a portion of construction cost withheld by the Group and paid to the contractors upon completion of the project.

Deferred output VAT mostly pertains to VAT on the uncollected portion of the amounts billed to customers.

Accrued importation costs are taxes and duties amounting to ₱174.72 million arising from importation of property, plant and equipment that have not yet been paid as of December 31, 2011. The unpaid taxes and duties are due and demandable only upon the lapse of the covering ordinary re-export bonds. The covering re-export bonds are renewable every six months until the taxes and duties are paid.

Other accrued expenses consist of accruals for payroll, professional services, fuel, oil and lubricants.

Accrued expenses and other payables are noninterest-bearing and are normally settled within one (1) year.

9. **Liabilities for Purchased Shares**

This represents amount payable to the following:

a) Shareholders of Fed Land - for the acquisition of the remaining 20.0% non-controlling interests for a total consideration of ₱2.70 billlion pursuant to MOA dated March 8, 2012.

b) GBHI - for the exercise of the 4.6% option amounting to ₱893.22 million, which will be paid from the proceeds of the initial public offering.

10. **Loans Payable**

This account consists of:

	(Unaudited)
Affiliated:	
Loans from local banks	₱10,731,665,210
Corporate Notes	191,050,000
Non-affiliated:	
Loans from local banks	35,218,176,471
Corporate Notes	11,600,000,000
	57,740,891,681
Less unamortized deferred financing cost	351,148,361
	57,389,743,320
Less current portion of:	
Short-term loans from local banks	
Affiliated	3,091,700,000
Non-affiliated loans	4,557,000,000
Current portion of long-term debt	964,633,246
	8,613,333,246
	₱48,776,410,074

On March 18, 2011, Fed Land entered into a Notes Facility Agreement (Notes) with First Metro Investment Corporation, Metropolitan Bank & Trust Company – Trust Banking Group and various Institutions whereby the Parent Company will issue a ₱6.60 billion worth of fixed rate notes outstanding at any one time to finance projects, working capital and for general corporate purposes. The note is payable in five years with interest rate based on the latest PDST-F plus 2.50% plus gross receipts tax. The Notes constitute direct, unconditional, unsubordinated and unsecured obligations, ranking pari passu with all other present and future direct, unconditional, unsubordinated and unsecured obligations.

The agreements covering the above mentioned Notes provide for restrictions and requirements with respect to, among others, declaration or making payment of cash dividends/retirement of shares (other than dividends payable solely in shares of its capital stock and cash dividends due on its then-outstanding preferred shares); making distribution on its share capital; purchase, redemption or acquisition of any share of stock; incurrence or assumption of indebtedness; sale or transfer and disposal of all or a substantial part of its capital assets; restrictions on use of funds; maintaining certain financial ratios; and entering into any partnership, merger, consolidation or reorganization.

During 2011, Fed Land also obtained both partially secured and fully secured peso-denominated loans with an aggregate amount of ₱2.00 billion from an affiliated local bank with interest at prevailing market rate of ranging from 7.0981% with spread of 85-100 basis point, payable in lump sum after 5 years.

Other loans consists of unsecured, partially secured and secured peso-denominated short-term borrowings by the Group from a local bank with floating interest rates at 1.5% spread over benchmark 90-day PDST-R2 and gross receipts tax. The interest rates ranges from 3.09% to 9.50% in 2011.

On October 12, 2010, the BOD has authorized the Parent Company to issue, offer, and sell peso-denominated fixed rate notes at a principal amount up to ₱5.00 billion. In connection with this, a Notes Facility Agreement has been entered by Fed Land with First Metro Investment Corporation (FMIC). Per indicative terms and conditions of the agreement, the notes were offered through private placement and were issued at face value on November 10, 2010 with paying maturities of up to five (5) years.

As of December 31, 2011, the Parent Company has outstanding both partially secured and fully secured peso-denominated loans with an aggregate amount of ₱7.09 billion from an affiliated local bank with interest at prevailing market rate ranging from 3.53% to 5.40%. This includes a ₱4.00 billion fully secured loan to fund equity infusion for the power-related projects, specifically in support of the construction of the 246 MW coal-fired plant.

These loans were obtained primarily to provide for the Parent Company's investing activities.

In 2009, the Parent Company also obtained from an affiliated local bank unsecured peso-denominated loans availed with interest at prevailing market rate of 5.36% with maturities of three (3) months.

GBPC

On June 18, 2009, GBPC, through its subsidiary – Cebu Energy Development Corporation (CEDC), entered into an Omnibus Agreement with various lenders in the aggregate principal amount of up to ₱16.00 billion to pay for the bridge loan in full and to partially finance the construction of its power plant. The agreement includes Project Loan Facility Agreement, Project Accounts Agreement, Mortgage Agreement, Pledge Agreement and Assignment Agreement. Loan availed as of December 31, 2011 amounted to ₱15.34 billion.

On February 26, 2010, GBPC, through its subsidiary – Panay Energy Development Corporation (PEDC) entered into an Omnibus Agreement with various lenders in the aggregate principal amount of up to ₱14.00 billion to partially finance the on-going construction of the Panay Expansion Project. The agreement includes a Project Loan Facility Agreement, a Project Accounts Agreement, a Mortgage Agreement, a Pledge Agreement and an Assignment Agreement. Loan availed as of December 31, 2011 amounted to ₱13.32 billion.

In 2011, CEDC and PEDC availed of the remaining amount of its loans amounting to ₱1.78 billion and ₱4.65 billion, respectively. Also, during the year, principal repayments were made by CEDC and PEDC amounting to ₱658.82 million and ₱680.00 million, respectively.

According to the agreements entered by CEDC and PEDC in 2009 and 2010, respectively, CEDC and PEDC are required to meet certain financial ratios. CEDC and PEDC shall maintain a debt-to-equity ratio of at least 70:30 at all times until full payment of the obligation. Also, CEDC and PEDC shall ensure that the core equity must be at least 30% of the total project cost at project completion date and shall at all times be equivalent to at least 30% of the sum of total outstanding loan under facility and the core equity. Debt-to-equity ratio is the ratio of the total aggregate indebtedness for borrowed money of the borrower and the sum of its equity as of any date of determination. Core equity includes the equity, paid in equity of third parties provided that if the same is in the form of preferred redeemable shares, redemption must be at the option of the borrower and at terms no more favorable than subordinated loans, outstanding subordinated loans and outstanding shareholder advances of the sponsor to the borrower.

As of December 31, 2011, CEDC and PEDC have complied with all the required financial ratios.

The loans of CEDC and PEDC shall be paid within 12 years from initial advance. The schedule of repayment follows:

	Percentage
Semi-annual principal amortization	70%
Balloon payment	30
Total	100%

The balloon payment shall be paid on the final maturity date. The semi-annual principal amortization shall be an equal amortization starting on the 42nd month from the date of the initial advance until the principal amortization date occurring prior to the final maturity date (exactly 12 years from initial advance). If the project completion date occurs earlier than the 36th month from the date of initial advance, the first principal amortization date shall be on the next succeeding interest payment date that is at least six months from the project completion date. If the period between the date falling on the sixth month from project completion date and the succeeding interest payment date is less than six months, the first principal amortization date shall commence and coincide with the next succeeding interest payment date.

These loans are secured by (i) a real estate mortgage on all present and future assets, including the parcels of land where their power plants are located (with a total land area of 152,677 square meters and 277,681 square meters for CEDC and PEDC, respectively) owned by THC, a related party with common stockholders, (ii) chattel mortgage on all present and future movable properties, (iii) pledge agreement on the shares of Global Formosa and Abovant in CEDC and shares of Panay Power Holdings Corporation in PEDC, and shareholder advances and subordinated loans, if any, and (iv) assignment agreement on CEDC's and PEDC's future revenues. Future revenues include, among others, revenues to be received by way of operation, all proceeds of and monies payable to CEDC and PEDC, including those paid as damages for breach, default cancellation, nullification or invalidity (under the Construction Contract, Supervisory Contract, Contract for Supply of Equipment, Coordination Agreement, Land Lease Agreement, Material Lease Contracts, and Insurance Contracts, collectively, the "Assigned Documents"), and, to the extent not covered by the foregoing, all value (whether in the form of money, securities, assets or otherwise) paid or payable by any Governmental Authority to CEDC and PEDC in whole or partial settlement of claims, whether or not resulting from judicial or administrative proceedings and whether paid or payable within or outside the Philippines, as compensation for or in respect of any compulsory transfer or taking of all or any part of the project, or any assets of CEDC and PEDC, by any Governmental agency or in respect of any invalidity of any Assigned Documents.

The chattel mortgage above shall cover to the extent of principal amount of ₱100.00 million, for each of CEDC and PEDC.

All monies received by the Trustee shall be applied in accordance with the Project Accounts Agreement.

The movement of the Group's deferred financing cost is as follows:

	(Unaudited)
At January 1	₱376,342,611
Additions	3,883,286
Amortization	(29,077,536)
At December 31	₱351,148,361

Among others, the agreements prohibit CEDC and PEDC to amend or modify its charter documents if any such amendment or modification would have a material adverse effect; assign or otherwise transfer, terminate, amend, or grant any waiver or forbearance or exercise any election under any material provision of the agreements or project document; make any prepayment, whether voluntary or involuntary, or repurchase of any long-term debt or make any repayment of any such long-term debt other than those allowed in the agreements unless, in any such case, it shall at the option of any lender contemporaneously make a proportionate prepayment or repayment of the principal amount then outstanding of the Lender's outstanding participation in the loan. The agreements also prohibit CEDC and PEDC to acquire by lease any property or equipment, or to acquire rights-of-way to any property, which may have a material adverse effect; enter into contract of indebtedness except those permitted under the agreement such as indebtedness incurred in the ordinary course of business; and form or have any subsidiaries, advances or investments and issue preferred shares, unless certain conditions are complied with. Moreover, CEDC and PEDC are prohibited from entering into contract of merger or consolidation (unless CEDC and PEDC are the surviving entities and after giving effect to such event, no event of default will result), selling, leasing or disposing all or any of its property (unless in the ordinary course of the business) where such conveyance, sale or lease would have a material adverse effect to CEDC and PEDC.

Events of default include, among others, failure to pay when due the principal or interest due and any other amount payable under the Agreement; revocation, withdrawal, or modification of any government approval required to be obtained by CEDC and PEDC in a manner which would have a material adverse effect; Global Formosa and Abovant, and PPHC cease to maintain 51% of CEDC and PEDC, respectively, or cease to maintain management control over CEDC and PEDC, respectively; and failure to comply with the required financial ratios.

If any of the events of default occurs and is continuing, the trustee or the facility agent, as the case maybe, shall immediately give CEDC and PEDC written notice of such fact and inform the lenders. Without prejudice to the cure periods allowed under the Agreement, and upon written request by the majority lenders, the Facility Agent shall take one or more of the following actions:

i. declare the principal of, and all accrued interest on, payable with respect to the loan under the Facility to be, and the same shall thereupon become, immediately due and payable without any further notice and without any presentment, demand or protest; and/or
ii. declare any undrawn portion of the Facility to be terminated, whereupon such portion of the Facility shall be forthwith terminated.

On September 30, 2010, GBPC, through its subsidiary - Panay Power Corporation (PPC), entered into a ₱90.00 million loan with MBTC, a related party, for its working capital requirements. The principal shall be paid via lump sum payment on March 12, 2012 and interest of the loan shall be paid quarterly.

On November 6, 2009, PPC entered into a ₱300.00 million, 7-Year Term Loan Agreement with MBTC. Proceeds from the loan were used to settle the BDO loan in 2009. This loan bears interest at the 3-month T-bill rate published in PDST-F plus 2% spread and is covered by a Mortgage Trust Indenture. PPC's power plant is mortgaged for the aforementioned obligations.

On August 24, 2006, PPC entered into a ₱1.20 billion, 10-Year Term Loan Agreement with MBTC, for its general corporate requirements. This loan is covered by a Mortgage Trust Indenture. In March 2007, Section 1.01 of the ₱1.20 billion, 10-Year Term Loan Agreement was amended increasing loan facility from ₱1.20 billion to ₱1.36 billion and changing the reference rate from MART1 rate to PDST-F rate.

In accordance with the loan agreements with MBTC, PPC is restricted from performing certain corporate acts without the prior consent or approval of MBTC, the more significant of which relate to entering into merger or consolidation (where PPC is not the surviving entity), declaring dividends to stockholders, acting as guarantor or surety of obligation and acquiring treasury stock. PPC is also required to maintain certain financial ratios.

As of December 31, 2011, PPC has complied with the required financial ratios.

The FMIC loan agreements consist of ten-year promissory notes. The proceeds from these peso-denominated loans were used to fund the construction of the power plant. PPC's power plant is mortgaged for the aforementioned obligations.

The loan agreements provide events that constitute an event of default. The terms indicated that if any other obligations of PPC are not paid when due or a default in the performance or observance of any instrument or agreement, FMIC may consequently declare the commitment to be terminated and declare all unpaid amounts to be due and payable without presentment, demand, protest or further notice of any kind. PPC is also required to maintain certain financial ratios.

As of December 31, 2011, PPC met the required debt-to-equity and current ratio requirements of the loan agreements.

GBPC, through its subsidiary - Toledo Power Company (TPC), obtained a ₱100.00 million loan from Solidbank Corporation Properties, a related party, to support TPC's working capital requirements. This loan is covered by a promissory note, bearing interest based on a three - month MART1 rate plus 4% spread. The original loan agreement stated that the principal is payable on or before December 4, 2009. In 2009, the Company and SBCPI amended the term of the notes payable extending its maturity to December 4, 2012.

In August 2007, TPC obtained a ₱129.00 million, 7-year loan from FMIC. The loan bears interest based on a three month MART1 rate plus 4% spread. The principal is payable in 20 equal quarterly installments, commencing on May 13, 2009. TPC's power plant is mortgaged as collateral to at least 200% of the fair market value of the loan

In June 2006, TPC also obtained a ₱110.00 million loan from FMIC to finance TPC's special employee program. The loan bears interest based on a three month MART1 rate plus 4% spread. The principal is payable in 20 equal quarterly installments, commencing on August 28, 2008.

TPC is required to maintain certain financial ratios for both loans from FMIC. As of December 31, 2011, TPC complied with the current and debt-to-equity ratio requirement of 1:1. The loan agreements prohibit TPC from performing certain corporate acts, the more significant of which relate to entering into consolidation or merger, material change in ownership and control of equity or in the composition of its top level management and acting as guarantor for the obligations of other companies.

In 2011, total interest expense recognized by the Group pertaining to these loans amounted to ₱3.58 billion.

In 2011, the Group has capitalized interest expense amounting to ₱595.45 million for loans specifically used to finance the Group's projects and equipment. Said capitalized interest amounting to ₱171.54 million and ₱423.91 million is added to "Inventories" and "Property, plant and equipment" accounts, respectively.

11. **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 and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

The Group, in its regular conduct of its business, has entered into transactions with its associate and other related parties principally consisting of cash advances for reimbursement of expenses merger and acquisitions and capital infusion, leasing agreements, management agreements and dividends received from associates. Transactions with related parties are made at normal market prices.

The consolidated financial statements include the following amounts resulting from the above transactions with related parties:

	(Unaudited)
Cash and cash equivalents	₱220,840,422
Due from related parties	1,353,164,963
Due to related parties	981,381,008
Loans payable (Note 10)	10,922,715,210
Long-term cash investments	2,440,084,378

The details of the Group's due from related parties as of December 31, 2011:

	(Unaudited)
Due from:	
Toledo Holdings Corporation	₱386,143,491
Toledo Cebu International Trading Resources Corporation	28,162,248
Associates	23,002,711
Joint ventures	3,177,277
Other affiliates	912,679,236
	₱1,353,164,963

The details of the Group's due to related parties as of December 31, 2011 follow:

	(Unaudited)
Due to:	
Stockholders	₱577,782,858
Affiliates	403,306,150
Joint ventures	292,000
	₱981,381,008

The Group's due to/from related parties is due and demandable.

Affiliated loans
The Group's loans payable to affiliated commercial bank bears interest rates ranging from 3.75% to 4.5% per annum in 2011.

On April 13, 2011, Fed Land invested long-term cash investments with a local bank which was used to collateralize a loan obtained by an affiliates amounting to ₱2.44 billion. Fed Land recognized interest income from assigned long term cash investment amounting to ₱40.08 million.

Management Fee
Management fee amounting to ₱36.83 million for 2011 pertains to the income received from joint venture of Fed Land with Fed Land Orix Corporation (FLOC) and MBTC.

Lease Agreements
In 2011, Fed Land also leases its mall to some of its associates and affiliates. The lease term ranges from 5 to 10 years. The rental income on these leases amounted to ₱10.03 million for 2011.

12. **Pro forma Basic and Diluted Earnings Per Share**

The pro forma and historical basic/diluted earnings per share for the year ended December 31, 2011 were computed as follows:

	Pro forma (Unaudited)	Historical (Audited)
Net income attributable to Parent Company	₱4,794,610,508	₱3,324,399,379
Weighted average number of shares	125,000,000	125,000,000
Basic and diluted	₱38.36	₱26.60

Basic and diluted earnings per share are the same due to the absence of dilutive potential common shares.

Metropolitan Bank & Trust Company and Subsidiaries

Financial Statements
December 31, 2011 and 2010
and Years Ended December 31, 2011, 2010 and 2009

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

SGV & Co
Ernst & Young

Metrobank

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Metropolitan Bank & Trust Company and Subsidiaries (the Group) and of Metropolitan Bank & Trust Company (the Parent Company) is responsible for the preparation and fair presentation of the financial statements, including the additional components attached therein, in accordance with accounting principles generally accepted in the Philippines for banks for the Group in 2011 and Philippine Financial Reporting Standards for the Parent Company in 2011 and the Group and Parent Company in 2010 and 2009. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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

Signed this 15th day of February, 2012.

ANTONIO S. ABACAN, JR. **Chairman**	**ARTHUR TY** **President**
JOSHUA E. NAING **EVP and Controller**	**FERNAND ANTONIO A. TANSINGCO** **EVP and Treasurer**

METROPOLITAN BANK & TRUST COMPANY
Metrobank Plaza, Sen. Gil J. Puyat Avenue, 1200 Makati City, Philippines; Tel. no. (632) 898-8000 / 857-0000; Fax (632) 817-6248; www.metrobank.com.ph

REPUBLIC OF THE PHILIPPINES)
CITY OF MAKATI) S.S.

SUBSCRIBED AND SWORN to before me on MAR 2 6 2012, affiants exhibiting to me their respective Tax Identification Numbers/Social Security System Numbers, as follows:

Names	Tax Identification Nos.	Social Security System Nos.
METROPOLITAN BANK & TRUST COMPANY	000-477-863	03-2409900-1
ANTONIO S. ABACAN, JR.	221-607-426	03-0646600-5
ARTHUR TY	121-526-580	03-9660341-2
JOSHUA E. NAING	121-523-967	03-6695744-4
FERNAND ANTONIO A. TANSINGCO	135-566-565	33-0189309-4

ATTY. LOURDES BARRERO-MEJES
Notary Public -Makati
Appointment No. M 318 Until December 31, 2012
7/F Metrobank Plaza, Sen. Gil Puyat Ave., Makati City
PTR No. 3216447-1/31/12-Makati City
IBP No. 836871-(2011-2012) Nueva Vizcaya
Roll No. 46349
MCLE Cert. No. IV-0001878-4/14/11

Doc. No. 327;
Page No. 66;
Book No. III;
Series of 2012.

SGV & Co
Ernst & Young

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BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Metropolitan Bank & Trust Company

Report on the Financial Statements

We have audited the accompanying financial statements of Metropolitan Bank & Trust Company and Subsidiaries (the Group) and of Metropolitan Bank & Trust Company (the Parent Company), which comprise the statements of financial position as at December 31, 2011 and 2010 and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The Group's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the Philippines for banks for the Group in 2011 and Philippine Financial Reporting Standards for the Parent Company in 2011 and the Group and Parent Company in 2010 and 2009 as described in the Note 2 to the financial statements and for such internal control as Group's 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 Group'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 Group's internal control. An audit also includes evaluating the appropriateness of the 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.

SGV&Co
ERNST & YOUNG

- 2 -

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2011 and its financial performance and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the Philippines for banks as described in Note 2 to the financial statements and the financial position of the Group as at December 31, 2010 and its financial performance and its cash flows for the years ended December 31, 2010 and 2009 in accordance with Philippine Financial Reporting Standards.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Parent Company as at December 31, 2011 and 2010 and its financial performance and its cash flows for each of the three years in the year ended December 31, 2011 in accordance with Philippine Financial Reporting Standards.

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 19-2011 and 15-2010 in Note 36 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 the Parent Company. 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 whole.

SYCIP GORRES VELAYO & CO.

Aris C. Malantic
Partner
CPA Certificate No. 90190
SEC Accreditation No. 0326-AR-1
Tax Identification No. 152-884-691
BIR Accreditation No. 08-001998-54-2009,
June 1, 2009, Valid until May 31, 2012
PTR No. 3174808, January 2, 2012, Makati City

February 15, 2012

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

STATEMENTS OF FINANCIAL POSITION

(In Millions)

	Consolidated		Parent Company	
	As of December 31			
	2011	2010	**2011**	2010
ASSETS				
Cash and Other Cash Items (Note 15)	**₱20,954**	₱20,201	**₱16,985**	₱16,996
Due from Bangko Sentral ng Pilipinas (Note 15)	**156,537**	168,402	**146,636**	162,391
Due from Other Banks	**32,095**	38,308	**13,310**	19,416
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (Notes 7 and 31)	**24,367**	26,507	**3,222**	18,006
Financial Assets at Fair Value Through Profit or Loss (Notes 8 and 27)	**6,188**	12,580	**4,597**	9,083
Available-for-Sale Investments (Notes 8 and 15)	**143,057**	126,467	**115,976**	96,325
Held-to-Maturity Investments (Note 8)	**47,457**	32,663	**17,464**	13,947
Loans and Receivables (Notes 9, 15 and 27)	**457,422**	392,659	**352,042**	292,433
Investments in Subsidiaries (Note 11)	**–**	–	**25,399**	25,802
Investments in Associates and a Joint Venture (Note 11)	**17,641**	15,575	**1,263**	1,263
Property and Equipment (Note 10)	**13,937**	13,119	**9,408**	9,219
Investment Properties (Note 12)	**15,471**	18,401	**11,044**	13,739
Deferred Tax Assets (Note 26)	**7,597**	7,496	**6,065**	6,361
Goodwill (Note 11)	**6,413**	6,449	**1,203**	1,203
Other Assets (Note 13)	**9,248**	8,496	**7,198**	6,569
	₱958,384	₱887,323	**₱731,812**	₱692,753
LIABILITIES AND EQUITY				
LIABILITIES				
Deposit Liabilities (Notes 15 and 27)				
Demand	**₱77,589**	₱68,261	**₱71,667**	₱61,216
Savings	**283,011**	267,930	**272,331**	260,269
Time	**320,393**	315,071	**237,638**	242,323
	680,993	651,262	**581,636**	563,808
Bills Payable and Securities Sold Under Repurchase Agreements (Notes 16 and 27)	**99,657**	85,513	**13,600**	10,405
Derivative Liabilities (Note 8)	**2,819**	3,161	**2,689**	3,001
Manager's Checks and Demand Drafts Outstanding	**2,610**	2,043	**1,955**	1,394
Income Taxes Payable	**597**	331	**322**	69
Accrued Interest and Other Expenses (Note 17)	**7,200**	5,174	**4,547**	2,772
Subordinated Debt (Note 18)	**19,735**	21,673	**18,442**	18,406
Deferred Tax Liabilities (Note 26)	**157**	137	**–**	–
Other Liabilities (Note 19)	**28,112**	25,012	**16,878**	17,844
	841,880	794,306	**640,069**	617,699
EQUITY				
Equity Attributable to Equity Holders of the Parent Company				
Common stock (Note 21)	**42,228**	38,228	**42,228**	38,228
Hybrid capital securities (Note 21)	**6,351**	6,351	**6,351**	6,351
Capital paid in excess of par value	**19,312**	13,484	**19,312**	13,484
Surplus reserves (Note 22)	**1,002**	912	**1,002**	912
Surplus (Notes 21 and 22)	**35,986**	27,640	**21,427**	16,201
Net unrealized gain on available-for-sale investments (Note 8)	**4,458**	1,238	**2,377**	822
Equity in net unrealized gain on available-for-sale investments of associates (Note 11)	**435**	284	**–**	–
Translation adjustment and others	**26**	(503)	**(954)**	(944)
	109,798	87,634	**91,743**	75,054
Non-controlling Interest	**6,706**	5,383	**–**	–
	116,504	93,017	**91,743**	75,054
	₱958,384	₱887,323	**₱731,812**	₱692,753

See accompanying Notes to Financial Statements.

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
STATEMENTS OF INCOME
(In Millions, Except Earnings Per Share)

	Consolidated			Parent Company		
	Years Ended December 31					
	2011	**2010**	2009	**2011**	**2010**	2009
INTEREST INCOME ON						
Loans and receivables (Notes 9 and 27)	**₱29,022**	₱27,216	₱28,582	**₱15,656**	₱15,679	₱18,446
Trading and investment securities (Note 8)	**9,883**	9,553	10,500	**5,146**	5,588	6,303
Interbank loans receivable and securities purchased under resale agreements (Note 27)	**458**	938	1,005	**311**	729	905
Deposits with banks and others	**5,674**	3,757	3,628	**4,498**	3,031	3,086
	45,037	41,464	43,715	**25,611**	25,027	28,740
INTEREST AND FINANCE CHARGES						
Deposit liabilities (Notes 15 and 27)	**10,234**	9,713	11,293	**7,010**	7,070	8,901
Bills payable and securities sold under repurchase agreements, subordinated debt and others (Notes 16, 18 and 27)	**5,396**	5,361	5,743	**1,460**	1,868	2,037
	15,630	15,074	17,036	**8,470**	8,938	10,938
NET INTEREST INCOME	**29,407**	26,390	26,679	**17,141**	16,089	17,802
Service charges, fees and commissions (Note 27)	**7,711**	6,853	6,499	**3,558**	3,608	3,180
Trading and securities gain - net (Note 8)	**6,118**	6,122	3,623	**3,710**	2,546	2,423
Foreign exchange gain - net	**1,623**	2,855	2,210	**1,539**	2,588	1,956
Leasing (Notes 12, 24 and 27)	**1,017**	824	1,008	**196**	217	255
Profit from assets sold (Note 12)	**897**	1,172	925	**826**	1,091	607
Income from trust operations (Notes 22 and 28)	**695**	480	516	**687**	473	511
Dividends (Note 11)	**96**	118	141	**2,777**	2,142	1,018
Miscellaneous (Notes 11 and 25)	**1,416**	1,668	1,159	**420**	281	521
TOTAL OPERATING INCOME	**48,980**	46,482	42,760	**30,854**	29,035	28,273
Compensation and fringe benefits (Notes 23 and 27)	**13,310**	11,452	10,370	**9,308**	7,618	7,126
Taxes and licenses	**4,601**	4,391	4,005	**2,609**	2,634	2,531
Provision for credit and impairment losses (Note 14)	**3,823**	7,285	8,793	**1,186**	4,485	5,613
Depreciation and amortization (Notes 10, 12 and 13)	**2,104**	2,061	1,852	**1,080**	1,258	1,127
Occupancy and equipment-related cost (Note 24)	**1,959**	1,758	1,497	**1,139**	1,083	947
Amortization of software costs (Note 13)	**230**	199	160	**120**	89	64
Miscellaneous (Note 25)	**8,476**	7,957	7,958	**5,382**	5,157	5,324
TOTAL OPERATING EXPENSES	**34,503**	35,103	34,635	**20,824**	22,324	22,732
INCOME BEFORE SHARE IN NET INCOME OF ASSOCIATES AND A JOINT VENTURE	**14,477**	11,379	8,125	**10,030**	6,711	5,541
SHARE IN NET INCOME OF ASSOCIATES AND A JOINT VENTURE (Note 11)	**1,437**	1,618	919	**–**	–	–
INCOME BEFORE INCOME TAX	**15,914**	12,997	9,044	**10,030**	6,711	5,541
PROVISION FOR INCOME TAX (Note 26)	**3,524**	3,731	2,249	**2,119**	1,927	1,295
NET INCOME	**₱12,390**	₱9,266	₱6,795	**₱7,911**	₱4,784	₱4,246
Attributable to:						
Equity holders of the Parent Company (Note 30)	**₱11,031**	₱8,366	₱6,029			
Non-controlling Interest	**1,359**	900	766			
	₱12,390	₱9,266	₱6,795			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 30)	**₱5.02**	₱4.11*	₱3.01*			

*Restated to show the effects of stock rights granted in 2010 (Note 21).

See accompanying Notes to Financial Statements.

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME
(In Millions)

	Consolidated			Parent Company		
	Years Ended December 31					
	2011	2010	2009	**2011**	2010	2009
Net Income	**₱12,390**	₱9,266	₱6,795	**₱7,911**	₱4,784	₱4,246
Other Comprehensive Income for the Year, net of tax						
Change in net unrealized gain on available-for-sale investments (Note 8)	**3,730**	896	8,092	**1,555**	849	4,929
Change in equity in net unrealized gain on available-for-sale investments of associates	**154**	183	17	–	–	–
Translation adjustment and others (Notes 8 and 11)	**463**	(707)	(1,195)	**(10)**	(200)	(184)
	4,347	372	6,914	**1,545**	649	4,745
Total Comprehensive Income for the Year	**₱16,737**	₱9,638	₱13,709	**₱9,456**	₱5,433	₱8,991
Attributable to:						
Equity holders of the Parent Company	**₱14,931**	₱9,079	₱12,424			
Non-controlling Interest	**1,806**	559	1,285			
	₱16,737	₱9,638	₱13,709			

See accompanying Notes to Financial Statements.

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
STATEMENTS OF CHANGES IN EQUITY
(In Millions)

	Consolidated										
	Equity Attributable to Equity Holders of the Parent Company										
	Common Stock (Note 21)	Hybrid Capital Securities (Note 21)	Capital Paid In Excess of Par Value	Surplus Reserves (Note 22)	Surplus (Notes 21 and 22)	Net Unrealized Gain on Available-for-Sale Investments (Note 8)	Equity in Net Unrealized Gain on Available-for-Sale Investments of Associates (Note 8)	Translation Adjustment and Others	Total	Non-controlling Interest	Total Equity
Balance at January 1, 2011	**₱38,228**	**₱6,351**	**₱13,484**	**₱912**	**₱27,640**	**₱1,238**	**₱284**	**(₱503)**	**₱87,634**	**₱5,383**	**₱93,017**
Total comprehensive income for the year	–	–	–	–	**11,031**	**3,220**	**151**	**529**	**14,931**	**1,806**	**16,737**
Issuance of shares of stock	**4,000**	–	**5,828**	–	–	–	–	–	**9,828**	–	**9,828**
Transfer to surplus reserves	–	–	–	**90**	**(90)**	–	–	–	–	–	–
Cash dividends	–	–	–	–	**(2,111)**	–	–	–	**(2,111)**	**(483)**	**(2,594)**
Coupon payment of hybrid capital securities (Note 30)	–	–	–	–	**(484)**	–	–	–	**(484)**	–	**(484)**
Balance at December 31, 2011	**₱42,228**	**₱6,351**	**₱19,312**	**₱1,002**	**₱35,986**	**₱4,458**	**₱435**	**₱26**	**₱109,798**	**₱6,706**	**₱116,504**
Balance at January 1, 2010	₱36,145	₱6,351	₱10,638	₱843	₱20,942	₱230	₱103	(₱27)	₱75,225	₱5,093	₱80,318
Total comprehensive income for the year	–	–	–	–	8,366	1,008	181	(476)	9,079	559	9,638
Issuance of shares of stock	2,083	–	2,846	–	–	–	–	–	4,929	–	4,929
Transfer to surplus reserves	–	–	–	69	(69)	–	–	–	–	–	–
Cash dividends	–	–	–	–	(1,084)	–	–	–	(1,084)	(269)	(1,353)
Coupon payment of hybrid capital securities (Note 30)	–	–	–	–	(515)	–	–	–	(515)	–	(515)
Balance at December 31, 2010	₱38,228	₱6,351	₱13,484	₱912	₱27,640	₱1,238	₱284	(₱503)	₱87,634	₱5,383	₱93,017
Balance at January 1, 2009	₱36,145	₱6,351	₱10,638	₱770	₱17,277	(₱6,361)	₱87	₱185	₱65,092	₱3,913	₱69,005
Total comprehensive income for the year	–	–	–	–	6,029	6,591	16	(212)	12,424	1,285	13,709
Transfer to surplus reserves	–	–	–	73	(73)	–	–	–	–	–	–
Cash dividends	–	–	–	–	(1,807)	–	–	–	(1,807)	(105)	(1,912)
Coupon payment of hybrid capital securities (Note 30)	–	–	–	–	(484)	–	–	–	(484)	–	(484)
Balance at December 31, 2009	₱36,145	₱6,351	₱10,638	₱843	₱20,942	₱230	₱103	(₱27)	₱75,225	₱5,093	₱80,318

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	Parent Company							
	Common Stock (Note 21)	Hybrid Capital Securities (Note 21)	Capital Paid In Excess of Par Value	Surplus Reserves (Note 22)	Surplus (Notes 21 and 22)	Net Unrealized Gain (Loss) on Available-for-Sale Investments (Note 8)	Translation Adjustment and Others	Total Equity
Balance at January 1, 2011	**₱38,228**	**₱6,351**	**₱13,484**	**₱912**	**₱16,201**	**₱822**	**(₱944)**	**₱75,054**
Total comprehensive income for the year	–	–	–	–	**7,911**	**1,555**	**(10)**	**9,456**
Issuance of shares of stock	**4,000**	–	**5,828**	–	–	–	–	**9,828**
Transfer to surplus reserves	–	–	–	**90**	**(90)**	–	–	–
Cash dividends	–	–	–	–	**(2,111)**	–	–	**(2,111)**
Coupon payment of hybrid capital securities (Note 30)	–	–	–	–	**(484)**	–	–	**(484)**
Balance at December 31, 2011	**₱42,228**	**₱6,351**	**₱19,312**	**₱1,002**	**₱21,427**	**₱2,377**	**(₱954)**	**₱91,743**
Balance at January 1, 2010	₱36,145	₱6,351	₱10,638	₱843	₱13,085	(₱27)	(₱744)	₱66,291
Total comprehensive income for the year	–	–	–	–	4,784	849	(200)	5,433
Issuance of shares of stock	2,083	–	2,846	–	–	–	–	4,929
Transfer to surplus reserves	–	–	–	69	(69)	–	–	–
Cash dividends	–	–	–	–	(1,084)	–	–	(1,084)
Coupon payment of hybrid capital securities (Note 30)	–	–	–	–	(515)	–	–	(515)
Balance at December 31, 2010	₱38,228	₱6,351	₱13,484	₱912	₱16,201	₱822	(₱944)	₱75,054
Balance at January 1, 2009	₱36,145	₱6,351	₱10,638	₱770	₱11,203	(₱4,956)	(₱560)	₱59,591
Total comprehensive income for the year	–	–	–	–	4,246	4,929	(184)	8,991
Transfer to surplus reserves	–	–	–	73	(73)	–	–	–
Cash dividends	–	–	–	–	(1,807)	–	–	(1,807)
Coupon payment of hybrid capital securities (Note 30)	–	–	–	–	(484)	–	–	(484)
Balance at December 31, 2009	₱36,145	₱6,351	₱10,638	₱843	₱13,085	(₱27)	(₱744)	₱66,291

See accompanying Notes to Financial Statements.

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS
(In Millions)

	Consolidated			Parent Company		
	Years Ended December 31					
	2011	**2010**	2009	**2011**	**2010**	2009
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	**₱15,914**	₱12,997	₱9,044	**₱10,030**	₱6,711	₱5,541
Adjustments for:						
Provision for credit and impairment losses (Note 14)	**3,823**	7,285	8,793	**1,186**	4,485	5,613
Trading and securities gain on available-for-sale investments (Note 8)	**(5,787)**	(5,982)	(2,113)	**(3,671)**	(2,825)	(1,384)
Depreciation and amortization (Notes 10, 12 and 13)	**2,104**	2,061	1,852	**1,080**	1,258	1,127
Share in net income of associates and a joint venture (Note 11)	**(1,437)**	(1,618)	(919)	**–**	–	–
Profit from assets sold (Note 12)	**(897)**	(1,172)	(925)	**(826)**	(1,091)	(607)
Gain on initial recognition of investment properties (Note 25)	**(238)**	(446)	(509)	**(135)**	(221)	(308)
Amortization of software costs (Note 13)	**230**	199	160	**120**	89	64
Amortization of discount on subordinated debt	**62**	39	30	**36**	34	28
Unrealized market valuation loss (gain) on derivative assets and liabilities (Note 8)	**944**	653	(624)	**968**	673	(639)
Dividends (Note 11)	**(96)**	(118)	(141)	**(2,777)**	(2,142)	(1,018)
Net gain on sale of investments in associates (Notes 11 and 27)	**(370)**	(8)	–	–	(6)	–
Changes in operating assets and liabilities:						
Decrease (increase) in:						
Financial assets at fair value through profit or loss	**5,449**	3,813	(7,786)	**3,518**	4,931	(7,212)
Loans and receivables	**(69,225)**	(32,733)	(10,525)	**(60,620)**	(11,739)	(2,269)
Other assets	**(1,267)**	2,591	(2,616)	**(1,160)**	844	(2,527)
Increase (decrease) in:						
Deposit liabilities	**29,731**	35,562	30,394	**17,828**	22,945	15,661
Manager's checks and demand drafts outstanding	**567**	88	400	**561**	(64)	235
Accrued interest and other expenses	**2,026**	332	(341)	**1,775**	(91)	(626)
Other liabilities	**2,795**	(2,098)	4,746	**(1,278)**	(3,052)	4,919
Net cash generated from (used in) operations	**(15,672)**	21,445	28,920	**(33,365)**	20,739	16,598
Dividends received	**1,414**	627	141	**2,741**	2,142	1,018
Income taxes paid	**(3,377)**	(3,121)	(3,075)	**(1,569)**	(1,541)	(2,055)
Net cash provided by (used in) operating activities	**(17,635)**	18,951	25,986	**(32,193)**	21,340	15,561
CASH FLOWS FROM INVESTING ACTIVITIES						
Acquisitions of:						
Available-for-sale investments	**(483,687)**	(621,489)	(576,967)	**(360,008)**	(510,521)	(532,067)
Held-to-maturity investments	**(30,811)**	(9,481)	(3,275)	**(18,953)**	–	(170)
Property and equipment (Note 10)	**(2,783)**	(1,571)	(2,231)	**(1,228)**	(680)	(1,258)
Investments in subsidiaries and associates and a joint venture (Note 11)	**(1,700)**	(1,939)	(1,487)	–	(10,177)	–
Proceeds from sale of:						
Available-for-sale investments	**477,328**	657,950	524,323	**345,574**	534,820	489,847
Property and equipment	**313**	107	237	**206**	95	133
Investments in subsidiaries and associates (Note 11)	**175**	5,226	–	**–**	6,023	–
Investment properties (Note 12)	**4,424**	4,555	7,298	**4,084**	4,035	6,347
Decrease (increase) in interbank loans receivable and securities purchased under resale agreements (Note 31)	**1,768**	(542)	1,374	**1,768**	(542)	1,374
Proceeds from maturity of held-to-maturity investments	**16,017**	439	2,035	**15,434**	438	2,035
Net cash provided by (used in) investing activities	**(18,956)**	33,255	(48,693)	**(13,123)**	23,491	(33,759)

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2011	2010	2009	**2011**	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES						
Settlements of bills payable	**(₱1,001,574)**	(₱801,265)	(₱649,010)	**(₱249,712)**	(₱261,064)	(₱198,656)
Availments of bills payable and securities sold under repurchase agreement	**1,015,718**	790,910	686,586	**252,907**	244,785	223,308
Proceeds from issuance of shares of stock (Note 21)	**9,828**	4,929	–	**9,828**	4,929	–
Repayments of subordinated debt (Note 18)	**(2,000)**	–	–	–	–	–
Availments of subordinated debt (Note 18)	**–**	–	5,747	–	–	4,458
Cash dividends paid (Note 21)	**(2,594)**	(1,353)	(1,912)	**(2,111)**	(1,084)	(1,807)
Coupon payment of hybrid capital securities (Note 21)	**(484)**	(515)	(484)	**(484)**	(515)	(484)
Net cash provided by (used in) financing activities	**18,894**	(7,294)	40,927	**10,428**	(12,949)	26,819
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(17,697)**	44,912	18,220	**(34,888)**	31,882	8,621
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	**20,201**	19,727	18,700	**16,996**	17,049	16,877
Due from Bangko Sentral ng Pilipinas	**168,402**	71,981	91,638	**162,391**	63,578	84,811
Due from other banks	**38,308**	36,702	60,870	**19,416**	29,815	55,482
Interbank loans receivable and securities purchased under resale agreements (Note 31)	**23,775**	77,364	16,346	**15,274**	71,753	16,404
	250,686	205,774	187,554	**214,077**	182,195	173,574
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	**20,954**	20,201	19,727	**₱16,985**	16,996	17,049
Due from Bangko Sentral ng Pilipinas	**156,537**	168,402	71,981	**146,636**	162,391	63,578
Due from other banks	**32,095**	38,308	36,702	**13,310**	19,416	29,815
Interbank loans receivable and securities purchased under resale agreements (Note 31)	**23,403**	23,775	77,364	**2,258**	15,274	71,753
	₱232,989	₱250,686	₱205,774	**₱179,189**	₱214,077	₱182,195

OPERATIONAL CASH FLOWS FROM INTEREST

	Consolidated			Parent Company		
	Years Ended December 31					
	2011	2010	2009	**2011**	2010	2009
Interest paid	**₱15,431**	₱15,443	₱18,095	**₱8,255**	₱9,378	₱12,269
Interest received	**44,167**	45,215	43,325	**25,059**	27,056	28,541

See accompanying Notes to Financial Statements.

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS

1. **Corporate Information**

Metropolitan Bank & Trust Company (the Parent Company) is a universal bank incorporated in the Philippines. The Parent Company and its subsidiaries (the Group) are engaged in all aspects of banking, financing, leasing, real estate and stock brokering through a network of over 1,000 local and international branches, offices and agencies. As a bank, the Parent Company provides services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange, trading and remittances, and trust services. Its principal place of business is at Metrobank Plaza, Sen. Gil J. Puyat Avenue, Makati City.

The original Certification of Incorporation of the Parent Company was issued by the Securities and Exchange Commission (SEC) on April 6, 1962 which shall expire on April 6, 2012. On March 21 and November 19, 2007, the board of directors (BOD) of the Parent Company and the SEC, respectively, approved the extension of its corporate term for another 50 years or up to April 6, 2057.

2. **Summary of Significant Accounting Policies**

Basis of Preparation
The accompanying financial statements have been prepared on a historical cost basis except for financial assets and financial liabilities at fair value through profit or loss (FVPL) and available-for-sale (AFS) investments that have been measured at fair value.

The accompanying financial statements of the Parent Company and Philippine Savings Bank (PSBank) include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU).

The functional currency of RBU and FCDU is Philippine peso and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine peso (see accounting policy on Foreign Currency Translation). The financial statements of these units are combined after eliminating inter-unit accounts.

The consolidated financial statements are presented in Philippine peso, and all values are rounded to the nearest million pesos (₱000,000), except when otherwise indicated.

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. The respective functional currencies of the subsidiaries are presented under Basis of Consolidation.

Statement of Compliance
In 2011, the financial statements of the Group have been prepared in compliance with the accounting principles generally accepted in the Philippines for banks or Philippine GAAP for banks. As discussed in Note 8, in 2011, First Metro Investment Corporation (FMIC), a majority subsidiary of the Parent Company, participated in a bond exchange transaction under the liability management exercise of the Philippine Government. The SEC granted an exemptive relief from the existing tainting rule on held-to-maturity (HTM) investment under Philippine Accounting Standard (PAS) 39, *Financial Instruments: Recognition and Measurement* while the Bangko

Sentral ng Pilipinas (BSP) also provided the same exemption for prudential reporting to the participants. Following this exemption, the basis of preparation of the financial statements of the availing entities shall not be Philippine Financial Reporting Standards (PFRS) but should be the prescribed financial reporting framework for entities which are given relief from certain requirements of the full PFRS. Except for the aforementioned exemption in 2011, the financial statements of the Group have been prepared in compliance with the PFRS.

The financial statements of the Parent Company have been prepared in compliance with the PFRS.

Presentation of Financial Statements
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense are not offset in the statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

Basis of Consolidation
The consolidated financial statements include the financial statements of the Parent Company and of its subsidiaries (including the special purpose entity that it controls) and are prepared for the same reporting period as the Parent Company using consistent accounting policies.

The following are the wholly and majority-owned foreign and domestic subsidiaries of the Parent Company (Note 11):

Subsidiary	Effective Percentage of Ownership	Country of Incorporation	Functional Currency
Financial Markets:			
FMIC and Subsidiaries	98.06	Philippines	Philippine Peso
Metropolitan Bank (China) Ltd. (MBCL)	100.00	China	Chinese Yuan (CNY)
PSBank	75.98	Philippines	Philippine Peso
Metrobank Card Corporation (A Finance Company) (MCC)	60.00	Philippines	Philippine Peso
ORIX Metro Leasing and Finance Corporation (ORIX Metro) and Subsidiaries	59.61	Philippines	Philippine Peso
Metropolitan Bank (Bahamas) Limited (Metrobank Bahamas)	100.00	The Bahamas	USD
First Metro International Investment Company Limited (FMIIC) and Subsidiary	99.61	Hong Kong	Hong Kong Dollar (HKD)
Metro Remittance (Hongkong) Limited (MRHL) (formerly MB Remittance Centre (Hongkong) Ltd.)	100.00	Hong Kong	HKD
MB Remittance (Singapore) Pte. Ltd. (MRSPL)	100.00	Singapore	Singapore Dollar
Metro Remittance (USA), Inc. (MR USA) (formerly Metro Remittance Center (California), Inc.)	100.00	United States of America (USA)	USD
Metro - Remittance (Spain), S.A. (MR Spain) (formerly Metro Remittance Center, SA)	100.00	Spain	EUR
Metro Remittance (Italia), S.p.A. (MR Italia)	100.00	Italy	EUR
Metro Remittance (UK) Limited (MR UK)	100.00	United Kingdom	Great Britain Pound (GBP)
Metro Remittance Center, Inc. (MRCI)	100.00	USA	USD
MBTC Services GmbH (MBTC Services) (formerly MBTC Remittance GmbH, Vienna)	100.00	Austria	EUR

(Forward)

Subsidiary	Effective Percentage of Ownership	Country of Incorporation	Functional Currency
Philbancor Venture Capital Corporation (PVCC)	60.00	Philippines	Philippine Peso
Solid Philippines Venture Capital Corporation (SPVCC)	60.00	Philippines	Philippine Peso
MBTC Venture Capital Corporation (MVCC)	60.00	Philippines	Philippine Peso
Computer Services:			
MBTC Technology, Inc. (MTI)	100.00	Philippines	Philippine Peso
Data Serv, Inc. (DSI)	100.00	Philippines	Philippine Peso
Real Estate:			
Circa 2000 Homes, Inc. (Circa)	100.00	Philippines	Philippine Peso

Under Standing Interpretations Committee (SIC) No. 12, *Consolidation of Special Purpose Entity (SPE)*, control over an entity may exist even in cases where an enterprise owns little or none of SPE's equity, such as when an enterprise retains majority of the residual risks related to the SPE or its assets in order to obtain benefits from its activities. In accordance with this Interpretation, the 2009 consolidated financial statements include the accounts of Cameron Granville 3 Asset Management, Inc. (CG3AMI) and LNC 3 Asset Management, Inc. (LNC3AMI), both are special purpose vehicles (SPVs), in which the Group does not have equity interest (Note 13). However, starting 2010, the Group did not include the accounts of said SPVs as the related accounts are not considered material to the consolidated financial statements.

In 2011, the liquidation process of SPVCC has been completed. PVCC, MTI, DSI and Circa are in the process of dissolution. On April 15, 2011, the BOD and stockholders of MTI in a joint meeting, approved its dissolution and shortening of its corporate term to not later than December 31, 2011, with the actual date to be further determined subject to satisfactory compliance to the dissolution requirements of regulatory agencies. On November 11, 2010, the BOD and stockholders of Circa, on separate meetings, approved its dissolution through shortening of corporate term, which shall be further determined.

All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full in the consolidation (Note 27). Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Consolidation of subsidiaries ceases when control is transferred out of the Group or the Parent Company. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

Non-controlling Interest

Non-controlling interest represents the portion of profit or loss and the net assets not held by the Group and are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to the Parent Company. Any losses applicable to the non-controlling interests in excess of the non-controlling interests 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 are accounted for as equity transactions.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except for the accounting policy of the Group on HTM investments as discussed below and in the Statement of Compliance. The issuance of and the amendments to the following PAS, PFRS and Philippine Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) which became effective as of January 1, 2011, did not have any impact on the financial position or performance of the Group:

New Standards and Interpretations

PAS 24, *Related Party Transactions (Amendment)*
PAS 24 clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity.

PAS 32, *Financial Instruments: Presentation (Amendment)*
The amendment alters the definition of a financial liability in PAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement (Amendment)*
The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognized as a pension asset.

Improvements to PFRSs (issued 2010)

Improvements to PFRSs, an omnibus of amendments to standards, deal primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

- PFRS 3, *Business Combinations*
- PFRS 3, *Business Combinations* (Contingent consideration arising from business combination prior to adoption of PFRS 3 (as revised in 2008)
- PFRS 3, *Business Combinations* (Un-replaced and voluntarily replaced share-based payment awards)
- PFRS 7, *Financial Instruments: Disclosures*
- PAS 1, *Presentation of Financial Statements*
- PAS 27, *Consolidated and Separate Financial Statements*
- PAS 34, *Interim Financial Statements*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* (determining the fair value of award credits)
- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*

Significant Accounting Policies

Foreign Currency Translation
Transactions and balances
For financial reporting purposes, the monetary assets and liabilities of the foreign currency-denominated assets and liabilities in the RBU are translated in Philippine peso based on the Philippine Dealing System (PDS) closing rate prevailing at the statement of financial position date and foreign currency-denominated income and expenses, at the PDS weighted average rate (PDSWAR) for the year. Foreign exchange differences arising from revaluation and translation 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.

FCDU, foreign branches and subsidiaries
As at the reporting date, the assets and liabilities of foreign branches and subsidiaries and FCDU of the Parent Company and PSBank are translated into the Parent Company's presentation currency (the Philippine peso) at PDS closing rate prevailing at the statement of financial position date, and their income and expenses are translated at PDSWAR for the year. Exchange differences arising on translation are taken to statement of comprehensive income. Upon disposal of a foreign entity or when the Parent Company ceases to have control over the subsidiaries or upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in the statement of comprehensive income is recognized in the statement of income.

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. Derivatives are recognized on trade date basis. 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 measured at fair value. Except for financial assets and financial liabilities valued 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, HTM investments, AFS investments, and loans and receivables while financial liabilities are classified as financial liabilities at FVPL and financial liabilities carried at amortized cost. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Determination of fair value
The fair value for financial instruments traded in active markets at the statement of financial position date is based on their quoted market price 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 ask prices are not available, the price of the most recent transaction is used since it 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. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

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

Derivatives recorded at FVPL
The Parent Company and some of its subsidiaries are counterparties to derivative contracts, such as currency forwards, currency swaps, interest rate swaps, call options, non-deliverable forwards and other interest rate derivatives. These derivatives are entered into as a service to customers and as a means of reducing or managing their respective foreign exchange and interest rate exposures, as well as for trading purposes. 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 (except those accounted for as accounting hedges) are taken directly to the statement of income and are included in 'Trading and securities gain - net'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Hedge accounting
For the purpose of hedge accounting, hedges are classified primarily as either: (a) a hedge of the fair value of an asset, liability or a firm commitment (fair value hedge); or (b) a hedge of the exposure to variability in cash flows attributable to an asset or liability or a forecasted transaction (cash flow hedge); or (c) a hedge of a net investment in a foreign operation (net investment hedge). Hedge accounting is applied to derivatives designated as hedging instruments in a fair value, cash flow, or net investment hedge provided certain criteria are met.

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

Cash flow hedge
The effective portion of the gain or loss on the hedging instrument is recognized directly as 'Translation adjustment and others' in the statement of comprehensive income. Any gain or loss in fair value relating to an ineffective portion is recognized immediately in the statement of income.

Amounts recognized as other comprehensive income are transferred to the statement of income when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognized in the statement of comprehensive income are transferred to the statement of income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognized in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss. If the related transaction is no longer expected to occur, the amount is recognized in the statement of income.

Hedge effectiveness testing
To qualify for hedge accounting, the Group requires that at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective effectiveness), and demonstrate actual effectiveness (retrospective effectiveness) on an ongoing basis. The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method that the Group adopts for assessing hedge effectiveness will depend on its risk management strategy.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. The Group applies the dollar-offset method using hypothetical derivatives in performing hedge effectiveness testing. For actual effectiveness to be achieved, the changes in fair value or cash flows must offset each other in the range of 80.0% to 125.0%. Any hedge ineffectiveness is recognized in the statement of income.

Embedded derivatives
The Group has certain derivatives that are embedded in host financial (such as structured notes, debt investments, and loan receivables) and nonfinancial (such as lease and service agreements) contracts. These embedded derivatives include credit default swaps (CDS) and call options in debt instruments, which include structured notes; call options in certain long-term debt; and foreign currency derivatives in debt instruments and lease agreements.

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

Financial assets or financial liabilities held for trading
Financial assets or financial liabilities held for trading 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 - net'. Interest earned or incurred is recorded in 'Interest income' or 'Interest expense' respectively, while dividend income is recorded in 'Dividends' when the right to receive payment has been established.

Included in this classification are debt and equity securities which have been acquired principally for the purpose of selling or repurchasing in the near term.

AFS investments
AFS investments include debt and equity instruments. Equity investments classified under AFS investments are those which are neither classified as held-for-trading nor designated at FVPL. Debt securities are those that do not qualify to be classified as HTM investments or loans and receivables, are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

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 reported earnings and are included in the statement of comprehensive income as 'Net unrealized gain 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 - net' in the statement of income. Gains and losses on disposal are determined using the average cost method. Interest earned on holding AFS investments are reported as 'Interest income' using the effective interest rate (EIR) method. Dividends earned on holding AFS investments are recognized in the statement of income as 'Dividends' when the right of the payment has been established. The losses arising from impairment of such investments are recognized as 'Provision for credit and impairment losses' in the statement of income.

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

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

The Group follows Philippine GAAP for banks in accounting for its HTM investments in the consolidated financial statements. Under Philippine GAAP for banks, the gain on exchange on FMIC's participation in the domestic bond exchange was deferred and amortized over the term of new bonds (see Statement of Compliance discussion).

Loans and receivables
This accounting policy relates to the statement of financial position captions 'Due from Bangko Sentral ng Pilipinas (BSP)', 'Due from other banks', 'Interbank loans receivable and securities purchased under resale agreements (SPURA)' and 'Loans and receivables'. These are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active

market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'other financial assets held for trading', designated as AFS investments or 'financial assets designated at FVPL'.

Loans and receivables include purchases made by MCC's cardholders which are collected on installments and are recorded at the cost of the items purchased plus interest covering the installment period which is initially credited to unearned discount, shown as a deduction from 'Loans and receivables'.

Loans and receivables also include ORIX Metro's lease contracts receivable and notes receivable financed which are stated at the outstanding balance, reduced by unearned lease income and unearned finance income, respectively.

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

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

After initial measurement, bills payable and similar financial liabilities not qualified as and not designated at 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.

Derecognition of Financial Assets and Liabilities
Financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when:

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

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. The extent of the Group's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset. When the Group's continuing involvement takes the form of guaranteeing the transferred asset, the extent of the Group's continuing involvement is the lower of (i) the amount of the asset and (ii) the maximum amount of the consideration received that the Group could be required to repay ('the guarantee amount'). When the Group's continuing involvement takes the form of a written or purchased option (or both) on the transferred asset the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase. However, in case of a written put option to an asset that is measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price. When the Group's continuing involvement takes the form of a cash-settled option or similar provision on the transferred asset, the extent of the Group's continuing involvement is measured in the same way as that which results from non-cash settled options.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged, 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 securities sold under repurchase agreements (SSURA) included in 'Bills Payable and SSURA' and is considered as a loan to the Group, reflecting the economic substance of such transaction.

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

Impairment of Financial Assets
The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost
For financial assets carried at amortized cost such loans and receivables, due from other banks, 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.

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

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

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

The Group also uses the Net Flow Rate method to determine the credit loss rate of a particular delinquency age bucket based on historical data of flow-through and flow-back of loans across specific delinquency age buckets. The allowance for credit losses is determined based on the results of the net flow to write-off methodology. Net flow tables are derived from monitoring of monthly peso movements between different stage buckets, from 1-day past due to 180-days past due. The net flow to write-off methodology relies on the last 12 months of net flow tables to establish a percentage ('net flow rate') of accounts receivable that are current or in any state of delinquency (i.e., 30, 60, 90, 120, 150 and 180 days past due) as of reporting date that will eventually result in write-off. The gross provision is then computed based on the outstanding balances of the receivables as of statement of financial position date and the net flow rates determined for the current and each delinquency bucket. This gross provision is reduced by the estimated recoveries, which are also based on historical data, to arrive at the required allowance for credit losses.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

AFS investments
In case of quoted 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 case of unquoted equity investments classified as 'AFS investments', the amount of the impairment is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

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 subsequently, the fair value of a debt instrument increased 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.

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 subject 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 credit and impairment losses' in the statement of income.

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, and the related assets and liabilities are presented gross in the statement of financial position.

Terminal Value of Leased Assets and Deposits on Finance Leases
The terminal value of leased assets, which approximates the amount of guaranty deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the sale of the leased asset at the end of the lease term. At the end of the lease term, the terminal value of the leased asset is generally applied against the guaranty deposit of the lessee when the lessee decides to buy the leased asset.

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

Interest income
For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as AFS investments, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), including 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'.

Once the recorded value of a financial asset or group of similar financial assets carried at amortized cost has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Purchases by credit cardholders, collectible on an installment basis, are recorded at the cost of the items purchased plus a certain percentage of cost. The excess over cost is credited to 'Unearned discount' and is shown as a deduction from 'Loans and receivables' in the consolidated statement of financial position. The unearned discount is taken up to interest income over the installment terms and is computed using the EIR method.

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

a. *Fee income earned from services that are provided over a certain period of time*
   Fees earned for the provision of services over a period of time are accrued over that period. These fees include investment fund fees, custodian fees, fiduciary fees, commission income, credit related fees, asset management fees, portfolio and other management fees, and advisory fees. 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.

Leasing Income
Finance Lease
The excess of aggregate lease rentals plus the estimated residential value over the cost of the leased equipment constitutes the unearned lease income. Residential values represent estimated proceeds from the disposal of equipment at the time lease is estimated. The unearned lease income is amortized over the term of the lease, commencing on the month the lease is executed using the EIR method.

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

Trading and securities gain - net
Results arising from trading activities include all gains and losses from changes in fair value for financial assets and financial liabilities at FVPL and gains and losses from disposal of financial assets held for trading, AFS and HTM investments.

Rental income
Rental income arising on 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 'Leasing'.

Discounts earned and awards revenue on credit cards
Discounts are taken up as income upon receipt from member establishments of charges arising from credit availments by the Group's cardholders and other credit companies' cardholders when Group is acting as an acquirer. These discounts are computed based on certain agreed rates and are deducted from amounts remitted to the member establishments. This account also includes interchange income from transactions processed by other acquirers through VISA Inc. (Visa) and MasterCard Incorporated (MasterCard) and service fee from cash advance transactions of cardholders.

MCC operates a loyalty points program which allows customers to accumulate points when they purchase from member establishments using the issued card of MCC. The points can then be redeemed for free products subject to a minimum number of points being obtained. Consideration received is allocated between the discounts earned, interchange fee and the points earned, with the consideration allocated to the points equal to its fair value. The fair value is determined by applying statistical analysis. The fair value of the points issued is deferred and recognized as revenue when the points are redeemed.

Income on direct financing leases and receivables financed
Income on loans and receivables financed with short-term maturities is recognized using the EIR method. Interest and finance fees on finance leases and loans and receivables financed with long-term maturities and the excess of the aggregate lease rentals plus the estimated terminal value of the leased equipment over its cost are credited to unearned discount and amortized over the term of the note or lease using the EIR method.

Underwriting fees, commissions, and sale of shares of stock
Underwriting fees and commissions are accrued when earned. Income derived from sales of shares of stock is recognized upon sale.

Other income
Income from sale of services is recognized upon rendition of the service. Income from sale of properties is recognized upon completion of the earning process and the collectibility of the sales price is reasonably assured. Revenue on sale of residential and commercial units is recognized only upon completion of the project. Payments received before completions are included under 'Miscellaneous liabilities'.

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

Subordinated Notes
Subordinated notes issued by Special Purpose Vehicles (SPVs) (presented as 'Investments in SPVs' under Other assets in the Parent Company financial statements) are stated at amortized cost reduced by an allowance for credit losses. The allowance for credit losses is determined based on the difference between the outstanding principal amount and the recoverable amount which is the present value of the future cash flow expected to be received as payment for the subordinated notes.

Property and Equipment
Land is stated at cost less any impairment in value and depreciable properties including buildings, furniture, fixtures and equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization, and any impairment in value. Such cost includes the cost of replacing part of the property and equipment when that cost is incurred, if the recognition criteria are met but excludes repairs and maintenance costs.

Depreciation is calculated on the straight-line method over the estimated useful life of the depreciable assets. Leasehold improvements are amortized over the shorter of the terms of the covering leases and the estimated useful lives of the improvements.

The range of estimated useful lives of property and equipment follows:

Buildings	25 to 50 years
Furniture, fixtures and equipment	2 to 5 years
Leasehold improvements	5 to 20 years

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

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

Investments in Subsidiaries, Associates and a Joint Venture (JV)
Investment in subsidiaries
Subsidiaries pertain to all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or

convertible are considered when assessing whether the Group controls another entity (see accounting policy on Basis of Consolidation).

Investment in associates
Associates pertain to all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20.00% and 50.00% of the voting rights. In the consolidated financial statements, investments in associates are accounted for under the equity method of accounting.

Investment in a JV
Investment in a JV represents the Group's interest in a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of an entity and accounted for under the equity method of accounting. The Group's investment in a JV represents its 40.00% interest of PSBank in Sumisho Motor Finance Corporation (SMFC).

Under the equity method, an investment in an associate or a JV is carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the associate or joint venture. Goodwill relating to an associate and a joint venture is included in the carrying value of the investment and is not amortized. The Group's share in an associate or joint venture's post-acquisition profits or losses is recognized in the statement of income while its share of post-acquisition movements in the associate or joint venture's equity reserves is recognized directly in the statement of comprehensive income. When the Group's share of losses in an associate or a joint venture equals or exceeds its interest in the associate or joint venture, 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 or joint venture. Profits and losses resulting from transactions between the Group and an associate or joint venture are eliminated to the extent of the Group's interest in the associate or joint venture.

In the Parent Company financial statements, investments in subsidiaries, associates and a JV are carried at cost less allowance for impairment losses.

Investment Properties
Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment property acquired is measured at the carrying amount of asset given up. Foreclosed properties are classified under 'Investment properties' upon: a.) entry of judgment in case of judicial foreclosure; b.) execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or c.) notarization of the Deed of Dacion in case of dation in payment (dacion en pago). Subsequent to initial recognition, investment properties are carried at cost less accumulated depreciation (for depreciable investment properties) and impairment in value.

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 'Profit from assets sold' in the year of retirement or disposal.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged to operations in the year in which the costs are incurred. Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the investment properties but not to exceed:

Buildings	50 years
Condominium units	40 years

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 ending 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.

Interest in Jointly Controlled Operations
The Group is a party to jointly controlled operations whereby it contributed parcels of land for development into residential and commercial units. In respect of the Group's interest in the jointly controlled operations, the Group recognizes the following: (a) the assets that it controls and the liabilities that it incurs; and (b) the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the JV. The assets contributed to the JV are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

Chattel Mortgage Properties
Chattel mortgage properties comprise of repossessed vehicles. Chattel mortgage properties are stated at cost less accumulated depreciation and impairment in value. Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the vehicles. The useful lives of chattel mortgage properties are estimated to be 5 years.

Intangible assets
Intangible assets include exchange trading right, software costs (presented under 'Other assets') and goodwill.

Software costs
Software costs are capitalized on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortized over three to five years on a straight-line basis. Costs associated with maintaining the computer software programs are recognized as expense when incurred.

Goodwill
Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. With respect to investments in associates and a JV, goodwill is included in the carrying amounts of the investments. Following initial recognition, goodwill is measured at cost net of impairment losses (see accounting policy on Impairment of Nonfinancial Assets).

Impairment of Nonfinancial Assets
Property and equipment, investments in subsidiaries, associates and a joint venture, investment properties, and chattel mortgage properties
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 recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell

and its value in use (VIU) and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing VIU, 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 to 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. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in 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.

Goodwill
Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash generating unit (CGU) (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated, an impairment loss is recognized immediately in the statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Group performs its impairment test of goodwill annually every September 30.

Intangible assets
Intangible assets with indefinite useful lives are tested for impairment annually at statement of financial position date either individually or at the cash generating unit level, as appropriate. Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

<u>Leases</u>
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:
(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
(c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or
(d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives 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 the ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in 'Property and equipment' with the corresponding liability to the lessor included in 'Other liabilities'. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recorded directly to 'Interest expense'.

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

Leases where the lessor retains substantially all the risk and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term. Contingent rental payable are recognized as expense in the year in which they are incurred.

Group as lessor
Finance leases, where the Group transfers substantially all the risks and benefits incidental to the 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 year in which they are earned.

Retirement Cost
The Group has a noncontributory defined benefit retirement plan except for FMIIC and its subsidiary which follow the defined contribution retirement benefit plan and the Mandatory Provident Fund Scheme (MPFS). The retirement cost of the Parent Company and most of its subsidiaries 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 liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged against income when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceeded 10.00% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These excess gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

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

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs not yet recognized and less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any cumulative unrecognized net actuarial losses and past service cost 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.

Payments to the defined contribution retirement benefit plans and the MPFS are recognized as expenses when employees have rendered service entitling them to the contributions.

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'.

Contingent Liabilities and Contingent Assets

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

Income Taxes

Current taxes

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

Deferred taxes

Deferred tax is provided on 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, except:

a. 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 profit nor taxable profit or loss.

b. In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

a. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
b. 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 profit will be available against which the temporary differences can be utilized.

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

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

Current tax and deferred tax relating to items recognized directly in equity are recognized in other 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 set off current tax assets against current tax liabilities and deferred taxes relate to the same taxable entity and the same taxation authority.

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. The Group does not have dilutive potential common shares.

Dividends on Common Shares
Cash dividends on common shares are recognized as a liability and deducted from the equity when approved by the BOD of the Parent Company and the BSP while stock dividends are deducted from equity when approved by BOD, shareholders of the Parent Company and the BSP. Dividends declared during the year but are approved by the BSP after the statement of financial position date are dealt with as a subsequent event.

Coupon Payment on Hybrid Capital Securities
Coupon payment on hybrid capital securities (HT1 Capital) is treated as dividend for financial reporting purposes, rather than interest expense and deducted from equity when due, after the approval by the BOD of the Parent Company and the BSP.

Debt Issue Costs
Issuance, underwriting and other related costs incurred in connection with the issuance of debt instruments are deferred and amortized over the terms of the instruments using the EIR method. Unamortized debt issuance costs are included in the related carrying value of the debt instrument in the statement of financial position.

Capital Securities Issuance Costs
Issuance, underwriting and other related costs incurred in connection with the issuance of the capital securities are treated as a reduction of equity.

Events after the Statement of Financial Position Date
Post year-end events that provide additional information about the Group's position at the statement of financial position date (adjusting event) are reflected in the financial statements. Post year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

Segment Reporting
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 6.

Fiduciary Activities
Assets and income arising from fiduciary activities together with related undertakings to return such assets to customers are excluded from the financial statements where the Parent Company, PSBank and FMIC act in a fiduciary capacity such as nominee, trustee or agent.

Standards Issued but not yet Effective

Standards issued but not yet effective up to date of issuance of the Group's financial statements are listed below. The listing consists of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt these standards when they 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.

PAS 1, *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income (OCI)*
The amendments to PAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon

derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has therefore no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012.

PAS 12, *Income Taxes - Recovery of Underlying Assets*
The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40, *Investment Property,* should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16, *Property, Plant and Equipment,* always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after January 1, 2012.

PAS 19, *Employee Benefits (Amendment)*
Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group is currently assessing the impact of the amendment to PAS 19. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

PAS 27, *Separate Financial Statements (as revised in 2011)*
As a consequence of the new PFRS 10, *Consolidated Financial Statements* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

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

PAS 32, *Financial Instruments: Presentation - Offsetting of Financial Assets and Financial Liabilities*
These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While the amendment is expected not to have any impact on the net assets of the Group, any changes in offsetting is expected to impact leverage ratios and regulatory capital requirements. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014. The Group is currently assessing impact of the amendments to PAS 32.

PFRS 7, *Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements*
The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing

involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*
These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

a) The gross amounts of those recognized financial assets and recognized financial liabilities;
b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
c) The net amounts presented in the statement of financial position;
d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
    i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
    ii. Amounts related to financial collateral (including cash collateral); and
e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

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

PFRS 9, *Financial Instruments: Classification and Measurement*
PFRS 9 as issued reflects the first phase on the replacement of PAS 39, *Financial Instruments: Recognition and Measurement*, 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, 2015. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. The Group decided not to early adopt PFRS 9 for its 2011 financial reporting. The Group will conduct in early 2012 another impact evaluation using the outstanding balances of financial statements as of December 31, 2011. Its decision whether to early adopt PFRS 9 for its 2012 financial reporting will be disclosed in the Group's interim financial statements as of March 31, 2012. Should the Group decide to early adopt PFRS 9 for its 2012 financial reporting, its interim report as of March 31, 2012 will already reflect the application of the requirements under the said standard and will contain a qualitative and quantitative discussion of the result of the Group's impact evaluation. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities.

PFRS 10, *Consolidated Financial Statements*
PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled,

and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. This standard becomes effective for annual periods beginning on or after January 1, 2013.

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

PFRS 12, *Disclosure of Interests in Other Entities*
PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after January 1, 2013.

PFRS 13, *Fair Value Measurement*
PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after January 1, 2013.

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

Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
This interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset. This interpretation becomes effective for annual periods beginning on or after January 1, 2013.

The Group will assess impact of these amendments on its financial position or performance when they become effective.

3. **Significant Accounting Judgments and Estimates**

The preparation of the financial statements in compliance with PFRS requires the Group to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and the disclosures of contingent assets and contingent liabilities. Future events may

occur which can cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following are the critical judgments and key assumptions that have a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Judgments

a. *Leases*

Operating lease
Group as lessor
The Group has entered into commercial property leases on its investment properties portfolio and over various items of machinery and equipment. The Group has determined based on an evaluation of the terms and conditions of the arrangements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Group as lessee
The Group has entered into lease on premises it uses for its operations. The Group has determined, based on the evaluation of the terms and conditions of the lease agreement (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term and lease term is not for the major part of the asset's economic life), that the lessor retains all the significant risks and rewards of ownership of these properties.

Finance lease
The Group has determined based on an evaluation of terms and conditions of the lease arrangements (i.e., present value of minimum lease payments amounts to at least substantially all of the fair value of leased asset, lease term is for the major part of the economic useful life of the asset, and lessor's losses associated with the cancellation are born by the lessee) that it has transferred all significant risks and rewards of ownership of the properties it leases out on finance leases.

b. *Fair value of financial instruments*
Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, these are determined using internal valuation techniques using generally accepted market valuation 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. These judgments may include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives (Note 5).

c. *HTM investments*
The classification under HTM investments requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire portfolio as AFS investments. The investments would therefore be measured at fair value and not at amortized cost. In 2011, the Group follows Philippine GAAP for banks in accounting for its HTM investments in the consolidated financial statements (Notes 2 and 8).

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

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

f. *Contingencies*
The Group is currently involved in legal proceedings. The estimate of the probable cost for the resolution of claims has been developed in consultation with the aid of the outside legal counsel handling the Group's defense in this matter and is based upon an analysis of potential results. It is probable, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to this proceeding (Note 29).

g. *Functional currency*
PAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the Group considers the following: (a) the currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled); (b) the currency in which funds from financing activities are generated; and (c) the currency in which receipts from operating activities are usually retained.

Estimates

a. *Credit losses of loans and receivables*
The Group reviews its loan portfolios and receivables to assess impairment on a semi-annual basis with updating provisions made during the intervals as necessary based on the continuing analysis and monitoring of individual accounts by credit officers. In determining whether credit losses should be recorded in the statement of income, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management

uses estimates in 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 in 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 values of loans and receivables and the related allowance for credit losses of the Group and the Parent Company are disclosed in Note 9.

b. *Fair values of structured debt instruments and derivatives*
The fair values of structured debt instruments and 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 reviewed by qualified personnel independent of the area that created them. All models are reviewed before they are used and to the extent practicable, models use only observable data. Changes in assumptions about these factors could affect reported fair value of financial instruments. Refer to Note 5 for the information on the fair values of these investments and Note 8 for information on the carrying values of these instruments.

c. *Valuation of unquoted equity securities*
The Group's investments in equity securities that do not have quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost less impairment losses.

As of December 31, 2011 and 2010, the carrying value of unquoted AFS equity securities amounted to ₱255.4 million and ₱260.6 million, respectively, for the Group and ₱60.8 million for the Parent Company (Note 8).

d. *Impairment of AFS equity securities*
The Group determines that AFS equity securities are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. The Group treats 'significant' generally as 20.00% or more of the original cost of investment, and 'prolonged', greater than 12 months. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

As of December 31, 2011 and 2010, allowance for impairment losses on AFS equity securities amounted to ₱560.7 million and ₱620.4 million, respectively, for the Group and ₱176.2 million and ₱209.2 million, respectively, for the Parent Company. As of December 31, 2011 and 2010, the carrying value of AFS equity securities (included under AFS investments) amounted to ₱2.0 billion and ₱2.1 billion, respectively, for the Group and ₱338.2 million and ₱318.5 million, respectively, for the Parent Company (Notes 8 and 14).

e. *Recognition of deferred income taxes*

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant

management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The estimates of future taxable income indicate that certain temporary differences will be realized in the future. The recognized net deferred tax assets and unrecognized deferred tax assets for the Group and the Parent Company are disclosed in Note 26.

f. *Present value of retirement liability*

The cost of defined retirement 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 assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of the statement of financial position date. The expected rates of return on assets were based on expected long-term rates of return on the retirement fund investments, net of operating expenses. The present values of the retirement liability of the Group and the Parent Company are disclosed in Note 23.

g. *Impairment of nonfinancial assets*

Property and equipment, investments in subsidiaries, associates and a JV, investment properties, software costs and chattel mortgage properties

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: a) significant underperformance relative to expected historical or projected future operating results; b) significant changes in the manner of use of the acquired assets or the strategy for overall business; and c) significant negative industry or economic trends. The Group uses fair value less costs to sell in determining recoverable amount.

The carrying values of the property and equipment, investments in subsidiaries and associates and a JV, investment properties, software costs and chattel mortgage properties of the Group and the Parent Company are disclosed in Notes 10, 11, 12 and 13, respectively.

Goodwill

The Group conducts an annual review for any impairment in value of the goodwill. Goodwill is written down for impairment where the net present value of the forecasted future cash flows from the business is insufficient to support its carrying value. The Group estimated the discount rate used for the computation of the net present value by reference to industry cost of capital. Future cash flows from the business are estimated based on the theoretical annual income of the cash generating units. Average growth rate was derived from the average increase in annual income during the last 5 years. The recoverable amount of the CGU has been determined based on a VIU calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 14.84%. Key assumptions in VIU calculation of CGUs are most sensitive to discount rates and growth rates used to project cash flows.

Goodwill amounted to ₱6.4 billion as of December 31, 2011 and 2010 for the Group of which ₱1.2 billion, pertained to the Parent Company (Note 11).

4. **Financial Risk and Capital Management**

Introduction
The Group has exposure to the following risks from its use of financial instruments: (a) credit; (b) liquidity; and (c) market risks.

Risk management framework
The BOD has overall responsibility for the oversight of the Parent Company's risk management process. On the other hand, the risk management processes of the subsidiaries are the separate responsibilities of their respective BOD. Supporting the BOD in this function are certain Board-level committees such as Risk Management Committee (RMC), Audit Committee (AC) and senior management committees through the Senior Executive Committee, Asset and Liability Committee (ALCO) and Policy Committee.

The AC is responsible for monitoring compliance with the Parent Company's risk management policies and procedures, and for reviewing the adequacy of risk management practices in relation to the risks faced by the Parent Company. The AC is assisted in these functions by the Internal Audit Group (IAG). IAG undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the AC.

The Parent Company and its subsidiaries manage their respective financial risks separately. The subsidiaries have their own risk management processes but are structured similar to that of the Parent Company. To a certain extent, the respective risk management programs and objectives are the same across the Group. Risk management policies adopted by the subsidiaries and affiliates are aligned with the Parent Company's risk policies. To further promote compliance with PFRS and Basel II, the Parent Company created a Risk Management Coordinating Council (RMCC) composed of the risk officers of the Parent Company and its financial institution subsidiaries.

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, related groups of borrowers, for market segmentation, and industry concentrations, and by monitoring exposures in relation to such limits. For risk management purposes, credit risk emanating from treasury activities is managed independently, but reported as a component of market risk exposure. Each business unit is responsible for the quality of its credit portfolio and for monitoring and controlling all credit risks in its portfolio. Regular reviews and audits of business units and credit processes are undertaken by IAG and Risk Management Group (RSK).

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 enter into either market-traded or over-the-counter derivatives, 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 obligor or transaction) by adopting a credit risk management environment that has the following components:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit/financial assessment, risk grading and reporting and compliance with regulatory requirements;
- Establishment of authorization limits for the approval and renewal of credit facilities;
- Limiting concentrations of exposure to counterparties and industries (for loans), and by issuer (for investment securities);
- Utilizing the Internal Credit Risk Rating System (ICRRS) 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; and
- Monitoring compliance with approved exposure limits.

The ICRRS contains the following:

a. Borrower Risk Rating (BRR) - 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 when it falls due. The assessment is described below:

Component	Description	Credit Factor Weight
Financial Condition	Refers to the financial condition of the borrower based on audited financial statements as indicated by certain financial ratios. The Financial Factor Evaluation is conducted manually.	40.00%
Industry Analysis	Refers to the prospects of the industry as well as the company's performance and position in the industry.	30.00%
Management Quality	Refers to the management's ability to run the company successfully.	30.00%

b. Facility Risk Factor (FRF) - 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) - combination of BRR and FRF.

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

	Consolidated					
	2011			2010		
	Carrying Amount	**Fair Value of Collateral**	**Maximum Exposure to Credit Risk**	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk
Credit risk exposure relating to on-balance sheet assets are as follows:						
Interbank loans receivable and SPURA	**₱10,480**	**₱10,465**	**₱15**	₱3,587	₱999	₱2,588
Loans and receivables - net						
Receivables from customers						
Commercial loans	**119,227**	**67,575**	**51,652**	103,431	64,890	38,541
Residential mortgage loans	**43,750**	**39,261**	**4,489**	37,257	33,450	3,807
Auto loans	**37,844**	**36,832**	**1,012**	37,823	32,859	4,964
Trade	**26,017**	**2**	**26,015**	15,597	2	15,595
Others	**6,024**	**5,641**	**383**	6,378	6,223	155
	232,862	**149,311**	**83,551**	200,486	137,424	63,062
Accrued interest receivable	**543**	**406**	**137**	507	395	112
Sales contract receivable	**689**	**479**	**210**	1,272	947	325
	234,094	**150,196**	**83,898**	202,265	138,766	63,499
Total	**₱244,574**	**₱160,661**	**₱83,913**	₱205,852	₱139,765	₱66,087

	Parent Company					
	2011			2010		
	Carrying Amount	**Fair Value of Collateral**	**Maximum Exposure to Credit Risk**	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk
Credit risk exposure relating to on-balance sheet assets are as follows:						
Interbank loans receivable and SPURA	**₱1,687**	**₱1,687**	**₱–**	₱880	₱880	₱–
Loans and receivables - net						
Receivables from customers						
Commercial loans	**103,321**	**60,302**	**43,019**	86,972	56,696	30,276
Residential mortgage loans	**25,725**	**25,384**	**341**	20,909	20,636	273
Auto loans	**12,678**	**12,326**	**352**	10,736	10,736	–
Trade	**26,017**	**2**	**26,015**	15,597	2	15,595
Others	**383**	**–**	**383**	154	–	154
	168,124	**98,014**	**70,110**	134,368	88,070	46,298
Accrued interest receivable	**543**	**406**	**137**	507	395	112
Sales contract receivable	**683**	**673**	**10**	1,091	1,077	14
	169,350	**99,093**	**70,257**	135,966	89,542	46,424
Total	**₱171,037**	**₱100,780**	**₱70,257**	₱136,846	₱90,422	₱46,424

Excessive risk concentration
Credit risk concentrations can arise whenever a significant number of borrowers have similar characteristics and are affected similarly by changes in economic or other conditions. The Parent Company analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, internal rating buckets, and security. For risk concentration monitoring purposes, the financial assets are broadly categorized into (1) loans and receivables and (2) trading and financial investment securities. To mitigate risk concentration, the Parent Company constantly checks for breaches in regulatory and internal limits.

Concentration of risks of financial assets with credit risk exposure
An analysis of concentrations of credit risk at the reporting date based on carrying amount is shown below:

	Consolidated				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
2011					
Concentration by Industry					
Financial intermediaries	₱46,446	₱212,999	₱18,699	₱10,093	₱288,237
Manufacturing (various industries)	85,468	–	886	8,163	94,517
Real estate, renting and business activities	78,103	–	1,059	683	79,845
Wholesale and retail trade	62,651	–	129	7,582	70,362
Private households	68,839	–	206	37	69,082
Electricity, gas and water	39,646	–	1,754	743	42,143
Transportation, storage and communication	35,606	–	2,816	3,043	41,465
Other community, social and personal activities	13,912	–	1	73	13,986
Construction	9,385	–	–	2,938	12,323
Hotel and restaurants	7,943	–	24	14	7,981
Agricultural, hunting and forestry	7,388	–	45	42	7,475
Public administration and defense, compulsory social security	3,041	–	–	–	3,041
Mining and quarrying	679	–	387	203	1,269
Others****	11,477	–	171,257	52,458	235,192
	470,584	212,999	197,263	86,072	966,918
Less allowance for credit losses	14,884	–	561	9,553	24,998
	₱455,700	₱212,999	₱196,702	₱76,519	₱941,920
Concentration by Location					
Philippines	₱463,525	₱184,857	₱162,927	₱83,693	₱895,002
Asia	6,154	16,667	12,853	1,807	37,482
USA	824	8,446	15,041	572	24,883
Europe	68	2,955	2,684	–	5,707
Others	13	74	3,758	–	3,844
	470,584	212,999	197,263	86,072	966,918
Less allowance for credit losses	14,884	–	561	9,553	24,998
	₱455,700	₱212,999	₱196,702	₱76,519	₱941,920
2010					
Concentration by Industry					
Financial intermediaries	₱45,711	₱233,217	₱22,316	₱9,207	₱310,451
Manufacturing (various industries)	74,322	–	384	6,071	80,777
Real estate, renting and business activities	65,579	–	957	549	67,085
Wholesale and retail trade	57,569	–	39	6,692	64,300
Private households	55,968	–	52	36	56,056
Electricity, gas and water	20,456	–	590	3,831	24,877
Transportation, storage and communication	31,052	–	5,025	1,855	37,932
Other community, social and personal activities	21,652	–	1	6	21,659
Construction	7,138	–	3	1,104	8,245
Hotel and restaurants	8,744	–	–	–	8,744
Agricultural, hunting and forestry	4,623	–	47	56	4,726
Public administration and defense, compulsory social security	1,605	–	93	6	1,704
Mining and quarrying	431	–	51	146	628
Others****	11,019	–	144,064	44,495	199,578
	405,869	233,217	173,622	74,054	886,762
Less allowance for credit losses	14,941	–	1,912	9,522	26,375
	₱390,928	₱233,217	₱171,710	₱64,532	₱860,387
Concentration by Location					
Philippines	₱396,095	₱192,745	₱134,584	₱72,450	₱795,874
Asia	9,045	22,949	8,679	1,305	41,978
USA	714	14,839	21,998	299	37,850
Europe	12	2,670	2,209	–	4,891
Others	3	14	6,152	–	6,169
	405,869	233,217	173,622	74,054	886,762
Less allowance for credit losses	14,941	–	1,912	9,522	26,375
	₱390,928	₱233,217	₱171,710	₱64,532	₱860,387

	Parent Company				
	Loans and Receivables	**Loans and Advances to Banks***	**Investment Securities****	**Others*****	**Total**
2011					
Concentration by Industry					
Financial intermediaries	**₱38,817**	**₱163,168**	**₱17,023**	**₱9,377**	**₱228,385**
Manufacturing (various industries)	**81,252**	**–**	**817**	**8,163**	**90,232**
Real estate, renting and business activities	**57,893**	**–**	**21**	**683**	**58,597**
Wholesale and retail trade	**53,622**	**–**	**57**	**7,582**	**61,261**
Private households	**41,060**	**–**	**206**	**37**	**41,303**
Electricity, gas and water	**33,747**	**–**	**1,634**	**743**	**36,124**
Transportation, storage and communication	**24,888**	**–**	**2,408**	**3,043**	**30,339**
Other community, social and personal activities	**3,161**	**–**		**73**	**3,234**
Construction	**7,114**	**–**	**–**	**2,938**	**10,052**
Hotel and restaurants	**6,623**	**–**		**14**	**6,637**
Agricultural, hunting and forestry	**4,826**	**–**	**–**	**42**	**4,868**
Public administration and defense, compulsory social security	**148**	**–**	**–**	**–**	**148**
Mining and quarrying	**466**	**–**	**51**	**203**	**720**
Others****	**5,369**		**115,996**	**2,317**	**123,682**
	358,986	**163,168**	**138,213**	**35,215**	**695,582**
Less allowance for credit losses	**8,666**	**–**	**176**	**9,553**	**18,395**
	₱350,320	**₱163,168**	**₱138,037**	**₱25,662**	**₱677,187**
Concentration by Location					
Philippines	**₱356,362**	**₱149,177**	**₱104,707**	**₱33,832**	**₱644,078**
Asia	**1,529**	**2,911**	**12,328**	**811**	**17,579**
USA	**951**	**8,291**	**14,736**	**572**	**24,550**
Europe	**132**	**2,716**	**2,684**	–	**5,532**
Others	**12**	**73**	**3,758**	–	**3,843**
	358,986	**163,168**	**138,213**	**35,215**	**695,582**
Less allowance for credit losses	**8,666**	**–**	**176**	**9,553**	**18,395**
	₱350,320	**₱163,168**	**₱138,037**	**₱25,662**	**₱677,817**
2010					
Concentration by Industry					
Financial intermediaries	₱38,588	₱199,813	₱20,371	₱9,074	₱267,846
Manufacturing (various industries)	68,965	–	299	6,071	75,335
Real estate, renting and business activities	45,858	–	–	549	46,407
Wholesale and retail trade	40,853	–	17	6,692	47,562
Private households	36,676	–	52	36	36,764
Electricity, gas and water	16,340	–	384	3,832	20,556
Transportation, storage and communication	23,039	–	4,697	1,855	29,591
Other community, social and personal activities	3,771	–	–	6	3,777
Construction	5,401	–	–	1,104	6,505
Hotel and restaurants	8,213	–	–	–	8,213
Agricultural, hunting and forestry	3,307	–	–	56	3,363
Public administration and defense, compulsory social security	156	–	–	6	162
Mining and quarrying	252	–	51	146	449
Others****	8,407	–	94,889	1,956	105,252
	299,826	199,813	120,760	31,382	651,781
Less allowance for credit losses	9,124	–	1,405	9,522	20,051
	₱290,702	₱199,813	₱119,355	₱21,860	₱631,730
Concentration by Location					
Philippines	₱297,483	₱171,524	₱82,917	₱30,217	₱582,141
Asia	1,399	11,205	7,904	870	21,378
USA	810	14,716	21,579	295	37,400
Europe	132	2,355	2,208	–	4,695
Others	2	13	6,152	–	6,167
	299,826	199,813	120,760	31,382	651,781
Less allowance for credit losses	9,124	–	1,405	9,522	20,051
	₱290,702	₱199,813	₱119,355	₱21,860	₱631,730

* Comprised of Due from BSP, Due from other banks and Interbank loans receivable and SPURA.
** Comprised of Financial assets at FVPL, AFS investments and HTM investments.
*** Comprised of applicable accounts under Other assets, financial guarantees and loan commitments and other credit related liabilities.
**** Includes government-issued debt securities

Credit quality per class of financial assets
The credit quality of financial assets is assessed and managed using external and internal ratings.

Loans and receivables
The credit quality is generally monitored using the 10-grade ICRR system which is integrated in the credit process particularly in provision for credit losses. The model on risk ratings is assessed and updated regularly. Validation of the individual borrower's risk rating is performed by the Credit Group to maintain accurate and consistent risk ratings across the credit portfolio. The credit quality with the corresponding ICRRS Grade and description of commercial loans follows:

High Grade
1 - Excellent
An excellent rating is given to a borrower with a very low probability of going into default and with high degree of stability, substance and diversity. Borrower has access to raise substantial amounts of funds through public market at any time; very strong debt service capacity and has conservative balance sheet ratios. Track record in profit terms is very good. Borrower exhibits highest quality under virtually all economic conditions.

2 - Strong
This rating is given to borrowers with low probability of going into default in the coming year. Normally has a comfortable degree of stability, substance and diversity. Under normal market conditions, borrower has good access to public markets to raise funds. Have a strong market and financial position with a history of successful performance. Overall debt service capacity is deemed very strong; critical balance sheet ratios are conservative. Concerned multinationals or local corporations are well capitalized.

Standard Grade
3 - Good
This rating is given to smaller corporations with limited access to public capital markets or to alternative financial markets. Access is however limited to favorable economic and/or market conditions. While probability of default is quite low, it bears characteristics of some degree of stability and substance. However, susceptibility to cyclical changes and more concentration of business risk, by product or market, may be present. Typical is the combination of comfortable asset protection and an acceptable balance sheet structure. Debt service capacity is strong.

4 - Satisfactory
A 'satisfactory' rating is given to a borrower where clear risk elements exist and probability of default is somewhat greater. Volatility of earnings and overall performance: normally has limited access to public markets. Borrower should be able to withstand normal business cycles, but any prolonged unfavorable economic period would create deterioration beyond acceptable levels. Combination of reasonable sound asset and cash flow protection: debt service capacity is adequate. Reported profits in the past year and is expected to report a profit in the current year.

5 - Acceptable
An 'acceptable' rating is given to a borrower whose risk elements are sufficiently pronounced although borrower should still be able to withstand normal business cycles. Any prolonged unfavorable economic and/or market period would create an immediate deterioration beyond acceptable levels. Risk is still acceptable as there is sufficient cash flow either historically or expected for the future; new business or projected finance transaction; an existing borrower where the nature of the exposure represents a higher risk because of extraordinary developments but for which a decreasing risk within an acceptable period can be expected.

Substandard Grade
6 - Watchlist
This rating is given to a borrower that belongs to an unfavorable industry or has company-specific risk factors which represent a concern. Operating performance and financial strength may be marginal and it is uncertain if borrower can attract alternative course of finance. Borrower finds it hard to cope with any significant economic downturn and a default in such a case is more than a possibility. Borrower which incurs net losses and has salient financial weaknesses, reflected on statements specifically in profitability. Credit exposure is not at risk of loss at the moment but performance of the borrower has weakened and unless present trends are reversed, could lead to losses.

7 - Especially Mentioned
This rating is given to a borrower that exhibits potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus, increase credit risk to the Bank.

Impaired
8 - Substandard
These are loans or portions, thereof which appear to involve a substantial and unreasonable degree of risk to the Bank because of unfavorable record or unsatisfactory characteristics. There exists the possibility of future losses to the Bank unless given closer supervision. Borrower has well-defined weaknesses or weaknesses that jeopardize loan liquidation. Such well-defined weaknesses may include adverse trends or development of financial, managerial, economic or political nature, or a significant weakness in collateral.

9 - Doubtful
This rating is given to a nonperforming borrower whose loans or portions thereof have the weaknesses inherent in those classified as Substandard, with the added characteristics that existing facts, conditions, and values make collection or liquidation in fully highly improbable and in which substantial loss is probable.

10 - Loss
This rating is given to a borrower whose loans or portions thereof are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value. The amount of loss is difficult to measure and it is not practical or desirable to defer writing off these basically worthless assets even though partial recovery may be obtained in the future.

The description of credit quality of consumer loans follows:

High Grade
Good credit rating
This rating is given to a good repeat client with very satisfactory track record of its loan repayment (paid at least 50.00%) and whose account did not turn past due during the entire term of the loan.

Standard Grade
Good
A good rating is given to accounts which did not turn past due for 90 days and over.

Limited
This rating is given to borrowers who have average track record on loan repayment (paid less than 50.00%) and whose account did not turn past due for 90 days and over.

Substandard Grade
Poor
A poor rating is given to accounts who reached 90 days past due regardless of the number of times and the number of months past due.

Poor litigation
This rating is given to accounts that were past due for 180 days and over and are currently being handled by lawyers.

Impaired
Poor repossessed
This rating is given to accounts whose collaterals were repossessed.

Poor written-off
This rating is given to accounts that were recommended for write-off.

Trading and investment securities
In ensuring quality investment portfolio, the Parent Company uses the credit risk rating from the published data providers like Moody's, Standard & Poor (S&P) or other reputable rating agencies. Presented here is Moody's rating - equivalent S&P rating and other rating agencies applies:

Credit Quality	External Rating								
High grade	Aaa	Aa1	Aa2	A1	A2	A3	Baa1	Baa2	Baa3
Standard grade	Ba1	Ba2	Ba3	B1	B2				
Substandard grade	B3	Caa1	Caa2	Caa3	Ca	C			
Impaired	D								

The following table shows the credit quality of financial assets:

	Consolidated				
	Loans and Receivables	**Loans and Advances to Banks***	**Investment Securities****	**Others*****	**Total**
2011					
Neither past due nor impaired	**₱448,753**	**₱212,999**	**₱195,813**	**₱76,519**	**₱934,084**
Past due but not impaired	**4,966**	–	–	–	**4,966**
Impaired	**16,865**	–	**1,450**	**9,553**	**27,868**
Gross	**470,584**	**212,999**	**197,263**	**86,072**	**966,918**
Less allowance for credit losses	**14,884**	–	**561**	**9,553**	**24,998**
Net	**₱455,700**	**₱212,999**	**₱196,702**	**₱76,519**	**₱941,920**
2010					
Neither past due nor impaired	₱379,588	₱233,217	₱170,608	₱64,532	₱847,945
Past due but not impaired	9,372	–	–	–	9,372
Impaired	16,909	–	3,014	9,522	29,445
Gross	405,869	233,217	173,622	74,054	886,762
Less allowance for credit losses	14,941	–	1,912	9,522	26,375
Net	₱390,928	₱233,217	₱171,710	₱64,532	₱860,387

	Parent Company				
	Loans and Receivables	**Loans and Advances to Banks***	**Investment Securities****	**Others*****	**Total**
2011					
Neither past due nor impaired	**₱343,974**	**₱163,168**	**₱137,930**	**₱25,662**	**₱670,734**
Past due but not impaired	**676**	–	–	–	**676**
Impaired	**14,336**	–	**283**	**9,553**	**24,172**
Gross	**358,986**	**163,168**	**138,213**	**35,215**	**695,582**
Less allowance for credit losses	**8,666**	–	**176**	**9,553**	**18,395**
Net	**₱350,320**	**₱163,168**	**₱138,037**	**₱25,662**	**₱677,187**

(Forward)

	Parent Company				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
2010					
Neither past due nor impaired	₱285,091	₱199,813	₱119,022	₱21,861	₱625,787
Past due but not impaired	1,082	–	–	–	1,082
Impaired	13,653	–	1,738	9,521	24,912
Gross	299,826	199,813	120,760	31,382	651,781
Less allowance for credit losses	9,124	–	1,405	9,522	20,051
Net	₱290,702	₱199,813	₱119,355	₱21,860	₱631,730

* Comprised of Due from BSP, Due from other banks and Interbank loans receivable and SPURA.
** Comprised of Financial assets at FVPL, AFS investments and HTM investments.
*** Comprised of applicable accounts under Other assets, financial guarantees and loan commitments and other credit related liabilities.

The table below shows credit quality per class of financial assets that are neither past due nor impaired (gross of allowance for credit losses):

	Consolidated				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
2011					
Loans and advances to banks					
Due from BSP	**₱687**	**₱155,850**	**₱–**	**₱–**	**₱156,537**
Due from other banks	**17,589**	**10,233**	**2,442**	**1,831**	**32,095**
Interbank loans receivable and SPURA	**9,041**	**13,113**	**–**	**2,213**	**24,367**
	27,317	**179,196**	**2,442**	**4,044**	**212,999**
Financial assets at FVPL					
Debt securities					
Government	**110**	**2,440**	**`–**	**–**	**2,550**
Private	**121**	**28**	**–**	**105**	**254**
BSP	**–**	**3**	**–**	**–**	**3**
Equity securities – quoted	**211**	**695**	**134**	**1**	**1,041**
Derivative assets	**1,707**	**196**	**–**	**437**	**2,340**
	2,149	**3,362**	**134**	**543**	**6,188**
AFS investments					
Debt securities					
Government	**16,298**	**100,602**	**27**	**10,028**	**126,955**
Private	**13,103**	**–**	**–**	**989**	**14,092**
Subtotal	**29,401**	**100,602**	**27**	**11,017**	**141,047**
Equity securities					
Quoted	**239**	**426**	**–**	**202**	**867**
Unquoted	**17**	**–**	**29**	**208**	**254**
Subtotal	**256**	**426**	**29**	**410**	**1,121**
	29,657	**101,028**	**56**	**11,427**	**142,168**
HTM investments					
Government bonds	**–**	**32,010**	**–**	**3,486**	**35,496**
Private bonds	**3,895**	**–**	**–**	**–**	**3,895**
Treasury notes	**44**	**8,022**	**–**	**–**	**8,066**
	3,939	**40,032**	**–**	**3,486**	**47,457**
Loans and receivables					
Receivables from customers					
Commercial loans	**92,223**	**154,539**	**29,447**	**3,155**	**279,364**
Residential mortgage loans	**18,037**	**25,673**	**320**	**–**	**44,030**
Auto loans	**24,526**	**12,553**	**27**	**59**	**37,165**
Trade	**6,959**	**14,334**	**4,454**	**–**	**25,747**
Others	**15,421**	**511**	**147**	**26,947**	**43,026**
	157,166	**207,610**	**34,395**	**30,161**	**429,332**

(Forward)

	Consolidated				
	High Grade	**Standard Grade**	**Substandard Grade**	**Unrated**	**Total**
Unquoted debt securities	**₱6,143**	**₱3,216**	**₱–**	**₱1,325**	**₱10,684**
Accrued interest receivable	**2,049**	**2,761**	**163**	**95**	**5,068**
Accounts receivable	**72**	**136**	**408**	**2,129**	**2,745**
Sales contract receivable	**312**	**–**	**30**	**290**	**632**
Other receivables	**–**	**184**	**33**	**75**	**292**
	165,742	**213,907**	**35,029**	**34,075**	**448,753**
Others	**–**	**–**	**–**	**76,519**	**76,519**
	₱228,804	**₱537,525**	**₱37,661**	**₱130,094**	**₱934,084**

	Consolidated				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
2010					
Loans and advances to banks					
Due from BSP	₱1,042	₱167,360	₱–	₱–	₱168,402
Due from other banks	17,126	17,219	2,115	1,848	38,308
Interbank loans receivable and SPURA	21,590	3,586	–	1,331	26,507
	39,758	188,165	2,115	3,179	233,217
Financial assets at FVPL					
Debt securities					
Government	461	7,955	–	–	8,416
Private	145	–	–	23	168
Equity securities - quoted	131	338	50	–	519
Derivative assets	1,564	1,745	–	168	3,477
	2,301	10,038	50	191	12,580
AFS investments					
Debt securities					
Government	17,487	85,085	38	–	102,610
Private	16,721	4,542	–	217	21,480
Subtotal	34,208	89,627	38	217	124,090
Equity securities					
Quoted	231	618	–	191	1,040
Unquoted	1	13	144	77	235
Subtotal	232	631	144	268	1,275
	34,440	90,258	182	485	125,365
HTM investments					
Government bonds	–	26,701	–	–	26,701
Treasury notes	44	5,918	–	–	5,962
	44	32,619	–	–	32,663
Loans and receivables					
Receivables from customers					
Commercial loans	148,255	72,516	10,941	70	231,782
Residential mortgage loans	34,389	660	292	–	35,341
Auto loans	26,978	3,701	25	44	30,748
Trade	15,124	470	209	–	15,803
Others	3,430	16,074	175	18,118	37,797
	228,176	93,421	11,642	18,232	351,471
Unquoted debt securities	4,579	4,681	955	4,119	14,334
Accrued interest receivable	1,799	1,394	126	2,370	5,689
Accounts receivable	36	2	–	6,617	6,655
Sales contract receivable	479	–	88	688	1,255
Other receivables	–	4	–	180	184
	235,069	99,502	12,811	32,206	379,588
Others	–	–	–	64,532	64,532
	₱311,612	₱420,582	₱15,158	₱100,593	₱847,945

	Parent Company				
	High Grade	**Standard Grade**	**Substandard Grade**	**Unrated**	**Total**
2011					
Loans and advances to banks					
Due from BSP	**₱–**	**₱146,636**	**₱–**	**₱–**	**₱146,636**
Due from other banks	**11,572**	**31**	**–**	**1,707**	**13,310**
Interbank loans receivable and SPURA	**1,009**	**–**	**–**	**2,213**	**3,222**
	12,581	**146,667**	**–**	**3,920**	**163,168**
Financial assets at FVPL					
Held-for-trading debt securities					
Government	**110**	**1,991**	**–**	**–**	**2,102**
Private	**121**	**28**	**–**	**105**	**253**
BSP	**–**	**3**	**–**	**–**	**3**
Subtotal	**231**	**2,022**	**–**	**105**	**2,358**
Derivative assets	**1,707**	**95**	**–**	**437**	**2,239**
	1,938	**2,117**	**–**	**542**	**4,597**
AFS investments					
Debt securities					
Government	**15,897**	**76,250**	**27**	**10,028**	**102,202**
Private	**12,446**	**–**	**–**	**989**	**13,435**
Subtotal	**28,343**	**76,250**	**27**	**11,017**	**115,637**
Equity securities					
Quoted	**14**	**–**	**–**	**157**	**171**
Unquoted	**–**	**–**	**–**	**61**	**61**
Subtotal	**14**	**–**	**–**	**218**	**232**
	28,357	**76,250**	**27**	**11,235**	**115,869**
HTM investments					
Government bonds	**–**	**10,083**	**–**	**3,486**	**13,569**
Private bonds	**3,895**	**–**	**–**	**–**	**3,895**
	3,895	**10,083**	**–**	**3,486**	**17,464**
Loans and receivables					
Receivables from customers					
Commercial loans	**79,592**	**154,181**	**27,538**	**–**	**261,311**
Residential mortgage loans	**866**	**24,280**	**302**	**–**	**25,448**
Auto loans	**1,310**	**11,445**	**26**	**–**	**12,781**
Trade	**6,959**	**14,334**	**4,454**	**–**	**25,747**
Others	**10,768**	**416**	**32**	**–**	**11,216**
	99,495	**204,656**	**32,352**	**–**	**336,503**
Unquoted debt securities	**–**	**–**	**–**	**1,325**	**1,325**
Accrued interest receivable	**480**	**2,620**	**115**	**98**	**3,313**
Accounts receivable	**–**	**–**	**–**	**2,498**	**2,498**
Sales contract receivable	**–**	**–**	**–**	**275**	**275**
Other receivables	**–**	**–**	**–**	**60**	**60**
	99,975	**207,276**	**32,467**	**4,256**	**343,974**
Others	**–**	**–**	**–**	**25,662**	**25,662**
	₱146,746	**₱442,393**	**₱32,494**	**₱49,101**	**₱670,734**

	Parent Company				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
2010					
Loans and advances to banks					
Due from BSP	₱–	₱162,391	₱–	₱–	₱162,391
Due from other banks	17,684	85	–	1,647	19,416
Interbank loans receivable and SPURA	16,675	–	–	1,331	18,006
	34,359	162,476	–	2,978	199,813
Financial assets at FVPL					
Held-for-trading debt securities					
Government	462	5,135	–	–	5,597
Private	145	–	–	23	168
Subtotal	607	5,135	–	23	5,765
Derivative assets	1,476	1,674	–	168	3,318
	2,083	6,809	–	191	9,083

(Forward)

	Parent Company				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
AFS investments					
Debt securities					
Government	₱16,839	₱58,182	₱38	₱–	₱75,059
Private	15,924	4,528	–	217	20,669
Subtotal	32,763	62,710	38	217	95,728
Equity securities					
Quoted	–	49	–	154	203
Unquoted	–	–	–	61	61
Subtotal	–	49	–	215	264
	32,763	62,759	38	432	95,992
HTM investments					
Government bonds	–	13,599	–	–	13,599
Treasury notes	–	348	–	–	348
	–	13,947	–	–	13,947
Loans and receivables					
Receivables from customers					
Commercial loans	133,409	67,068	9,780	–	210,257
Residential mortgage loans	19,730	323	234	–	20,287
Auto loans	7,409	3,400	21	–	10,830
Trade	14,887	470	209	–	15,566
Others	421	11,800	70	–	12,291
	175,856	83,061	10,314	–	269,231
Unquoted debt securities	–	–	–	4,119	4,119
Accounts receivable	–	–	–	6,334	6,334
Accrued interest receivable	1,494	679	43	2,364	4,580
Sales contract receivable	–	–	–	688	688
Other receivables	–	–	–	139	139
	177,350	83,740	10,357	13,644	285,091
Others	–	–	–	21,861	21,861
	₱246,555	₱329,731	₱10,395	₱39,106	₱625,787

Breakdown of restructured receivables from customers by class are shown below:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Commercial loans	**₱7,289**	₱8,517	**₱6,559**	₱7,676
Residential mortgage loans	**203**	122	**100**	23
Others	**46**	50	**–**	–
	₱7,538	₱8,689	**₱6,659**	₱7,699

Aging analysis of past due but not impaired loans and receivables is shown below:

	Consolidated					
	Within 30 days	**31-60 days**	**61-90 days**	**91-180 days**	**Over 180 days**	**Total**
2011						
Receivables from customers						
Commercial loans	**₱171**	**₱26**	**₱24**	**₱28**	**₱406**	**₱655**
Residential mortgage loans	**33**	**9**	**12**	**25**	**152**	**231**
Auto loans	**10**	**14**	**44**	**289**	**650**	**1,007**
Trade	**2**	**–**	**–**	**–**	**2**	**4**
Others	**487**	**319**	**22**	**75**	**1,733**	**2,636**
Receivables from customers - net of unearned discounts and capitalized interest	**703**	**368**	**102**	**417**	**2,943**	**4,533**
Accrued interest receivable	**1**	**–**	**1**	**3**	**44**	**49**
Accounts receivable	**2**	**1**	**1**	**2**	**279**	**285**
Sales contract receivable	**58**	**8**	**4**	**1**	**29**	**100**
	₱764	**₱377**	**₱108**	**₱423**	**₱3,295**	**₱4,967**

(Forward)

	Consolidated					
	Within 30 days	31-60 days	61-90 days	91-180 days	Over 180 days	Total
2010						
Receivables from customers						
Commercial loans	₱130	₱47	₱78	₱27	₱777	₱1,059
Residential mortgage loans	1,293	481	125	88	293	2,280
Auto loans	1,104	554	206	228	576	2,668
Trade	2	2	10	6	12	32
Others	490	319	37	91	1,898	2,835
Receivables from customers - net of unearned discounts and capitalized interest	3,019	1,403	456	440	3,556	8,874
Accounts receivable	42	15	1	1	280	339
Accrued interest receivable	20	9	4	6	65	104
Sales contract receivable	28	11	1	3	12	55
	₱3,109	₱1,438	₱462	₱450	₱3,913	₱9,372

	Parent Company					
	Within 30 days	31-60 days	61-90 days	91-180 days	Over 180 days	Total
2011						
Receivables from customers						
Commercial loans	**₱21**	**₱25**	**₱19**	**₱26**	**₱406**	**₱497**
Residential mortgage loans	**6**	**–**	**–**	**–**	**124**	**130**
Auto loans	**–**	**–**	**–**	**–**	**34**	**34**
Trade	**2**	**–**	**–**	**–**	**1**	**3**
Others	**6**	**–**	**–**	**–**	**2**	**8**
Receivables from customers - net of unearned discounts and capitalized interest	**35**	**25**	**19**	**26**	**567**	**672**
Accrued interest receivable	**–**	**–**	**–**	**–**	**4**	**4**
	₱35	**₱25**	**₱19**	**₱26**	**₱571**	**₱676**
2010						
Receivables from customers						
Commercial loans	₱7	₱24	₱63	₱21	₱761	₱876
Residential mortgage loans	6	–	–	–	127	133
Auto loans	–	–	–	–	30	30
Trade	2	1	10	6	–	19
Others	7	1	–	–	1	9
Receivables from customers - net of unearned discounts and capitalized interest	22	26	73	27	919	1,067
Accrued interest receivable	–	–	–	–	15	15
	₱22	₱26	₱73	₱27	₱934	₱1,082

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 are regularly updated according to internal lending policies and regulatory guidelines. Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements. Collateral usually is not held against investment securities, and no such collateral was held as of December 31, 2011 and 2010.

<u>Liquidity Risk</u>
Liquidity risk is defined as the current and prospective risk to earnings or capital arising from the Group's inability to meet its obligations when they become due.

The Group manages its liquidity risk through analyzing net funding requirements under alternative scenarios, diversification of funding sources and contingency planning. Specifically for the Parent Company, it utilizes a diverse range of sources of funds, although short-term deposits made with its network of domestic branches comprise the majority of such funding. To ensure that funding requirements are met, the Parent Company manages its liquidity risk by holding sufficient liquid assets of appropriate quality. It also maintains a balanced loan portfolio that is repriced on a regular basis. Deposits with banks are made on a short-term basis.

In the Parent Company, the Treasury Group uses liquidity forecast models to estimate its cash flow needs based on its actual contractual obligations and under normal and extraordinary circumstances. RSK prepares weekly and monthly Maximum Cumulative Outflow (MCO) reports, which measure the liquidity mismatch risk. Liquidity capacity is measured by the Group on a daily basis and is also simulated under stressed scenarios. The Group's financial institution subsidiaries (excluding insurance companies) similarly prepare their respective MCO reports. These are reported to the Parent Company's ALCO and RMC at least on a monthly basis.

The table below summarizes the maturity profile of financial instruments and gross-settled derivatives based on contractual undiscounted cash flows.

Financial assets
Analysis of equity securities at FVPL and AFS equity securities into maturity groupings is based on the expected date on which these assets will be realized. For other financial 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 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.

	Consolidated						
	2011						
	On demand	Up to 1 month	1 to 3 Months	3 to 6 months	6 to 12 months	Beyond 1 Year	Total
Financial Assets							
Cash and other cash items	₱20,954	₱–	₱–	₱–	₱–	₱–	₱20,954
Due from BSP	43,620	111,274	1,810	–	–	–	156,704
Due from other banks	24,542	5,874	106	1,594	4	–	32,120
Interbank loans receivable and SPURA	18,797	5,131	439	–	–	–	24,367
Financial assets at FVPL							
Held-for-trading	–	1,490	–	2,386	–	–	3,876
Derivative assets*							
Trading:							
Pay	–	21,138	12,458	5,952	3,162	308	43,018
Receive	55	21,429	12,805	6,138	3,597	711	44,735
	55	291	347	186	435	403	1,717
AFS investments	–	221	978	16,706	2,643	152,949	173,497
HTM investments	–	347	1,987	3,220	4,273	99,435	109,262
Loans and receivables:							
Receivables from customers	5,540	81,586	62,847	38,992	33,824	291,521	514,310
Unquoted debt securities	–	–	–	1,299	40	21,577	22,916
Accounts receivable	3,499	462	1	1	5	259	4,227
Accrued interest receivable	6,152	275	250	102	19	253	7,051
Sales contract receivable	36	–	1	7	29	687	760
Other receivables	69	6	–	–	42	177	294
Other assets							
Returned checks and other cash items	–	–	67	–	–	–	67
Residual value of leased property	–	13	15	22	60	307	417
Miscellaneous	–	–	–	–	–	917	917
	₱123,264	₱206,970	₱68,848	₱64,515	₱41,374	₱568,485	₱1,073,456

(Forward)

	Consolidated						
	2011						
	On demand	Up to 1 month	1 to 3 Months	3 to 6 months	6 to 12 months	Beyond 1 Year	Total
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities							
Demand	**₱77,589**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱77,589**
Savings	**283,011**	**–**	**–**	**–**	**–**	**–**	**283,011**
Time	**–**	**230,556**	**54,232**	**12,415**	**8,905**	**14,778**	**320,886**
	360,600	**230,556**	**54,232**	**12,415**	**8,905**	**14,778**	**681,486**
Bills payable and SSURA	**–**	**51,186**	**30,358**	**5,865**	**4,808**	**9,917**	**102,134**
Manager's checks and demand drafts outstanding	**2,610**	**–**	**–**	**–**	**–**	**–**	**2,610**
Accrued interest payable	**355**	**342**	**446**	**11**	**27**	**839**	**2,020**
Accrued other expenses	**4,295**	**116**	**58**	**–**	**70**	**43**	**4,582**
Subordinated debt	**–**	**255**	**84**	**340**	**9,179**	**12,226**	**22,084**
Other liabilities							
Bills purchased - contra	**10,695**	**–**	**–**	**–**	**–**	**–**	**10,695**
Accounts payable	**892**	**3,710**	**754**	**–**	**259**	**339**	**5,954**
Bonds payable	**–**	**–**	**–**	**–**	**–**	**4,875**	**4,875**
Outstanding acceptances	**–**	**303**	**620**	**86**	**55**	**–**	**1,064**
Marginal deposit	**276**	**–**	**98**	**–**	**–**	**–**	**374**
Deposits on lease contract	**–**	**6**	**18**	**34**	**101**	**438**	**597**
Dividends payable	**–**	**31**	**–**	**–**	**–**	**–**	**31**
Miscellaneous	**–**	**–**	**–**	**–**	**–**	**488**	**488**
	379,723	**286,505**	**86,668**	**18,751**	**23,404**	**43,943**	**838,994**
Derivative liabilities*							
Trading:							
Pay	**–**	**23,511**	**21,009**	**11,874**	**5,713**	**6,939**	**69,046**
Receive	**–**	**23,124**	**20,643**	**11,716**	**5,504**	**5,729**	**66,716**
	–	**387**	**366**	**158**	**209**	**1,210**	**2,330**
Loan commitments and financial guarantees	**51,541**	**2,429**	**7,299**	**3,996**	**6,290**	**2,422**	**73,977**
	₱431,264	**₱289,321**	**₱94,333**	**₱22,905**	**₱29,903**	**₱47,575**	**₱915,301**

	Consolidated						
	2010						
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 Year	Total
Financial Assets							
Cash and other cash items	₱20,201	₱–	₱–	₱–	₱–	₱–	₱20,201
Due from BSP	21,699	102,063	44,773	–	–	–	168,535
Due from other banks	34,895	3,302	74	34	–	3	38,308
Interbank loans receivable and SPURA	7,517	16,828	1,729	440	–	–	26,514
Financial assets at FVPL							
Held-for-trading	798	2,855	5,951	–	–	–	9,604
Derivative assets*							
Trading:							
Pay	–	36,998	39,463	20,710	4,697	2,438	104,306
Receive	71	38,230	40,460	21,298	4,873	2,512	107,444
	71	1,232	997	588	176	74	3,138
AFS investments	8	1,575	5,316	16,318	7,225	132,769	163,211
HTM investments	–	67	134	193	445	58,864	59,703
Loans and receivables:							
Receivables from customers	6,745	64,468	67,338	34,128	42,632	228,498	443,809
Unquoted debt securities	–	–	1	1,006	3,289	13,644	17,940
Accounts receivable	3,388	381	1	–	5	5,247	9,022
Accrued interest receivable	5,373	344	234	177	4	49	6,181
Sales contract receivable	692	12	24	38	74	506	1,346
Other receivables	185	39	–	–	–	–	224
Other assets							
Returned checks and other cash items	359	–	–	–	–	–	359
Residual value of lease property	9	12	14	35	42	230	342
Miscellaneous	–	–	–	–	–	493	493
	₱101,940	₱193,178	₱126,586	₱52,957	₱53,892	₱440,377	₱968,930

(Forward)

	Consolidated						
	2010						
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 Year	Total
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities							
Demand	₱68,261	₱–	₱–	₱–	₱–	₱–	₱68,261
Savings	267,930	–	–	–	–	–	267,930
Time	–	220,934	58,490	12,141	10,499	18,060	320,124
	336,191	220,934	58,490	12,141	10,499	18,060	656,315
Bills payable and SSURA	–	9,542	4,333	4,210	2,031	66,496	86,612
Manager's checks and demand drafts outstanding	2,043	–	–	–	–	–	2,043
Accrued interest payable	247	319	450	47	67	691	1,821
Accrued other expenses	1,408	754	2	30	43	541	2,778
Subordinated debt	–	255	84	340	680	24,934	26,293
Other liabilities							
Bills purchased - contra	11,707	54	–	–	–	–	11,761
Accounts payable	129	3,533	19	607	346	–	4,634
Bonds payable	–	–	–	–	–	55	55
Outstanding acceptances	–	694	485	63	54	–	1,296
Marginal deposit	1,901	–	757	–	–	–	2,658
Deposits on lease contracts	–	14	24	31	89	339	497
Dividends payable	–	–	21	–	–	–	21
Miscellaneous	–	–	–	–	–	488	488
	353,626	236,099	64,665	17,469	13,809	111,604	797,272
Derivative liabilities*							
Trading:							
Pay	–	28,051	43,926	5,937	7,941	4,839	90,694
Receive	–	27,532	42,952	5,539	7,480	4,441	87,944
	–	519	974	398	461	398	2,750
Loan commitments and financial guarantees	43,577	6,117	6,035	2,911	3,840	409	62,889
	₱397,203	₱242,735	₱71,674	₱20,778	₱18,110	₱112,411	₱862,911

	Parent Company						
	2011						
	On demand	**Up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Beyond 1 Year**	**Total**
Financial Assets							
Cash and other cash items	**₱16,985**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱16,985**
Due from BSP	**39,316**	**107,487**	**–**	**–**	**–**	**–**	**146,803**
Due from other banks	**13,310**	**–**	**–**	**–**	**–**	**–**	**13,310**
Interbank loans receivable and SPURA	**–**	**2,259**	**659**	**133**	**179**	**–**	**3,230**
Financial assets at FVPL							
Held-for-trading	**–**	**–**	**–**	**2,386**	**–**	**–**	**2,386**
Derivative assets*							
Trading:							
Pay	**–**	**21,138**	**12,458**	**5,952**	**3,162**	**308**	**43,018**
Receive	**–**	**21,429**	**12,805**	**6,138**	**3,551**	**711**	**44,634**
	–	**291**	**347**	**186**	**389**	**403**	**1,616**
AFS investments	**–**	**123**	**783**	**1,034**	**2,643**	**139,655**	**144,238**
HTM investments	**–**	**–**	**1,295**	**877**	**2,196**	**27,273**	**31,641**
Loans and receivables							
Receivables from customers	**2,707**	**63,719**	**59,422**	**32,878**	**25,965**	**219,465**	**404,156**
Unquoted debt securities	**–**	**–**	**–**	**–**	**32**	**4,719**	**4,751**
Accounts receivable	**3,455**	**–**	**–**	**–**	**–**	**–**	**3,455**
Accrued interest receivable	**5,241**	**–**	**–**	**–**	**–**	**–**	**5,241**
Sales contract receivable	**661**	**–**	**1**	**6**	**27**	**216**	**911**
Other receivables	**61**	**–**	**–**	**–**	**–**	**–**	**61**
Other assets							
Returned checks and other cash items	**–**	**–**	**47**	**–**	**–**	**–**	**47**
Miscellaneous	**–**	**–**	**–**	**–**	**–**	**917**	**917**
	₱81,736	**₱173,879**	**₱62,554**	**₱37,500**	**₱31,431**	**₱392,648**	**₱779,748**

(Forward)

	Parent Company 2011						
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 Year	Total
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities							
Demand	₱71,667	₱–	₱–	₱–	₱–	₱–	₱71,667
Savings	272,331	–	–	–	–	–	272,331
Time	–	174,759	45,618	10,680	6,323	751	238,131
	343,998	174,759	45,618	10,680	6,323	751	582,129
Bills payable and SSURA	–	13,244	353	1	1	3	13,602
Manager's checks and demand drafts outstanding	1,955	–	–	–	–	–	1,955
Accrued interest payable	–	4	360	3	2	838	1,207
Accrued other expenses	2,742	–	–	–	–	–	2,742
Subordinated debt	–	255	84	340	9,179	10,933	20,791
Other liabilities							
Bills purchased - contra	10,630	–	–	–	–	–	10,630
Accounts payable	–	3,693	–	–	–	–	3,693
Outstanding acceptances	–	303	621	86	54	–	1,064
Marginal deposit	–	–	97	–	–	–	97
	359,325	192,258	47,133	11,110	15,559	12,525	637,910
Derivative liabilities*							
Trading:							
Pay	–	23,311	20,994	11,849	8,812	4,570	69,536
Receive	–	22,927	20,638	11,709	8,617	3,497	67,388
	–	384	356	140	195	1,073	2,148
Loan commitments and financial guarantees	1,569	2,429	7,299	3,996	6,290	2,012	23,595
	₱360,893	₱195,071	₱54,788	₱15,246	₱22,044	₱15,611	₱663,653

	Parent Company 2010						
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 Year	Total
Financial Assets							
Cash and other cash items	₱16,996	₱–	₱–	₱–	₱–	₱–	₱16,996
Due from BSP	19,831	99,609	43,085	–	–	–	162,525
Due from other banks	19,416	–	–	–	–	–	19,416
Interbank loans receivable and SPURA	–	15,844	1,729	440	–	–	18,013
Financial assets at FVPL							
Held-for-trading	–	2	5,863	–	–	–	5,865
Derivative assets*							
Trading:							
Pay	–	36,997	39,453	19,036	4,494	472	100,452
Receive	–	38,230	40,459	19,542	4,711	687	103,629
	–	1,233	1,006	506	217	215	3,177
AFS investments	–	1,315	4,871	49	6,824	112,174	125,233
HTM investments	–	–	–	–	–	28,695	28,695
Loans and receivables							
Receivables from customers	3,751	55,638	51,013	24,704	24,462	168,371	327,939
Unquoted debt securities	–	–	–	–	3,206	4,844	8,050
Accounts receivable	3,087	–	–	–	–	4,935	8,022
Accrued interest receivable	4,689	–	–	–	–	–	4,689
Sales contract receivable	680	–	1	2	8	642	1,333
Other receivables	179	–	–	–	–	–	179
Other assets							
Returned checks and other cash items	331	–	–	–	–	–	331
Miscellaneous	–	–	–	–	–	491	491
	₱68,960	₱173,641	₱107,568	₱25,701	₱34,717	₱320,367	₱730,954

(Forward)

	Parent Company						
	2010						
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 Year	Total
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities							
Demand	₱61,216	₱–	₱–	₱–	₱–	₱–	₱61,216
Savings	260,269	–	–	–	–	–	260,269
Time	–	174,039	49,360	9,795	8,829	936	242,959
	321,485	174,039	49,360	9,795	8,829	936	564,444
Bills payable and SSURA	–	9,176	806	433	2	11	10,428
Manager's checks and demand drafts outstanding	1,393	–	–	–	–	–	1,393
Accrued interest payable	–	6	338	3	3	643	993
Accrued other expenses	1,383	–	–	–	–	–	1,383
Subordinated debt	–	255	85	340	679	20,791	22,150
Other liabilities							
Bills purchased - contra	11,706	–	–	–	–	–	11,706
Accounts payable	–	2,857	–	–	–	–	2,857
Outstanding acceptances	–	694	485	63	54	–	1,296
Marginal deposit	–	–	757	–	–	–	757
	335,967	187,027	51,831	10,634	9,567	22,381	617,407
Derivative liabilities*							
Trading:							
Pay	–	28,015	43,926	5,937	7,941	4,715	90,534
Receive	–	27,532	42,952	5,539	7,480	4,441	87,944
	–	483	974	398	461	274	2,590
Loan commitments and financial guarantees	1,085	6,117	6,035	2,911	3,840	410	20,398
	₱337,052	₱193,627	₱58,840	₱13,943	₱13,868	₱23,065	₱640,395

*Does not include derivatives embedded in financial and nonfinancial contracts.

Market Risk
Market risk is the possibility of loss to future earnings, fair values or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchange rates, equity prices and other market factors. The Parent Company's market risk originates from its holdings in foreign currencies, debt securities, equities and derivatives transactions. The Parent Company manages market risk by segregating its balance sheet into a trading book and a banking book. ALCO, chaired by the Parent Company's Chairman is the senior review and decision-making body for the management of all related market risks. The risk limits are approved by the RMC, a sub-committee of the BOD. The RSK serves under the RMC and performs daily market risk analyses to ensure compliance with the Parent Company's policies and makes recommendations based on such analyses. The Treasury Group manages asset/liability risks arising from both banking book and trading operations in financial markets. The BOD, through the RMC, assigned risk limits to the Treasury Group.

Market Risk - Trading Book
In measuring the potential loss in its trading portfolio, the Parent Company uses Value-at-Risk (VaR) as a primary tool. The VaR method is a procedure for estimating portfolio losses exceeding some specified proportion based on a statistical analysis of historical market price trends, correlations and volatilities. VaR estimates the potential decline in the value of a portfolio, under normal market conditions, for a given "confidence level" over a specified holding period.

VaR methodology assumptions and parameters
The VaR using Historical simulation method assumes that asset returns in the future will have the same movement that occurred within the specified historical data set. However, this assumption may or may not cover all possible range of future outcomes, especially those of an exceptional

nature that would occur in stressed market conditions. In calculating VaR, the Parent Company uses a 99.00% confidence level. This means that, statistically, losses on trading operations will exceed VaR on 1 out of 100 trading days. The validity of the VaR model is verified through quarterly back testing, which examines how frequently both actual and hypothetical daily losses exceed daily VaR. The Parent Company measures and monitors the VaR and profit and loss on a daily basis. The results of the quarterly backtesting are reported to the ALCO and RMC. The financial institution subsidiaries with trading portfolios adopted the Parent Company methodology in 2011.

A summary of the VaR position of the trading portfolio of the Parent Company, PSBank and FMIC is as follows:

	Parent Company			
	April 1 - July 11[1]		July 12 - December 31[2]	
	Rates and Foreign Exchange	Fixed Income	Rates and Foreign Exchange	Fixed Income
As of December 31, 2011				
December 29			**₱215.8**	**₱31.1**
Average	**₱564.1**	**₱58.5**	**289.5**	**75.0**
Highest	**775.5**	**112.8**	**414.5**	**159.9**
Lowest	**312.3**	**26.4**	**173.9**	**19.8**

1/start of Market Risk Limits Package
2/historical interest rate movements changed from relative to absolute change to reflect market convention

	PSBank		FMIC
	Rates and Foreign Exchange	Fixed Income	Fixed Income
As of December 31, 2011			
December 29	**₱0.4**	**₱–**	**₱0.7**
Average	**0.6**	**7.3**	**26.4**
Highest	**1.8**	**75.8**	**185.4**
Lowest	**0.0**	**0.0**	**0.1**

	Parent Company		PSBank	
	Interest Rate	Foreign Exchange	Interest Rate	Foreign Exchange
As of December 31, 2010				
December 30	₱278.3	₱29.6	₱11.8	₱1.3
Average	68.1	15.6	5.8	0.7
Highest	322.8	48.6	21.2	2.6
Lowest	14.8	0.5	0.0	0.0

The observation period used in deriving the average VaR of the Parent Company begins with the implementation of the market risk limits package which commenced in April 2011. Prior to this period, VaR figures are presented per product and are only aggregated without correlation. To be consistent with the new limits structure, VaR is calculated on a per portfolio basis - fixed income and rates & foreign exchange. Rates and FX Portfolio VaR is a diversified VaR covering the following products: Swaps, FX Forwards and Spot. On July 12, 2011, the absolute change method replaced the relative change method in obtaining historical interest rate movements. This methodology is more robust in handling period of negative or near zero interest rate values like what happened during the last quarter of 2010. The change in methodology resulted to a new set of VaR figures for the rates and foreign exchange portfolio, the figures are shown in the lower portion of the 2011 VaR Table for Parent Company. The VaR for foreign exchange is the foreign exchange risk throughout the Parent Company and PSBank. For the year ended December 31, 2011 and 2010, the year-end VaR is based on the last trading date.

The limitations of the VaR methodology are recognized by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks.

The Parent Company and PSBank performs stress testing on a quarterly basis while FMIC perform stress testing in a daily basis to complement the VaR methodology. The stress testing results of the Parent Company are reported to the ALCO and subsequently to the RMC and the BOD.

Market Risk - Banking Book
The interest rate exposures of the Group are measured and reported to the ALCO and RMC at least on a monthly basis.

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.

One method by which the Group measures the sensitivity of its assets and liabilities to interest rate fluctuations is by way of "gap analysis". This analysis provides the Group a static view of the maturity and repricing characteristics of its balance sheet positions. An interest rate gap report is prepared by classifying all assets and liabilities into various time period categories according to contracted maturities or anticipated repricing dates, whichever is earlier. The difference in the amount of assets and liabilities maturing or repricing in any time period category would give an indication of its exposure to the risk of potential changes in net interest income. From the repricing gap, the Group measures interest rate risk based on earnings perspective through Earnings-at-Risk (EaR). EaR is an interest rate risk measure of the Group's earnings decline either immediately or over time as a result of a change in the volatility of interest rates. It is a management tool that evaluates the sensitivity of the accrual portfolio to expected change in interest rates over the next 12 months.

Below shows the Group and the Parent Company's EaR for 2011 and 2010:

	Parent Company	PSBank	OMLC	MCC	FMIC	Total
2011	**₱2,572.93**	**(₱322.44)**	**(₱0.40)**	**(₱40.00)**	**(₱472.00)**	**₱1,738.09**
2010	₱584.38	(₱34.47)	(₱0.09)	(₱5.32)	(₱223.00)	₱321.50

The following table sets forth, for the period indicated, the impact of reasonably possible changes in the interest rates on net interest income and equity:

		Consolidated					
			Sensitivity of equity				
Currency	Movement in basis points	Sensitivity of net interest income	0 up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
2011							
PHP	**+10**	**(₱29.77)**	**(₱0.48)**	**(₱0.45)**	**(₱22.09)**	**(₱718.52)**	**(₱741.54)**
USD	**+10**	**38.97**	**(0.36)**	**(1.36)**	**(54.33)**	**(31.25)**	**(87.30)**
Others	**+10**	**(0.95)**	**–**	**(0.07)**	**(11.26)**	**–**	**(11.33)**
PHP	**-10**	**29.77**	**0.10**	**0.45**	**23.97**	**492.46**	**516.98**
USD	**-10**	**(38.97)**	**0.32**	**1.36**	**51.57**	**449.65**	**502.90**
Others	**-10**	**0.95**	**–**	**0.07**	**11.31**	**–**	**11.38**

(Forward)

		Consolidated					
			Sensitivity of equity				
Currency	Movement in basis points	Sensitivity of net interest income	0 up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
2010							
PHP	+10	(₱43.51)	(₱0.26)	(₱1.15)	(₱35.17)	(₱382.46)	(₱419.04)
USD	+10	(87.69)	(0.56)	(7.14)	(97.20)	(152.93)	(257.83)
Others	+10	3.69	–	(0.01)	(4.72)	(0.28)	(5.01)
PHP	-10	43.51	0.28	1.24	58.05	388.69	448.26
USD	-10	87.69	0.85	7.15	97.41	154.09	259.50
Others	-10	(3.69)	–	0.01	4.73	0.28	5.02

		Parent Company					
			Sensitivity of equity				
Currency	Movement in basis points	Sensitivity of net interest income	0 up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
2011							
PHP	**+10**	**₱138.29**	**(₱0.13)**	**(₱0.45)**	**(₱22.07)**	**(₱292.60)**	**(₱315.25)**
USD	**+10**	**(13.13)**	**(0.36)**	**(1.36)**	**(54.33)**	**(178.72)**	**(234.77)**
Others	**+10**	**(0.95)**	–	**(0.07)**	**(11.26)**	–	**(11.33)**
PHP	**-10**	**(138.29)**	**0.13**	**0.45**	**22.61**	**294.76**	**317.95**
USD	**-10**	**13.13**	**0.32**	**1.36**	**51.57**	**180.49**	**233.74**
Others	**-10**	**0.95**	–	**0.07**	**11.31**	–	**11.38**
2010							
PHP	+10	₱27.65	(₱0.01)	(₱1.15)	(₱30.45)	(₱172.70)	(₱204.31)
USD	+10	(88.01)	(0.56)	(7.14)	(97.20)	(149.04)	(253.94)
Others	+10	3.69	–	(0.01)	(4.72)	(0.28)	(5.01)
PHP	-10	(27.65)	0.03	1.24	53.29	175.42	229.98
USD	-10	88.01	0.85	7.15	97.41	150.16	255.57
Others	-10	(3.69)	–	0.01	4.73	0.28	5.02

For purposes of PFRS 7, the disclosed interest rate sensitivity analysis measures the impact on profit or loss (for rate-sensitive assets and liabilities, including items recorded at fair value through profit or loss) and on equity (for AFS investments) that would arise from possible change in interest rates at the statement of financial position date.

Sensitivity of net interest income for 2010 only covers expected repricing gaps within one year. This shall make the interest rate sensitivity analysis more comparable with the resulting EaR which poses the same computational methodology.

Foreign currency risk
Foreign exchange risk is the probability of loss to earnings or capital arising from changes in foreign exchange rates. The Group takes on exposure to effects of fluctuations in the current foreign currency exchange rates on its financial performance and cash flows. Foreign currency liabilities generally consist of foreign currency deposits in the Group's FCDU account. Foreign currency deposits are generally used to fund the Group's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency liabilities with the foreign currency assets held in FCDUs. In addition, the

BSP requires a 30.00% liquidity reserve on all foreign currency liabilities held in the FCDU. Outside the FCDU, the Group has additional foreign currency assets and liabilities in its foreign branch network.

The Group's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines.

The following table sets forth, for the year indicated, the impact of reasonably possible changes in the USD exchange rate and other currencies per Philippine peso on pre-tax income and equity:

	Consolidated						**Parent Company**					
	2011			2010			**2011**			2010		
Currency	**Change in currency rate in %**	**Effect on profit before tax**	**Effect on equity**	Change in currency rate in %	Effect on profit before tax	Effect on equity	**Change in currency rate in %**	**Effect on profit before tax**	**Effect on equity**	Change in currency rate in %	Effect on profit before tax	Effect on equity
USD	**+1.00%**	**(₱55.47)**	**(₱0.46)**	+1.00%	(₱65.87)	₱185.65	**+1.00%**	**(₱57.37)**	**(₱0.45)**	+1.00%	(₱68.81)	₱146.49
EUR	**+1.00%**	**(5.61)**	**–**	+1.00%	0.20	–	**+1.00%**	**(5.61)**	**–**	+1.00%	0.20	–
JPY	**+1.00%**	**1.44**	**–**	+1.00%	4.17	–	**+1.00%**	**1.44**	**–**	+1.00%	4.17	–
GBP	**+1.00%**	**0.21**	**–**	+1.00%	0.75	–	**+1.00%**	**0.21**	**–**	+1.00%	0.75	–
Others	**+1.00%**	**45.32**	**–**	+1.00%	53.87	–	**+1.00%**	**45.32**	**–**	+1.00%	53.87	–
USD	**-1.00%**	**55.47**	**0.46**	-1.00%	65.87	89.03	**-1.00%**	**57.37**	**0.45**	-1.00%	68.81	62.07
EUR	**-1.00%**	**5.61**	**–**	-1.00%	(0.20)	–	**-1.00%**	**5.61**	**–**	-1.00%	(0.20)	–
JPY	**-1.00%**	**(1.44)**	**–**	-1.00%	(4.17)	–	**-1.00%**	**(1.44)**	**–**	-1.00%	(4.17)	–
GBP	**-1.00%**	**(0.21)**	**–**	-1.00%	(0.75)	–	**-1.00%**	**(0.21)**	**–**	-1.00%	(0.75)	–
Others	**-1.00%**	**(45.32)**	**–**	-1.00%	(53.87)	–	**-1.00%**	**(45.32)**	**–**	-1.00%	(53.87)	–

Information relating to Parent Company's currency derivatives is contained in Note 8. As of December 31, 2011 and 2010, the Parent Company has outstanding foreign currency spot transactions (in equivalent peso amounts) of ₱8.3 billion and ₱6.8 billion, respectively, (sold) and ₱7.5 billion and ₱6.3 billion, respectively (bought).

The impact on the Parent Company's equity already excludes the impact on transactions affecting the profit and loss.

<u>Capital Management</u>
The primary objectives of the Group's capital management are to ensure that it complies with externally imposed capital requirements, and 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 and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital structure, or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

<u>Regulatory Qualifying Capital</u>
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 that differ from PFRS in some respects.

In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both stand-alone basis (head office and branches) and consolidated basis (Parent Company and subsidiaries engaged in financial allied undertakings but excluding insurance companies). Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board (MB) of the BSP.

On August 4, 2006, BSP issued Circular No. 538 the revised risk based capital adequacy framework for the Philippine Banking system to conform with BASEL II recommendation. This BSP guidelines took effect on July 1, 2007. The details of CAR as reported to the BSP, follow:

	Consolidated		Parent Company	
	December 31			
	2011	2010	**2011**	2010
Tier 1 capital	**₱87,429**	₱67,670	**₱84,529**	₱65,134
Tier 2 capital	**23,924**	25,796	**21,338**	21,234
Gross qualifying capital	**111,353**	93,466	**105,867**	86,368
Less: Required deductions	**2,286**	2,037	**37,761**	33,655
Total qualifying capital	**₱109,067**	₱91,429	**₱68,106**	₱52,713
Risk weighted assets	**₱628,439**	₱556,241	**₱460,429**	₱396,433
Tier 1 capital ratio	**13.7%**	12.0%	**14.4%**	12.2%
Total capital ratio	**17.4%**	16.4%	**14.8%**	13.3%

The regulatory qualifying capital of the Parent Company consists of Tier 1 (core) capital, which comprises paid-up common stock, HT1 Capital, surplus including current year profit, surplus reserves and non-controlling interest less required deductions such as unsecured credit accommodations to DOSRI, 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, general loan loss provision, and net unrealized gains on available for sale equity securities.

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

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 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. BSP requires submission of an ICAAP document every January 31. The Group has complied with this requirement.

5. **Fair Value Measurement**

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

Cash and other cash items, due from BSP and other banks and interbank loans receivable and SPURA - Carrying amounts approximate fair values in view of the relatively short-term maturities of these instruments.

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

Derivative instruments - Fair values are estimated based on quoted market prices, prices provided by independent parties, or prices derived using acceptable valuation models.

Loans and receivables - Fair values of the Group's loans and receivables are estimated using the discounted cash flow methodology, using 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.

Liabilities - 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, if any. The carrying amount of demand and savings deposit liabilities approximates fair value considering that these are due and demandable.

The following tables summarize the carrying amounts and fair values of the financial assets and liabilities:

	2011			
	Consolidated		Parent Company	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Financial assets at FVPL				
Held-for-trading				
Debt securities				
Government	**₱2,550**	**₱2,550**	**₱2,102**	**₱2,102**
Private	**254**	**254**	**253**	**253**
BSP	**3**	**3**	**3**	**3**
Equity securities - quoted	**1,041**	**1,041**	**–**	**–**
Derivative assets	**2,340**	**2,340**	**2,239**	**2,239**
	6,188	**6,188**	**4,597**	**4,597**
AFS investments				
Debt securities				
Government	**126,955**	**126,955**	**102,202**	**102,202**
Private	**14,093**	**14,093**	**13,435**	**13,435**
Equity securities				**–**
Quoted	**1,754**	**1,754**	**278**	**278**
Unquoted	**255**	**255**	**61**	**61**
	143,057	**143,057**	**115,976**	**115,976**
HTM investments				
Government	**35,496**	**41,594**	**13,569**	**16,588**
Treasury notes	**8,066**	**9,787**	**–**	**–**
Private	**3,895**	**3,909**	**3,895**	**3,909**
	47,457	**55,290**	**17,464**	**20,497**

(Forward)

	2011			
	Consolidated		Parent Company	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Loans and receivables				
Cash and other cash items	**₱20,954**	**₱20,954**	**₱16,985**	**₱16,985**
Due from BSP	**156,537**	**156,537**	**146,636**	**146,636**
Due from other banks	**32,095**	**32,095**	**13,310**	**13,310**
Interbank loans receivable and SPURA (Note 7)				
Interbank loans receivable	**9,327**	**9,327**	**3,222**	**3,222**
SPURA	**15,040**	**15,040**	**–**	**–**
	24,367	**24,367**	**3,222**	**3,222**
Loans and receivables - net				
Receivables from customers				
Commercial loans	**283,128**	**285,689**	**265,756**	**268,650**
Residential mortgage loans	**43,815**	**45,114**	**25,790**	**26,018**
Auto loans	**37,961**	**40,560**	**12,793**	**12,793**
Trade	**25,991**	**25,991**	**25,991**	**25,991**
Others	**44,756**	**47,084**	**11,236**	**11,236**
	435,651	**444,438**	**341,566**	**344,688**
Unquoted debt securities	**11,335**	**11,335**	**2,038**	**2,038**
Accounts receivable	**2,772**	**2,772**	**2,519**	**2,519**
Accrued interest receivable	**4,922**	**4,922**	**3,431**	**3,431**
Sales contract receivable	**728**	**728**	**707**	**707**
Other receivables	**292**	**292**	**59**	**59**
	455,700	**464,487**	**350,320**	**353,442**
Other assets (Note 13)				
Interoffice float items	**1,127**	**1,127**	**1,093**	**1,093**
Residual value of leased assets	**417**	**417**	**–**	**–**
Returned checks and other cash items	**67**	**67**	**47**	**47**
Other investments	**14**	**14**	**10**	**10**
Investment in SPVs	**–**	**–**	**–**	**–**
Miscellaneous	**917**	**917**	**917**	**917**
Total financial assets	**₱888,897**	**₱905,517**	**₱670,577**	**₱676,731**
Financial Liabilities				
Financial liabilities at FVPL				
Derivative liabilities	**₱2,819**	**₱2,819**	**₱2,689**	**₱2,689**
Financial liabilities at amortized cost				
Deposit liabilities				
Demand	**77,589**	**77,589**	**71,667**	**71,667**
Savings	**283,011**	**283,011**	**272,331**	**272,331**
Time	**320,393**	**322,232**	**237,638**	**237,638**
	680,993	**682,832**	**581,636**	**581,636**
Bills payable and SSURA	**99,657**	**99,679**	**13,600**	**13,600**
Managers checks and demand drafts outstanding	**2,610**	**2,610**	**1,955**	**1,955**
Accrued interest and other expenses	**6,602**	**6,602**	**3,949**	**3,949**
Subordinated debt (Note 18)	**19,735**	**19,507**	**18,442**	**18,027**
Other liabilities (Note 19)				
Bills purchased - contra	**10,695**	**10,695**	**10,630**	**10,630**
Accounts payable	**5,954**	**5,954**	**3,693**	**3,693**
Bonds payable	**4,875**	**4,875**	**–**	**–**
Marginal deposits	**374**	**374**	**97**	**97**
Outstanding acceptances	**1,064**	**1,064**	**1,064**	**1,064**
Deposits on lease contracts	**597**	**487**	**–**	**–**
Dividends payable	**31**	**31**	**–**	**–**
Miscellaneous	**488**	**488**	**–**	**–**
	24,078	**23,968**	**15,484**	**15,484**
Total financial liabilities	**₱836,494**	**₱838,017**	**₱637,756**	**₱637,340**

	2010			
	Consolidated		Parent Company	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Financial assets at FVPL (Note 8)				
Held-for-trading				
Debt securities				
Government	₱8,416	₱8,416	₱5,597	₱5,597
Private	168	168	168	168
Equity securities - quoted	519	519	–	–
Derivative assets	3,477	3,477	3,318	3,318
	12,580	12,580	9,083	9,083
AFS investments (Note 8)				
Debt securities				
Government	102,610	102,610	75,059	75,059
Private	21,770	21,770	20,947	20,947
Equity securities				
Quoted	1,826	1,826	258	258
Unquoted	261	261	61	61
	126,467	126,467	96,325	96,325
HTM investments (Note 8)				
Government	26,701	30,477	13,599	15,952
Treasury notes	5,962	6,908	348	379
Private	–	338	–	338
	32,663	37,723	13,947	16,669
Loans and receivables				
Cash and other cash items	20,201	20,201	16,996	16,996
Due from BSP	168,402	168,402	162,391	162,391
Due from other banks	38,308	38,308	19,416	19,416
Interbank loans receivable and SPURA (Note 7)				
Interbank loans receivable	25,507	25,507	18,006	18,006
SPURA	1,000	1,000	–	–
	26,507	26,507	18,006	18,006
Loans and receivables - net				
Receivables from customers				
Commercial loans	238,150	239,520	215,621	216,706
Residential mortgage loans	38,364	38,644	21,016	21,220
Auto loans	32,953	35,369	10,837	10,837
Trade	16,118	16,118	15,883	15,883
Others	38,488	40,287	12,324	12,324
	364,073	369,938	275,681	276,970
Unquoted debt securities	14,805	14,851	4,804	4,804
Accrued interest receivable	6,482	6,220	6,055	5,791
Accounts receivable	4,075	4,075	2,894	2,894
Sales contract receivable	1,310	897	1,129	1,129
Other receivables	183	183	139	139
	390,928	396,164	290,702	291,727
Other assets (Note 13)				
Interoffice float items	436	436	631	631
Residual value of leased assets	342	342	–	–
Returned checks and other cash items	359	359	331	331
Other investments	13	13	10	10
Investment in SPVs	–	–	–	–
Miscellaneous	493	493	491	491
Total financial assets	₱817,699	₱827,995	₱628,329	₱632,076

(Forward)

	2010			
	Consolidated		Parent Company	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Liabilities				
Financial liabilities at FVPL				
Derivative liabilities	₱3,161	₱3,161	₱3,001	₱3,001
Financial liabilities at amortized cost				
Deposit liabilities				
Demand	68,261	68,261	61,216	61,216
Savings	267,930	267,930	260,269	260,269
Time	315,071	316,013	242,323	242,323
	651,262	652,204	563,808	563,808
Bills payable and SSURA	85,513	85,704	10,405	10,405
Managers checks and demand drafts outstanding	2,043	2,043	1,394	1,394
Accrued interest and other expenses	4,599	4,592	2,375	2,375
Subordinated debt (Note 18)	21,673	24,250	18,406	20,742
Other liabilities (Note 19)				
Bills purchased - contra	11,761	11,761	11,706	11,706
Accounts payable	4,634	4,634	2,857	2,857
Bonds payable	55	55	–	–
Marginal deposits	2,658	2,658	757	757
Outstanding acceptances	1,296	1,296	1,296	1,296
Deposits on lease contracts	485	415	–	–
Dividends payable	21	21	–	–
Due to BSP	–	–	–	–
Miscellaneous	488	488	–	–
	21,398	21,328	16,616	16,616
Total financial liabilities	₱789,649	₱793,282	₱616,005	₱618,341

The following table shows financial instruments recognized at fair value, analyzed among those whose fair value is based on:

- 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			
	Level 1	**Level 2**	**Level 3**	**Total**
2011				
Financial Assets				
Financial assets at FVPL				
Held-for-trading				
Debt securities				
Government	**₱2,550**	**₱–**	**₱–**	**₱2,550**
Private	**254**	–	–	**254**
BSP	**3**	–	–	**3**
Equity securities	**1,041**	–	–	**1,041**
Derivative assets	–	**2,340**	–	**2,340**
Total financial assets at FVPL	**₱3,848**	**₱2,340**	**₱–**	**₱6,188**

(Forward)

	Consolidated			
	Level 1	Level 2	Level 3	Total
AFS investments				
Debt securities				
Government	**₱125,838**	**₱1,117**	**₱–**	**₱126,955**
Private	**13,206**	**887**	–	**14,093**
Equity securities - quoted	**1,754**	–	–	**1,754**
Total AFS investments	**₱140,798**	**₱2,004**	**₱–**	**₱142,802**
Financial Liabilities				
Financial liabilities at FVPL				
Derivative liabilities	**₱–**	**₱2,819**	**₱–**	**₱2,819**
2010				
Financial Assets				
Financial assets at FVPL				
Held-for-trading				
Debt securities				
Government	₱8,416	₱–	₱–	₱8,416
Private	158	10	–	168
Equity securities	519	–	–	519
Derivative assets	–	3,477	–	3,477
Total financial assets at FVPL	₱9,093	₱3,487	₱–	₱12,580
AFS investments				
Debt securities				
Government	₱100,057	₱2,553	₱–	₱102,610
Private	18,805	2,686	279	21,770
Equity securities - quoted	1,826	–	–	1,826
Total AFS investments	₱120,688	₱5,239	₱279	₱126,206
Financial Liabilities				
Financial liabilities at FVPL				
Derivative liabilities	₱–	₱2,882	₱279	₱3,161

	Parent Company			
	Level 1	Level 2	Level 3	Total
2011				
Financial Assets				
Financial assets at FVPL				
Held-for-trading				
Debt securities				
Government	**₱2,102**	**₱–**	**₱–**	**₱2,102**
Private	**253**	**–**	**–**	**253**
BSP	**3**	**–**	**–**	**3**
Derivative assets	**–**	**2,239**	**–**	**2,239**
Total financial assets at FVPL	**₱2,358**	**₱2,239**	**₱–**	**₱4,597**
AFS investments				
Debt securities				
Government	**₱101,085**	**₱1,117**	**₱–**	**₱102,202**
Private	**12,549**	**886**	**–**	**13,435**
BSP	**–**	**–**	**–**	**–**
Equity securities - quoted	**277**	**–**	**–**	**277**
Total AFS investments	**₱113,911**	**₱2,003**	**₱–**	**₱115,914**
Financial Liabilities				
Financial liabilities at FVPL				
Derivative liabilities	**₱–**	**₱2,689**	**₱–**	**₱2,689**

	Parent Company			
	Level 1	**Level 2**	**Level 3**	**Total**
2010				
Financial Assets				
Financial assets at FVPL				
Held-for-trading				
Debt securities				
Government	₱5,597	₱–	₱–	₱5,597
Private	158	10	–	168
Derivative assets	–	3,318	–	3,318
Total financial assets at FVPL	₱5,755	₱3,328	₱–	₱9,083
AFS investments				
Debt securities				
Government	₱74,103	₱956	₱–	₱75,059
Private	17,981	2,687	279	20,947
Equity securities - quoted	258	–	–	258
Total AFS investments	₱92,342	₱3,643	₱279	₱96,264
Financial Liabilities				
Financial liabilities at FVPL				
Derivative liabilities	₱–	₱2,722	₱279	₱3,001

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

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

Instruments included in Level 3 include those for which there is currently no active market.

The following table shows the Parent Company's reconciliation from the beginning balances to the closing balances of financial assets and liabilities with fair value measurements under level 3 of the fair value hierarchy:

	2011		2010	
	AFS Investments	**Financial liabilities at FVPL**	AFS Investments	Financial liabilities at FVPL
Balance at January 1	**₱279**	**(₱279)**	₱294	(₱294)
Foreign exchange difference	**–**	**–**	(15)	15
Sales/disposals/settlements during the year	**279**	**(279)**	–	–
Balance at December 31	**₱–**	**₱–**	₱279	(₱279)

In 2011, the Parent Company sold the level 3 instruments with a gain of ₱261.4 million, included under 'Trading and securities gain' in the statement of income (Note 11).

The sensitivity of the Parent Company's embedded credit derivatives to movements of interest rates as of December 31, 2011 amounted to ₱0.03 million.

6. Segment Information

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

- Consumer Banking - principally providing consumer type loans and support for effective sourcing and generation of consumer business;
- Corporate Banking - principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers;
- Investment Banking - principally arranging structured financing, and providing services relating to privatizations, initial public offerings, mergers and acquisitions;
- Treasury - principally providing money market, trading and treasury services, as well as the management of the Group's funding operations by use of treasury bills, government securities and placements and acceptances with other banks, through treasury and corporate banking;
- Branch Banking - principally handling branch deposits and providing loans and other loan related businesses for domestic middle market clients; and
- Others - principally handling other services including but not limited to remittances, leasing, account financing, and other support services. Other operations of the Group comprise the operations and financial control groups.

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. The Group has no significant customers which contributes 10.00% or more of the consolidated revenue net of interest expense. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to business segments based on a pool rate which approximates the cost of funds. The following table presents revenue and income information of operating segments presented in accordance with PFRS and segment assets and liabilities:

	Consumer Banking	Corporate Banking	Investment Banking	Treasury	Branch Banking	Others	Total
2011							
Results of Operations							
Net interest income (expense)							
Third party	₱5,809	₱8,643	(₱59)	₱8,973	₱3,943	₱2,098	₱29,407
Intersegment	(76)	(2,327)	–	(2,722)	5,697	(572)	–
Net interest income after intersegment transaction	5,733	6,316	(59)	6,251	9,640	1,526	29,407
Noninterest income	2,919	214	460	6,696	3,138	6,146	19,573
Revenue - net of interest expense	8,652	6,530	401	12,947	12,778	7,672	48,980
Noninterest expense	5,946	1,447	113	1,932	13,105	11,960	34,503
Income (loss) before share in net income of associates and a joint venture	2,706	5,083	288	11,015	(327)	(4,288)	14,477

(Forward)

	Consumer Banking	Corporate Banking	Investment Banking	Treasury	Branch Banking	Others	Total
2011							
Results of Operations							
Share in net income of associates and a joint venture	**₱–**	**₱8**	**₱–**	**₱–**	**₱–**	**₱1,429**	**₱1,437**
Provision for income tax	**(750)**	**(154)**	**(31)**	**(1,490)**	**(113)**	**(986)**	**(3,524)**
Minority interest in net income of consolidated subsidiaries	–	–	–	–	–	**(1,359)**	**(1,359)**
Net income (loss)	**₱1,956**	**₱4,937**	**₱257**	**₱9,525**	**(₱440)**	**(₱5,204)**	**₱11,031**
Statement of Financial Position							
Total assets	**₱55,060**	**₱197,713**	**₱1,131**	**₱344,522**	**₱228,718**	**₱131,240**	**₱958,384**
Total liabilities	**₱47,350**	**₱188,735**	**₱1,125**	**₱333,810**	**₱229,976**	**₱40,884**	**₱841,880**
Other Segment Information							
Capital expenditures	**₱504**	**₱108**	**₱–**	**₱139**	**₱100**	**₱2,148**	**₱2,999**
Depreciation and amortization	**₱251**	**₱67**	**₱–**	**₱199**	**₱654**	**₱1,163**	**₱2,334**
Provision for credit and impairment losses	**₱1,979**	**₱272**	**₱–**	**₱7**	**₱430**	**₱1,135**	**₱3,823**
2010							
Results of Operations							
Net interest income (expense)							
Third party	₱5,231	₱8,079	(₱46)	₱7,634	₱3,438	₱2,054	₱26,390
Intersegment	(90)	(2,246)	–	(2,988)	6,037	(713)	–
Net interest income after intersegment transaction	5,141	5,833	(46)	4,646	9,475	1,341	26,390
Noninterest income	2,599	414	648	7,552	3,562	5,317	20,092
Revenue - net of interest expense	7,740	6,247	602	12,198	13,037	6,658	46,482
Noninterest expense	5,813	1,548	67	2,013	11,988	13,674	35,103
Income before share in net income of associates and a joint venture	1,927	4,699	535	10,185	1,049	(7,016)	11,379
Share in net income of associates and a joint venture	–	41	–	–	–	1,577	1,618
Benefit from (provision for) income tax	(514)	(2)	(13)	(2,791)	462	(873)	(3,731)
Minority interest in net income of consolidated subsidiaries	–	–	–	–	–	(900)	(900)
Net income (loss)	₱1,413	₱4,738	₱522	₱7,394	₱1,511	(₱7,212)	₱8,366
Statement of Financial Position							
Total assets	₱49,191	₱174,471	₱2,515	₱372,595	₱187,331	₱101,220	₱887,323
Total liabilities	₱24,936	₱157,158	₱2,444	₱354,344	₱226,728	₱28,696	₱794,306
Other Segment Information							
Capital expenditures	₱426	₱71	₱–	₱91	₱73	₱1,190	₱1,851
Depreciation and amortization	₱286	₱42	₱–	₱25	₱694	₱1,213	₱2,260
Provision for credit and impairment losses	₱2,186	₱481	₱–	₱33	₱371	₱4,214	₱7,285
2009							
Results of Operations							
Net interest income (expense)							
Third party	₱4,973	₱9,456	(₱26)	₱7,540	₱2,711	₱2,025	₱26,679
Intersegment	(111)	(2,727)	–	(3,428)	7,493	(1,227)	–
Net interest income after intersegment transaction	4,862	6,729	(26)	4,112	10,204	798	26,679
Noninterest income	2,230	203	486	4,282	3,274	5,606	16,081
Revenue - net of interest expense	7,092	6,932	460	8,394	13,478	6,404	42,760
Noninterest expense	5,118	1,228	57	2,446	11,172	14,614	34,635
Income before share in net income of associates and a joint venture	1,974	5,704	403	5,948	2,306	(8,210)	8,125
Share in net income of associates and a joint venture	–	45	–	–	–	874	919
Provision for income tax	(289)	(48)	(7)	(1,520)	(251)	(134)	(2,249)
Minority interest in net income of consolidated subsidiaries	–	–	–	–	–	(766)	(766)
Net income (loss)	₱1,685	₱5,701	₱396	₱4,428	₱2,055	(₱8,236)	₱6,029
Statement of Financial Position							
Total assets	₱43,973	₱141,812	₱878	₱368,747	₱179,831	₱119,066	₱854,307
Total liabilities	₱22,049	₱133,450	₱611	₱351,781	₱217,467	₱48,631	₱773,989
Other Segment Information							
Capital expenditures	₱207	₱93	₱–	₱74	₱316	₱1,804	₱2,494
Depreciation and amortization	₱380	₱20	₱–	₱25	₱636	₱951	₱2,012
Provision for credit and impairment losses	₱1,984	₱492	₱–	₱1,260	₱472	₱4,585	₱8,793

Noninterest income consists of service charges, fees and commissions, profit from assets sold, trading and securities gain - net, foreign exchange gain - net, income from trust operations, leasing, dividends and miscellaneous income. Noninterest expense consists of compensation and fringe benefits, taxes and licenses, provision for credit and impairment losses, depreciation and amortization, occupancy and equipment-related cost, amortization of deferred charges and miscellaneous expense.

The Group has no significant customers which contribute 10% or more of the consolidated revenue, net of interest expense.

Geographical Information
The Group operates in four geographic markets: Philippines, Asia other than Philippines, USA and Europe (Note 2). The following tables show the distribution of Group's external net operating income and non-current assets allocated based on the location of the customers and assets, respectively, for the years ended December 31:

	Philippines	Asia (Other than Philippines)	USA	Europe	Total
2011					
Interest income	**₱44,253**	**₱729**	**₱55**	**₱–**	**₱45,037**
Interest expense	**15,478**	**146**	**6**	**–**	**15,630**
Net interest income	**28,775**	**583**	**49**	**–**	**29,407**
Noninterest income	**17,825**	**1,198**	**352**	**198**	**19,573**
Provision for credit and impairment losses	**3,822**	**1**	**–**	**–**	**3,823**
Total external net operating income	**₱42,778**	**₱1,780**	**₱401**	**₱198**	**₱45,157**
Non-current assets	**₱32,970**	**₱391**	**₱110**	**₱19**	**₱33,490**
2010					
Interest income	₱40,938	₱456	₱69	₱1	₱41,464
Interest expense	14,973	92	9	–	15,074
Net interest income	25,965	364	60	1	26,390
Noninterest income	18,145	1,314	310	323	20,092
Provision for credit and impairment losses	7,218	51	16	–	7,285
Total external net operating income	₱36,892	₱1,627	₱354	₱324	₱39,197
Non-current assets	₱34,961	₱392	₱149	₱19	₱35,521
2009					
Interest income	₱43,390	₱219	₱105	₱1	₱43,715
Interest expense	16,959	60	17	–	17,036
Net interest income	26,431	159	88	1	26,679
Noninterest income	14,427	1,055	275	324	16,081
Provision for credit and impairment losses	8,668	3	122	–	8,793
Total external net operating income	₱32,190	₱1,211	₱241	₱325	₱33,967
Non-current assets	₱38,278	₱304	₱178	₱22	₱38,782

Non-current assets consist of property and equipment, investment properties, chattel properties acquired in foreclosure, software costs and assets held under joint venture.

7. Interbank Loans Receivable and Securities Purchased Under Resale Agreements

This account consists of:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Interbank loans receivable (Note 27)	**₱9,327**	₱25,507	**₱3,222**	₱18,006
SPURA	**15,040**	1,000	–	–
	₱24,367	₱26,507	**₱3,222**	₱18,006

The outstanding balance of SPURA represents overnight placements with the BSP where the underlying securities cannot be sold or repledged to parties other than BSP.

8. Trading and Investment Securities

This account consists of:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Financial assets at FVPL	**₱6,188**	₱12,580	**₱4,597**	₱9,083
AFS investments (Notes 27 and 28)	**143,057**	126,467	**115,976**	96,325
HTM investments (Note 27)	**47,457**	32,663	**17,464**	13,947
	₱196,702	₱171,710	**₱138,037**	₱119,355

Financial assets at FVPL consist of the following:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Held-for-trading				
Debt securities				
Government	**₱2,550**	₱8,416	**₱2,102**	₱5,597
Private	**254**	168	**253**	168
BSP	**3**	–	**3**	–
	2,807	8,584	**2,358**	5,765
Equity securities - quoted	**1,041**	519	–	–
	3,848	9,103	**2,358**	5,765
Derivative assets	**2,340**	3,477	**2,239**	3,318
	₱6,188	₱12,580	**₱4,597**	₱9,083

Derivative Financial Instruments
The following are fair values of derivative financial instruments of the Parent Company recorded as derivative assets or derivative liabilities, together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as of December 31, 2011 and 2010 and are not indicative of either market risk or credit risk.

	Assets	Liabilities	Notional Amount	Average Forward Rate (in every US$ 1)
December 31, 2011				
Freestanding derivatives:				
Currency forwards				
BOUGHT:				
USD	**₱544**	**₱245**	**USD1,041**	**₱43.7832**
CNY	**176**	**54**	**CNY 3,874**	**CNY 0.1562**
EUR	**-**	**9**	**EUR 3**	**EUR 1.3488**
JPY	**4**	**-**	**JPY 2,727**	**JPY 0.0128**
SGD	**-**	**0**	**SGD 13**	**SGD 0.7678**
IDR	**1**	**7**	**IDR 228,000**	**IDR 0.0001**
KRW	**4**	**-**	**KRW 11,603**	**KRW 0.0009**
SOLD:				
USD	**95**	**565**	**USD 1,883**	**₱43.7459**
CNY	**75**	**167**	**CNY 3,828**	**CNY 0.1567**
EUR	**9**	**–**	**EUR 3**	**EUR 1.3482**
JPY	**1**	**–**	**JPY 779**	**JPY 0.0128**
IDR	**11**	**–**	**IDR 135,000**	**IDR 0.0001**
KRW	**–**	**6**	**KRW 23,230**	**KRW 0.0009**
HKD	**0**	**–**	**HKD 78**	**HKD 0.1286**
Put Option Purchased-Warrants	**212**	**–**	**USD 645**	
Interest Rate Swaps-PHP	**687**	**692**	**₱32,546**	
Interest Rate Swaps-FX	**39**	**578**	**USD 631**	
Cross Currency Swaps	**375**	**350**	**USD 726**	
Embedded derivatives in:				
Financial contract*	**–**	**16**	**USD 3**	
Nonfinancial contract**	**6**	**–**	**USD 0**	
	₱2,239	**₱2,689**		
December 31, 2010				
Freestanding derivatives:				
Currency forwards				
BOUGHT:				
USD	₱525	₱1,649	USD 3,186	₱45.1961
CNY	475	7	CNY 3,870	CNY 0.1499
EUR	–	1	EUR 0	EUR 1.3901
AUD	1	–	AUD 5	AUD 1.0228
INR	14	1	INR 688	INR 0.0128
KRW	1	–	KRW 5,715	KRW 0.0009
SOLD:				
USD	1,677	371	USD 3,378	₱44.2507
CNY	14	339	CNY 3,975	CNY 0.1509
EUR	1	–	EUR 13	EUR 1.3246
AUD	–	2	AUD 8	AUD 1.0129
INR	–	11	INR 237	INR 0.0211
JPY	–	–	JPY 66	JPY 0.0123
Put Option Purchased-Warrants	₱212	₱–	USD 645	
Interest Rate Swaps-PHP	366	295	₱20,150	
Interest Rate Swaps-FX	5	3	USD 80	
Credit Default Swaps	7	3	USD 10	
Cross Currency Swaps	13	25	USD 67	
Embedded derivatives in:				
Financial contract*	–	294	USD 30	
Nonfinancial contract**	7	–	USD 0	
	₱3,318	₱3,001		

* As of December 31, 2011, derivative liabilities pertain to interest rate derivatives embedded in structured debt instrument with outstanding notional amount of US$2.8 million. As of December 31, 2010, derivative liabilities include credit default swaps, call options and interest rate derivatives embedded in structured debt instrument with outstanding notional amount of US$30.1 million.

** Nonfinancial host contracts include foreign currency derivatives with average notional amounts of US$1,379 and US$1,353 per month as of December 31, 2011 and 2010, respectively (with maturities until 2018).

Derivatives designated as accounting hedges
MCC entered into cross currency swaps agreements with a certain bank to hedge the foreign exchange and interest rate risks from its dollar-denominated loan with the same bank. Under the agreements, MCC, on a quarterly basis, pays a fixed annual interest rates ranging from 3.5% to 5.5% and 4.0% to 6.4% in 2011 and 2010, respectively, on the peso principals and receives floating interest at 3-month LIBOR on the US Dollar principals. On January 1, 2009, MCC designated the swaps as effective hedging instruments under cash flow hedges. As such, the effective hedging instruments in 2009 was deferred to equity. The swap has positive fair value of ₱88.1 million as of December 31, 2010.

MCC designated all other swaps at inception dates as effective hedging instruments under cash flow hedge.

Below is the schedule when the hedged cash flows are expected to occur and when they are expected to affect profit or loss:

	2011			2010		
	Within 1 year	**1-2 years**	**Over 2 years**	Within 1 year	1-2 years	Over 2 years
Cash inflow (asset)	**₱401**	**₱473**	**₱1,763**	₱1,919	₱17	₱1,808
Cash outflows (liability)	**(478)**	**(535)**	**(1,783)**	(1,887)	(92)	(1,874)
Net cash flow	**(₱77)**	**(₱62)**	**(₱20)**	₱32	(₱75)	(₱66)

As of December 31, 2011 and 2010, MCC assessed the hedge relationship of the swaps and the hedged loans as highly effective. The effective fair value changes on the swaps that were deferred in equity under 'Translation adjustment and others' as of December 31, 2011 and 2010 amounted to ₱57.6 million and ₱48.4 million, respectively. No hedge ineffectiveness was recognized in profit or loss in 2011 and 2010.

AFS investments consist of the following:

	Consolidated		**Parent Company**	
	2011	2010	**2011**	2010
Debt securities:				
Government	**₱126,955**	₱102,610	**₱102,202**	₱75,059
Private	**14,093**	22,843	**13,435**	21,924
	141,048	125,453	**115,637**	96,983
Equity securities:				
Quoted	**2,091**	2,203	**368**	381
Unquoted	**479**	504	**147**	147
	2,570	2,707	**515**	528
	143,618	128,160	**116,152**	97,511
Less allowance for impairment losses (Note 14)	**561**	1,693	**176**	1,186
	₱143,057	₱126,467	**₱115,976**	₱96,325

As of December 31, 2011 and 2010, AFS investments include government and private debt securities and unquoted equity securities with carrying values of ₱17.3 billion and ₱3.5 billion, respectively, for the Group and ₱12.8 billion and nil, respectively, for the Parent Company that are pledged under the Group and Parent Company's SSURA transactions (Note 16).

As of December 31, 2010, the Parent Company has investments in collateralized debt obligation with a total face value of US$20.0 million wherein embedded credit default swaps have been bifurcated and reported as part of derivative liabilities while the host instruments are classified as AFS investments. As of December 31, 2010, the carrying value of the host instruments amounted to ₱278.9 million (net of allowance for credit losses amounting to ₱583.1 million) with corresponding derivative liabilities of ₱278.9 million.

In 2010, the Parent Company and PSBank participated in bond exchange transactions affecting its held for trading and AFS investments. The Parent Company and PSBank received 10-year

Benchmark Bonds with a minimum coupon of 5.88% and face value of ₱1.5 billion and ₱798.2 million, respectively, at a price of 100.00% and 25-year Benchmark Bonds with a minimum coupon of 8.13% and face value of ₱13.4 billion and ₱11.7 billion, respectively, at a price of 100.00%. The Parent Company and PSBank realized net trading gain of ₱37.4 million and ₱1.2 billion, respectively, from the bond exchange transactions.

In 2011, the Parent Company participated in bond exchange transactions affecting its held for trading and AFS investments. The Parent Company received 10-year Benchmark Bonds with coupon of 5.1% and face value ₱2.7 billion, at a price of 100.00% and 20-year Benchmark Bonds with coupon of 6.4% and total face value of ₱34.5 billion, at a price of 98.77%. The Parent Company realized net trading gain of ₱230.0 million from the bond exchange transactions.

AFS investments include net unrealized gains as follows:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Balance at the beginning of year	**₱1,423**	₱536	**₱894**	₱44
Unrealized gains recognized in other comprehensive income	**9,453**	6,869	**5,143**	3,675
Amounts realized in profit or loss	**(5,787)**	(5,982)	**(3,671)**	(2,825)
	5,089	1,423	**2,366**	894
Tax (Note 26)	**(26)**	(90)	**11**	(72)
Balance at end of year	**₱5,063**	₱1,333	**₱2,377**	₱822

HTM investments consist of the following:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Government bonds	**₱35,496**	₱26,701	**₱13,569**	₱13,599
Treasury notes	**8,066**	5,962	**–**	348
Private bonds	**3,895**	219	**3,895**	219
	47,457	32,882	**17,464**	14,166
Less allowance for impairment losses (Note 14)	**–**	219	**–**	219
	₱47,457	₱32,663	**₱17,464**	₱13,947

Bond Exchange Transaction
In July 2011, the Republic of the Philippines (ROP) through the Department of Finance and the Bureau of Treasury embarked on the 6th phase of its Domestic Debt Consolidation via a Liability Management exercise executed through the Exchange Offer, Subscription Offer and Tender Offer – i.e., exchange of eligible fixed income government bonds for a new 10-year bonds (due 2022) or

20-year bonds (due 2031) wherein the proceeds of a simultaneous issuance of additional new 20-year bonds were used to buy back Eligible Bonds via Tender Offer.

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

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

- appropriate clearance shall be obtained from the BSP and Insurance Commission, as the primary regulators of banks and insurance companies, respectively.

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

In July 2011, given its nature of business, FMIC participated in the domestic bond exchange covering its ₱3.0 billion eligible government bonds classified as HTM investments to extend the bond holdings (from maturity date of December 16, 2020 to July 19, 2031) and benefit from the higher yields (from 5.875% to 8.00%). FMIC has complied with the disclosure and other requirements of the SEC as follows:

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

Reporting under PFRS
As of December 31, 2011, had the Group accounted for the transaction under PFRS, the unamortized balance of the deferred gain on exchange of ₱14.1 million would have been credited to the Group's 2011 net income and the entire HTM investments portfolio of the Group with amortized cost of ₱47.5 billion would have been reclassified to AFS investments and carried at fair value with net unrealized gain of ₱8.0 billion (under equity section and statement of comprehensive income of the Group).

Interest income on trading and investment securities consists of:

	Consolidated			Parent Company		
	2011	2010	2009	**2011**	2010	2009
Financial assets at FVPL	**₱476**	₱438	₱612	**₱382**	₱398	₱552
AFS investments	**6,260**	6,759	8,322	**3,683**	4,135	4,821
HTM investments	**3,147**	2,356	1,566	**1,081**	1,055	930
	₱9,883	₱9,553	₱10,500	**₱5,146**	₱5,588	₱6,303

In 2011, 2010 and 2009, foreign currency-denominated trading and investment securities bear nominal annual interest rates ranging from 0.80% to 10.63%, from 0.80% to 9.50% and from 1.00% to 10.60%, respectively, for the Group and from 0.80% to 9.88%, from 0.80% to 9.50% and from 3.00% to 10.60%, respectively, for the Parent Company while peso-denominated trading and investment securities bear nominal annual interest rates ranging from 3.70% to 18.25%, from 1.56% to 14.00% and from 4.00% to 18.30%, respectively, for the Group and from 3.70% to 14.00%, from 3.70% to 13.20% and from 4.00% to 14.00%, respectively, for the Parent Company.

Trading and securities gain - net consists of:

	Consolidated			Parent Company		
	2011	2010	2009	**2011**	2010	2009
Held-for-trading	**₱1,275**	₱793	₱886	**₱1,007**	₱394	₱400
AFS investments	**5,787**	5,982	2,113	**3,671**	2,825	1,384
Derivative assets and liabilities	**(944)**	(653)	624	**(968)**	(673)	639
	₱6,118	₱6,122	₱3,623	**₱3,710**	₱2,546	₱2,423

Trading gains on AFS investments include realized gains/losses previously reported in net unrealized gain under the equity section of the statement of financial position.

9. Loans and Receivables

This account consists of:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Receivables from customers:				
Commercial loans	**₱289,170**	₱244,955	**₱270,146**	₱221,127
Auto loans	**45,614**	39,821	**14,388**	12,242
Residential mortgage loans	**44,443**	38,571	**26,235**	21,049
Trade loans	**26,380**	16,340	**26,380**	16,103
Others	**48,734**	42,459	**11,275**	12,353
	454,341	382,146	**348,424**	282,874
Less unearned discounts and capitalized interest	**8,645**	7,913	**1,848**	1,823
	445,696	374,233	**346,576**	281,051
Unquoted debt securities:				
Government	**1,984**	13,113	**502**	3,297
Private	**10,572**	2,706	**2,240**	2,211
	12,556	15,819	**2,742**	5,508

(Forward)

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Accounts receivable (Note 11)	**₱5,949**	₱9,797	**₱5,177**	₱8,797
Accrued interest receivable	**7,051**	6,181	**5,241**	4,689
Sales contract receivable	**760**	1,346	**910**	1,333
Other receivables	**294**	224	**62**	179
	472,306	407,600	**360,708**	301,557
Less allowance for credit losses (Note 14)	**14,884**	14,941	**8,666**	9,124
	₱457,422	₱392,659	**₱352,042**	₱292,433

Receivables from customers consist of:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Loans and discounts	**₱417,303**	₱353,762	**₱311,115**	₱254,775
Less unearned discounts and capitalized Interest	**8,645**	7,913	**1,848**	1,823
	408,658	345,849	**309,267**	252,952
Customers' liabilities under letters of credit (LC)/trust receipts	**26,380**	16,121	**26,380**	16,103
Bills purchased (Note 19)	**10,658**	12,263	**10,929**	11,996
	₱445,696	₱374,233	**₱346,576**	₱281,051

Receivables from customers-others of the Group include credit card receivables, notes receivables financed and lease contract receivables amounting to ₱23.9 billion, ₱7.3 billion and ₱2.7 billion, respectively, as of December 31, 2011 and ₱19.0 billion, ₱5.7 billion and ₱1.9 billion, respectively, as of December 31, 2010.

Interest income on loans and receivables consists of:

	Consolidated			Parent Company		
	2011	2010	2009	**2011**	2010	2009
Receivables from customers	**₱21,084**	₱19,940	₱19,929	**₱14,323**	₱13,955	₱14,919
Receivables from cardholders	**4,803**	4,080	3,864	–	–	–
Lease contract receivables	**1,495**	1,042	705	–	–	–
Customer liabilities under LC trust receipts	**697**	734	1,141	**697**	734	1,141
Restructured loans	**427**	576	642	**340**	475	530
Unquoted debt securities and others	**516**	844	2,301	**296**	515	1,856
	₱29,022	₱27,216	₱28,582	**₱15,656**	₱15,679	₱18,446

Interest income on unquoted debt securities and others include interest accreted on impaired receivables in accordance with PAS 39 and interest income on sales contract receivable.

BSP Reporting
As of December 31, 2011 and 2010, 79.39% and 79.07% of the total receivables from customers of the Group, respectively, are subject to periodic interest repricing. In 2011 and 2010, the remaining peso receivables from customers earn annual fixed interest rates ranging from 1.00% to 42.00% and 2.50% to 42.00%, respectively while foreign currency-denominated receivables from customers earn annual fixed interest rates ranging from 1.78% to 36.00% and from 1.14% to 36.00%, respectively.

The following table shows information relating to receivables from customers by collateral, gross of unearned discounts and capitalized interest:

	Consolidated				Parent Company			
	2011		2010		**2011**		2010	
	Amount	**%**	Amount	%	**Amount**	**%**	Amount	%
Secured by:								
Real estate	**₱79,155**	**17.42**	₱81,644	21.36	**₱55,927**	**16.05**	₱58,535	20.69
Chattel	**54,783**	**12.06**	48,634	12.73	**16,318**	**4.68**	14,775	5.22
Deposit hold-out	**11,659**	**2.57**	14,714	3.85	**10,177**	**2.92**	10,369	3.67
Securities	**9,463**	**2.08**	7,290	1.91	**6,429**	**1.85**	5,464	1.93
Stand-by letters of credit	**2,338**	**0.51**	2,051	0.54	**2,337**	**0.67**	1,951	0.69
Assignment of receivables	**1,779**	**0.39**	1,234	0.32	**1,778**	**0.51**	1,015	0.36
Others	**82,233**	**18.10**	50,621	13.25	**79,987**	**22.96**	47,289	16.72
	241,410	**53.13**	206,188	53.96	**172,953**	**49.64**	139,398	49.28
Unsecured	**212,931**	**46.87**	175,958	46.04	**175,471**	**50.36**	143,476	50.72
	₱454,341	**100.00**	₱382,146	100.00	**₱348,424**	**100.00**	₱282,874	100.00

Information on the concentration of credit as to industry of receivables from customers, gross of unearned discount and capitalized interest, follows:

	Consolidated				Parent Company			
	2011		2010		**2011**		2010	
	Amount	**%**	Amount	%	**Amount**	**%**	Amount	%
Manufacturing (various industries)	**₱83,035**	**18.28**	₱72,379	18.94	**₱80,541**	**23.12**	₱68,066	24.06
Real estate, renting and business activities	**76,569**	**16.85**	63,360	16.58	**56,884**	**16.32**	44,220	15.63
Wholesale and retail trade	**73,861**	**16.26**	57,389	15.02	**53,396**	**15.32**	40,455	14.30
Private households	**63,828**	**14.05**	55,163	14.44	**39,707**	**11.40**	35,887	12.69
Financial intermediaries	**38,589**	**8.49**	35,562	9.31	**36,128**	**10.37**	31,820	11.25
Electricity, gas and water	**36,980**	**8.14**	19,071	4.99	**33,469**	**9.61**	16,226	5.74
Transportation, storage and communication	**29,908**	**6.58**	27,986	7.32	**23,062**	**6.62**	21,128	7.47
Other community, social and personal activities	**22,450**	**4.94**	24,278	6.35	**3,126**	**0.90**	3,751	1.33
Construction	**9,209**	**2.03**	7,221	1.89	**7,101**	**2.04**	5,387	1.90
Hotel and restaurants	**7,594**	**1.67**	8,790	2.30	**6,618**	**1.90**	8,204	2.90
Agricultural, hunting and forestry	**5,900**	**1.30**	4,602	1.20	**4,807**	**1.38**	3,295	1.16
Public administration and defense, compulsory social security	**2,641**	**0.58**	1,941	0.51	**122**	**0.04**	136	0.05
Mining and quarrying	**671**	**0.15**	358	0.09	**465**	**0.13**	253	0.09
Others	**3,106**	**0.68**	4,046	1.06	**2,998**	**0.85**	4,046	1.43
	₱454,341	**100.00**	₱382,146	100.00	**₱348,424**	**100.00**	₱282,874	100.00

The BSP considers that concentration of credit exists when total loan exposure to a particular industry or economic sector exceeds 30.00% of total loan portfolio except for thrift banks.

Current banking regulations allow banks with no unbooked valuation reserves and capital adjustments to exclude from nonperforming classification those receivables from customers classified as 'Loss' in the latest examination of the BSP which are fully covered by allowance for credit losses, provided that interest on said receivables shall not be accrued.

Non-performing loans (NPLs) not fully covered by allowance for credit losses follow:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Total NPLs	**₱10,095**	₱11,005	**₱5,130**	₱6,046
Less NPLs fully covered by allowance for credit losses	**5,304**	5,007	**2,753**	2,237
	₱4,791	₱5,998	**₱2,377**	₱3,809

Under banking regulations, NPLs shall, as a general rule, refer to loan accounts 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 rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual, or annual installments, in which case, the total outstanding balance thereof shall be considered nonperforming.

In the case of receivables that are payable in monthly installments, the total outstanding balance thereof shall be considered nonperforming when three (3) or more installments are in arrears. In the case of receivables that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered nonperforming at the same time that they become past due in accordance with existing BSP regulations, i.e., the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches 10.00% of the total receivable balance. Restructured receivables which do not meet the requirements to be treated as performing receivables shall also be considered as NPLs.

Certain receivables from customers amounting to ₱199.2 million as of December 31, 2010 were rediscounted with the BSP (included under Bills Payable - BSP) under the rediscounting privileges of the Parent Company (Note 16).

10. Property and Equipment

The composition of and movements in this account follow:

	Consolidated					
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Improvements	Building Under Construction	Total
2011						
Cost						
Balance at beginning of year	**₱5,036**	**₱6,855**	**₱12,376**	**₱1,813**	**₱389**	**₱26,469**
Additions	**17**	**193**	**2,004**	**251**	**318**	**2,783**
Disposals	**(6)**	**(7)**	**(547)**	**(2)**	**–**	**(562)**
Reclassification/others	**(49)**	**489**	**14**	**133**	**(419)**	**168**
Balance at end of year	**4,998**	**7,530**	**13,847**	**2,195**	**288**	**28,858**
Accumulated depreciation and amortization						
Balance at beginning of year	**–**	**2,847**	**9,487**	**1,014**	**–**	**13,348**
Depreciation and amortization	**–**	**264**	**1,228**	**200**	**–**	**1,692**
Disposals	**–**	**(5)**	**(331)**	**(2)**	**–**	**(338)**
Reclassification/others	**–**	**30**	**37**	**140**	**–**	**207**
Balance at end of year	**–**	**3,136**	**10,421**	**1,352**	**–**	**14,909**
Allowance for impairment losses (Note 14)						
Balance at beginning of year	**–**	**–**	**2**	**–**	**–**	**2**
Accounts charged off/others	**–**	**–**	**10**	**–**	**–**	**10**
Balance at end of year	**–**	**–**	**12**	**–**	**–**	**12**
Net book value at end of year	**₱4,998**	**₱4,394**	**₱3,414**	**₱843**	**₱288**	**₱13,937**
2010						
Cost						
Balance at beginning of year	₱5,089	₱6,671	₱11,530	₱1,607	₱349	₱25,246
Additions	–	193	1,134	204	40	1,571
Disposals	(39)	(18)	(430)	(7)	–	(494)
Reclassification/others	(14)	9	142	9	–	146
Balance at end of year	5,036	6,855	12,376	1,813	389	26,469
Accumulated depreciation and amortization						
Balance at beginning of year	–	2,604	8,690	862	–	12,156
Depreciation and amortization	–	245	1,071	161	–	1,477
Disposals	–	(7)	(293)	(3)	–	(303)
Reclassification/others	–	5	19	(6)	–	18
Balance at end of year	–	2,847	9,487	1,014	–	13,348
Allowance for impairment losses (Note 14)						
Balance at beginning of year	–	–	4	–	–	4
Accounts charged off/others	–	–	(2)	–	–	(2)
Balance at end of year	–	–	2	–	–	2
Net book value at end of year	₱5,036	₱4,008	₱2,887	₱799	₱389	₱13,119

	Parent Company					
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Improvements	Building Under Construction	Total
2011						
Cost						
Balance at beginning of year	**₱4,492**	**₱5,009**	**₱8,724**	**₱1,361**	**₱389**	**₱19,975**
Additions	**–**	**85**	**772**	**53**	**318**	**1,228**
Disposals	**(6)**	**(7)**	**(159)**	**–**	**–**	**(172)**
Reclassification/others	**(50)**	**371**	**–**	**(13)**	**(419)**	**(111)**
Balance at end of year	**4,436**	**5,458**	**9,337**	**1,401**	**288**	**20,920**
Accumulated depreciation and amortization						
Balance at beginning of year	**–**	**2,539**	**7,456**	**761**	**–**	**10,756**
Depreciation and amortization	**–**	**215**	**477**	**126**	**–**	**818**
Disposals	**–**	**(5)**	**(22)**	**1**	**–**	**(26)**
Reclassification/others	**–**	**(36)**	**7**	**(7)**	**–**	**(36)**
Balance at end of year	**–**	**2,713**	**7,918**	**881**	**–**	**11,512**
Net book value at end of year	**₱4,436**	**₱2,745**	**₱1,419**	**₱520**	**₱288**	**₱9,408**
2010						
Cost						
Balance at beginning of year	₱4,545	₱4,893	₱8,397	₱1,220	₱349	₱19,404
Additions	–	122	383	135	40	680
Disposals	(39)	(18)	(64)	(3)	–	(124)
Reclassification/others	(14)	12	8	9	–	15
Balance at end of year	4,492	5,009	8,724	1,361	389	19,975
Accumulated depreciation and amortization						
Balance at beginning of year	–	2,347	7,007	653	–	10,007
Depreciation and amortization	–	203	479	109	–	791
Disposals	–	(8)	(37)	(2)	–	(47)
Reclassification/others	–	(3)	7	1	–	5
Balance at end of year	–	2,539	7,456	761	–	10,756
Net book value at end of year	₱4,492	₱2,470	₱1,268	₱600	₱389	₱9,219

Building under construction pertains to bank premises yet to be opened by the Parent Company. The capital expenditures of the Parent Company related to the construction amounted to ₱317.9 million and ₱39.6 million in 2011 and 2010, respectively.

As of December 31, 2011 and 2010, the cost of fully depreciated property and equipment still in use amounted to ₱977.5 million and ₱872.4 million, respectively, for the Group and ₱170.1 million and ₱145.4 million, respectively, for the Parent Company.

11. Investments in Subsidiaries, Associates and a Joint Venture

Investment in subsidiaries consists of:

	2011	2010
Acquisition cost:		
FMIC	**₱11,751**	₱11,751
MBCL	**8,658**	8,658
PSBank	**3,626**	3,626
Circa	**837**	837
ORIX Metro	**265**	265
MCC	**214**	214
MTI	**200**	200
MRCI	**131**	131
DSI	**125**	125
MR USA	**117**	117

(Forward)

	2011	2010
MR Italia	**66**	66
MR Spain	**42**	42
MR UK	**31**	31
MRHL	**26**	26
MBTC Services	**22**	22
MRSPL	**17**	17
FMIIC	**12**	12
Metrobank Bahamas	**8**	8
PVCC	**5**	5
	26,153	26,153
Allowance for impairment losses (Note 14)		
Circa	**(550)**	(351)
MTI	**(147)**	–
MR Italia	**(7)**	–
MR Spain	**(29)**	–
MR UK	**(5)**	–
MBTC Services	**(16)**	–
	(754)	(351)
Carrying Value		
FMIC	**11,751**	11,751
MBCL	**8,658**	8,658
PSBank	**3,626**	3,626
Circa	**287**	486
ORIX Metro	**265**	265
MCC	**214**	214
MTI	**53**	200
MRCI	**131**	131
DSI	**125**	125
MR USA	**117**	117
MR Italia	**59**	66
MR Spain	**13**	42
MR UK	**26**	31
MRHL	**26**	26
MBTC Services	**6**	22
MRSPL	**17**	17
FMIIC	**12**	12
Metrobank Bahamas	**8**	8
PVCC	**5**	5
	₱25,399	₱25,802

Investment in associates and a joint venture consists of:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Acquisition cost:				
Global Business Power Corporation (GBPC) (29.42% owned)	**₱6,641**	₱6,354	**₱–**	₱–
Lepanto Consolidated Mining Company (LCMC) (16.65% owned in 2011; 19.13% owned in 2010)	**2,393**	2,135	**–**	–
SMFC* (30.39% owned)	**800**	400	**–**	–

(Forward)

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
First Metro Save and Learn Equity Fund (FMSLEF) (19.23% owned 2011; 8.81% owned in 2010)	**₱707**	₱94	**₱–**	₱–
Toyota Motor Philippines Corporation (TMPC) (30% owned)	**673**	673	**673**	673
Cathay International Resources Corporation (CIRC) (34.32% owned)	**489**	489	**–**	–
Toyota Financial Services Philippines Corporation (TFSPC) (34% owned)	**420**	420	**150**	150
Northpine Land, Inc. (NLI) (20% owned)	**232**	232	**232**	232
SMBC Metro Investment Corporation (SMBC Metro) (30% owned)	**180**	180	**180**	180
Taal Land Inc. (TLI) (35% owned)	**178**	178	**178**	178
Philippine AXA Life Insurance Corporation (PALIC) (27.60% owned)	**172**	172	**–**	–
First Metro Save and Learn Balance Fund (FMSLBF) (24.48% owned in 2011; 10.52% owned in 2010)	**172**	31	**–**	–
Philippine Charter Insurance Corporation (PCIC) (32.68% owned)	**60**	60	**–**	–
Others	**33**	32	**–**	–
	13,150	11,450	**1,413**	1,413
Accumulated equity in net income:				
Balance at beginning of year				
GBPC	**1,236**	1,086		
LCMC	**(46)**	(92)		
SMFC	**(29)**	(5)		
FMSLEF	**43**	83		
TMPC	**1,648**	1,192		
CIRC	**(10)**	(12)		
TFSPC	**304**	199		
NLI	**50**	41		
SMBC Metro	**79**	91		
TLI	**(86)**	(86)		
PALIC	**640**	416		
FMSLBF	**44**	6		
PCIC	**200**	162		
Others	**(22)**	(443)		
	4,051	2,638		
Share in net income (loss)				
GBPC	**499**	150		
LCMC	**(26)**	15		
SMFC	**(56)**	(24)		
FMSLEF	**12**	21		
TMPC	**653**	933		
CIRC	**8**	1		
TFSPC	**103**	105		
NLI	**6**	9		
SMBC Metro	**19**	21		
TLI	**1**	–		
PALIC	**221**	224		
FMSLBF	**1**	38		
PCIC	**(4)**	38		
Others	**–**	87		
	1,437	1,618		
Dividends				
TMPC	**(974)**	(476)		
NLI	**(1)**	–		
SMBC Metro	**(27)**	(33)		
PALIC	**(316)**	–		
	(1,318)	(509)		
Divestments				
LCMC	**(11)**	31		
FMSLEF	**–**	(61)		
Others	**–**	334		
	(11)	304		

(Forward)

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Balance at end of year				
GBPC	**₱1,735**	₱1,236		
LCMC	**(83)**	(46)		
SMFC	**(85)**	(29)		
FMSLEF	**55**	43		
TMPC	**1,327**	1,649		
CIRC	**(2)**	(11)		
TFSPC	**304**	304		
NLI	**55**	50		
SMBC Metro	**71**	79		
TLI	**(85)**	(86)		
PALIC	**545**	640		
FMSLBF	**45**	44		
PCIC	**196**	200		
Others	**(22)**	(22)		
	4,159	4,051		
Equity in net unrealized gain (loss) on AFS investments				
GBPC	**88**	24		
LCMC	**(2)**	(1)		
FMSLEF	**(3)**	–		
TMPC	**11**	8		
SMBC Metro	**12**	15		
TLI	**(3)**	–		
PALIC	**307**	236		
FMSBLF	**5**	–		
PCIC	**28**	7		
	443	289		
Translation adjustment and others				
LCMC	**4**	4		
TFSPC	**3**	1		
PALIC	**3**	3		
PCIC	**29**	29		
	39	37		
Allowance for impairment losses (Note 14)				
NLI	**(58)**	(58)	**(₱58)**	(₱58)
TLI	**(92)**	(92)	**(92)**	(92)
PALIC	**–**	(47)	**–**	–
PCIC	**–**	(55)	**–**	–
	(150)	(252)	**(150)**	(150)
Carrying Value				
GBPC	**8,464**	7,614	**–**	–
LCMC	**2,312**	2,092	**–**	–
SMFC	**715**	371	**–**	–
FMSLEF	**759**	198	**–**	–
TMPC	**2,011**	2,330	**673**	673
CIRC	**487**	478	**–**	–
TFSPC	**831**	725	**150**	150
NLI	**229**	224	**174**	174
SMBC Metro	**263**	274	**180**	180
TLI	**(2)**	–	**86**	86
PALIC	**1,026**	1,004	**–**	–
FMSLBF	**222**	75	**–**	–
PCIC	**313**	241	**–**	–
Others	**11**	10	**–**	–
	₱17,641	₱15,575	**₱1,263**	₱1,263

**Represents investment in a joint venture of the Group.*

As of December 31, 2011 and 2010, gross amount of goodwill amounted to ₱6.4 billion for the Group of which ₱1.2 billion pertained to the Parent Company. In 2011, the Group recognized an impairment loss of ₱35.4 million.

In 2010, MBCL assumed the assets and liabilities of Metrobank Shanghai Branch including sub-branches and started commercial operations on March 2, 2010. In 2010, the Parent Company sold its investment in GBHI to Cellini Holdings, Inc., a company where the majority stockholders of the Parent Company have indirect non-controlling interest. On August 31, 2010, the Parent Company sold 4.5 million shares for cash amounting to ₱3.6 billion which reduced its ownership in GBHI to 27.58%. On October 28, 2010, the remaining shares were sold for ₱5.7 billion. Receivable of ₱4.0 billion with 6.0% annual interest starting January 1, 2011 was fully paid in April 2011 (Note 9).

FMIC's investments in GBPC and CIRC include deposits for future stock subscription amounting to ₱12.5 billion and ₱5.3 billion, as of December 31, 2011 and 2010, respectively, for GBPC and ₱314.0 million for CIRC.

The following tables present financial information of significant associates and JV as of and for the years ended:

	Statement of Financial Position		Statement of Income		
	Total Assets	Total Liabilities	Gross Income	Operating Income (Loss)	Net Income (Loss)
December 31, 2011					
GBPC	**₱57,025**	**₱30,224**	**₱16,986**	**₱4,908**	**₱1,648**
PALIC	**38,948**	**35,280**	**9,975**	**1,108**	**941**
TFSPC	**21,211**	**19,095**	**1,869**	**342**	**257**
TMPC	**15,920**	**9,144**	**5,567**	**2,938**	**2,178**
LCMC	**11,753**	**3,642**	**1,731**	**22**	**215**
CIRC	**2,954**	**2,460**	**50**	**(41)**	**18**
NLI	**1,948**	**638**	**122**	**(19)**	**28**
SMFC	**1,880**	**99**	**153**	**(158)**	**(140)**
SMBC Metro	**836**	**37**	**79**	**78**	**63**
TLI	**44**	–	**2**	**1**	**1**
December 31, 2010					
GBPC	55,887	32,581	4,656	3,984	487
PALIC	35,554	31,988	2,007	915	796
TFSPC	18,776	16,936	1,721	329	263
TMPC	17,791	9,946	6,607	3,898	3,110
LCMC	8,956	3,993	1,404	(344)	(21)
CIRC	2,217	1,741	89	1	1
NLI	1,829	548	127	82	56
SMFC	993	65	64	(93)	(60)
SMBC Metro	841	63	79	80	71
TLI	43	–	2	(32)	(31)

Major assets of significant associates and joint venture include the following:

	2011	2010
GBPC		
Cash and cash equivalents	**₱8,606**	₱6,133
Receivables - net	**4,500**	2,617
Property, plant and equipment - net	**36,519**	34,693
PALIC		
Cash and cash equivalents	**2,602**	1,712
AFS investments	**7,950**	7,140
Investments held to cover linked liabilities	**26,026**	22,880
TFSPC		
Cash and cash equivalents	**2,939**	3,010
Receivables - net	**14,785**	13,839
TMPC		
Cash and cash equivalents	**5,746**	6,903
Receivables - net	**3,632**	2,594
Inventories - net	**3,762**	5,076
Property, plant and equipment - net	**1,030**	727

(Forward)

	2011	2010
LCMC		
Inventories	**₱642**	₱469
Property, plant and equipment - net	**7,072**	6,585
CIRC		
Accounts receivables	**272**	8
Advances	**1,751**	1,488
Investment properties - net	**915**	693
NLI		
Real estate properties	**1,277**	1,090
Receivables - net	**412**	429
SMFC		
Cash and cash equivalents	**987**	638
Receivables - net	**697**	221
SMBC Metro		
Cash and cash equivalents	**521**	605
AFS investments	**49**	60
Loans receivable - net	**259**	164
TLI		
Cash and cash equivalents	**44**	43

As discussed in Note 27, as of December 31, 2010, FMIC owned 19.68% of LCMC and holds two out of nine board seats (or 22.2%) which provides the ability to exercise significant influence on the operating and financial policies of LCMC. In May 2011, FMIC partially disposed its ownership in LCMC to a third party which resulted in a gain of ₱370.0 million included under 'Miscellaneous income' (Note 25). As of December 31, 2011, FMIC owned 16.97% of LCMC with the same number of board representatives. As of December 31, 2011 and 2010, the fair value of investment in LCMC amounted to ₱11.6 billion and ₱2.9 billion, respectively

The following tables summarize dividends declared by significant investee companies:

Subsidiary/Associate	**Date of Declaration**	**Per Share**	**Total Amount**	**Date of BSP Approval**	**Record Date**	**Payment Date**
2011						
Cash Dividend						
TMPC	April 12, 2011	₱209.51	₱3,246	Not required	December 31, 2010	April 13, 2011/ May 20, 2011
FMIC	May 24, 2011	2.66	1,003	August 12, 2011	August 31, 2011	September 8, 2011
MCC	March 22, 2011	1.00	1,000	May 19, 2011	May 19, 2011	May 23, 2011
PSBank	October 27, 2011	0.15	36	November 23, 2011	December 20, 2011	January 5, 2012
PSBank	July 26, 2011	0.15	36	August 16, 2011	September 8, 2011	September 23, 2011
PSBank	April 4, 2011	0.15	36	May 13, 2011	August 8, 2011	August 19, 2011
PSBank	January 20, 2011	0.15	36	February 23, 2011	March 18, 2011	April 4, 2011
Orix Metro (Note 34)	October 26, 2011	10.00	84			
Orix Metro	October 27, 2010	10.00	70	January 26, 2011	October 27, 2010	February 3, 2011
SMBC	December 6, 2011	5.00	30	Not required	December 6, 2011	January 5, 2012
SMBC	December 9, 2010	10.00	60	Not required	December 9, 2010	January 6, 2011
NLI	July 15, 2010	0.28	3	Not required	July 15, 2010	February 8, 2011
MRSPL	May 23, 2011	SGD3.00	52	May 23, 2011	May 23, 2011	May 23, 2011
Stock Dividend						
Orix Metro (Note 34)	October 26, 2011	20	169			
Orix Metro	October 27, 2010	20	141	January 26, 2011	October 27, 2010	August 31, 2011

(Forward)

Subsidiary/Associate	Date of Declaration	Per Share	Total Amount	Date of BSP Approval	Record Date	Payment Date
2010						
Cash Dividend						
TMPC	May 20, 2010	₱102.52	₱1,588	Not required	December 31, 2009	May 21, 2010
FMIC	June 22, 2010	2.65	999	August 11, 2010	September 8, 2010	September 30, 2010
PSBank	February 19, 2010	2.75	661	April 22, 2010	May 17, 2010	May 31, 2010
PSBank	October 14, 2010	0.15	36	November 15, 2010	December 8, 2010	December 23, 2010
PSBank	July 27, 2010	0.15	36	September 06, 2010	September 29, 2010	October 14, 2010
PSBank	May 17, 2010	0.15	36	June 15, 2010	July 13, 2010	August 3, 2010
PSBank	January 19, 2010	0.15	36	March 8, 2010	March 31, 2010	April 16, 2010
PSBank	October 13, 2009	0.15	36	December 15, 2009	January 14, 2010	January 28, 2010
Orix Metro	September 30, 2009	10.00	141	December 15, 2009	September 30, 2009	December 21, 2009
SMBC Metro	July 20, 2010	13.33	80	Not required	July 20, 2010	August 25, 2010
SMBC Metro	December 4, 2009	5.00	30	Not required	December 4, 2009	January 8, 2010

12. **Investment Properties**

This account consists of foreclosed real estate properties and investments in real estate:

	Consolidated					
	2011			2010		
	Land	**Buildings and Improvements**	**Total**	Land	Buildings and Improvements	Total
Cost						
Balance at beginning of year	**₱17,878**	**₱5,781**	**₱23,659**	₱20,703	₱6,346	₱27,049
Additions	**691**	**631**	**1,322**	800	780	1,580
Disposals	**(3,609)**	**(1,197)**	**(4,806)**	(3,213)	(1,527)	(4,740)
Reclassification/others	**(31)**	**21**	**(10)**	(412)	182	(230)
Balance at end of year	**14,929**	**5,236**	**20,165**	17,878	5,781	23,659
Accumulated depreciation and amortization						
Balance at beginning of year	**–**	**2,497**	**2,497**	–	2,843	2,843
Depreciation and amortization	**–**	**324**	**324**	–	468	468
Disposals	**–**	**(646)**	**(646)**	–	(793)	(793)
Reclassification/others	**–**	**(7)**	**(7)**	–	(21)	(21)
Balance at end of year	**–**	**2,168**	**2,168**	–	2,497	2,497
Allowance for impairment losses (Note 14)						
Balance at beginning of year	**2,660**	**101**	**2,761**	2,374	152	2,526
Provision for impairment loss	**335**	**6**	**341**	860	18	878
Disposals	**(518)**	**(25)**	**(543)**	(326)	(38)	(364)
Reclassification/others	**(25)**	**(8)**	**(33)**	(248)	(31)	(279)
Balance at end of year	**2,452**	**74**	**2,526**	2,660	101	2,761
Net book value at end of year	**₱12,477**	**₱2,994**	**₱15,471**	₱15,218	₱3,183	₱18,401

	Parent Company					
	2011			2010		
	Land	**Buildings and Improvements**	**Total**	Land	Buildings and Improvements	Total
Cost						
Balance at beginning of year	**₱14,093**	**₱3,989**	**₱18,082**	₱16,901	₱4,705	₱21,606
Additions	**473**	**249**	**722**	500	380	880
Disposals	**(3,091)**	**(978)**	**(4,069)**	(2,896)	(1,278)	(4,174)
Reclassification/others	**(33)**	**118**	**85**	(412)	182	(230)
Balance at end of year	**11,442**	**3,378**	**14,820**	14,093	3,989	18,082
Accumulated depreciation and amortization						
Balance at beginning of year	**–**	**2,050**	**2,050**	–	2,408	2,408
Depreciation and amortization	**–**	**255**	**255**	–	401	401
Disposals	**–**	**(609)**	**(609)**	–	(738)	(738)
Reclassification/others	**–**	**36**	**36**	–	(21)	(21)
Balance at end of year	**–**	**1,732**	**1,732**	–	2,050	2,050
Allowance for impairment losses (Note 14)						
Balance at beginning of year	**2,220**	**73**	**2,293**	1,957	115	2,072
Provision for impairment loss	**291**	**–**	**291**	810	17	827
Disposals	**(488)**	**(19)**	**(507)**	(299)	(28)	(327)
Reclassification/others	**(25)**	**(8)**	**(33)**	(248)	(31)	(279)
Balance at end of year	**1,998**	**46**	**2,044**	2,220	73	2,293
Net book value at end of year	**₱9,444**	**₱1,600**	**₱11,044**	₱11,873	₱1,866	₱13,739

As of December 31, 2011 and 2010, foreclosed investment properties still subject to redemption period by the borrower amounted to ₱931.0 million and ₱1.1 billion, respectively, for the Group and ₱330.8 million and ₱383.6 million, respectively, for the Parent Company.

As of December 31, 2011 and 2010, aggregate market value of investment properties amounted to ₱21.6 billion and ₱27.8 billion, respectively, for the Group and ₱16.2 billion and ₱19.5 billion, respectively, for the Parent Company, of which the aggregate market value of investment properties determined by independent external appraisers amounted to ₱18.1 billion and ₱22.1 billion, respectively, for the Group and ₱15.5 billion and ₱19.3 billion, respectively, for the Parent Company. Fair value has been determined based on valuations made by independent and/or in-house appraisers. Valuations were derived on the basis of recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made.

Rental income on investment properties (included in 'Leasing income' in the statement of income) in 2011, 2010 and 2009 amounted to ₱222.1 million, ₱125.7 million and ₱147.5 million, respectively, for the Group and ₱144.0 million, ₱55.2 million and ₱89.8 million, respectively, for the Parent Company.

Direct operating expenses on investment properties that generated rental income (included under 'Litigation expenses') in 2011, 2010 and 2009 amounted to ₱18.0 million, ₱33.7 million and ₱21.6 million, respectively, for the Group and ₱17.9 million, ₱32.7 million and ₱21.4 million, respectively, for the Parent Company. Direct operating expenses on investment properties that did not generate rental income (included under 'Litigation expenses') in 2011, 2010 and 2009 amounted to ₱333.2 million, ₱270.4 million and ₱427.1 million, respectively, for the Group and ₱296.9 million, ₱239.3 million and ₱426.0 million, respectively, for the Parent Company (Note 25).

Net gains from sale of investment properties (included in 'Profit from assets sold' in the statement of income) in 2011, 2010 and 2009 amounted to ₱807.2 million, ₱1.1 billion and ₱642.4 million, respectively, for the Group and ₱800.4 million, ₱997.4 million and ₱580.6 million, respectively, for the Parent Company.

13. Other Assets

This account consists of:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Assets held under joint ventures	**₱3,210**	₱3,241	**₱3,210**	₱3,241
Interoffice float items	**1,792**	1,100	**1,758**	1,295
Creditable withholding tax	**1,053**	682	**776**	381
Software costs - net	**442**	500	**187**	262
Chattel properties acquired in foreclosure - net	**430**	260	**17**	9
Residual value of leased property	**417**	342	**–**	–
Prepaid expenses	**359**	665	**86**	78
Retirement asset (Note 23)	**125**	520	**101**	510
Documentary and postage stamps on hand	**90**	260	**90**	260
Returned checks and other cash items	**67**	359	**47**	331
Other investments	**14**	13	**10**	10
Investments in SPVs - net	**–**	–	**–**	–
Miscellaneous	**2,233**	1,296	**1,658**	903
	10,232	9,238	**7,940**	7,280
Less allowance for impairment losses (Note 14)	**984**	742	**742**	711
	₱9,248	₱8,496	**₱7,198**	₱6,569

Assets held under JV are parcels of land and former branch sites of the Parent Company with net realizable value of ₱3.2 billion as of December 31, 2011 and 2010, which were contributed to separate JV with Federal Land, Inc. and Federal Land Orix Corporation (Note 27).

Movements in software costs account follow:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Cost				
Balance at beginning of year	**₱1,261**	₱981	**₱630**	₱536
Additions	**216**	280	**60**	119
Disposals/others	**(32)**	–	**(2)**	(25)
Balance at end of year	**1,445**	1,261	**688**	630
Accumulated amortization				
Balance at beginning of year	**761**	540	**368**	283
Amortization	**230**	199	**120**	89
Disposals/others	**12**	22	**13**	(4)
Balance at end of year	**1,003**	761	**501**	368
Net book value at end of year	**₱442**	₱500	**₱187**	₱262

Movements in chattel properties acquired through foreclosure follow:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Cost				
Balance at beginning of year	**₱418**	₱1,046	**₱85**	₱763
Additions	**748**	655	**18**	8
Disposals/others	**(600)**	(1,283)	**(30)**	(686)
Balance at end of year	**566**	418	**73**	85
Accumulated depreciation and amortization				
Balance at beginning of year	**148**	690	**73**	620
Depreciation and amortization	**88**	116	**7**	66
Disposals/others	**(109)**	(658)	**(27)**	(613)
Balance at end of year	**127**	148	**53**	73
Allowance for impairment losses (Note 14)				
Balance at beginning of year	**10**	22	**3**	11
Disposals	**(1)**	(12)	**–**	(8)
Balance at end of year	**9**	10	**3**	3
Net book value at end of year	**₱430**	₱260	**₱17**	₱9

Investments in SPVs represent subordinated notes issued by CG3AMI and LNC3AMI with face amount of ₱9.4 billion and ₱2.6 billion, respectively. These notes are non-interest bearing and payable over five (5) years starting April 1, 2006, with rollover of two (2) years at the option of the note issuers. These were received by the Parent Company on April 1, 2006 in exchange for the subordinated note issued by Asia Recovery Corporation (ARC) in 2003 with face amount of ₱11.9 billion. The subordinated note issued by ARC represents payment on the nonperforming assets (NPAs) sold by the Parent Company to ARC in 2003. The related deed of absolute sale was formalized on September 17, 2003 and approved by the BSP on November 28, 2003, having qualified as a true sale. As of December 31, 2011 and 2010, the estimated fair value of the subordinated notes, which is the present value of the estimated cash flows from such notes (derived from the sale of the underlying collaterals of the NPAs, net of the payment to senior notes by the SPV) amounted to nil, after deducting allowance for impairment losses of ₱8.8 billion.

Miscellaneous account includes certificates of deposits totaling USD11.2 million (with peso equivalent of ₱491.0 million) that are pledged by the Parent Company's New York Branch in compliance with the regulatory requirements of the Federal Deposit Insurance Corporation and the Office of the Controller of the Currency in New York.

As of December 31, 2011, miscellaneous account also includes a receivable from a third party of ₱425.7 million pertaining to the final tax withheld on PEACe bonds which matured on October 18, 2011 (Note 29).

14. Allowance for Credit and Impairment Losses

Changes in the allowance for credit and impairment losses follow:

	Consolidated		Parent Company	
	December 31			
	2011	2010	**2011**	2010
Balance at beginning of year:				
AFS investments (Note 8)				
Debt securities – private	**₱1,073**	₱1,148	**₱977**	₱996
Equity securities				
Quoted	**377**	–	**123**	–
Unquoted	**243**	399	**86**	69
HTM investments (Note 8)	**219**	231	**219**	231
Loans and receivables (Note 9)	**14,941**	14,008	**9,124**	9,060
Investments in subsidiaries	**–**	–	**351**	–
Investments in associates (Note 11)	**252**	150	**150**	150
Property and equipment (Note 10)	**2**	4	**–**	–
Investment properties (Note 12)	**2,761**	2,526	**2,293**	2,072
Other assets* (Note 13)	**9,609**	7,024	**9,571**	7,013
	29,477	25,490	**22,894**	19,591
Provisions for credit and impairment losses	**3,823**	7,285	**1,186**	4,485
Disposals	**(2,000)**	(376)	**(1,980)**	(335)
Accounts written off/others	**(3,317)**	(2,922)	**(709)**	(847)
Balance at end of year:	**27,983**	29,477	**21,391**	22,894
AFS investments (Note 8)				
Debt securities - private	**–**	1,073	**–**	977
Equity securities				
Quoted	**337**	377	**90**	123
Unquoted	**224**	243	**86**	86
HTM investments (Note 8)	**–**	219	**–**	219
Loans and receivables (Note 9)	**14,884**	14,941	**8,666**	9,124
Investments in subsidiaries (Note 11)	**–**	–	**754**	351
Investments in associates (Note 11)	**150**	252	**150**	150
Property and equipment (Note 10)	**12**	2	**–**	–
Investment properties (Note 12)	**2,526**	2,761	**2,044**	2,293
Other assets* (Note 13)	**9,850**	9,609	**9,601***	9,571
	₱27,983	₱29,477	**₱21,391**	₱22,894

*Allowance for credit and impairment losses of other assets include allowance on investments in SPVs, chattel mortgage properties and miscellaneous assets.

Below is the breakdown of provision for credit and impairment losses.

	Consolidated			Parent Company		
	December 31					
	2011	2010	2009	**2011**	2010	2009
AFS investments	**₱17**	₱252	₱2,118	**₱–**	₱173	₱1,727
Loans and receivables						
Receivables from customers	**2,817**	2,983	2,849	**330**	170	376
Unquoted debt instruments	**304**	252	555	**–**	104	555
Accounts receivable	**158**	108	260	**130**	97	260
Sales contract receivable	**–**	–	–	**–**	196	–
Other receivables	**99**	124	1,067	**–**	–	1,067
Investments in subsidiaries	**36**	–	–	**403**	351	–
Investments in associates	**(203)**	102	–	**–**	–	–
Property and equipment (Note 10)	**10**	–	4	**–**	–	–
Investment properties (Note 12)	**341**	878	1,097	**291**	827	792
Chattel properties acquired in foreclosure (Note 13)	**–**	–	7	**–**	–	–
Other assets	**244**	2,586	836	**32**	2,567	836
	₱3,823	₱7,285	₱8,793	**₱1,186**	₱4,485	₱5,613

With the foregoing level of allowance for credit and impairment losses, management believes that the Group has sufficient allowance to take care of any losses that the Group may incur from the noncollection or nonrealization of its receivables and other risk assets.

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

	Consolidated							
	Commercial Loans	**Residential Mortgage Loans**	**Auto Loans**	**Trade**	**Others**	**Subtotal**	**Other Receivables***	**Total**
Balance at January 1, 2011	**₱5,705**	**₱312**	**₱499**	**₱531**	**₱3,114**	**₱10,161**	**₱4,780**	**₱14,941**
Provisions during the year	**685**	**10**	**93**	**–**	**2,029**	**2,817**	**561**	**3,378**
Accounts written off	**(477)**	**–**	**(77)**	**(178)**	**(2,161)**	**(2,893)**	**(46)**	**(2,939)**
Transfers/others	**(405)**	**306**	**(3)**	**36**	**26**	**(40)**	**(456)**	**(496)**
Balance at December 31, 2011	**₱5,508**	**₱628**	**₱512**	**₱389**	**₱3,008**	**₱10,045**	**₱4,839**	**₱14,884**
Individual impairment	**₱4,733**	**₱583**	**₱1**	**₱389**	**₱459**	**₱6,165**	**₱3,398**	**₱9,563**
Collective impairment	**775**	**45**	**511**	**–**	**2,549**	**3,880**	**1,441**	**5,321**
	₱5,508	**₱628**	**₱512**	**₱389**	**₱3,008**	**₱10,045**	**₱4,839**	**₱14,884**
Gross amount of loans individually determined to be impaired	**₱9,580**	**₱657**	**₱4**	**₱667**	**₱922**	**₱11,830**	**₱5,661**	**₱17,491**
Balance at January 1, 2010	₱5,587	₱322	₱867	₱351	₱2,305	₱9,432	₱4,576	₱14,008
Provisions during the year	431	15	78	4	2,455	2,983	484	3,467
Accounts written off	(97)	–	(171)	(46)	(1,674)	(1,988)	(4)	(1,992)
Transfers/others	(216)	(25)	(276)	222	29	(266)	(276)	(542)
Balance at December 31, 2010	₱5,705	₱312	₱ 498	₱531	₱3,115	₱10,161	₱4,780	₱14,941
Individual impairment	₱5,187	₱262	₱–	₱529	₱832	₱6,810	₱1,842	₱8,652
Collective impairment	518	50	498	2	2,283	3,351	2,938	6,289
`	₱5,705	₱312	₱498	₱531	₱3,115	₱10,161	₱4,780	₱14,941
Gross amount of loans individually determined to be impaired	₱11,581	₱957	₱–	₱544	₱873	₱13,955	₱2,954	₱16,909

	Parent Company							
	Commercial Loans	Residential Mortgage Loans	Auto Loans	Trade	Others	Subtotal	Other Receivables*	Total
Balance at January 1, 2011	**₱4,658**	**₱139**	**₱23**	**₱528**	**₱22**	**₱5,370**	**₱3,754**	**₱9,124**
Provisions during the year	**327**	**–**	**3**	**–**	**–**	**330**	**130**	**460**
Accounts written off	**(457)**	**–**	**(2)**	**(178)**	**(2)**	**(639)**	**(25)**	**(664)**
Transfers/others	**(412)**	**307**	**(3)**	**39**	**18**	**(51)**	**(203)**	**(254)**
Balance at December 31, 2011	**₱4,116**	**₱446**	**₱21**	**₱389**	**₱38**	**₱5,010**	**₱3656**	**₱8,666**
Individual impairment	**₱4,079**	**₱445**	**₱–**	**₱389**	**₱38**	**₱4,951**	**₱2,760**	**₱7,711**
Collective impairment	**37**	**1**	**21**	**–**	**–**	**59**	**896**	**955**
	₱4,116	**₱446**	**₱21**	**₱389**	**₱38**	**₱5,010**	**₱3,656**	**₱8,666**
Gross amount of loans individually determined to be impaired	**₱7,981**	**₱657**	**₱–**	**₱667**	**₱96**	**₱9,401**	**₱4,935**	**₱14,336**
Balance at January 1, 2010	₱5,083	₱79	₱15	₱351	₱33	₱5,561	₱3,499	₱9,060
Provisions during the year	155	14	–	1	–	170	397	567
Accounts written off	(97)	–	–	(46)	(3)	(146)	(1)	(147)
Transfers/others	(483)	46	8	222	(8)	(215)	(141)	(356)
Balance at December 31, 2010	₱4,658	₱139	₱23	₱528	₱22	₱5,370	₱3,754	₱9,124
Individual impairment	₱4,570	₱135	₱–	₱528	₱22	₱5,255	₱1,562	₱6,817
Collective impairment	88	4	23	–	–	115	2,192	2,307
	₱4,658	₱139	₱23	₱528	₱22	₱5,370	₱3,754	₱9,124
Gross amount of loans individually determined to be impaired	₱9,550	₱636	₱–	₱544	₱22	₱10,752	₱2,901	₱13,653

* Allowance for credit losses on other receivables include allowance on unquoted debt securities, accounts receivables, accrued interest receivable on AFS and HTM investments, sales contract receivables and deficiency judgment receivable.

Movements in the allowance for credit and impairment losses on AFS investments, HTM investments and other assets follow:

	Consolidated				
	AFS Investments				
	Debt Securities	Equity Securities	HTM Investments	Other Assets*	Total
At January 1, 2011	**₱1,073**	**₱620**	**₱219**	**₱9,599**	**₱11,511**
Provisions for credit and impairment losses	–	**17**	–	**243**	**260**
Disposals	**(976)**	**(33)**	**(216)**	–	**(1,225)**
Reclassifications/others	**(97)**	**(43)**	**(3)**	**(1)**	**(144)**
At December 31, 2011	**₱–**	**₱561**	**₱–**	**₱9,841**	**₱10,402**
At January 1, 2010	₱1,148	₱399	₱231	₱7,002	₱8,780
Provisions for credit and impairment losses	32	220	–	2,586	2,838
Disposals	–	–	–	–	–
Reclassifications/others	(107)	1	(12)	11	(107)
At December 31, 2010	₱1,073	₱620	₱219	₱9,599	₱11,511

	Parent Company				
	AFS Investments				
	Debt Securities	Equity Securities	HTM Investments	Other Assets*	Total
Balance at January 1, 2011	**₱977**	**₱209**	**₱219**	**₱9,569**	**₱10,974**
Provisions for credit and impairment losses	**–**	**–**	**–**	**31**	**31**
Disposals	**(976)**	**(33)**	**(216)**	**–**	**(1,225)**
Reclassifications/others	**(1)**	**–**	**(3)**	**–**	**(4)**
Balance at December 31, 2011	**₱–**	**₱176**	**₱–**	**₱9,600**	**₱9,776**
Balance at January 1, 2010	₱996	₱69	₱231	₱7,002	₱8,298
Provisions for credit and impairment losses	33	140	–	2,567	2,740
Reclassifications/others	(52)	–	(12)	–	(64)
Balance at December 31, 2010	₱977	₱209	₱219	₱9,569	₱10,974

*Allowance for credit and impairment losses on other assets include allowance on investments in SPVs and miscellaneous assets.

15. Deposit Liabilities

As of December 31, 2011 and 2010, 8.63% and 7.50% of the total interest-bearing deposit liabilities of the Group, respectively, are subject to periodic interest repricing. Remaining peso deposit liabilities earn annual fixed interest rates ranging from 0.00% to 14.85%, from 0.00% to 14.85% and from 0.00% to 15.00% in 2011, 2010 and 2009, respectively, while foreign currency-denominated deposit liabilities earn annual fixed interest rates ranging from 0.00% to 6.25%, from 0.00% to 7.50% and from 0.00% to 6.50% in 2011, 2010 and 2009, respectively.

Interest expense on deposit liabilities consists of:

	Consolidated			Parent Company		
	2011	2010	2009	**2011**	2010	2009
Demand	**₱276**	₱191	₱157	**₱196**	₱135	₱96
Savings	**1,159**	1,069	962	**1,109**	1,022	923
Time	**8,799**	8,453	10,174	**5,705**	5,913	7,882
	₱10,234	₱9,713	₱11,293	**₱7,010**	₱7,070	₱8,901

Under existing BSP regulations, non-FCDU deposit liabilities of the Parent Company and deposit substitutes of FMIC, Orix Metro and MCC are subject to liquidity reserves equivalent to 11.00% and statutory reserves equivalent to 10.00%. On the other hand, non-FCDU deposit liabilities of PSBank are subject to liquidity reserves equivalent to 2.00% and statutory reserves equivalent to 6.00%. The Parent Company, PSBank, FMIC, ORIX Metro, and MCC were in compliance with such regulations as of December 31, 2011 and 2010.

The total liquidity and statutory reserves as reported to BSP follows:

	Parent Company		PSBank		FMIC	
	2011	2010	**2011**	2010	**2011**	2010
Cash and other cash items	**₱16,600**	₱16,763	**₱3,842**	₱3,084	**₱10,944**	₱7,979
Due from BSP	**84,469**	65,930	**1,907**	1,047	**1,173**	880
Unquoted debt securities	**–**	2,830	**–**	–	**–**	–
AFS investments	**–**	–	**1,787**	1,490	**–**	–
	₱101,069	₱85,523	**₱7,536**	₱5,621	**₱12,117**	₱8,859

	ORIX Metro		MCC	
	2011	2010	**2011**	2010
Due from BSP	**₱1,677**	₱1,004	**₱688**	₱1,042
Due from other banks	**–**	–	**2,962**	1,629
	₱1,677	₱1,004	**₱3,650**	₱2,671

16. Bills Payable and Securities Sold Under Repurchase Agreements

This account consists of borrowings from:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Deposit substitutes	**₱59,577**	₱48,803	**₱–**	₱–
Local banks	**17,398**	15,347	**246**	452
Foreign banks	**5,788**	13,723	**977**	9,754
SSURA (Note 8)	**16,894**	7,441	**12,377**	–
BSP (Note 9)	–	199	–	199
	₱99,657	₱85,513	**₱13,600**	₱10,405

Interbank borrowings with foreign and local banks are mainly short-term borrowings. The Group's peso borrowings are subject to annual fixed interest rates ranging from 1.00% to 8.54%, from 1.00% to 8.40% and from 3.00% to 8.00% in 2011, 2010 and 2009, respectively, while the Group's foreign currency-denominated borrowings are subject to annual fixed interest rates ranging from 0.10% to 2.90%, from 0.15% to 4.10% and from 0.20% to 4.10% in 2011, 2010 and 2009, respectively.

Deposit substitutes pertain to borrowings from the public of FMIC, ORIX Metro and MCC.

Interest expense on bills payable (included in the 'Interest expense on bills payable and SSURA, subordinated debt and others' in the statement of income) in 2011, 2010 and 2009 amounted to ₱3.7 billion, ₱3.5 billion and ₱4.3 billion, respectively, for the Group and ₱0.1 billion, ₱0.5 billion and ₱0.7 billion, respectively, for the Parent Company.

17. Accrued Interest and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Accrued interest	**₱2,020**	₱1,821	**₱1,207**	₱992
Accrued other expenses	**5,180**	3,353	**3,340**	1,780
	₱7,200	₱5,174	**₱4,547**	₱2,772

Accrued other expenses include accruals for salaries and wages, fringe benefits, rentals, percentage and other taxes, insurance on deposits, professional fees, advertisements and information technology expenses.

18. Subordinated Debt

This account consists of the following Peso Notes:

		Consolidated		Parent Company	
	Maturity Date	**2011**	2010	**2011**	2010
Parent Company					
2017	October 19, 2017	**₱ 8,486**	₱8,470	**₱8,486**	₱8,470
2018	October 3, 2018	**5,477**	5,466	**5,477**	5,466
2019	May 6, 2019	**4,479**	4,470	**4,479**	4,470
MCC - 2019	June 30, 2019	**1,293**	1,290	–	–
PSBank - 2016	January 27, 2016	–	1,977	–	–
		₱19,735	₱21,673	**₱18,442**	₱18,406

Peso Notes issued by the Parent Company are unsecured and subordinated obligations and will rank pari passu and without any preference among themselves and at least equally with all other present and future unsecured and subordinated obligations of the Parent Company. These Peso Notes have a term of 10 years and are redeemable at the option of the Parent Company (but not the holders) after the fifth year in whole but not in part at redemption price equal to 100.00% of the principal amount together with accrued and unpaid interest on the date of redemption, subject to the prior consent of the BSP.

Further, at any time within the first five (5) years from respective issue dates of these Notes, upon (a) a change in tax status due to changes in laws and/or regulations or (b) the non-qualification as Lower Tier 2 capital as determined by BSP of these Notes, the Parent Company may, upon prior approval of BSP and at least 30-day prior written notice to the Noteholders on record, redeem all and not less than all of the outstanding Peso Notes prior to stated maturity by paying the face value plus accrued interest at the interest rate. Also, the following shall be prohibited from purchasing and/or holding these Peso Notes: (1) subsidiaries and affiliates, including the subsidiaries and affiliates of the Parent Company's subsidiaries and affiliates; (2) unit investment trust funds managed by the Trust Department of the Parent Company, its subsidiaries and affiliates or other related entities; (3) other funds being managed by the Trust Department of the Parent Company, its subsidiaries and affiliates or other related entities where (a) the fund owners have not given prior authority or instruction to the Trust Department to purchase or invest in the Peso Notes or (b) the authority or instruction of the fund owner and his understanding of the risk involved in purchasing or investing in the Peso Notes are not fully documented.

Each Noteholder may not exercise or claim any right of set-off in respect of any amount owed to it by the Parent Company arising under or in connection with the Peso Notes and to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off. These Notes are not deposits and are not insured by the Philippine Deposit Insurance Corporation (PDIC).

Specific terms of these Notes follow:

Parent Company
2019 Peso Notes - issued on May 6, 2009, at 100.00% of the principal amount of ₱4.5 billion

- Bear interest at 7.50% per annum from and including May 6, 2009 to but excluding May 6, 2014. Interest will be payable quarterly in arrears on August 6, November 6, February 6, and May 6, commencing August 6, 2009 up to and including May 6, 2014. Unless these are previously redeemed, the interest rate from and including May 6, 2014 to but excluding May 6, 2019 will be reset at the equivalent of the five-year PDST-F as of Reset Date multiplied by 80.00% plus a spread of 3.5310% per annum. Interest will be payable quarterly in arrears on August 6, November 6, February 6 and May 6 of each year, commencing August 6, 2014 up to and including May 6, 2019.

2018 Peso Notes - issued on October 3, 2008, at 100.00% of the principal amount of ₱5.5 billion

- Bear interest at 7.75% per annum from and including October 3, 2008 to but excluding October 3, 2013. Interest will be payable quarterly in arrears on January 3, April 3, July 3 and October 3 of each year, commencing January 3, 2009 up to and including October 3, 2013. Unless these are previously redeemed, the interest rate from and including October 3, 2013 to but excluding October 3, 2018 will be reset at the equivalent of the five-year PDST-F as of Reset Date multiplied by 80.00% plus a spread of 2.708% per annum. Interest will be payable quarterly in arrears on January 3, April 3, July 3 and October 3 of each year, commencing January 3, 2014 up to and including October 3, 2018.

2017 Peso Notes - issued on October 19, 2007 at 100.00% of the principal amount of ₱8.5 billion

- Bear interest at 7.00% per annum from and including October 19, 2007 to but excluding October 19, 2012. Interest will be payable quarterly in arrears on January 19, April 19, July 19 and October 19 of each year, commencing on January 19, 2008 up to and including October 19, 2012. Unless these Notes are previously redeemed, the interest rate from and including October 19, 2017 will be reset at the equivalent of the five-year PDST-F as of Reset date multiplied by 80% plus a spread of 2.4485% per annum, and such interest will be payable quarterly in arrears on January 19, April 19, July 19 and October 19 each year, commencing on January 19, 2012 up to and including October 19, 2017.

On September 17, 2008, the BOD of the Parent Company approved the listing of the 2018 Peso Notes and the 2017 Peso Notes with the Philippine Dealing Exchange (PDEX).

2019 Peso Notes - issued by MCC on June 30, 2009 at 100.00% of the principal amount of ₱1.3 billion

- Bear interest at 8.3958% per annum from and including June 30, 2009 but excluding June 30, 2014 which is payable quarterly in arrears every 30th of September, December, March and June of each year, commencing on September 30, 2009.
- Constitute direct, unconditional, and unsecured obligations of MCC and claim in respect of the 2019 Notes shall be at all times pari passu and without any preference among themselves.
- Subject to the written approval of the BSP, MCC may redeem all and not less than the entire outstanding 2019 Notes, at a redemption price equal to the face value together with accrued and unpaid interest based on the interest rate.

On September 30, 2014 (the Reset date), the Step-up Interest Rate will be based on a 5-year PDST-F FXTN as of Reset date multiplied by 80.00%, plus the Step-up Credit Spread on the twenty-first interest period up to the last interest period in the event that the issuer does not exercise the Call Option. The Step-up Credit Spread is equivalent to 4.91874%.

2016 Peso Notes - issued by PSBank on January 27, 2006 at 100.00% of the principal amount of ₱2.0 billion

- Bear interest at 10.00% per annum from and including January 27, 2006 but excluding January 27, 2011 which is payable quarterly in arrears every 27th of January, April, July and October of each year, commencing on April 27, 2006.
- Constitute direct, unconditional, and unsecured obligations of PSBank and claim in respect of the 2016 Notes shall be at all times pari passu and without any preference among themselves.
- Subject to satisfaction of certain regulatory approval requirements, PSBank may redeem all and not less than the entire outstanding 2016 Notes, at a redemption price equal to the face value together with accrued and unpaid interest based on the interest rate.

On January 28, 2011, PSBank exercised its call option in 2016 Peso Note which was approved by the BSP on December 10, 2010.

On October 27, 2011, PSBank's BOD approved the issuance of unsecured subordinated notes and sought approval from the BSP of the ₱3.0 billion issuance which was granted on December 29, 2011.

As of December 31, 2011 and 2010, the fair values of the Group's Peso Notes follow:

		Market Value	
	Face Value	**2011**	2010
Parent Company			
2017	₱8,500	**₱8,346**	₱9,355
2018	5,500	**5,357**	6,186
2019	4,500	**4,324**	5,201
MCC - 2019	1,300	**1,444**	1,469
PSBank - 2016	2,000	–	2,039
	₱21,800	**₱19,471**	₱24,250

As of December 31, 2011 and 2010, the Parent Company, PSBank and MCC are in compliance with the terms and conditions upon which these subordinated notes have been issued.

Interest expense on subordinated debt (included in the 'Interest expense on bills payable and SSURA, subordinated debt and others') in 2011, 2010 and 2009 amounting to ₱1.5 billion, ₱1.7 billion and ₱1.5 billion, includes amortization of ₱62.3 million, ₱39.6 million and ₱32.6 million, respectively, for the Group. Interest expense on subordinated debt in 2011, 2010 and 2009 amounting to ₱1.4 billion, ₱1.4 billion and ₱1.3 billion, includes amortization of ₱36.7 million, ₱33.4 million and ₱28.6 million, respectively, for the Parent Company.

19. Other Liabilities

This account consists of:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Bills purchased - contra (Note 9)	**₱10,695**	₱11,761	**₱10,630**	₱11,706
Accounts payable	**5,954**	4,634	**3,693**	2,857
Bonds payable	**4,875**	55	**–**	–
Outstanding acceptances	**1,064**	1,296	**1,064**	1,296
Non-equity non-controlling interests	**704**	452	**–**	–
Deposits on lease contracts	**597**	485	**–**	–
Deferred revenues	**553**	452	**67**	–
Withholding taxes payable	**414**	354	**249**	215
Other credits	**391**	464	**295**	277
Marginal deposits	**374**	2,658	**97**	757
Retirement benefit liability (Note 23)	**184**	277	**–**	–
Miscellaneous	**2,307**	2,124	**783**	736
	₱28,112	₱25,012	**₱16,878**	₱17,844

Bonds payable represents scripless fixed rate corporation bonds (the Bonds) amounting to ₱5.0 billion issued at face value by FMIC with fixed interest rate of 5.675% per annum computed based on 30/360 days and payable every quarter starting February 25, 2012 and will mature on February 25, 2017. These are issued in principal amounts of ₱50,000 and in multiples of ₱5,000 in excess of ₱50,000 with an option to redeem in whole, but not in part, on any interest payment date after the fourth anniversary of the issue date of the Bonds at 102% of its face value plus accrued interest. The Bonds are exempt securities pursuant to certain provisions of the Securities Regulation Code and are covered by a deed of assignment on government securities to be held in trust by a collateral agent. The aggregate market value of such securities shall be 100% of the issued amount and in the event that it falls below the 100%, additional government securities shall be offered to increase and maintain the cover at 100%. As of December 31, 2011, the carrying amount of the government securities assigned as collateral and classified under HTM investments (Note 8) amounted to ₱4.4 billion with market value of ₱5.3 billion. As of December 31, 2011, FMIC has complied with the terms of the issue.

Deferred revenues refer to deferral and release of MCC's loyalty points program transactions and membership fees and dues.

Non-equity non-controlling interests arise when mutual funds are consolidated and where the Group holds less than 100% of the investment in these 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 in that the Group does not hold an equity stake in such funds.

Miscellaneous liabilities of the Group includes notes payable amounting to ₱488.1 million as of December 31, 2011 and 2010. This account also includes the proceeds from sale of corporate bonds with recourse amounting to ₱66.1 million as of December 31, 2011.

20. Maturity Profile of Assets and Liabilities

The following tables present the assets and liabilities by contractual maturity and settlement dates:

	Consolidated					
	2011			2010		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial Assets - at gross						
Cash and other cash items	₱20,954	₱–	₱20,954	₱20,201	₱–	₱20,201
Due from BSP	156,537	–	156,537	168,402	–	168,402
Due from other banks	32,095	–	32,095	38,308	-	38,308
Interbank loans receivable and SPURA (Note 7)	24,367	–	24,367	26,507	–	26,507
Financial assets at FVPL (Note 8)	2,984	3,204	6,188	4,876	7,704	12,580
Available for sale investments (Note 8)	23,985	119,633	143,618	30,268	97,892	128,160
HTM investments (Note 8)	3,895	43,562	47,457	392	32,490	32,882
Receivables from customers (Note 9)	223,336	231,005	454,341	180,308	201,838	382,146
Unquoted debt securities (Note 9)	1,773	10,783	12,556	4,206	11,613	15,819
Accrued interest receivable (Note 9)	7,051	–	7,051	6,181	–	6,181
Accounts receivable (Note 9)	4,227	–	4,227	7,203	863	8,066
Sales contract receivable (Note 9)	73	687	760	697	649	1,346
Other receivables (Note 9)	240	54	294	224	–	224
Other assets (Note 13)						
Interoffice float items	1,792	–	1,792	1,100	–	1,100
Pledged certificate of time deposit	491	457	948	493	–	493
Returned checks and other cash items	67	–	67	359	–	359
Residual value of leased assets	110	307	417	112	230	342
Other investments	–	14	14	–	13	13
Investments in SPVs	8,857	–	8,857	8,857	–	8,857
	512,834	409,706	922,540	498,694	353,292	851,986
Nonfinancial Assets - at gross						
Property and equipment (Note 10)	₱–	₱28,858	₱28,858	₱–	₱26,469	₱26,469
Investments in associates (Note 11)	–	17,791	17,791	–	15,827	15,827
Investment properties (Note 12)	–	20,165	20,165	–	23,659	23,659
Deferred tax assets (Note 26)	–	7,597	7,597	–	7,496	7,496
Goodwill (Note 11)	–	6,413	6,413	–	6,449	6,449
Retirement asset (Note 23)	–	125	125	–	520	520
Asset held by joint ventures	–	3,210	3,210	–	3,241	3,241
Accounts receivable (Note 9)	–	1,722	1,722	–	1,731	1,731
Other assets (Note 13)	1,502	2,294	3,796	1,607	1,722	3,329
	1,502	88,175	89,677	1,607	87,114	88,721
	₱514,336	₱497,881	1,012,217	₱500,301	₱440,406	940,707
Less:						
Unearned discounts and capitalized interest (Note 9)			8,645			7,913
Accumulated depreciation and amortization (Notes 10, 12 and 13)			17,204			15,994
Allowance for credit and impairment losses (Note 14)			27,984			29,477
			₱958,384			₱887,323
Financial Liabilities						
Deposit liabilities						
Demand	₱77,589	₱–	₱77,589	₱68,261	₱–	₱68,261
Savings	283,011	–	283,011	267,930	–	267,930
Time	303,348	17,045	320,393	294,858	20,213	315,071
	663,948	17,045	680,993	631,049	20,213	651,262

(Forward)

	Consolidated					
	2011			2010		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Bills payable and SSURA (Note 16)	**₱91,572**	**₱8,085**	**₱99,657**	₱75,605	₱9,908	₱85,513
Derivative liabilities	**2,751**	**68**	**2,819**	3,037	124	3,161
Manager's checks and demand drafts outstanding	**2,610**	–	**2,610**	2,043	–	2,043
Accrued interest and other expenses	**6,602**	–	**6,602**	4,524	254	4,778
Subordinated debt	–	**19,735**	**19,735**	1,977	19,696	21,673
Other liabilities (Note 19):						
Bills purchased - contra	**10,695**	–	**10,695**	11,761	–	11,761
Accounts payable	**5,954**	–	**5,954**	4,634	–	4,634
Bonds payable	**–**	**4,875**	**4,875**	55	–	55
Marginal deposits	**374**	–	**374**	2,658	–	2,658
Outstanding acceptances	**1,064**	–	**1,064**	1,296	–	1,296
Deposits on lease contracts	**159**	**438**	**597**	146	339	485
Dividends payable	**31**	–	**31**	21	–	21
Miscellaneous	–	**488**	**488**	–	488	488
	785,760	**50,734**	**836,494**	738,806	51,022	789,828
Nonfinancial Liabilities						
Retirement liability	–	**184**	**184**	–	277	277
Income taxes payable	**597**	–	**597**	331	–	331
Accrued interest and other expenses	**598**	–	**598**	396	–	396
Withholding taxes payable (Note 19)	**414**	–	**414**	354	–	354
Deferred tax and other liabilities (Notes 19 and 26)	**3,044**	**549**	**3,593**	2,519	601	3,120
	4,653	**733**	**5,386**	3,600	878	4,478
	₱790,413	**₱51,467**	**₱841,880**	₱742,406	₱51,900	₱794,306

	Parent Company					
	2011			2010		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Financial Assets - at gross						
Cash and other cash items	**₱16,985**	**₱–**	**₱16,985**	₱16,996	₱–	₱16,996
Due from BSP	**146,636**	**–**	**146,636**	162,391	–	162,391
Due from other banks	**13,310**	**–**	**13,310**	19,416	–	19,416
Interbank loans receivable and SPURA (Note 7)	**3,222**	**–**	**3,222**	18,006	–	18,006
Financial assets at FVPL (Note 8)	**1,393**	**3,204**	**4,597**	3,123	5,960	9,083
AFS investments (Note 8)	**5,034**	**111,118**	**116,152**	13,568	83,943	97,511
HTM investments (Note 8)	**3,895**	**13,569**	**17,464**	348	13,818	14,166
Receivables from customers (Note 9)	**184,219**	**164,205**	**348,424**	139,777	143,097	282,874
Unquoted debt securities (Note 9)	**673**	**2,069**	**2,742**	3,139	2,369	5,508
Accrued interest receivable (Note 9)	**5,241**	**–**	**5,241**	4,689	–	4,689
Accounts receivable (Note 9)	**3,455**	**–**	**3,455**	6,208	858	7,066
Sales contract receivable (Note 9)	**695**	**215**	**910**	691	642	1,333
Other receivables (Note 9)	**61**	**–**	**61**	179	–	179
Other assets (Note 13)						
Interoffice float items	**1,758**	**–**	**1,758**	1,295	–	1,295
Returned checks and other cash items	**47**	**–**	**47**	331	–	331
Other investments	**–**	**10**	**10**	–	10	10
Investments in SPVs	**8,857**	**–**	**8,857**	8,857	–	8,857
Pledged certificate of time deposit	**491**	**457**	**948**	491	–	491
	395,972	**294,847**	**690,819**	399,505	250,697	650,202
Nonfinancial Assets - at gross						
Property and equipment (Note 10)	**–**	**20,920**	**20,920**	–	19,975	19,975
Investment in subsidiaries (Note 11)	**–**	**26,153**	**26,153**	–	26,153	26,153
Investments in associates (Note 11)	**–**	**1,413**	**1,413**	–	1,413	1,413
Investment properties (Note 12)	**–**	**14,820**	**14,820**	–	18,082	18,082
Deferred tax assets (Note 26)	**–**	**6,065**	**6,065**	–	6,361	6,361
Goodwill (Note 11)	**–**	**1,203**	**1,203**	–	1,203	1,203
Retirement asset (Note 23)	**–**	**101**	**101**	–	510	510
Assets held under joint venture	**–**	**3,210**	**3,210**	–	3,241	3,241
Accounts receivable (Note 9)	**–**	**1,722**	**1,722**	–	1,731	1,731
Other assets (Note 13)	**952**	**971**	**1,923**	718	760	1,478
	952	**76,578**	**77,530**	718	79,429	80,147
	₱396,924	**₱371,425**	**768,349**	₱400,223	₱330,126	730,349
Less:						
Unearned discounts and capitalized interest (Note 9)			**1,848**			1,823
Accumulated depreciation and amortization (Notes 10, 12 and 13)			**13,298**			12,879
Allowance for credit and impairment losses (Note 14)			**21,391**			22,894
			₱731,812			₱692,753
Financial Liabilities						
Deposit liabilities						
Demand	**₱71,667**	**₱–**	**₱71,667**	₱61,216	₱–	₱61,216
Savings	**272,331**	**–**	**272,331**	260,269	–	260,269
Time	**236,958**	**680**	**237,638**	236,555	5,768	242,323
	580,956	**680**	**581,636**	558,040	5,768	563,808

(Forward)

	Parent Company					
	2011			2010		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Bills payable and SSURA (Note 16)	**₱13,597**	**₱3**	**₱13,600**	₱10,395	₱10	₱10,405
Derivative liabilities	**2,689**	–	**2,689**	3,001	–	3,001
Manager's checks and demand drafts outstanding	**1,955**	–	**1,955**	1,394	–	1,394
Accrued interest and other expenses	**3,949**	–	**3,949**	2,376	–	2,376
Subordinated debt	–	**18,442**	**18,442**	–	18,406	18,406
Other liabilities (Note 19):						
Bills purchased - contra	**10,630**	–	**10,630**	11,706	–	11,706
Accounts payable	**3,693**	–	**3,693**	2,857	–	2,857
Marginal deposits	**97**	–	**97**	757	–	757
Outstanding acceptances	**1,064**	–	**1,064**	1,296	–	1,296
	618,630	**19,125**	**637,755**	591,822	24,184	616,006
Nonfinancial Liabilities						
Income taxes payable	**322**	–	**322**	69	–	69
Accrued interest and other expenses	**598**	–	**598**	396	–	396
Withholding taxes payable (Note 19)	**249**	–	**249**	215	–	215
Other liabilities (Note 19)	**850**	**295**	**1,145**	736	277	1,013
	2,019	**295**	**2,314**	1,416	277	1,693
	₱620,649	**₱19,420**	**₱640,069**	₱593,238	₱24,461	₱617,699

21. Capital Stock

This account consists of (amounts in millions, except par value and number of shares):

	Shares		Amount	
	2011	2010	**2011**	2010
Common stock - ₱20 par value				
Authorized	**2,500,000,000**	2,500,000,000		
Issued and outstanding				
Balance at beginning of year	**1,911,386,017**	1,807,269,350	**₱38,228**	₱36,145
Issuance of common stock	**200,000,000**	104,116,667	**4,000**	2,083
Balance at end of year	**2,111,386,017**	1,911,386,017	**42,228**	38,228
HT1 Capital	**–**	–	**6,351**	6,351
	2,111,386,017	1,911,386,017	**₱48,579**	₱44,579

Following the approval of the BOD of the Parent Company on October 13, 2010, on January 24, 2011, the Parent Company has concluded the P10.0 billion stock rights offering, involving 200 million common shares with a par value of ₱20.00 priced at ₱50.00 per share (Offer Price). The Offer Price was computed based on the 10-trading day volume-weighted average price of the Parent Company's common shares on the PSE prior to the December 10, 2010 pricing date, subject to a discount of 30.5%. Stockholders were entitled to the rights as of December 20, 2010, the record date, at the ratio of one (1) right share for every 9.557 common shares held.

On April 29, 2010, the BOD of the Parent Company approved the issuance of 104,116,667 shares out of its unissued authorized capital stock. On April 30, 2010, the Parent Company launched and priced an overnight top-up placement raising approximately ₱5.0 billion in primary capital to strengthen its position in the Philippine banking sector. As part of the top-up placement which was consummated on May 6, 2010, certain shareholders (the "Selling Shareholders") of the Parent Company sold 104,116,667 shares to global investors (the "Placement") at ₱48.00 per share ("Offer Price"). Concurrent to the Placement, Parent Company issued an equal number of new primary shares at the same Offer Price to the Selling Shareholders. All proceeds from the Placement were received by the Parent Company.

HT1 Capital represents US$125.0 million, 9.00% non-cumulative step-up callable perpetual capital securities with liquidation preference of US$100,000 per capital security issued by the

Parent Company on February 15, 2006 pursuant to a trust deed with The Bank of New York (Trustee) and listed with the Singapore Exchange Securities Trading Limited. The HT1 Capital is governed by English law except on certain clauses in the Trust Deed which are governed by Philippine law. Basic features of the HT1 Capital follow:

- Coupons - bear interest at 9.00% per annum payable semi-annually in arrear from (and including) February 15, 2006 to (but excluding) February 15, 2016, and thereafter at a rate, reset and payable quarterly in arrear, of 6.10% per annum above the then prevailing London interbank offered rate for three-month U.S. dollar deposits. Under certain conditions, the Parent Company is not obliged to make any coupon payment if the BOD of the Parent Company, in its absolute discretion, elects not to make any coupon payment in whole or in part.
- Coupon Payment Dates - payable on February 15 and August 15 in each year, commencing on August 15, 2006 (in respect of the period from (and including) February 15, 2006 to (but excluding) August 15, 2006 and ending on February 15, 2016 (first optional redemption date); thereafter coupon amounts will be payable (subject to adjustment for days which are not business days) on February 15, May 15, August 15 and November 15 in each year commencing on May 15, 2016.
- Dividend and Capital Stopper - in the event that any coupon payment is not made, the Parent Company: (a) will not declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on any junior share capital or any parity securities; or (b) will not redeem, purchase, cancel, reduce or otherwise acquire any junior share capital or any parity securities. Such dividend and capital stopper shall remain in force so as to prevent the Parent Company from undertaking any such declaration, payment or other activity unless and until payment is made to the holders in an amount equal to the unpaid amount, if any, of coupon payments in respect of coupon periods in the 12 months including and immediately preceding the date such coupon payment was due, and the BSP does not otherwise object.
- Redemption
  - may be redeemed at the option of the Parent Company (but not the holders) under optional redemption, tax event call, and regulatory event call, subject to limitation of the terms of the issuance.
  - may not be redeemed (i) for so long as the dividend and capital stopper is in force; and (ii) without the prior written approval of the BSP which, as of February 8, 2006, is subject to the following conditions: (a) the Parent Company's capital adequacy must be at least equal to the BSP's minimum capital ratio; and (b) the HT1 Capital are simultaneously replaced with the issue of new capital which is neither smaller in size nor lower in quality than the original issue.

The HT1 Capital is unsecured and subordinated to the claims of senior creditors. In the event of the dissolution or winding-up of the Parent Company, holders will be entitled, subject to satisfaction of certain conditions and applicable law, to receive a liquidation distribution equivalent to the liquidation preference. Also, the HT1 Capital is not treated as deposit and is not guaranteed or insured by the Parent Company or any of its related parties or the PDIC and these may not be used as collateral for any loan availments. The Parent Company or any of its subsidiaries may not at any time purchase HT1 Capital except as permitted under optional redemption, tax event call, and regulatory event call as described in the terms of issuance. The HT1 Capital is sold to non-U.S. persons outside the United States pursuant to Regulation under the

U.S. Securities Act of 1933, as amended, and represented by a global certificate registered in the name of a nominee of, and deposited with, a common depository for Euroclear and Clearstream.

The Parent Company paid the semi-annual coupon amounting to USD5.6 million in 2006 to 2011 after obtaining their respective BSP approvals. Details for 2009 to 2011 are as follows:

Date of BSP Approval	Date Paid
August 1, 2011	August 15, 2011
February 10, 2011	February 15, 2011
August 9, 2010	August 16, 2010
February 4, 2010	February 16, 2010
August 12, 2009	August 17, 2009
February 16, 2009	February 17, 2009

Details of the Parent Company's cash dividend distributions follow:

Date of Declaration	Per Share	Total Amount	Date of BSP Approval	Record date	Payment date
March 25, 2011	₱1.00	₱2,111	April 28, 2011	May 16, 2011	May 23, 2011
February 17, 2010	0.60	1,084	March 8, 2010	March 25, 2010	April 15, 2010
August 19, 2009	0.40	723	October 7, 2009	October 23, 2009	November 10, 2009
March 11, 2009	0.60	1,084	April 15, 2009	April 30, 2009	May 18, 2009

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following BSP guidelines.

22. Surplus Reserves

This account consists of:

	2011	2010
Reserve for trust business	**₱672**	₱603
Reserve for self-insurance	**330**	309
	₱1,002	₱912

In compliance with existing BSP regulations, 10.00% of the Parent Company's income from trust business is appropriated to surplus reserves. This yearly appropriation is required until the surplus reserve for trust business equals 20.00% of the Parent Company's regulatory net worth.

Reserve for self-insurance represents the amount set aside to cover losses due to fire, defalcation by and other unlawful acts of the Parent Company's personnel or third parties.

23. Retirement Plan and Other Employee Benefits

The Group and most of its subsidiaries have funded noncontributory defined benefit retirement plan covering all their respective permanent and full-time employees.

The principal actuarial assumptions used in determining retirement liability of the Parent Company and significant subsidiaries are shown below:

	Parent Company	FMIC	PSBank	MTI	MCC	OMLFC
As of January 1, 2011						
Average remaining working life	**10 years**	**8 years**	**21 years**		**9 years**	**25 years**
Discount rate	**7.25%**	**5.89% to 6.10%**	**6.30%**		**8.90%**	**10.10%**
Expected rate of return on assets	**8.00%**	**5.00% to 6.50%**	**7.00%**		**7.30%**	**6.00%**
Future salary increases	**8.00%**	**8.00% to 10.00%**	**8.00%**		**9.00%**	**7.00%**
As of January 1, 2010						
Average remaining working life	10 years	8 years	21 years	14 years	11 years	25 years
Discount rate	9.00%	9.10% to 9.39%	10.56%	9.65%	10.00%	10.10%
Expected rate of return on assets	8.60%	6.00%	8.44%	6.00%	7.30%	6.00%
Future salary increases	6.00%	10.00%	8.00%	6.00%	9.00%	7.00%

For employees of the Parent Company, retirement from service is compulsory upon the attainment of the 55th birthday or 30th year of service, whichever comes first.

The overall expected rate of return on plan assets is determined based on the market prices prevailing on that date applicable to the year over which the obligation is to be settled.

In 2011, Parent Company includes MTI's retirement fund and the related present value of obligation of its transferred employees.

The amounts recognized in the statement of financial position follow:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Present value of the obligation	**₱9,754**	₱6,782	**₱8,395**	₱5,608
Fair value of plan assets	**(7,144)**	(6,629)	**(6,059)**	(5,656)
Funded (unfunded) status	**2,610**	153	**2,336**	(48)
Unrecognized actuarial gains	**(2,484)**	(320)	**(2,377)**	(395)
Unrecognized past service cost - nonvested benefits	**(67)**	(76)	**(60)**	(67)
Net retirement liability (asset)	**₱59**	(₱243)	**(₱101)**	(₱510)

Net retirement liability (asset) included in the statement of financial position follows:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Net retirement asset (Note 13)	**(₱125)**	(₱520)	**(₱101)**	(₱510)
Net retirement liability (Note 19)	**184**	277	**–**	–
Net retirement liability (asset)	**₱59**	(₱243)	**(₱101)**	(₱510)

Discount rates used in computing for the present value of the obligation of the Parent Company and significant subsidiaries as of December 31, 2011 and 2010 follow:

	Parent Company	FMIC	PSBank	MTI	MCC	OMLFC
2011	**5.74%**	**5.89% to 6.10%**	**6.30%**		**7.00%**	**8.60% to 10.00%**
2010	7.25%	9.10% to 9.39%	11.16%	7.54%	8.88%	10.00%

The movements in the retirement liability (assets) recognized in the statement of financial position follow:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Balance at beginning of year	**(₱243)**	(₱642)	**(₱510)**	(₱857)
Retirement expense	**578**	506	**409**	347
Transferred employees	**(66)**	–	**–**	–
Contribution paid	**(210)**	(107)	**–**	–
Balance at end of year	**₱59**	(₱243)	**(₱101)**	(₱510)

Changes in the present value of the defined benefit obligation follow:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Balance at beginning of year	**₱6,782**	₱5,257	**₱5,608**	₱4,333
Current service cost	**579**	484	**449**	361
Interest cost	**506**	492	**405**	398
Past service cost	**–**	121	**–**	113
Transferred employees	**(2)**	–	**212**	–
Benefits paid	**(496)**	(442)	**(441)**	(400)
Actuarial losses	**2,385**	870	**2,162**	803
Balance at end of year	**₱9,754**	₱6,782	**₱8,395**	₱5,608

The movements in the fair value of plan assets recognized follow:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Balance at beginning of year	**₱6,629**	₱6,112	**₱5,656**	₱5,330
Expected return on plan assets	**517**	519	**452**	458
Contribution paid	**210**	107	**–**	–
Fund transfer	**77**	–	**212**	–
Benefits paid	**(496)**	(442)	**(441)**	(400)
Actuarial gains	**207**	333	**180**	268
Balance at end of year	**₱7,144**	₱6,629	**₱6,059**	₱5,656

The actual return on plan assets of the Parent Company amounted to ₱632.3 million and ₱726.5 million in 2011 and 2010, respectively.

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

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Debt instruments	**88.11%**	75.50%	**90.30%**	82.80%
Equity instruments	**10.21%**	22.53%	**8.12%**	16.24%
Other assets	**1.68%**	1.97%	**1.58%**	0.96%
	100.00%	100.00%	**100.00%**	100.00%

The amounts included in 'Compensation and fringe benefits' in the statement of income follow:

	Consolidated			Parent Company		
	2011	2010	2009	**2011**	2010	2009
Current service cost	**₱579**	₱484	₱364	**₱449**	₱361	₱321
Interest cost	**506**	492	646	**405**	398	486
Expected return on plan assets	**(517)**	(519)	(274)	**(452)**	(458)	(244)
Net actuarial gains recognized	**–**	(3)	(5)	**–**	–	–
Past service cost	**10**	52	2	**7**	46	–
	₱578	₱506	₱733	**₱409**	₱347	₱563

Amounts for the current and previous years follow:

	Consolidated				
	2011	2010	2009	2008	2007
Present value of unfunded obligation	**₱9,754**	₱6,782	₱5,257	₱4,496	₱6,690
Fair value of plan assets	**(7,144)**	(6,629)	(6,112)	(4,578)	(3,975)
Unfunded (funded) status	**2,610**	153	(855)	(82)	2,715
Experience adjustments on defined benefit obligation	**(2,385)**	(870)	(329)	2,798	(523)
Experience adjustments on fair value of plan assets	**207**	333	462	(391)	(131)

	Parent Company				
	2011	2010	2009	2008	2007
Present value of unfunded obligation	**₱8,395**	₱5,608	₱4,333	₱3,795	₱5,737
Fair value of plan assets	**(6,059)**	(5,656)	(5,330)	(4,048)	(3,362)
Unfunded (funded) status	**2,336**	(48)	(997)	(253)	2,375
Experience adjustments on defined benefit obligation	**(2,162)**	(803)	(205)	2,491	(616)
Experience adjustments on fair value of plan assets	**180**	268	316	(221)	(180)

In addition, the Parent Company has a Provident Plan which is a supplementary contributory retirement plan to and forms part of the main plan, the Retirement Plan, for the exclusive benefit of eligible employees of the Parent Company in the Philippines. Based on the provisions of the plan, upon retirement or resignation, a member shall be entitled to receive as retirement or resignation benefits 100.00% of the accumulated value of the personal contribution plus a percentage of the accumulated value arising from the Parent Company's contributions in accordance with the completed number of years serviced. The Parent Company's contribution to the Provident Fund in 2011 and 2010 amounted to ₱142.1 million and ₱127.9 million, respectively.

As of December 31, 2011 and 2010, the retirement fund of the Parent Company's employees amounting to ₱6.1 billion and ₱5.7 billion, respectively, is being managed by the Parent Company's Trust Banking Group.

Directors' fees and bonuses of the Parent Company in 2011, 2010 and 2009 amounted to ₱35.12 million, ₱32.4 million and ₱32.1 million, respectively. On the other hand, officers' compensation and benefits of the Parent Company aggregated to ₱4.0 billion, ₱3.7 billion and ₱3.2 billion, in 2011, 2010 and 2009, respectively.

24. **Long-term Leases**

The Parent Company leases the premises occupied by some of its branches (about 48.72% and 50.00% of the branch sites in 2011 and 2010, respectively, are Parent Company-owned). Also, some of its subsidiaries lease the premises occupied by their Head Offices and most of their branches. The lease contracts are for periods ranging from 1 to 25 years and are renewable at the Group's option under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 5.00% to 10.00%. As of December 31, 2011 and 2010, the Group has no contingent rent payable.

Rent expense (included in 'Occupancy and equipment-related cost' in the statement of income) in 2011, 2010 and 2009 amounted to ₱1.3 billion, ₱1.2 billion and ₱1.0 billion, respectively, for the Group and ₱721.0 million, ₱683.7 million and ₱610.4 million, respectively, for the Parent Company.

Future minimum rentals payable under non-cancelable operating leases follows:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Within one year	**₱537**	₱523	**₱269**	₱220
After one year but not more than five years	**1,321**	1,225	**718**	526
More than five years	**524**	511	**223**	206
	₱2,382	₱2,259	**₱1,210**	₱952

The Group has entered into commercial property leases on its investment property portfolio, consisting of the Group's available office spaces and real and other properties acquired and finance lease agreements over various items of machinery and equipment. These non-cancelable leases have remaining non-cancelable lease terms between 1 and 20 years.

In 2011, 2010 and 2009, leasing income amounted to ₱1.3 billion, ₱824.0 million and ₱1.0 billion respectively, for the Group and ₱196.1 million, ₱217.4 million and ₱255.3 million, respectively, for the Parent Company.

Future minimum rentals receivable under non-cancelable operating leases follows:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Within one year	**₱259**	₱303	**₱109**	₱138
After one year but not more than five years	**309**	440	**168**	189
More than five years	**–**	3	**–**	3
	₱568	₱746	**₱277**	₱330

25. **Miscellaneous Income and Expenses**

In 2011, 2010 and 2009, miscellaneous income includes gain on initial recognition of investment properties amounting to ₱238.2 million, ₱446.1 million and ₱509.1 million, respectively, for the Group and ₱135.3 million, ₱220.7 million and ₱308.4 million, respectively, for the Parent Company and recovery on charged-off assets amounting to ₱324.8 million, ₱289.0 million and ₱319.9 million, respectively, for the Group and ₱31.3 million, ₱8.1 million and ₱0.1 million, respectively, for the Parent Company.

Miscellaneous expenses consist of:

	Consolidated			Parent Company		
	2011	2010	2009	**2011**	2010	2009
Insurance	**₱1,528**	₱1,314	₱1,223	**₱1,227**	₱1,072	₱1,027
Security, messengerial and janitorial	**1,374**	1,223	1,219	**1,141**	1,027	1,025
Advertising	**714**	665	412	**55**	102	52
Information technology (Note 27)	**706**	571	579	**695**	690	694
Litigation (Note 12)	**656**	715	976	**473**	562	781
Communication	**502**	527	394	**127**	132	129
Management and professional fees	**496**	436	526	**255**	279	368
Transportation and travel	**395**	342	308	**282**	249	225
Repairs and maintenance	**375**	326	302	**219**	190	192
Stationery and supplies used	**356**	367	274	**203**	164	153
Supervision fees	**265**	249	259	**205**	188	198
Entertainment, amusement and representation (EAR) (Note 26)	**217**	208	148	**180**	175	121
Others	**892**	1,014	1,338	**320**	327	359
	₱8,476	₱7,957	₱7,958	**₱5,382**	₱5,157	₱5,324

In 2009, other expenses of the Group include CG3AMI's and LNC3AMI's net income amounting to ₱219.9 million. Other expenses also include cost of rewards due to redemption of loyalty points, collection fees, freight expenses, fuel and lubricants, membership fees and donation and other charitable contributions.

26. Income and Other Taxes

Under Philippine tax laws, the RBU of the Parent Company and its domestic subsidiaries are subject to percentage and other taxes (presented as 'Taxes and licenses' in the statement of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp tax (DST). Income taxes include 30% regular corporate income tax (RCIT) and 20.00% final taxes paid, which is a final withholding tax on gross interest income from government securities and other deposit substitutes. Interest allowed as a deductible expense is reduced by an amount equivalent to 33% of interest income subjected to final tax.

Current tax regulations also provide for the ceiling on the amount of EAR expense (Note 25) 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 some of its subsidiaries is limited to the actual EAR paid or incurred but not to exceed 1.00% of net revenue. The regulations also provide for MCIT of 2.00% on modified gross income and allow a NOLCO. The MCIT and NOLCO may be applied against the Group's income tax liability and taxable income, respectively, over a three-year period from the year of inception.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is subject to 10.00% income tax. In addition, interest income on deposit placements with other FCDUs and offshore banking units (OBUs) is taxed at 7.50%. Income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

Following are the applicable taxes and tax rates for the foreign branches of the Parent Company:

Foreign Branches	Income Tax	Tax Rates
USA:		
Guam Branch (US $)		4.00% (GRT)
$50,000 and below	15.00%	
>$50,000 up to $75,000	25.00%	
>$75,000 up to $100,000	34.00%	
>$100,000 up to $335,000	39.00%	
Above $335,000	34.00%	
New York Branch	30.00%	8.875% VAT NYS-0.01% (Capital/Surplus) NYC-0.26% (Capital/Surplus)
Japan - Tokyo and Osaka Branches	30.00%	7.5520% (Business Tax) 0.504% (VAT) 20.700% Inhibitant tax on National Income Tax 0.210% (Capital/Surplus)
Korea - Seoul and Pusan Branches	24.20%	0.50% (Education Tax)
Taiwan - Taipei Branch	17.00%	2.00% (GBRT) 5.00% (VAT)

The provision for income tax consists of:

	Consolidated			Parent Company		
	2011	2010	2009	**2011**	2010	2009
Current:						
Final tax	**₱2,281**	₱1,911	₱1,734	**₱1,392**	₱1,205	₱1,172
RCIT*	**1,094**	1,231	757	**167**	536	228
MCIT	**268**	3	296	**263**	3	233
	3,643	3,145	2,787	**1,822**	1,744	1,633
Deferred*	**(119)**	586	(538)	**297**	183	(338)
	₱3,524	₱3,731	₱2,249	**₱2,119**	₱1,927	₱1,295

* Includes income taxes of foreign subsidiaries.

Components of net deferred tax assets of the Group and the Parent Company follow:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Deferred tax asset on:				
Allowance for credit and impairment losses	**₱6,479**	₱6,160	**₱4,879**	₱5,134
Accumulated depreciation of investment properties	**560**	661	**502**	611
Unamortized past service cost	**408**	522	**391**	489
MCIT	**336**	393	**336**	334
Unrealized losses on financial assets at FVPL	**292**	207	**292**	207
Deferred membership/awards	**142**	136	–	–
Accrued expenses	**82**	82	**42**	43
Accrued retirement liability	**61**	78	–	–
Unrealized foreign exchange loss	**56**	317	**53**	311
Unrealized loss on AFS investments	**11**	–	**11**	–
Unearned rental income	**9**	8	**9**	7
Others	**121**	133	**39**	41
	8,557	8,697	**6,554**	7,177
Deferred tax liability on:				
Unrealized gain on initial measurement of investment properties	**722**	847	**458**	591
Deferred acquisition cost	**74**	–	**–**	–
Retirement asset	**31**	153	**31**	153
Unrealized gain on AFS investments (Note 8)	**25**	80	**–**	72
Unrealized gain on financial assets at FVPL	**–**	4	**–**	–
Others	**108**	117	**–**	–
	960	1,201	**489**	816
Net deferred tax assets	**₱7,597**	₱7,496	**₱6,065**	₱6,361

Components of net deferred tax liabilities of the Group follow:

	2011	2010
Deferred tax asset on:		
Allowance for credit and impairment losses	**₱45**	₱29
Unamortized past service cost	**5**	6
Accumulated depreciation of investment properties	**3**	2
Unrealized loss on initial measurement of investment properties	**2**	–
Retirement benefit liability	**1**	1
	56	38
Deferred tax liability on:		
Leasing income differential between finance and operating lease method	**197**	161
Unrealized gain on AFS investments (Note 8)	**12**	10
Retirement asset	**4**	3
Unrealized gain on financial assets at FVPL	**–**	1
	213	175
Net deferred tax liabilities	**₱157**	₱137

The Parent Company and certain subsidiaries did not recognize deferred tax assets on the following temporary differences:

	Consolidated		**Parent Company**	
	2011	2010	**2011**	2010
Allowance for credit and impairment losses	**₱5,138**	₱4,328	**₱3,331**	₱2,977
NOLCO	**1,713**	2,653	**–**	243*
MCIT	**16**	12	**–**	8*
Others	**403**	174	**–**	–

*Represents FCDU's MCIT and NOLCO

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

There are no income tax consequences attaching to the payment of dividends by the Group to the shareholders of the Group.

Details of the excess MCIT credits follow:

	Consolidated				**Parent Company**			
Inception Year	Amount	Used/Expired	Balance	Expiry Year	Amount	Used/Expired	Balance	Expiry Year
2008	₱5	₱5	₱–	2011	₱218	₱218	₱–	2011
2009	288	55	233	2012	233	–	233	2012
2010	1	–	1	2013	–	–	–	–
2011	118	–	118	2014	103	–	103	2014
	₱412	₱60	₱352		₱554	₱218	₱336	

Details of the Group's NOLCO follow:

Inception Year	Amount	Used/Expired	Balance	Expiry Year
2008	₱225	₱225	₱–	2011
2009	978	–	978	2012
2010	718	–	718	2013
2011	17	–	17	2014
	₱1,938	₱225	₱1,713	

A reconciliation of the statutory income tax rates and the effective income tax rates follows:

	Consolidated			Parent Company		
	2011	2010	2009	**2011**	2010	2009
Statutory income tax rate	**30.00%**	30.00%	30.00%	**30.00%**	30.00%	30.00%
Tax effect of:						
Tax-paid and tax-exempt income	**(21.63)**	(22.66)	(30.83)	**(28.96)**	(23.17)	(20.58)
Nondeductible interest expense	**7.13**	8.43	15.78	**8.51**	9.24	10.64
Nonrecognition of deferred tax asset	**6.60**	14.79	(3.92)	**11.63**	15.47	(6.10)
FCDU income	**(4.12)**	(6.06)	(10.64)	**(6.69)**	(9.23)	(6.32)
Others - net	**4.15**	4.21	24.48	**6.64**	6.40	15.74
Effective income tax rate	**22.13%**	28.71%	24.87%	**21.13%**	28.71%	23.38%

27. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions or if they are subjected to common control or common significant influence such as subsidiaries and associates of subsidiaries or other related parties. 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 has loan transactions with investees and with certain directors, officers, stockholders and related interests (DOSRI). Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and book value of their respective investments in the lending company within the Group. In the aggregate, loans to DOSRI generally should not exceed the respective total equity or 15.00% of total loan portfolio, whichever is lower, of the Parent Company, PSBank, FMIC and Orix Metro.

BSP Circular No. 423 dated March 15, 2004 amended the definition of DOSRI accounts. The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to said Circular, and new DOSRI loans, other credit accommodations granted under said circular:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Total outstanding DOSRI accounts	**₱17,211**	₱16,141	**₱14,378**	₱10,868
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**0.00%**	0.00%	**0.00%**	0.00%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	**3.79%**	4.22%	**4.13%**	3.84%

(Forward)

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Percent of DOSRI accounts to total loans	**3.79%**	4.22%	**4.13%**	3.84%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**15.85%**	13.58%	**14.08%**	13.29%
Percent of past due DOSRI accounts to total DOSRI accounts	**3.18%**	3.69%	**0.00%**	0.00%
Percent of nonaccruing DOSRI accounts to total DOSRI accounts	**3.18%**	3.69%	**0.00%**	0.00%

BSP Circular No. 560 provides 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 loans, other credit accommodation and guarantees to each of the bank's/quasi-bank's subsidiaries and affiliates shall not exceed 10.00% of the net worth of the lending bank/quasi-bank, provided that the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding loans, credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank/quasi-bank; and the subsidiaries and affiliates of the lending bank/quasi-bank are not related interest of any director, officer and/or stockholder of the lending institution, except where such director, officer or stockholder sits in the BOD or is appointed officer of such corporation as representative of the bank/quasi-bank. As of December 31, 2011 and 2010, the total outstanding loans, other credit accommodations and guarantees to each of the Parent Company's subsidiaries and affiliates did not exceed 10.00% of the Parent Company's net worth, as reported to the BSP, and the unsecured portion did not exceed 5.00% of such net worth and the total outstanding loans, other credit accommodations and guarantees to all such subsidiaries and affiliates represent 8.6% and 9.46%, respectively, of the Parent Company's net worth.

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 (25.00%) of the net worth of the lending bank/quasi-bank: provided, that the unsecured portion thereof shall not exceed twelve and one-half percent (12.50%) 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 BOD or is appointed officer of such corporation as representative of the bank/quasi-bank. As of December 31, 2011 and 2010, 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 25.00% of the Parent Company's net worth, as reported to the BSP, and the unsecured portion did not exceed 12.50% of such net worth.

Total interest income on the DOSRI loans in 2011, 2010 and 2009 amounted to ₱593.5 million, ₱652.7 million and ₱738.6 million, respectively, for the Group and ₱528.8 million, ₱511.1 million and ₱546.7 million, respectively, for the Parent Company.

Other significant related party transactions of the Parent Company follow (transactions with subsidiaries have been eliminated in the consolidated financial statements):

a. *Transactions with Subsidiaries*

Interbank call loans receivable from subsidiaries amounted to ₱2.2 billion and ₱1.3 billion as of December 31, 2011 and 2010, respectively, with related interest income of ₱85.1 million, ₱45.7 million and ₱73.1 million in 2011, 2010 and 2009, respectively.

In 2011 and 2010, held-for-trading securities and AFS investments transactions with subsidiaries include outright purchases totaling to ₱35.0 billion and ₱28.2 billion, respectively, and outright sales totaling to ₱54.4 billion and ₱32.7 billion, respectively. Related trading gains on outright sales amounted to ₱318.6 million, ₱125.7 million and ₱30.8 million in 2011, 2010 and 2009, respectively.

As of December 31, 2011 and 2010, treasury bills (classified under HTM investments) with total face value of ₱50.0 million are pledged by PSBank to the Parent Company to secure its payroll account with the Parent Company. Also, the Parent Company has assigned to PSBank government securities (classified under AFS investments) with total face value of ₱3.0 billion to secure PSBank deposits to the Parent Company.

As of December 31, 2011 and 2010, secured loans and receivables from subsidiaries amounted to ₱3.3 billion and nil, respectively, while unsecured loans and receivables amounted to ₱1.6 billion and ₱891.2 million, respectively. Related interest income amounted to ₱100.4 million, ₱33.7 million and ₱29.6 million in 2011, 2010 and 2009 respectively.

As of December 31, 2011, accounts receivable from subsidiaries amounted to ₱226.1 million covering the information technology fees of the Parent Company included in the 'Miscellaneous income'.

As of December 31, 2011 and 2010, sales contract receivable from a wholly-owned real estate subsidiary amounted to ₱627.0 million with allowance for credit losses of ₱195.9 million and ₱195.9 million, respectively.

In June 2010, the Parent Company sold its investment in LCMC to FMIC for ₱763.4 million (Note 11).

Deposit liabilities to subsidiaries amounted to ₱3.5 billion and ₱5.7 billion as of December 31, 2011 and 2010, respectively, with related interest expense of ₱5.5 million, ₱8.3 million and ₱0.8 million in 2011, 2010 and 2009, respectively.

Bills payable to subsidiaries amounted to ₱625.1 million and ₱624.2 million as of December 31, 2011 and 2010, respectively, with related interest expense of ₱1.3 million, ₱7.1 million and ₱14.5 million in 2011, 2010 and 2009, respectively.

Derivative liability from a subsidiary amounted to ₱4.6 million as of December 31, 2011.

In 2011, 2010 and 2009, rent income from subsidiaries amounted to ₱20.2 million, ₱22.9 million and ₱18.4 million, respectively, while service charges, fees and commissions from subsidiaries amounted to ₱60.8 million, ₱57.0 million and ₱52.1 million, respectively. Information technology expenses with a wholly-owned subsidiary amounted to ₱49.2 million, ₱173.1 million and ₱168.8 million, respectively.

In 2011, forward exchange transactions with a subsidiary amounted to ₱3.3 billion. In 2011 and 2010, purchase of foreign currencies from subsidiaries amounted to ₱20.2 billion and ₱40.2 billion, respectively, and sale of foreign currencies amounted to ₱16.5 billion and ₱35.9 billion respectively. Realized foreign exchange gains on purchase and sale of foreign currencies amounted to ₱41.1 million, ₱196.0 million and ₱22.7 million 2011, 2010 and 2009, respectively.

b. *Transactions with Associates*

As of December 31, 2011 and 2010, unsecured loans and receivables from associates amounted to ₱14.0 million and ₱1.6 billion, respectively, while secured loans and receivables amounted to nil and ₱47.2 million, respectively. Related interest income amounted to ₱57.5 million, ₱83.2 million and ₱96.6 million in 2011, 2010 and 2009, respectively.

Deposit liabilities to associates amounted to ₱1.9 billion and ₱3.6 billion as of December 31, 2011 and 2010, respectively, with related interest expense of ₱3.7 million, ₱5.1 million and ₱12.3 million in 2011, 2010 and 2009, respectively.

In 2011 and 2010, purchase of foreign currencies from associates amounted to ₱1.2 billion and ₱607.9 million, respectively, and sale of foreign currencies amounted to ₱15.8 billion and ₱14.8 billion, respectively. Realized foreign exchange gains on sale of foreign currencies amounted to ₱15.0 million in 2011 and realized foreign exchange loss of ₱20.7 million and ₱5.4 million in 2010 and 2009, respectively.

c. *Transactions with Other Related Parties*

In 2011 and 2010, held-for-trading securities and AFS investments transactions with other related parties include outright purchases totaling to ₱1.4 billion and ₱353.1 million, respectively, and outright sales totaling to ₱1.2 billion and ₱698.5 million, respectively. Related trading gains on outright sales amounted to ₱3.3 million, ₱2.9 million and ₱1.5 million in 2011, 2010 and 2009, respectively.

As of December 31, 2011 and 2010, secured loans and receivables from other related parties amounted to ₱9.8 billion, ₱8.7 billion respectively, while unsecured loans and receivables amounted to ₱82.1 million and ₱375.3 million, respectively. Related interest income amounted to ₱978.8 million, P752.6 million and P113.9 million in 2011, 2010 and 2009, respectively.

Sales contract receivable from a related party amounted to ₱516.8 million and ₱629.1 million as of December 31, 2011 and 2010, respectively.

Deposit liabilities to other related parties amounted to ₱2.0 billion and ₱2.5 billion as of December 31, 2011 and 2010, respectively, with related interest expense of ₱7.2 million, ₱11.6 million and ₱2.4 million in 2011, 2010 and 2009, respectively.

Rent income from related parties in 2011, 2010 and 2009 amounted to ₱17.0 million, ₱14.6 million and ₱10.9 million, respectively.

In 2011 and 2010, purchase of foreign currencies from other related parties amounted to ₱2.0 billion and ₱1.2 billion, respectively, and sale of foreign currencies amounted to ₱1.1 billion and ₱972.7 million, respectively. Realized foreign exchange gains on sale of foreign currencies amounted to ₱14.5 million in 2011 and realized foreign exchange loss of ₱0.9 million and ₱3.2 million in 2010 and 2009, respectively.

As of December 31, 2011, forward exchange transaction with a related party amounted to ₱172.4 million.

As of December 31, 2011 and 2010, commercial letters of credit with other related parties amounted to ₱341.6 million and ₱851.4 million, respectively.

Significant related party transactions of the Group other than the Parent Company follow (transactions between subsidiaries have been eliminated in the consolidated financial statements):

As of December 31, 2011 and 2010, deposit liabilities of the other subsidiaries of the Parent Company with PSBank amounted to ₱5.1 billion and ₱1.7 billion, respectively. Related interest expense amounted to ₱17.2 million, ₱6.0 million and ₱0.1 million in 2011, 2010 and 2009, respectively.

In 2011, 2010 and 2009, information technology expenses of MCC and PSBank with MTI amounted to ₱181.6 million, ₱134.2 million and ₱126.3 million, respectively, and ₱12.5 million, ₱9.5 million and ₱64.4 million, respectively.

In 2011, held for trading securities and AFS investments transactions of PSBank with FMIC, include P4.7 billion and P6.6 billion outright sales and outright purchases, respectively.

As of December 31, 2011 and 2010, FMIC's loans and receivables from an associate of the Parent Company amounted to ₱1.5 billion, with related interest income of ₱100.0 million, ₱68.5 million and nil, in 2011, 2010 and 2009.

As of December 31, 2011 and 2010, PSBank's deposit liabilities to the associates of the Parent Company amounted to ₱4.1 billion and ₱3.9 billion, respectively. Related interest expense amounted to ₱38.4 million, ₱24.3 million and ₱16.1 million in 2011, 2010 and 2009, respectively.

As of December 31, 2011 and 2010, SMBC's loans and receivable from MCC amounted to P50.0 million with related interest income of P5.6 million, P3.0 million and nil, in 2011, 2010 and 2009, respectively.

As of December 31, 2011 and 2010, FMIC's loans and receivables from other related parties of the Parent Company amounted to ₱1.8 billion with related interest income of ₱152.6 million, ₱107.5 million and ₱133.5 million, respectively.

As of December 31, 2011 and 2010, PSBank's deposit liabilities to other related parties of the Parent Company amounted to ₱1.3 billion and ₱650.0 million, respectively. Related interest expense amounted to ₱21.4 million, ₱25.9 million and ₱6.1 million in 2011, 2010 and 2009, respectively.

As of December 31, 2010, notes payable of CIRCA with other related party of the Parent Company amounted to P488.1 million with related interest expense of ₱49.5 million in both 2010 and 2009, respectively.

As of December 31, 2011, SMBC's loans and receivables from a related party of the Parent Company amounted to P50.0 million with related interest income of P2.9 million.

As of December 31, 2011 and 2010, MCC's notes payable to its related party amounted to ₱2.9 billion and ₱2.1 billion, respectively, with related interest expense of ₱132.9 million, ₱131.1 million and ₱133.6 million in 2011, 2010 and 2009, respectively.

The compensation of the key management personnel of the Group and Parent Company follows:

	Consolidated			Parent Company		
	2011	2010	2009	**2011**	2010	2009
Short-term employee benefits	**₱1,216**	₱992	₱846	**₱682**	₱523	₱434
Post employment benefits	**106**	79	112	**59**	51	83
	₱1,322	₱1,071	₱958	**₱741**	₱574	₱517

28. **Trust Operations**

Properties held by the Parent Company and certain subsidiaries in fiduciary or agency capacity for their customers are not included in the accompanying statements of financial position since these are not resources of the Parent Company and its subsidiaries (Note 29).

In compliance with current banking regulations relative to the Parent Company and certain subsidiaries' trust functions, as of December 31, 2011 and 2010, government securities (classified under 'AFS investments') with a total face value of ₱3.7 billion and ₱2.6 billion, respectively, for the Group and ₱3.6 billion and ₱2.6 billion, respectively, for the Parent Company are deposited with the BSP.

29. **Commitments and Contingent Liabilities**

In the normal course of the Group's operations, there are various outstanding commitments and contingent liabilities which are not reflected in the accompanying financial statements. No material losses are anticipated as a result of these transactions.

The following is a summary of contingencies and commitments at their peso-equivalent contractual amounts arising from off-balance sheet items:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Trust Banking Group accounts (Note 28)	**₱382,136**	₱271,029	**₱380,900**	₱270,398
Commitments - credit card lines	**49,590**	41,946	**–**	–
Unused commercial letters of credit	**22,557**	19,469	**21,784**	18,943
Credit line certificate with bank commission	**6,516**	3,949	**6,516**	3,949
Bank guaranty with indemnity agreement	**3,704**	2,272	**3,704**	2,272
Late deposits/payments received	**1,692**	1,395	**1,624**	1,337
Outstanding shipside bonds/airway bills	**1,676**	1,195	**1,676**	1,195
Outward bills for collection	**562**	581	**557**	545
Inward bills for collection	**387**	459	**387**	459
Confirmed export letters of credits	**278**	156	**42**	137
Outstanding guarantees	**93**	123	**93**	123
Traveler's check unsold	**12**	15	**12**	15
Others	**2,786**	2,452	**385**	508
	₱471,989	₱345,041	**₱417,680**	₱299,881

In September 2008, the Parent Company filed petitions for rehabilitation against two Philippine subsidiaries of Lehman Brothers Holdings, Inc. in connection with a combined ₱2.4 billion loan exposure. These came as a result of the declaration of bankruptcy filed by Lehman Brothers Holdings, Inc., a surety under the loan agreements. The rehabilitation plans were duly approved by the handling courts. A Management Committee was created for each of the two (2) Lehman subsidiaries. These Management Committees are now overseeing and managing the company assets and will continue to do so during the term of the rehabilitation plans or until 2015 and 2017, respectively. In September 2010, the majority stockholder of Philippine Investment Two (SPV-AMC), Inc. (PI Two) filed an Omnibus Motion to terminate the rehabilitation proceedings, dissolve the Management Committee, and remove the imposition of creditors' consent in the approved rehabilitation plan. Similarly, in October 2010, Philippine Investment One (SPV-AMC), Inc. (PI One) filed with the rehabilitation court an Omnibus Motion to terminate the rehabilitation proceedings and abolish the Management Committee. In January 2011, the rehabilitation court denied these Omnibus Motions. In February, 2011, PI Two elevated the order denying its Omnibus Motion to the Court of Appeals (CA) which is still pending to date. On February 24, 2011, the Receiver recommended that the Rehabilitation Court (RC) hold in abeyance the resolution of pending incidents regarding the ownership of shares in PI One and PI Two.

As the pending incidents before the RC are being held in abeyance in view of the Receiver's recommendation, PI Two and the Parent Company filed a joint motion to suspend proceedings on April 18, 2011, which motion is still pending resolution in the CA. Meanwhile, a third party's petition to exclude certain assets from the portfolio of the Lehman subsidiaries has been granted by the CA in May 2011. However, said third party and the Lehman Philippine subsidiaries have subsequently entered into a compromise agreement in September 2011 wherein a portion of the third party's assets will be excluded in exchange for the refund of 60% of the downpayment paid by the Lehman subsidiaries. In October 2011, PI Two received the 60% refund from the third party.

In addition, on October 17, 2011, a consortium of eight banks including the Parent Company filed a Petition for Certiorari, Prohibition and/or Mandamus (with Urgent Application for a Temporary Restraining Order (TRO) and/or Writ of preliminary Injunction) with the Supreme Court (SC) against respondents the ROP, BIR and its Commissioner, the Department of Finance and its Secretary and the Bureau of Treasury (BTr) and the National Treasurer, asking that the Court annul BIR Ruling No. 370-2011 which imposes a 20-percent final withholding tax on the 10-year Zero-Coupon Government Bonds (also known as the PEACe bonds) that matured on October 18, 2011 and command the respondents to pay the full amount of the face value of the PEACe Bonds. On October 18, 2011, the SC issued the TRO enjoining the implementation of the said BIR ruling on the condition that the 20-percent final withholding tax be withheld by the petitioner banks and placed in escrow pending resolution of the Petition. However, to date, the respondents have not complied with the said TRO, i.e., they have not credited the banks' escrow accounts with the amount corresponding to the questioned 20-percent final tax. The case is still pending resolution with the SC.

Several suits and claims relating to the Group's lending operations and labor-related cases remain unsettled. In the opinion of management, these suits and claims, if decided adversely, will not involve sums having a material effect on the Group's financial statements.

30. Financial Performance

The basis of calculation for earnings per share attributable to equity holdings of the Parent Company follows (amounts in millions except for earnings per share):

	2011	2010	2009
a. Net income attributable to equity holders of the Parent Company	**₱11,031**	₱8,366	₱6,029
b. Share of hybrid capital securities holders	**(484)**	(515)	(484)

(Forward)

	2011	2010	2009
c. Net income attributable to common shareholders	**₱10,547**	₱7,851	₱5,545
d. Weighted average number of outstanding common shares of the Parent Company, as previously reported		1,876	1,807
e. Basic/diluted earnings per share, as previously reported (c/d)		₱4.18	₱3.07
f. Weighted average number of outstanding common shares of the Parent Company, including effects of stock rights granted in 2010 and as restated in 2010 and 2009	**2,101**	1,912	1,842
g. Basic/diluted earnings per share, including effects of stock rights granted in 2010 and as restated in 2010 and 2009 (c/f)	**₱5.02**	₱4.11	₱3.01

The earnings per share attributable to equity holdings of the Parent Company for 2010 and 2009 was restated to show the effects of stock rights granted in 2010 (Note 21). As of December 31, 2011, 2010 and 2009, there were no outstanding dilutive potential common shares.

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

	Consolidated			**Parent Company**		
	2011	2010	2009	**2011**	2010	2009
Return on average equity	**11.17%**	10.27%	8.59%	**9.49%**	6.77%	6.75%
Return on average assets	**1.20%**	0.96%	0.74%	**1.11%**	0.69%	0.65%
Net interest margin on average earning assets	**3.54%**	3.43%	3.82%	**2.73%**	2.69%	3.19%

31. Notes to Statements of Cash Flows

The amounts of interbank loans receivable and securities purchased under agreements to resell considered as cash and cash equivalents follow:

	Consolidated			**Parent Company**		
	2011	2010	2009	**2011**	2010	2009
Interbank loans receivable and SPURA	**₱24,367**	₱26,507	₱79,554	**₱3,222**	₱18,006	₱73,943
Interbank loans receivable and SPURA not considered as cash and cash equivalents	**(964)**	(2,732)	(2,190)	**(964)**	(2,732)	(2,190)
	₱23,403	₱23,775	₱77,364	**₱2,258**	₱15,274	₱71,753

32. Foreign Exchange

PDS closing rates as of December 31 and PDSWAR for the year ended December 31 are as follows:

	2011	2010	2009
PDS Closing	**₱43.84**	₱43.84	₱46.20
PDSWAR	**43.31**	45.12	47.64

33. Other Matters

The Group has no significant matters to report in 2011 on the following:

a. Known trends, events or uncertainties that would have material impact on liquidity and on the sales or revenues.
b. Explanatory comments about the seasonality or cyclicality of operations.
c. Issuances, repurchases and repayments of debt and equity securities except for the issuance of the 200 million common shares by the Parent Company as discussed in Note 21 and the exercise of the call option on the 2016 Peso Notes of PSBank as discussed in Note 18.
d. Unusual items as to nature, size or incidents affecting assets, liabilities, equity, net income or cash flows except for the payments of cash dividend and semi-annual coupons on the HT1 Capital as discussed in Note 21.
e. Effect of changes in the composition of the Group, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations except those discussed in Note 11.

34. Subsequent Events

a. On October 26, 2011, the BOD of Orix Metro approved the declaration of a 10% cash dividend amounting to ₱84.0 million or ₱10.0 per share based on a par value of ₱10.0 to all stockholders of record as of October 26, 2011 which was approved by the BSP on January 18, 2012 and paid by Orix Metro on February 1, 2012. Also, on the same date, the BOD of Orix Metro declared a 20% stock dividend amounting to ₱169.0 million of ₱20.00 per share to all stockholders of record as of October 26, 2011, approved by the BSP and paid on January 18, 2012.
b. On January 17, 2012, the new majority stockholder of PI Two filed a motion asking the RC to allow it to exercise its rights as the new owner. On February 6, 2012, the Parent Company filed its comment and opposition to said motion.
c. On January 24, 2012, the BOD of PSBank declared a 1.5% cash dividend for the fourth quarter of 2011 amounting to ₱36.04 million or ₱0.15 per share which was submitted to BSP for approval.
d. On January 25, 2012, the BOD of the Parent Company has approved the declaration of a 5.0% cash dividends or ₱1.00 per share based on a par value of ₱20.00 to all stockholders of record as of date to be fixed by the President upon approval by the BSP. On February 13, 2012, the BSP approved such dividend declaration.
e. On February 1, 2012, the BSP approved the semi-annual coupon payment on HT1 Capital amounting to USD5.6 million which the Parent Company paid on February 15, 2012.
f. In connection with the planned issuance of notes as discussed in Note 18, PSBank will issue up to ₱3.0 billion unsecured subordinated notes at 5.75% per annum with quarterly interest payment and optional redemption by the issuer in February 2017. Issue date is set on February 20, 2012 and maturity date on February 20, 2022. Proceeds of the issuance will be used to finance asset growth and further strengthen capital base.

35. Approval of the Release of the Financial Statements

The accompanying financial statements of the Group and of the Parent Company were authorized for issue by the BOD on February 15, 2012.

36. **Report on the Supplementary Information Required Under Revenue Regulations (RR) No. 19-2011 and 15-2010**

Supplementary Information Under RR No. 19-2011

In addition to the required supplementary information under RR No. 15-2010, on December 9, 2011, the Bureau of Internal Revenue (BIR) issued RR No. 19-2011 which prescribes the new annual income tax forms that will be used for filing effective taxable year 2011. Specifically, companies are required to disclose certain tax information in their respective notes to financial statements. For the taxable year December 31, 2011, the Parent Company reported the following revenues and expenses for income tax purposes:

Revenues

Services/operations	₱15,914
Non-operating and taxable other income:	
Service charges, fees and commissions	₱3,418
Trading and securities gain	1,618
Profit from assets sold	826
Income from trust operations	687
Others	540
	₱7,089

Expenses

Cost of services:	
Compensation and fringe benefits	₱3,637
Others	6,195
	₱9,832
Itemized deductions:	
Compensation and fringe benefits	₱4,015
Taxes and licenses	1,967
Security, messengerial and janitorial	1,018
Bad debts	659
Rent	652
Information technology	597
Depreciation	589
Communication, light and water	485
Transportation and travel	252
Management and professional fees	208
Repairs and maintenance	195
EAR	160
Others	1,839
	₱12,636

Supplementary Information Under RR No. 15-2010

On November 25, 2010, the BIR issued RR No. 15-2010 to amend certain provisions of RR No. 21-2002 which provides that starting 2010 the notes to financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year.

The Parent Company reported the following types of taxes for the year ended December 31, 2011 included under 'Taxes and licenses' account in the statement of income:

GRT	₱1,527
DST	841
Local taxes	67
Real estate tax	59
Others	28
	₱2,522

Details of total withholding taxes remitted for the taxable year December 31, 2011 follow:

Final withholding taxes	₱1,504
Withholding taxes on compensation and benefits	1,443
Expanded withholding taxes	152
	₱3,099

Metrobank

February 23, 2011

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Metropolitan Bank & Trust Company (the Bank) and subsidiaries is responsible for all information and representations contained in the consolidated 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 financial statements have been prepared in conformity with Philippine Financial Reporting Standards 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 Bank'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 Directors reviews the consolidated financial statements before such statements are approved and submitted to the stockholders of the Bank.

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

Signed under oath by the following:

ANTONIO S. ABACAN, JR. **Chairman**	**ARTHUR TY** **President**	**JOSHUA E. NAING** **Executive Vice President/Controller**

METROPOLITAN BANK & TRUST COMPANY
Metrobank Plaza, Sen. Gil J. Puyat Avenue, 1200 Makati City, Philippines; Tel. no. (632) 898-8000 / 857-0000; Fax (632) 817-6248; www.metrobank.com.ph

REPUBLIC OF THE PHILIPPINES)
CITY OF MAKATI) S.S.

MAR 0 9 2011

SUBSCRIBED AND SWORN to before me on ________, affiants exhibiting to me their respective Tax Identification Numbers/Social Security System Numbers, as follows:

Names	Tax Identification Nos.	Social Security System Nos.
METROPOLITAN BANK & TRUST COMPANY	000-477-863-00	03-2409900-1
ANTONIO S. ABACAN, JR.	221-607-426	03-0646600-5
ARTHUR TY	121-526-520	03-9660341-2
JOSHUA E. NAING	121-523-967	03-6695744-4

CYNTHIA G. RUIZ
NOTARY PUBLIC - MAKATI CITY
APPOINTMENT #M-178
UNTIL DECEMBER 31, 2012
7th FLR. METROBANK PLAZA
SEN. GIL PUYAT AVE., MAKATI CITY
PTR-MAKT 2870685 / 01-10-2011 / MAKATI CITY
IBP 838873 / 11-17-2010 / MAKATI CITY
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BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Metropolitan Bank & Trust Company
Metrobank Plaza, Sen. Gil J. Puyat
Makati City

Report on the Financial Statements

We have audited the accompanying financial statements of Metropolitan Bank & Trust Company and Subsidiaries (the Group) and of Metropolitan Bank & Trust Company (the Parent Company), which comprise the statements of financial position as at December 31, 2010 and 2009 and the statements of income, statements of comprehensive income, statements of changes in equity and 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

The Group's 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 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 assessments, the auditor considers internal control relevant to the Group'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 Group's internal control. An audit also includes evaluating the appropriateness of the 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 and the reports of other auditors are sufficient and appropriate to provide a basis for our audit opinion.

SGV & Co
Ernst & Young

Opinion

In our opinion, the 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 Bureau of Internal Revenue Requirement

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes and licenses in Note 26 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 has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as whole.

SYCIP GORRES VELAYO & CO.

Aris C. Malantic
Partner
CPA Certificate No. 90190
SEC Accreditation No. 0326-AR-1
Tax Identification No. 152-884-691
PTR No. 2641538, January 3, 2011, Makati City

February 23, 2011

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION
(In Millions)

	Consolidated		Parent Company	
	As of December 31			
	2010	2009	**2010**	2009
ASSETS				
Cash and Other Cash Items (Note 15)	**₱20,201**	₱19,727	**₱16,996**	₱17,049
Due from Bangko Sentral ng Pilipinas (Note 15)	**168,402**	71,981	**162,391**	63,578
Due from Other Banks	**38,308**	36,702	**19,416**	29,815
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (Notes 7 and 31)	**26,507**	79,554	**18,006**	73,943
Financial Assets at Fair Value Through Profit or Loss (Notes 8 and 27)	**12,580**	17,046	**9,083**	14,687
Available-for-Sale Investments (Notes 8, 15 and 27)	**126,467**	156,735	**96,325**	116,711
Held-to-Maturity Investments (Note 8)	**32,663**	23,621	**13,947**	14,996
Loans and Receivables (Notes 9, 15 and 27)	**392,659**	362,327	**292,433**	281,188
Investments in Subsidiaries (Note 11)	**–**	–	**25,802**	17,497
Investments in Associates (Note 11)	**15,575**	21,651	**1,263**	11,257
Property and Equipment (Note 10)	**13,119**	13,086	**9,219**	9,397
Investment Properties (Note 12)	**18,401**	21,680	**13,739**	17,126
Deferred Tax Assets (Note 26)	**7,496**	8,476	**6,361**	6,941
Goodwill (Note 11)	**6,449**	6,449	**1,203**	1,203
Other Assets (Note 13)	**8,496**	15,272	**6,569**	10,197
	₱887,323	₱854,307	**₱692,753**	₱685,585
LIABILITIES AND EQUITY				
LIABILITIES				
Deposit Liabilities (Notes 15 and 27)				
Demand	**₱68,261**	₱48,568	**₱61,216**	₱44,521
Savings	**267,930**	242,145	**260,269**	234,378
Time	**315,071**	324,987	**242,323**	264,630
	651,262	615,700	**563,808**	543,529
Bills Payable and Securities Sold Under Repurchase Agreements (Notes 16 and 27)	**85,513**	95,868	**10,405**	27,577
Derivative Liabilities (Note 8)	**3,161**	2,384	**3,001**	2,245
Manager's Checks and Demand Drafts Outstanding	**2,043**	1,955	**1,394**	1,458
Income Taxes Payable	**331**	485	**69**	258
Accrued Interest and Other Expenses (Note 17)	**5,174**	4,847	**2,772**	2,886
Subordinated Debt (Note 18)	**21,673**	21,634	**18,406**	18,372
Deferred Tax Liabilities (Note 26)	**137**	165	**–**	–
Other Liabilities (Note 19)	**25,012**	30,951	**17,844**	22,969
	794,306	773,989	**617,699**	619,294
EQUITY				
Equity Attributable to Equity Holders of the Parent Company				
Common stock (Note 21)	**38,228**	36,145	**38,228**	36,145
Hybrid capital securities (Note 21)	**6,351**	6,351	**6,351**	6,351
Capital paid in excess of par value	**13,484**	10,638	**13,484**	10,638
Surplus reserves (Note 22)	**912**	843	**912**	843
Surplus (Notes 21 and 22)	**27,640**	20,942	**16,201**	13,085
Net unrealized gain (loss) on available-for-sale investments (Note 8)	**1,238**	230	**822**	(27)
Equity in net unrealized gain on available-for-sale investments of associates (Note 11)	**284**	103	**–**	–
Translation adjustment and others	**(503)**	(27)	**(944)**	(744)
	87,634	75,225	**75,054**	66,291
Non-controlling Interest	**5,383**	5,093	**–**	–
	93,017	80,318	**75,054**	66,291
	₱887,323	₱854,307	**₱692,753**	₱685,585

See accompanying Notes to Financial Statements.

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
STATEMENTS OF INCOME
(In Millions, Except Earnings Per Share)

	Consolidated			Parent Company		
	Years Ended December 31					
	2010	2009	2008	**2010**	2009	2008
INTEREST INCOME ON						
Loans and receivables (Notes 9 and 27)	**₱27,216**	₱28,582	₱29,152	**₱15,679**	₱18,446	₱18,883
Trading and investment securities (Note 8)	**9,553**	10,500	8,185	**5,588**	6,303	6,284
Interbank loans receivable and securities purchased under resale agreements (Note 27)	**938**	1,005	1,511	**729**	905	1,230
Deposits with banks and others	**3,757**	3,628	2,866	**3,031**	3,086	2,400
	41,464	43,715	41,714	**25,027**	28,740	28,797
INTEREST AND FINANCE CHARGES						
Deposit liabilities (Notes 15 and 27)	**9,713**	11,293	13,426	**7,070**	8,901	11,164
Bills payable and securities sold under repurchase agreements, subordinated debt and others (Notes 16, 18 and 27)	**5,361**	5,743	5,219	**1,868**	2,037	1,791
	15,074	17,036	18,645	**8,938**	10,938	12,955
NET INTEREST INCOME	**26,390**	26,679	23,069	**16,089**	17,802	15,842
Service charges, fees and commissions (Note 27)	**6,853**	6,499	6,783	**3,608**	3,180	4,071
Trading and securities gain (loss) - net (Note 8)	**6,122**	3,623	(1,265)	**2,546**	2,423	(1,641)
Foreign exchange gain - net	**2,855**	2,210	761	**2,588**	1,956	139
Profit from assets sold (Note 12)	**1,172**	925	2,889	**1,091**	607	1,671
Leasing (Notes 12, 24 and 27)	**824**	1,008	365	**217**	255	325
Income from trust operations (Notes 22 and 28)	**480**	516	491	**473**	511	482
Dividends (Note 11)	**118**	141	166	**2,142**	1,018	1,513
Miscellaneous (Note 25)	**1,668**	1,159	1,296	**281**	521	460
TOTAL OPERATING INCOME	**46,482**	42,760	34,555	**29,035**	28,273	22,862
Compensation and fringe benefits (Notes 23 and 27)	**11,452**	10,370	9,307	**7,618**	7,126	6,492
Provision for credit and impairment losses (Note 14)	**7,285**	8,793	3,249	**4,485**	5,613	1,278
Taxes and licenses (Note 26)	**4,391**	4,005	3,729	**2,634**	2,531	2,427
Depreciation and amortization (Notes 10, 12 and 13)	**2,061**	1,852	1,882	**1,258**	1,127	1,252
Occupancy and equipment-related cost (Note 24)	**1,758**	1,497	1,348	**1,083**	947	859
Amortization of software costs (Note 13)	**199**	160	137	**89**	64	61
Miscellaneous (Note 25)	**7,957**	7,958	7,791	**5,157**	5,324	5,094
TOTAL OPERATING EXPENSES	**35,103**	34,635	27,443	**22,324**	22,732	17,463
INCOME BEFORE SHARE IN NET INCOME OF ASSOCIATES	**11,379**	8,125	7,112	**6,711**	5,541	5,399
SHARE IN NET INCOME OF ASSOCIATES (Note 11)	**1,618**	919	992	**–**	–	–
INCOME BEFORE INCOME TAX	**12,997**	9,044	8,104	**6,711**	5,541	5,399
PROVISION FOR INCOME TAX (Note 26)	**3,731**	2,249	3,027	**1,927**	1,295	2,079
NET INCOME	**₱9,266**	₱6,795	₱5,077	**₱4,784**	₱4,246	₱3,320
Attributable to:						
Equity holders of the Parent Company (Note 30)	**₱8,366**	₱6,029	₱4,408			
Non-controlling Interest	**900**	766	669			
	₱9,266	₱6,795	₱5,077			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 30)	**₱4.18**	₱3.07	₱2.17			

See accompanying Notes to Financial Statements.

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME
(In Millions)

	Consolidated			Parent Company		
	Years Ended December 31					
	2010	2009	2008	**2010**	2009	2008
Net Income	**₱9,266**	₱6,795	₱5,077	**₱4,784**	₱4,246	₱3,320
Other Comprehensive Income (Loss) for the Year, net of tax						
Change in net unrealized gain (loss) on available-for sale investments (Note 8)	**896**	8,092	(9,249)	**849**	4,929	(5,996)
Change in equity in net unrealized gain (loss) on available-for-sale investments of associates	**183**	17	(163)	**–**	–	–
Translation adjustment and others (Notes 8 and 11)	**(707)**	(1,195)	1,245	**(200)**	(184)	948
	372	6,914	(8,167)	**649**	4,745	(5,048)
Total Comprehensive Income (Loss) for the Year	**₱9,638**	₱13,709	(₱3,090)	**₱5,433**	₱8,991	(₱1,728)
Attributable to:						
Equity holders of the Parent Company	**₱9,079**	₱12,424	(₱3,133)			
Non-controlling Interest	**559**	1,285	43			
	₱9,638	₱13,709	(₱3,090)			

See accompanying Notes to Financial Statements.

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
STATEMENTS OF CHANGES IN EQUITY
(In Millions)

	Consolidated										
	Equity Attributable to Equity Holders of the Parent Company										
	Common Stock (Note 21)	Hybrid Capital Securities (Note 21)	Capital Paid In Excess of Par Value	Surplus Reserves (Note 22)	Surplus (Notes 21 and 22)	Net Unrealized Gain (Loss) on Available-for-Sale Investments (Note 8)	Equity in Net Unrealized Gain (Loss) on Available-for-Sale Investments of Associates (Note 8)	Translation Adjustment and Others	Total	Non-controlling Interest	Total Equity
Balance at January 1, 2010	**₱36,145**	**₱6,351**	**₱10,638**	**₱843**	**₱20,942**	**₱230**	**₱103**	**(₱27)**	**₱75,225**	**₱5,093**	**₱80,318**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**8,366**	**1,008**	**181**	**(476)**	**9,079**	**559**	**9,638**
Issuance of shares of stock	**2,083**	**–**	**2,846**	**–**	**–**	**–**	**–**	**–**	**4,929**	**–**	**4,929**
Transfer to surplus reserves	**–**	**–**	**–**	**69**	**(69)**	**–**	**–**	**–**	**–**	**–**	**–**
Cash dividends	**–**	**–**	**–**	**–**	**(1,084)**	**–**	**–**	**–**	**(1,084)**	**(269)**	**(1,353)**
Coupon payment of hybrid capital securities	**–**	**–**	**–**	**–**	**(515)**	**–**	**–**	**–**	**(515)**	**–**	**(515)**
Balance at December 31, 2010	**₱38,228**	**₱6,351**	**₱13,484**	**₱912**	**₱27,640**	**₱1,238**	**₱284**	**(₱503)**	**₱87,634**	**₱5,383**	**₱93,017**
Balance at January 1, 2009	₱36,145	₱6,351	₱10,638	₱770	₱17,277	(₱6,361)	₱87	₱185	₱65,092	₱3,913	₱69,005
Total comprehensive income for the year	–	–	–	–	6,029	6,591	16	(212)	12,424	1,285	13,709
Transfer to surplus reserves	–	–	–	73	(73)	–	–	–	–	–	–
Cash dividends	–	–	–	–	(1,807)	–	–	–	(1,807)	(105)	(1,912)
Coupon payment of hybrid capital securities	–	–	–	–	(484)	–	–	–	(484)	–	(484)
Balance at December 31, 2009	₱36,145	₱6,351	₱10,638	₱843	₱20,942	₱230	₱103	(₱27)	₱75,225	₱5,093	₱80,318
Balance at January 1, 2008	₱36,145	₱6,351	₱10,638	₱701	₱15,229	₱2,194	₱247	(₱989)	₱70,516	₱3,960	₱74,476
Total comprehensive income (loss) for the year	–	–	–	–	4,408	(8,555)	(160)	1,174	(3,133)	43	(3,090)
Transfer to surplus reserves	–	–	–	69	(69)	–	–	–	–	–	–
Cash dividends	–	–	–	–	(1,807)	–	–	–	(1,807)	(90)	(1,897)
Coupon payment of hybrid capital securities	–	–	–	–	(484)	–	–	–	(484)	–	(484)
Balance at December 31, 2008	₱36,145	₱6,351	₱10,638	₱770	₱17,277	(₱6,361)	₱87	₱185	₱65,092	₱3,913	₱69,005

	Parent Company							
	Common Stock (Note 21)	Hybrid Capital Securities (Note 21)	Capital Paid In Excess of Par Value	Surplus Reserves (Note 22)	Surplus (Notes 21 and 22)	Net Unrealized Gain (Loss) on Available-for-Sale Investments (Note 8)	Translation Adjustment and Others	Total Equity
Balance at January 1, 2010	**₱36,145**	**₱6,351**	**₱10,638**	**₱843**	**₱13,085**	**(₱27)**	**(₱744)**	**₱66,291**
Total comprehensive income for the year	–	–	–	–	**4,784**	**849**	**(200)**	**5,433**
Issuance of shares of stock	**2,083**	–	**2,846**	–	–	–	–	**4,929**
Transfer to surplus reserves	–	–	–	**69**	**(69)**	–	–	–
Cash dividends	–	–	–	–	**(1,084)**	–	–	**(1,084)**
Coupon payment of hybrid capital securities	–	–	–	–	**(515)**	–	–	**(515)**
Balance at December 31, 2010	**₱38,228**	**₱6,351**	**₱13,484**	**₱912**	**₱16,201**	**₱822**	**(₱944)**	**₱75,054**
Balance at January 1, 2009	₱36,145	₱6,351	₱10,638	₱770	₱11,203	(₱4,956)	(₱560)	₱59,591
Total comprehensive income for the year	–	–	–	–	4,246	4,929	(184)	8,991
Transfer to surplus reserves	–	–	–	73	(73)	–	–	–
Cash dividends	–	–	–	–	(1,807)	–	–	(1,807)
Coupon payment of hybrid capital securities	–	–	–	–	(484)	–	–	(484)
Balance at December 31, 2009	₱36,145	₱6,351	₱10,638	₱843	₱13,085	(₱27)	(₱744)	₱66,291
Balance at January 1, 2008	₱36,145	₱6,351	₱10,638	₱701	₱10,243	₱1,040	(₱1,508)	₱63,610
Total comprehensive income (loss) for the year	–	–	–	–	3,320	(5,996)	948	(1,728)
Transfer to surplus reserves	–	–	–	69	(69)	–	–	–
Cash dividends	–	–	–	–	(1,807)	–	–	(1,807)
Coupon payment of hybrid capital securities	–	–	–	–	(484)	–	–	(484)
Balance at December 31, 2008	₱36,145	₱6,351	₱10,638	₱770	₱11,203	(₱4,956)	(₱560)	₱59,591

See accompanying Notes to Financial Statements.

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS
(In Millions)

	Consolidated			Parent Company		
	Years Ended December 31					
	2010	2009	2008	**2010**	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	**₱12,997**	₱9,044	₱8,104	**₱6,711**	₱5,541	₱5,399
Adjustments for:						
Provision for credit and impairment losses (Note 14)	**7,285**	8,793	3,249	**4,485**	5,613	1,278
Trading and securities gain on available-for-sale investments (Note 8)	**(5,982)**	(2,113)	(1,100)	**(2,825)**	(1,384)	(404)
Depreciation and amortization (Notes 10, 12 and 13)	**2,061**	1,852	1,882	**1,258**	1,127	1,252
Share in net income of associates (Note 11)	**(1,618)**	(919)	(992)	–	–	–
Profit from assets sold (Note 12)	**(1,172)**	(925)	(2,889)	**(1,091)**	(607)	(1,671)
Gain on initial recognition of investment properties (Note 25)	**(446)**	(509)	(412)	**(221)**	(308)	(194)
Amortization of software costs (Note 13)	**199**	160	137	**89**	64	61
Amortization of discount on subordinated debt	**39**	30	15	**34**	28	15
Unrealized market valuation loss (gain) on derivative assets and liabilities (Note 8)	**653**	(624)	1,992	**673**	(639)	1,984
Dividends (Note 11)	**(118)**	(141)	(166)	**(2,142)**	(1,018)	(1,513)
Net gain on sale of investment in associates (Notes 11 and 27)	**(8)**	–	–	**(6)**	–	–
Changes in operating assets and liabilities:						
Decrease (increase) in:						
Financial assets at fair value through profit or loss	**3,813**	(7,786)	(3,076)	**4,931**	(7,212)	(3,887)
Loans and receivables	**(32,733)**	(10,525)	(61,717)	**(11,739)**	(2,269)	(38,692)
Other assets	**2,591**	(2,616)	1,759	**844**	(2,527)	901
Increase (decrease) in:						
Deposit liabilities	**35,562**	30,394	55,764	**22,945**	15,661	54,546
Manager's checks and demand drafts outstanding	**88**	400	(1,466)	**(64)**	235	(1,429)
Accrued interest and other expenses	**332**	(341)	4	**(91)**	(626)	(263)
Other liabilities	**(2,098)**	4,746	7,918	**(3,052)**	4,919	3,647
Net cash generated from operations	**21,445**	28,920	9,006	**20,739**	16,598	21,030
Dividends received	**627**	141	166	**2,142**	1,018	1,513
Income taxes paid	**(3,121)**	(3,075)	(2,504)	**(1,541)**	(2,055)	(1,238)
Net cash provided by operating activities	**18,951**	25,986	6,668	**21,340**	15,561	21,305
CASH FLOWS FROM INVESTING ACTIVITIES						
Acquisitions of:						
Available-for-sale investments	**(621,489)**	(576,967)	(308,901)	**(510,521)**	(532,067)	(273,614)
Held-to-maturity investments	**(9,481)**	(3,275)	(10,000)	–	(170)	(9,912)
Property and equipment (Note 10)	**(1,571)**	(2,231)	(3,303)	**(680)**	(1,258)	(2,085)
Investments in subsidiaries and associates (Note 11)	**(1,939)**	(1,487)	(3,084)	**(10,177)**	–	(1,519)
Proceeds from sale of:						
Available-for-sale investments	**657,950**	524,323	296,341	**534,820**	489,847	263,743
Property and equipment	**107**	237	175	**95**	133	287
Investments in subsidiaries and associates (Note 11)	**5,226**	–	25	**6,023**	–	108
Investment properties (Note 12)	**4,555**	7,298	8,527	**4,035**	6,347	1,798
Decrease (increase) in interbank loans receivable and securities purchased under resale agreements (Note 31)	**(542)**	1,374	11,916	**(542)**	1,374	11,916
Proceeds from maturity of held-to-maturity investments	**439**	2,035	8,969	**438**	2,035	8,588
Net cash provided by (used in) investing activities	**33,255**	(48,693)	665	**23,491**	(33,759)	(690)

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2010	2009	2008	**2010**	2009	2008
CASH FLOWS FROM FINANCING ACTIVITIES						
Settlements of bills payable	**(₱801,265)**	(₱649,010)	(₱910,970)	**(₱261,064)**	(₱198,656)	(₱618,410)
Availments of bills payable and securities sold under repurchase agreement	**790,910**	686,586	910,837	**244,785**	223,308	607,279
Proceeds from issuance of shares of stock (Note 21)	**4,929**	–	–	**4,929**	–	–
Repayments of subordinated debt (Note 18)	–	–	(8,222)	–	–	(8,224)
Availments of subordinated debt (Note 18)	–	5,747	5,443	–	4,458	5,443
Cash dividends paid (Note 21)	**(1,353)**	(1,912)	(1,897)	**(1,084)**	(1,807)	(1,807)
Coupon payment of hybrid capital securities (Note 21)	**(515)**	(484)	(484)	**(515)**	(484)	(484)
Net cash provided by (used in) financing activities	**(7,294)**	40,927	(5,293)	**(12,949)**	26,819	(16,203)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**44,912**	18,220	2,040	**31,882**	8,621	4,412
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	**19,727**	18,700	13,840	**17,049**	16,877	12,820
Due from Bangko Sentral ng Pilipinas	**71,981**	91,638	75,770	**63,578**	84,811	71,313
Due from other banks	**36,702**	60,870	30,228	**29,815**	55,482	23,790
Interbank loans receivable and securities purchased under resale agreements (Note 31)	**77,364**	16,346	65,676	**71,753**	16,404	61,239
	205,774	187,554	185,514	**182,195**	173,574	169,162
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	**20,201**	19,727	18,700	**16,996**	17,049	16,877
Due from Bangko Sentral ng Pilipinas	**168,402**	71,981	91,638	**162,391**	63,578	84,811
Due from other banks	**38,308**	36,702	60,870	**19,416**	29,815	55,482
Interbank loans receivable and securities purchased under resale agreements (Note 31)	**23,775**	77,364	16,346	**15,274**	71,753	16,404
	₱250,686	₱205,774	₱187,554	**₱214,077**	₱182,195	₱173,574

OPERATIONAL CASH FLOWS FROM INTEREST

	Consolidated			Parent Company		
	Years Ended December 31					
	2010	2009	2008	**2010**	2009	2008
Interest paid	**₱15,443**	₱18,095	₱18,257	**₱9,378**	₱12,269	₱12,615
Interest received	**45,215**	43,325	40,274	**27,056**	28,541	28,587

See accompanying Notes to Financial Statements.

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Metropolitan Bank & Trust Company (the Parent Company) is a universal bank incorporated in the Philippines. The Parent Company and its subsidiaries (the Group) are engaged in all aspects of banking, financing, leasing, real estate and stock brokering through a network of over 800 local and international branches, offices and agencies. As a bank, the Parent Company provides services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange, trading and remittances, and trust services. Its principal place of business is at Metrobank Plaza, Sen. Gil J. Puyat Avenue, Makati City.

The original Certification of Incorporation of the Parent Company was issued by the Securities and Exchange Commission (SEC) on April 6, 1962 which shall expire on April 6, 2012. On March 21 and November 19, 2007, the board of directors (BOD) of the Parent Company and the SEC, respectively, approved the extension of its corporate term for another 50 years or up to April 6, 2057.

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared on a historical cost basis except for financial assets and financial liabilities at fair value through profit or loss (FVPL) and available-for-sale (AFS) investments that have been measured at fair value.

The accompanying financial statements of the Parent Company and Philippine Savings Bank (PSBank) include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU).

The functional currency of RBU and FCDU is Philippine peso and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine peso (see accounting policy on Foreign Currency Translation). The financial statements of these units are combined after eliminating inter-unit accounts.

The consolidated financial statements are presented in Philippine peso, and all values are rounded to the nearest million pesos (₱000,000) except when otherwise indicated.

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. The respective functional currencies of the subsidiaries are presented under Basis of Consolidation.

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

Presentation of Financial Statements
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense are not offset in the statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

Basis of Consolidation
The consolidated financial statements include the financial statements of the Parent Company and of its subsidiaries (including the special purpose entity that it controls) and are prepared for the same reporting period as the Parent Company using consistent accounting policies.

The following are the wholly and majority-owned foreign and domestic subsidiaries of the Parent Company:

Subsidiary	Effective Percentage of Ownership	Country of Incorporation	Functional Currency
Financial Markets:			
First Metro Investment Corporation (FMIC) and Subsidiaries	98.06	Philippines	Philippine Peso
PSBank (Note 11)	75.98	Philippines	Philippine Peso
Metropolitan Bank (China) Ltd. (MBCL) (Note 11)	100.00	China	Chinese Yuan (CNY)
Metrobank Card Corporation (A Finance Company) (MCC)	60.00	Philippines	Philippine Peso
ORIX Metro Leasing and Finance Corporation (ORIX Metro) and Subsidiaries (Note 11)	59.61	Philippines	Philippine Peso
Metropolitan Bank (MB Bahamas) Limited	100.00	The Bahamas	USD
First Metro International Investment Company Limited (FMIIC) and Subsidiary (Note 11)	99.61	Hong Kong	Hong Kong Dollar (HKD)
MB Remittance Centre Limited	100.00	Hong Kong	HKD
Metro Remittance Singapore Pte. Ltd. (Note 11)	100.00	Singapore	Singapore Dollar
Metro Remittance Center (California), Inc. (MRCCI)	100.00	United States of America (USA)	USD
Metro Remittance Center, S.A.	100.00	Spain	EUR
Metro Remittance (Italia), S.p.A.	100.00	Italy	EUR
Metro Remittance (UK) Limited	100.00	United Kingdom	Great Britain Pound (GBP)
Metro Remittance Center, Inc. (MRCI)	100.00	USA	USD
MBTC Remittance GmbH, Vienna	100.00	Austria	Euro (EUR)
Philbancor Venture Capital Corporation (PVCC)	60.00	Philippines	Philippine Peso
Solid Philippines Venture Capital Corporation (SPVCC)	60.00	Philippines	Philippine Peso
MBTC Venture Capital Corporation (MVCC)	60.00	Philippines	Philippine Peso
Computer Services:			
MBTC Technology, Inc. (MTI)	100.00	Philippines	Philippine Peso
Data Serv, Inc. (DSI)	100.00	Philippines	Philippine Peso
Real Estate:			
Circa 2000 Homes, Inc. (Circa)	100.00	Philippines	Philippine Peso

Under Standing Interpretations Committee (SIC) No. 12, *Consolidation of Special Purpose Entity (SPE)*, control over an entity may exist even in cases where an enterprise owns little or none of SPE's equity, such as when an enterprise retains majority of the residual risks related to the SPE or its assets in order to obtain benefits from its activities. In accordance with this Interpretation, the 2009 consolidated financial statements include the accounts of Cameron Granville 3 Asset Management, Inc. (CG3AMI) and LNC 3 Asset Management, Inc. (LNC3AMI), both are special purpose vehicles (SPVs), in which the Group does not have equity interest (Notes 13 and 19). In 2010, however the Group did not include the accounts of said SPVs as the related accounts are not considered material to the consolidated financial statements.

SPVCC, PVCC and DSI are in the process of dissolution. In 2010, liquidation process of MVCC has been completed. On November 11, 2010, the BOD and stockholders of Circa, on a separate meeting, approved its dissolution through shortening of corporate term, which shall be further determined.

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

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

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

Non-controlling Interest
Non-controlling interest represents the portion of profit or loss and the net assets not held by the Group and are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to the Parent Company. Any losses applicable to the non-controlling interests in excess of the non-controlling interests 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 are accounted for as equity transactions.

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year. The issuance of and the amendments to the following standards and interpretations which became effective as of January 1, 2010, did not have any impact on the accounting policies, financial position or performance of the Group:

New Standards and Interpretations
- PFRS 2, *Share-based Payment (Amendment): Group Cash-settled Share-based Payment Transactions*
- PFRS 3 (Revised), *Business Combinations* and Philippine Accounting Standards (PAS) 27 (Amended), *Consolidated and Separate Financial Statements*
- PAS 39, *Financial Instruments: Recognition and Measurement (Amendment) - Eligible Hedged Items*
- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*

Improvements to PFRSs 2008

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* effective for annual periods beginning on or after July 1, 2009

Improvements to PFRSs 2009

- PFRS 2, *Share-based Payment* effective for annual periods beginning on or after July 1, 2009
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* effective for annual periods beginning on or after January 1, 2010
- PFRS 8, *Operating Segments* effective for annual periods beginning on or after January 1, 2010
- PAS 1, *Presentation of Financial Statements* effective for annual periods beginning on or after January 1, 2010
- PAS 7, *Statements of Cash Flows* effective for annual periods beginning on or after January 1, 2010
- PAS 17, *Leases* effective for annual periods beginning on or after January 1, 2010
- PAS 36, *Impairment of Assets* effective for annual periods beginning on or after July 1, 2009
- PAS 38, *Intangible Assets* effective for annual periods beginning on or after July 1, 2009
- PAS 39, *Financial Instruments: Recognition and Measurement* effective for annual periods beginning on or after January 1, 2010
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives* effective for annual periods beginning on or after July 1, 2009
- Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation* effective for annual periods beginning on or after July 1, 2009

Significant Accounting Policies

<u>Foreign Currency Translation</u>
Transactions and balances
For financial reporting purposes, the monetary assets and liabilities of the foreign currency-denominated assets and liabilities in the RBU are translated in Philippine peso based on the Philippine Dealing System (PDS) closing rate prevailing at the statement of financial position date and foreign currency-denominated income and expenses, at the PDS weighted average rate (PDSWAR) for the year. Foreign exchange differences arising from revaluation and translation 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.

FCDU, foreign branches and subsidiaries
As at the reporting date, the assets and liabilities of foreign branches and subsidiaries and FCDU of the Parent Company and PSBank are translated into the Parent Company's presentation currency (the Philippine peso) at PDS closing rate prevailing at the statement of financial position date, and their income and expenses are translated at PDSWAR for the year. Exchange differences arising on translation are taken to statement of comprehensive income. Upon disposal of a foreign entity or when the Parent Company ceases to have control over the subsidiaries or upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in the statement of comprehensive income is recognized in the statement of income.

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. Derivatives are recognized on trade date basis. 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 measured at fair value. Except for financial assets and financial liabilities valued 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 while financial liabilities are classified as financial liabilities at FVPL and financial liabilities carried at amortized cost. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Reclassification of financial assets

For a financial asset reclassified out of the AFS investments category to loans and receivables or HTM investments, any previous gain or loss on that asset that has been recognized in the statement of comprehensive income is amortized to profit or loss over the remaining life of the investment using the effective interest rate (EIR) method. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of asset using EIR method. If the asset is subsequently determined to be impaired, then the amount recorded in the statement of comprehensive income is recycled to the statement of income. Reclassification is at the election of management, and is determined on an instrument by instrument basis. An analysis of reclassified assets is disclosed in Note 8.

Determination of fair value

The fair value for financial instruments traded in active markets at the statement of financial position date is based on their quoted market price 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 ask prices are not available, the price of the most recent transaction is used since it 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. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

'Day 1' difference

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

Derivatives recorded at FVPL
The Parent Company and some of its subsidiaries are counterparties to derivative contracts, such as currency forwards, currency swaps, interest rate swaps, call options and other interest rate derivatives. These derivatives are entered into as a service to customers and as a means of reducing or managing their respective foreign exchange and interest rate exposures, as well as for trading purposes. 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 (except those accounted for as accounting hedges) are taken directly to the statement of income and are included in 'Trading and securities gain (loss) - net'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Hedge accounting
For the purpose of hedge accounting, hedges are classified primarily as either: (a) a hedge of the fair value of an asset, liability or a firm commitment (fair value hedge); or (b) a hedge of the exposure to variability in cash flows attributable to an asset or liability or a forecasted transaction (cash flow hedge); or (c) a hedge of a net investment in a foreign operation (net investment hedge). Hedge accounting is applied to derivatives designated as hedging instruments in a fair value, cash flow, or net investment hedge provided certain criteria are met.

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

In 2010 and 2009, MCC applied cash flow hedge accounting treatment on cross-currency swap (CCS) transactions (Note 8).

Cash flow hedge
The effective portion of the gain or loss on the hedging instrument is recognized directly as 'Translation adjustment and others' in the statement of comprehensive income. Any gain or loss in fair value relating to an ineffective portion is recognized immediately in the statement of income.

Amounts recognized as other comprehensive income are transferred to the statement of income when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognized in the statement of comprehensive income are transferred to the statement of income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognized in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss. If the related transaction is no longer expected to occur, the amount is recognized in the statement of income.

Hedge effectiveness testing
To qualify for hedge accounting, the Group requires that at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective effectiveness), and demonstrate actual effectiveness (retrospective effectiveness) on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method that the Group adopts for assessing hedge effectiveness will depend on its risk management strategy.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. The Group applies the dollar-offset method using hypothetical derivatives in performing hedge effectiveness testing. For actual effectiveness to be achieved, the changes in fair value or cash flows must offset each other in the range of 80.0% to 125.0%. Any hedge ineffectiveness is recognized in the statement of income.

Embedded derivatives
The Group has certain derivatives that are embedded in host financial (such as structured notes, debt investments, and loan receivables) and nonfinancial (such as lease and service agreements) contracts. These embedded derivatives include credit default swaps and call options in debt instruments, which include structured notes; call options in certain long-term debt; and foreign currency derivatives in debt instruments and lease agreements.

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

Financial assets or financial liabilities held for trading
Financial assets or financial liabilities held for trading 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 (loss) - net'. Interest earned or incurred is recorded in 'Interest income' or 'Interest expense', respectively, while dividend income is recorded in 'Dividends' when the right to receive payment has been established.

Included in this classification are debt and equity securities which have been acquired principally for the purpose of selling or repurchasing in the near term.

AFS investments
AFS investments include debt and equity instruments. Equity investments classified under AFS investments are those which are neither classified as held-for-trading not designated at FVPL. Debt securities are those that do not qualify to be classified as HTM investments or loans and receivables, are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

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 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 (loss) - net' in the statement of income. Interest earned on holding AFS investments are reported as 'Interest income' using the EIR method. Dividends earned on holding AFS investments are recognized in the statement of income as 'Dividends' when the right of the payment has been established. The losses arising from impairment of such investments are recognized as 'Provision for credit and impairment losses' in the statement of income.

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

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

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

Loans and receivables include purchases made by MCC's cardholders which are collected on installments and are recorded at the cost of the items purchased plus interest covering the installment period which is initially credited to unearned discount, shown as a deduction from 'Loans and receivables'.

Loans and receivables also include ORIX Metro's lease contracts receivable and notes receivable financed which are stated at the outstanding balance, reduced by unearned lease income and unearned finance income, respectively.

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

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

After initial measurement, bills payable and similar financial liabilities not qualified as and not designated at 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.

<u>Derecognition of Financial Assets and Liabilities</u>
Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

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

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

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged, 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 Securities sold under repurchase agreements (SSURA) included in 'Bills Payable and SSURA' and is considered as a loan to the Group, reflecting the economic substance of such transaction.

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

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

Financial assets carried at amortized cost
For financial assets carried at amortized cost such loans and receivables, due from other banks, 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.

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

The Group also uses the Net Flow Rate method to determine the credit loss rate of a particular delinquency age bucket based on historical data of flow-through and flow-back of loans across specific delinquency age buckets. The allowance for credit losses is determined based on the results of the net flow to write-off methodology. Net flow tables are derived from monitoring of monthly peso movements between different stage buckets, from 1-day past due to 180-days past due. The net flow to write-off methodology relies on the last 12 months of net flow tables to establish a percentage ('net flow rate') of accounts receivable that are current or in any state of delinquency (i.e., 30, 60, 90, 120, 150 and 180 days past due) as of reporting date that will eventually result in write-off. The gross provision is then computed based on the outstanding balances of the receivables as of statement of financial position date and the net flow rates determined for the current and each delinquency bucket. This gross provision is reduced by the estimated recoveries, which are also based on historical data, to arrive at the required allowance for credit losses.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

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 subject 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 credit and impairment losses' in the statement of income.

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, and the related assets and liabilities are presented gross in the statement of financial position.

Terminal Value of Leased Assets and Deposits on Finance Leases
The terminal value of leased assets, which approximates the amount of guaranty deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the sale of the leased asset at the end of the lease term. At the end of the lease term, the terminal value of the leased asset is generally applied against the guaranty deposit of the lessee when the lessee decides to buy the leased asset.

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

Interest income
For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as AFS investments, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), including 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'.

Once the recorded value of a financial asset or group of similar financial assets carried at amortized cost has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Purchases by credit cardholders, collectible on an installment basis, are recorded at the cost of the items purchased plus a certain percentage of cost. The excess over cost is credited to 'Unearned discount' and is shown as a deduction from 'Loans and receivables' in the consolidated statement of financial position. The unearned discount is taken up to interest income over the installment terms and is computed using the EIR method.

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

a. *Fee income earned from services that are provided over a certain period of time*
   Fees earned for the provision of services over a period of time are accrued over that period. These fees include investment fund fees, custodian fees, fiduciary fees, commission income, credit related fees, asset management fees, portfolio and other management fees, and advisory fees. 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 (loss) - net
Results arising from trading activities include all gains and losses from changes in fair value for financial assets and financial liabilities at FVPL and gains and losses from disposal of financial assets held for trading and AFS investments.

Rental income
Rental income arising on 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 'Leasing'.

Discounts earned and awards revenue on credit cards
Discounts are taken up as income upon receipt from member establishments of charges arising from credit availments by the Group's cardholders and other credit companies' cardholders when Group is acting as an acquirer. These discounts are computed based on certain agreed rates and are deducted from amounts remitted to the member establishments. This account also includes interchange income from transactions processed by other acquirers through VISA Inc. (Visa) and MasterCard Incorporated (MasterCard) and service fee from cash advance transactions of cardholders.

MCC operates a loyalty points program which allows customers to accumulate points when they purchase from member establishments using the issued card of MCC. The points can then be redeemed for free products subject to a minimum number of points being obtained. Consideration received is allocated between the discounts earned, interchange fee and the points earned, with the consideration allocated to the points equal to its fair value. The fair value is determined by applying statistical analysis. The fair value of the points issued is deferred and recognized as revenue when the points are redeemed.

Income on direct financing leases and receivables financed
Income on loans and receivables financed with short-term maturities is recognized using the EIR method. Interest and finance fees on finance leases and loans and receivables financed with long-term maturities and the excess of the aggregate lease rentals plus the estimated terminal value of the leased equipment over its cost are credited to unearned discount and amortized over the term of the note or lease using the EIR method.

Underwriting fees, commissions, and sale of shares of stock
Underwriting fees and commissions are accrued when earned. Income derived from sales of shares of stock is recognized upon sale.

Other income
Income from sale of services is recognized upon rendition of the service. Income from sale of properties is recognized upon completion of the earning process and the collectibility of the sales price is reasonably assured.

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

Subordinated Notes
Subordinated notes issued by Special Purpose Vehicles (SPVs) (presented as 'Investments in SPVs' under Other assets in the Parent Company financial statements) are stated at amortized cost reduced by an allowance for credit losses. The allowance for credit losses is determined based on the difference between the outstanding principal amount and the recoverable amount which is the present value of the future cash flow expected to be received as payment for the subordinated notes.

Property and Equipment
Land is stated at cost less any impairment in value and depreciable properties including buildings, furniture, fixtures and equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization, and any impairment in value. Such cost includes the cost of replacing part of the property and equipment when that cost is incurred, if the recognition criteria are met but excludes repairs and maintenance costs.

Depreciation is calculated on the straight-line method over the estimated useful life of the depreciable assets. Leasehold improvements are amortized over the shorter of the terms of the covering leases and the estimated useful lives of the improvements.

The range of estimated useful lives of property and equipment follows:

Buildings	25 to 50 years
Furniture, fixtures and equipment	2 to 5 years
Leasehold improvements	5 to 20 years

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

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

Investments in Subsidiaries and Associates

Investments in subsidiaries

Subsidiaries pertain to all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity (see accounting policy on Basis of Consolidation).

Investments in associates

Associates pertain to all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20.00% and 50.00% of the voting rights. In the consolidated financial statements, investments in associates are accounted for under the equity method of accounting.

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

In the Parent Company financial statements, investments in subsidiaries and associates are carried at cost, less allowance for impairment losses.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment property acquired is measured at the carrying amount of asset given up. Foreclosed properties are classified under 'Investment properties' upon: a.) entry of judgment in case of judicial foreclosure; b.) execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or c.) notarization of the Deed of Dacion in case of dation in payment (dacion en pago). Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and impairment in value.

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 'Profit from assets sold' in the year of retirement or disposal.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged to operations in the year in which the costs are incurred. Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the investment properties but not to exceed:

Buildings	50 years
Condominium units	40 years

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 ending 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.

Interest in Jointly Controlled Operations
The Group is a party to jointly controlled operations whereby it contributed parcels of land for development into residential and commercial units. In respect of the Group's interest in the jointly controlled operations, the Group recognizes the following: (a) the assets that it controls and the liabilities that it incurs; and (b) the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the joint venture. The assets contributed to the joint venture are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale. Revenue on sale of residential and commercial units is recognized only upon completion of the project. Payments received before completion are included under 'Miscellaneous liabilities'.

Chattel Mortgage Properties
Chattel mortgage properties comprise of repossessed vehicles. Chattel mortgage properties are stated at cost less accumulated depreciation and impairment in value. Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the vehicles. The useful lives of chattel mortgage properties are estimated to be 5 years.

Intangible assets
Intangible assets include exchange trading right, software costs (presented under 'Other assets') and goodwill.

Software costs
Software costs are capitalized on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortized over five years on a straight-line basis. Costs associated with maintaining the computer software programs are recognized as expense when incurred.

Goodwill
Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. With respect to investment in associates, goodwill is included in the carrying amounts of the investments. Following initial recognition, goodwill is measured at cost less any allowance for impairment losses (see accounting policy on Impairment of Nonfinancial Assets).

Impairment of Nonfinancial Assets
Property and equipment, investments in subsidiaries and associates, investment properties, and chattel mortgage properties
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 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 of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is charged to 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. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in 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.

Goodwill
Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash generating unit (CGU) (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated, an impairment loss is recognized immediately in the statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Group performs its impairment test of goodwill annually every September 30.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually at statement of financial position date either individually or at the cash generating unit level, as appropriate. Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Leases

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

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

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives 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 the ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in 'Property and equipment' with the corresponding liability to the lessor included in 'Other liabilities'. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recorded directly to 'Interest expense'.

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

Leases where the lessor retains substantially all the risk and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term. Contingent rental payable are recognized as expense in the year in which they are incurred.

Group as lessor

Finance leases, where the Group transfers substantially all the risks and benefits incidental to the 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 year in which they are earned.

Retirement Cost

The Group has a noncontributory defined benefit retirement plan except for FMIIC and its subsidiary which follow the defined contribution retirement benefit plan and the Mandatory Provident Fund Scheme (MPFS). The retirement cost of the Parent Company and most of its subsidiaries 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 liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged against income when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceeded 10.00% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These excess 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 statement of income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs not yet recognized and less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any cumulative unrecognized net actuarial losses and past service cost 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.

Payments to the defined contribution retirement benefit plans and the MPFS are recognized as expenses when employees have rendered service entitling them to the contributions.

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'.

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

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

Deferred taxes
Deferred tax is provided on 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, except:
a. 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 profit nor taxable profit or loss.
b. In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular income tax, and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized except:
a. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
b. 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 profit will be available against which the temporary differences can be utilized.

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

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

Current tax and deferred tax relating to items recognized directly in equity are recognized in other 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 set off current tax assets against current tax liabilities and deferred taxes related to the same taxable entity and the same taxation authority.

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
Cash dividends on common shares are recognized as a liability and deducted from the equity when approved by the BOD of the Parent Company and the BSP while stock dividends are deducted from equity when approved by BOD, shareholders of the Parent Company and the BSP. Dividends declared during the year but are approved by the BSP after the statement of financial position date are dealt with as a subsequent event.

Coupon Payment on Hybrid Capital Securities
Coupon payment on hybrid capital securities (HT 1 Capital) is treated as dividend for financial reporting purposes, rather than interest expense and deducted from equity when due, after the approval by the BOD of the Parent Company and the BSP.

Debt Issue Costs
Issuance, underwriting and other related costs incurred in connection with the issuance of debt instruments are deferred and amortized over the terms of the instruments using the EIR method. Unamortized debt issuance costs are included in the related carrying value of the debt instrument in the statement of financial position.

Capital Securities Issuance Costs
Issuance, underwriting and other related costs incurred in connection with the issuance of the capital securities are treated as a reduction of equity.

Events after the Statement of Financial Position Date
Post year-end events that provide additional information about the Group's position at the statement of financial position date (adjusting event) are reflected in the financial statements. Post year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

Segment Reporting
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 6.

Fiduciary Activities
Assets and income arising from fiduciary activities together with related undertakings to return such assets to customers are excluded from the financial statements where the Parent Company and PSBank act in a fiduciary capacity such as nominee, trustee or agent.

Standards Issued But Not Yet Effective

Standards issued but not yet effective up to date of issuance of the Group's financial statements are listed below. The listing consists of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they 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.

PAS 24 (Amended), *Related Party Disclosures*
The amended standard is effective for annual periods beginning on or after January 1, 2011. 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. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard. The Group will assess the impact of the amendment when this become effective.

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.

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.

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.

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 liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, the hedge accounting and derecognition will be addressed. The completion of this project is expected in mid 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 and liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

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

Philippine Interpretation IFRIC 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, they are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

Improvements to PFRSs 2010
Improvements to PFRSs is an omnibus of amendments to PFRS. The amendments have not been adopted as they become effective for annual periods on or after either July 1, 2010 or January 1, 2011. The amendments are listed below.

- PFRS 3, *Business Combinations*
- PFRS 7, *Financial Instruments: Disclosures*
- PAS 1, *Presentation of Financial Statements*
- PAS 27, *Consolidated and Separate Financial Statements*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*

The Group will assess impact of these amendments on its financial position or performance when they become effective.

3. **Significant Accounting Judgments and Estimates**

The preparation of the financial statements in compliance with PFRS requires the Group to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and the disclosures of contingent assets and contingent liabilities. Future events may occur which can cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following are the critical judgments and key assumptions that have a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Judgments

a. *Leases*
Operating lease

Group as lessor
The Group has entered into commercial property leases on its investment properties portfolio and over various items of machinery and equipment. The Group has determined based on an evaluation of the terms and conditions of the arrangements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Group as lessee
The Group has entered into lease on premises it uses for its operations. The Group has determined, based on the evaluation of the terms and conditions of the lease agreement (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term and lease term is not for the major part of the asset's economic life), that the lessor retains all the significant risks and rewards of ownership of these properties.

Finance lease
The Group has determined based on an evaluation of terms and conditions of the lease arrangements (i.e., present value of minimum lease payments amounts to at least substantially all of the fair value of leased asset, lease term is for the major part of the economic useful life of the asset, and lessor's losses associated with the cancellation are borned by the lessee) that it has transferred all significant risks and rewards of ownership of the properties it leases out on finance leases.

b. *Special Purpose Entities (SPEs)*
The Group sponsors the formation of SPEs primarily for the purpose of allowing clients to hold investments and for asset securitization transactions. The Group consolidates SPEs that it controls. Control over SPEs is assessed based on the benefits test in accordance with SIC 12.

As it can sometimes be difficult to determine whether the Group controls an SPE, it makes judgments about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over an SPE, but when considered together make it difficult to reach a clear conclusion. In such cases, the SPE is consolidated (Note 2).

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 internal valuation techniques using generally accepted market valuation 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. These judgments may include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives (Note 5).

d. *HTM investments*
The classification under HTM investments requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire portfolio as AFS investments. The investments would therefore be measured at fair value and not at amortized cost.

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

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

g. *Contingencies*
The Group is currently involved in legal proceedings. The estimate of the probable cost for the resolution of claims has been developed in consultation with the aid of the outside legal counsel handling the Group's defense in this matter and is based upon an analysis of potential results. Management does not believe that the outcome of this matter will affect the results of operations. It is probable, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to this proceeding (Note 29).

h. *Functional currency*
PAS 21 requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the Group considers the following:
a) the currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);
b) the currency in which funds from financing activities are generated; and
c) the currency in which receipts from operating activities are usually retained.

Estimates
a. *Credit losses of loans and receivables*
The Group reviews its loan portfolios and receivables to assess impairment on a semi-annual basis with updating provisions made during the intervals as necessary based on the continuing analysis and monitoring of individual accounts by credit officers. In determining whether credit losses should be recorded in the statement of income, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or

local economic conditions that correlate with defaults on assets in the group. Management uses estimates in 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 in the allowance.

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

As of December 31, 2010 and 2009, allowance for credit losses on loans and receivables amounted to ₱14.9 billion and ₱14.0 billion, respectively, for the Group and ₱9.1 billion for the Parent Company. As of December 31, 2010 and 2009, the carrying value of loans and receivables amounted to ₱392.7 billion and ₱362.3 billion, respectively, for the Group and ₱292.4 billion and ₱281.2 billion, respectively, for the Parent Company (Note 9).

b. *Fair values of structured debt instruments and derivatives*
The fair values of structured debt instruments and 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 reviewed by qualified personnel independent of the area that created them. All models are reviewed before they are used and to the extent practicable, models use only observable data. Changes in assumptions about these factors could affect reported fair value of financial instruments. Refer to Note 5 for the information on the fair values of these investments and Note 8 for information on the carrying values of these instruments.

c. *Valuation of unquoted equity securities*
The Group's investments in equity securities that do not have quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost less impairment losses.

As of December 31, 2010 and 2009, carrying value of unquoted AFS equity securities amounted to ₱260.6 million and ₱105.2 million, respectively, for the Group and ₱60.8 million and ₱77.6 million for the Parent Company (Note 8).

d. *Impairment of AFS equity securities*
The Group determines that AFS equity securities are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. The Group treats 'significant' generally as 20.00% or more of the original cost of investment, and 'prolonged', greater than 12 months. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

As of December 31, 2010 and 2009, allowance for impairment losses on AFS equity securities amounted to ₱620.4 million and ₱398.5 million, respectively, for the Group and ₱209.2 million and ₱68.9 million, respectively, for the Parent Company. As of December 31, 2010 and 2009, the carrying value of AFS equity securities (included under AFS investments) amounted to ₱2.1 billion and ₱2.6 billion, respectively, for the Group and ₱318.5 million and ₱527.8 million, respectively, for the Parent Company (Notes 8 and 14).

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

The estimates of future taxable income indicate that certain temporary differences will be realized in the future. Recognized net deferred tax assets as of December 31, 2010 and 2009 amounted to ₱7.5 billion and ₱8.5 billion, respectively, for the Group and ₱6.4 billion and ₱6.9 billion, for the Parent Company. Recognized net deferred tax liabilities of the Group as of December 31, 2010 and 2009 amounted to ₱137.3 million and ₱165.3 million, respectively. Details of unrecognized temporary differences are discussed in Note 26.

f. *Present value of retirement liability*
The cost of defined retirement 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 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 date.

The expected rate of return on assets was based on expected long-term rate of return on the retirement fund investments, net of operating expenses. As of December 31, 2010 and 2009, the present value of the retirement liability of the Group amounted to ₱6.8 billion and ₱5.3 billion, respectively, of which ₱5.6 billion and ₱4.3 billion, respectively, pertain to the Parent Company (Note 23).

g. *Impairment of nonfinancial assets*
Property and equipment, investments in subsidiaries and associates, investment properties, software costs and chattel mortgage properties
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 uses fair value less costs to sell in determining recoverable amount.

As of December 31, 2010, the carrying value of the property and equipment, investment properties and software costs amounted to ₱13.1 billion, ₱18.4 billion and ₱500.2 million, respectively, for the Group and ₱9.2 billion, ₱13.7 billion and ₱261.7 million, respectively, for the Parent Company. As of December 31, 2009, the carrying value of the property and equipment, investment properties and software costs amounted to ₱13.1 billion, ₱21.7 billion and ₱441.1 million, respectively, for the Group and ₱9.4 billion, ₱17.1 billion and ₱253.0 million, respectively, for the Parent Company (Notes 10, 12 and 13).

Goodwill

The Group conducts an annual review for any impairment in value of the goodwill. Goodwill is written down for impairment where the net present value of the forecasted future cash flows from the business is insufficient to support its carrying value. The Group estimated the discount rate used for the computation of the net present value by reference to industry cost of capital. Future cash flows from the business are estimated based on the theoretical annual income of the cash generating units. Average growth rate was derived from the average increase in annual income during the last 5 years. The recoverable amount of the CGU has been determined based on a value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 15.62%. Key assumptions in value-in-use calculation of CGUs are most sensitive to discount rates and growth rates used to project cash flows.

Goodwill amounted to ₱6.4 billion as of December 31, 2010 and 2009 for the Group of which ₱1.2 billion pertained to the Parent Company (Note 11).

4. **Financial Risk and Capital Management**

Introduction

The Group has exposure to the following risks from its use of financial instruments: (a) credit; (b) liquidity; and (c) market risks.

Risk management framework

The BOD has overall responsibility for the oversight of the Parent Company's risk management process. On the other hand, the risk management processes of the subsidiaries are the separate responsibilities of their respective BOD. Supporting the BOD in this function are certain Board-level committees such as Risk Management Committee (RMC), Audit Committee (AC) and senior management committees through the Senior Executive Committee, Asset and Liabilities Committee (ALCO) and Policy Committee.

The AC is responsible for monitoring compliance with the Parent Company's risk management policies and procedures, and for reviewing the adequacy of risk management practices in relation to the risks faced by the Parent Company. The AC is assisted in these functions by Internal Audit Group (IAG). IAG undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the AC.

The Parent Company and its subsidiaries manage their respective financial risks separately. The subsidiaries have their own risk management processes but are structured similar to that of the Parent Company. To a certain extent, the respective risk management programs and objectives are the same across the Group. Risk management policies adopted by the subsidiaries and affiliates are aligned with the Parent Company's risk policies. To further promote compliance with PFRS and Basel II, the Parent Company initiated in late 2007 the creation of a Risk Management Coordinating Council (RMCC) where outlined activities were implemented and completed in 2009-2010. RMCC is composed of the risk officers of the Parent Company and its financial institution subsidiaries.

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, related groups of borrowers, for market segmentation, and industry concentrations, and by monitoring exposures in relation to such limits. For risk management purposes, credit risk emanating from Treasury activities is managed independently, but reported as a component of market risk exposure.

Each business unit is responsible for the quality of its credit portfolio and for monitoring and controlling all credit risks in its portfolio. Regular reviews and audits of business units and credit processes are undertaken by IAG and Risk Management Group (RSK).

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 enter into either market-traded or over-the-counter derivatives, 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 obligor or transaction) by adopting a credit risk management environment that has the following components:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit/financial assessment, risk grading and reporting and compliance with regulatory requirements;
- Establishment of authorization limits for the approval and renewal of credit facilities;
- Limiting concentrations of exposure to counterparties and industries (for loans), and by issuer (for investment securities);
- Utilizing the Internal Credit Risk Rating System (ICRRS) 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; and
- Monitoring compliance with approved exposure limits.

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 when it falls due. The assessment is described below:

Component	Description	Credit Factor Weight
Financial Condition	Refers to the financial condition of the borrower based on Audited Financial Statements as indicated by certain financial ratios. The Financial Factor Evaluation shall be conducted manually.	40.00%
Industry Analysis	Refers to the prospects of the industry as well as the company's performance and position in the industry.	30.00%
Management Quality	Refers to the management's ability to run the company successfully.	30.00%

b. Facility Risk Factor (FRF) - 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.

Maximum exposure to credit risk before collateral held or other credit enhancements
An analysis of the maximum exposure to credit risk 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 follow:				
Due from BSP	**₱168,402**	₱71,981	**₱162,391**	₱63,578
Due from other banks	**38,308**	36,702	**19,416**	29,815
Interbank loans receivable and SPURA	**26,507**	79,554	**18,006**	73,943
Financial assets at FVPL (Note 8)				
Held-for-trading				
Debt securities				
Government	**8,416**	13,044	**5,597**	11,375
Private	**168**	26	**168**	26
Subtotal	**8,584**	13,070	**5,765**	11,401
Equity securities - quoted	**519**	394	**–**	–
Derivative assets	**3,477**	3,582	**3,318**	3,286
	12,580	17,046	**9,083**	14,687
AFS investments (Note 8)				
Debt securities				
Government	**102,610**	149,970	**75,059**	112,762
Private	**21,770**	2,438	**20,947**	1,660
BSP	**–**	1,761	**–**	1,761
Subtotal	**124,380**	154,169	**96,006**	116,183

(Forward)

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Equity securities				
Quoted	**₱1,826**	₱2,461	**₱258**	₱450
Unquoted	**261**	105	**61**	78
Subtotal	**2,087**	2,566	**319**	528
	126,467	156,735	**96,325**	116,711
HTM investments (Note 8)				
Government	**26,701**	21,003	**13,599**	14,122
Treasury notes	**5,962**	2,038	**348**	348
Private	**–**	580	**–**	526
	32,663	23,621	**13,947**	14,996
Loans and receivables - net (Note 9)				
Receivables from customers				
Commercial loans	**238,150**	217,978	**215,621**	207,210
Residential mortgage loans	**38,364**	36,008	**21,016**	18,937
Auto loans	**32,953**	25,354	**10,837**	8,189
Trade	**16,118**	16,258	**15,883**	16,258
Others	**38,488**	40,562	**12,324**	17,216
	364,073	336,160	**275,681**	267,810
Unquoted debt securities	**14,805**	15,049	**4,804**	4,646
Accounts receivable	**6,482**	3,040	**6,055**	2,452
Accrued interest receivable	**4,075**	6,422	**2,894**	4,679
Sales contract receivable	**1,310**	1,454	**1,129**	1,444
Other receivables	**183**	202	**139**	157
	390,928	362,327	**290,702**	281,188
Other assets (Note 13)				
Interoffice float items	**436**	488	**631**	479
Returned checks and other cash items	**359**	242	**331**	196
Residual value of leased assets	**342**	357	**–**	–
Other investments	**13**	16	**10**	13
Assets held by SPVs	**–**	3,994	**–**	–
Investments in SPVs	**–**	–	**–**	2,215
Miscellaneous	**493**	510	**491**	508
	1,643	5,607	**1,463**	3,411
	797,498	753,573	**611,333**	598,329
Credit risk exposures relating to off-balance sheet items follow:				
Financial guarantees	**13,183**	13,048	**13,052**	12,944
Loan commitments and other credit related liabilities	**49,706**	47,916	**7,346**	6,969
	62,889	60,964	**20,398**	19,913
	₱860,387	₱814,537	**₱631,731**	₱618,242

Excessive risk concentration

Credit risk concentrations can arise whenever a significant number of borrowers have similar characteristics and are affected similarly by changes in economic or other conditions. The Parent Company analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, internal rating buckets, and security. For risk concentration monitoring purposes, the financial assets are broadly categorized into (1) loans and receivables and (2) trading and financial investment securities. To mitigate risk concentration, the Parent Company constantly checks for breaches in regulatory and internal limits.

Concentration of risks of financial assets with credit risk exposure

An analysis of concentrations of credit risk at the reporting date based on carrying amount is shown below:

	Consolidated				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
2010					
Concentration by Industry					
Financial intermediaries	**₱45,711**	**₱233,217**	**₱22,316**	**₱9,207**	**₱310,451**
Manufacturing (various industries)	**74,322**	**–**	**384**	**6,071**	**80,777**
Real estate, renting and business activities	**65,579**	**–**	**957**	**549**	**67,085**
Wholesale and retail trade	**57,569**	**–**	**39**	**6,692**	**64,300**
Private households	**55,968**	**–**	**52**	**36**	**56,056**
Transportation, storage and communication	**31,052**	**–**	**5,025**	**1,855**	**37,932**
Other community, social and personal activities	**21,652**	**–**	**1**	**6**	**21,659**
Electricity, gas and water	**20,456**	**–**	**590**	**3,831**	**24,877**
Hotel and restaurants	**8,744**	**–**	**–**	**–**	**8,744**
Construction	**7,138**	**–**	**3**	**1,104**	**8,245**
Agricultural, hunting and forestry	**4,623**	**–**	**47**	**56**	**4,726**
Public administration and defense, compulsory social security	**1,605**	**–**	**93**	**6**	**1,704**
Mining and quarrying	**431**	**–**	**51**	**146**	**628**
Others****	**11,019**	**–**	**144,064**	**44,495**	**199,578**
	405,869	**233,217**	**173,622**	**74,054**	**886,762**
Less allowance for credit losses	**14,941**	**–**	**1,912**	**9,522**	**26,375**
	₱390,928	**₱233,217**	**₱171,710**	**₱64,532**	**₱860,387**
Concentration by Location					
Philippines	**₱396,095**	**₱192,745**	**₱134,584**	**₱72,450**	**₱795,874**
Asia	**9,045**	**22,949**	**8,679**	**1,305**	**41,978**
USA	**714**	**14,839**	**21,998**	**299**	**37,850**
Europe	**12**	**2,670**	**2,209**	**–**	**4,891**
Others	**3**	**14**	**6,152**	**–**	**6,169**
	405,869	**233,217**	**173,622**	**74,054**	**886,762**
Less allowance for credit losses	**14,941**	**–**	**1,912**	**9,522**	**26,375**
	₱390,928	**₱233,217**	**₱171,710**	**₱64,532**	**₱860,387**
2009					
Concentration by Industry					
Financial intermediaries	₱40,873	₱188,237	₱33,917	₱10,800	₱273,827
Manufacturing (various industries)	65,093	–	517	5,678	71,288
Real estate, renting and business activities	60,408	–	7,595	326	68,329
Wholesale and retail trade	57,293	–	44	6,210	63,547
Private households	54,151	–	156	30	54,337
Transportation, storage and communication	33,585	–	816	2,053	36,454
Other community, social and personal activities	19,674	–	–	9	19,683
Electricity, gas and water	17,264	–	6,910	4,794	28,968
Hotel and restaurants	5,861	–	–	24	5,885
Construction	5,069	–	10	637	5,716
Agricultural, hunting and forestry	7,332	–	4,027	80	11,439
Public administration and defense, compulsory social security	893	–	–	26	919
Mining and quarrying	304	–	46	64	414
Others****	8,535	–	145,142	42,795	196,472
	376,335	188,237	199,180	73,526	837,278
Less allowance for credit losses	14,008	–	1,778	6,955	22,741
	₱362,327	₱188,237	₱197,402	₱66,571	₱814,537
Concentration by Location					
Philippines	₱371,855	₱116,061	₱194,594	₱72,692	₱755,202
Asia	3,803	42,078	674	712	47,267
USA	673	25,005	3,626	122	29,426
Europe	1	5,091	73	–	5,165
Others	3	2	213	–	218
	376,335	188,237	199,180	73,526	837,278
Less allowance for credit losses	14,008	–	1,778	6,955	22,741
	₱362,327	₱188,237	₱197,402	₱66,571	₱814,537

	Parent Company				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
2010					
Concentration by Industry					
Financial intermediaries	**₱38,588**	**₱199,813**	**₱20,371**	**₱9,074**	**₱267,846**
Manufacturing (various industries)	**68,965**	**–**	**299**	**6,071**	**75,335**
Wholesale and retail trade	**40,853**	**–**	**17**	**6,692**	**47,562**
Real estate, renting and business activities	**45,858**	**–**	**–**	**549**	**46,407**
Private households	**36,676**	**–**	**52**	**36**	**36,764**
Transportation, storage and communication	**23,039**	**–**	**4,697**	**1,855**	**29,591**
Electricity, gas and water	**16,340**	**–**	**384**	**3,832**	**20,556**
Hotel and restaurants	**8,213**	**–**	**–**	**–**	**8,213**
Construction	**5,401**	**–**	**–**	**1,104**	**6,505**
Other community, social and personal activities	**3,771**	**–**	**–**	**6**	**3,777**
Agricultural, hunting and forestry	**3,307**	**–**	**–**	**56**	**3,363**
Mining and quarrying	**252**	**–**	**51**	**146**	**449**
Public administration and defense, compulsory social security	**156**	**–**	**–**	**6**	**162**
Others****	**8,407**	**–**	**94,889**	**1,956**	**105,252**
	299,826	**199,813**	**120,760**	**31,383**	**651,782**
Less allowance for credit losses	**9,124**	**–**	**1,405**	**9,522**	**20,051**
	₱290,702	**₱199,813**	**₱119,355**	**₱21,861**	**₱631,731**
Concentration by Location					
Philippines	**₱297,483**	**₱171,524**	**₱82,917**	**₱30,218**	**₱582,142**
Asia	**1,399**	**11,205**	**7,904**	**870**	**21,378**
USA	**810**	**14,716**	**21,579**	**295**	**37,400**
Europe	**132**	**2,355**	**2,208**	**–**	**4,695**
Others	**2**	**13**	**6,152**	**–**	**6,167**
	299,826	**199,813**	**120,760**	**31,383**	**651,782**
Less allowance for credit losses	**9,124**	**–**	**1,405**	**9,522**	**20,051**
	₱290,702	**₱199,813**	**₱119,355**	**₱21,861**	**₱631,731**
2009					
Concentration by Industry					
Financial intermediaries	₱34,629	₱167,336	₱8,448	₱9,439	₱219,852
Manufacturing (various industries)	63,145	–	435	5,678	69,258
Wholesale and retail trade	46,715	–	4	6,144	52,863
Real estate, renting and business activities	45,950	–	6,714	326	52,990
Private households	36,500	–	156	30	36,686
Transportation, storage and communication	25,776	–	268	2,053	28,097
Electricity, gas and water	13,100	–	6,748	4,794	24,642
Hotel and restaurants	5,420	–	–	24	5,444
Construction	3,954	–	–	602	4,556
Other community, social and personal activities	4,580	–	–	6	4,586
Agricultural, hunting and forestry	4,528	–	4,026	80	8,634
Mining and quarrying	260	–	18	64	342
Public administration and defense, compulsory social security	27	–	–	26	53
Others****	5,664	–	120,873	1,013	127,550
	290,248	167,336	147,690	30,279	635,553
Less allowance for credit losses	9,060	–	1,296	6,955	17,311
	₱281,188	₱167,336	₱146,394	₱23,324	₱618,242

(Forward)

	Parent Company				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
Concentration by Location					
Philippines	₱285,836	₱96,011	₱144,530	₱29,447	₱555,824
Asia	3,792	41,553	137	710	46,192
USA	620	24,905	2,950	122	28,597
Europe	–	4,867	73	–	4,940
Others	–	–	–	–	–
	290,248	167,336	147,690	30,279	635,553
Less allowance for credit losses	9,060	–	1,296	6,955	17,311
	₱281,188	₱167,336	₱146,394	₱23,324	₱618,242

* Comprised of Due from BSP, Due from other banks and Interbank loans receivable and SPURA.
** Comprised of Financial assets at FVPL, AFS investments and HTM investments.
*** Comprised of applicable accounts under Other assets, financial guarantees and loan commitments and other credit related liabilities.
**** Includes government-issued debt securities

Credit quality per class of financial assets
The credit quality of financial assets is assessed and managed using external and internal ratings.

Loans and receivables
The credit quality is generally monitored using the 10-grade ICRR system which is integrated in the credit process particularly in provision for credit losses. The model on risk ratings is assessed and updated regularly. Validation of the individual borrower's risk rating is performed by the Credit Group to maintain accurate and consistent risk ratings across the credit portfolio.

The following table shows the description of credit quality of commercial loans:

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

1 - Excellent
An excellent rating is given to a borrower with a very low probability of going into default and with high degree of stability, substance and diversity. Borrower has access to raise substantial amounts of funds through public market at any time; very strong debt service capacity and has conservative balance sheet ratios. Track record in profit terms is very good. Borrower exhibits highest quality under virtually all economic conditions.

2 - Strong
This rating is given to borrowers with low probability of going into default in the coming year. Normally has a comfortable degree of stability, substance and diversity. Under normal market conditions, borrower has good access to public markets to raise funds. Have a strong market

and financial position with a history of successful performance. Overall debt service capacity is deemed very strong; critical balance sheet ratios are conservative. Concerned multinationals or local corporations are well capitalized.

3 - Good
This rating is given to smaller corporations with limited access to public capital markets or to alternative financial markets. Access is however limited to favorable economic and/or market conditions. While probability of default is quite low, it bears characteristics of some degree of stability and substance. However, susceptibility to cyclical changes and more concentration of business risk, by product or market, may be present. Typical is the combination of comfortable asset protection and an acceptable balance sheet structure. Debt service capacity is strong.

4 - Satisfactory
A 'satisfactory' rating is given to a borrower where clear risk elements exist and probability of default is somewhat greater. Volatility of earnings and overall performance: normally has limited access to public markets. Borrower should be able to withstand normal business cycles, but any prolonged unfavorable economic period would create deterioration beyond acceptable levels. Combination of reasonable sound asset and cash flow protection: debt service capacity is adequate. Reported profits in the past year and is expected to report a profit in the current year.

5 - Acceptable
An "acceptable" rating is given to a borrower whose risk elements are sufficiently pronounced although borrower should still be able to withstand normal business cycles. Any prolonged unfavorable economic and/or market period would create an immediate deterioration beyond acceptable levels. Risk is still acceptable as there is sufficient cashflow either historically or expected for the future; new business or projected finance transaction; an existing borrower where the nature of the exposure represents a higher risk because of extraordinary developments but for which a decreasing risk within an acceptable period can be expected.

6 - Watchlist
This rating is given to a borrower that belongs to an unfavorable industry or has company-specific risk factors which represent a concern. Operating performance and financial strength may be marginal and it is uncertain if borrower can attract alternative course of finance. Borrower finds it hard to cope with any significant economic downturn and a default in such a case is more than a possibility. Borrower which incurs net losses and has salient financial weaknesses, specifically in profitability, reflected on statements. Credit exposure is not at risk of loss at the moment but performance of the borrower has weakened and unless present trends are reversed, could lead to losses.

7 - Especially Mentioned
This rating is given to a borrower that exhibits potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus, increase credit risk to the bank.

8 - Substandard
These are loans or portions, thereof which appear to involve a substantial and unreasonable degree of risk to the institution because of unfavorable record or unsatisfactory characteristics. There exists the possibility of future losses to the institution unless given closer supervision. Borrower has well-defined weaknesses or weaknesses that jeopardize loan liquidation. Such well-defined weaknesses may include adverse trends or development of financial, managerial, economic or political nature, or a significant weakness in collateral.

9 - Doubtful
This rating is given to a nonperforming borrower whose loans or portions thereof have the weaknesses inherent in those classified as Substandard, with the added characteristics that existing facts, conditions, and values make collection or liquidation in fully highly improbable and in which substantial loss is probable.

10 - Loss
This rating is given to a borrower whose loans or portions thereof are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value. The amount of loss is difficult to measure and it is not practical or desirable to defer writing off these basically worthless assets even though partial recovery may be obtained in the future.

The following table shows the description of credit quality of consumer loans:

Credit Quality	Description
High grade	Good credit rating
Standard grade	Good
	Limited
Substandard grade	Poor
	Poor litigation
Impaired	Poor repossessed
	Poor written-off

Good credit rating
This rating is given to a good repeat client with very satisfactory track record of its loan repayment (paid at least 50.00%) and whose account did not turn past due during the entire term of the loan.

Good
A good rating is given to accounts which did not turn past due for 90 days and over.

Limited
This rating is given to borrowers who have an average track record of its loan repayment (paid less than 50.00%) and whose account did not turn past due for 90 days and over.

Poor
A poor rating is given to accounts who reached 90 days past due regardless of the number of times and the number of months past due.

Poor litigation
This rating is given to accounts that were past due for 180 days and over and are currently being handled by lawyers.

Poor repossessed
This rating is given to accounts whose collaterals were repossessed.

Poor written-off
This rating is given to accounts that were recommended for write-off.

Trading and investment securities
In ensuring quality investment portfolio, the Parent Company uses the credit risk rating from the published data providers like Moody's, Standard & Poor (S & P) or other reputable rating agencies. Presented here is Moody's rating - equivalent S & P rating and other rating agencies applies:

Credit Quality	External Rating								
High grade	Aaa	Aa1	Aa2	A1	A2	A3	Baa1	Baa2	Baa3
Standard grade	Ba1	Ba2	Ba3	B1	B2				
Substandard grade	B3	Caa1	Caa2	Caa3	Ca	C			
Impaired	D								

The following table shows the credit quality of financial assets:

	Consolidated				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
2010					
Neither past due nor impaired	**₱379,588**	**₱233,217**	**₱170,608**	**₱64,532**	**₱847,945**
Past due but not impaired	**9,372**	**–**	**–**	**–**	**9,372**
Impaired	**16,909**	**–**	**3,014**	**9,522**	**29,445**
Gross	**405,869**	**233,217**	**173,622**	**74,054**	**886,762**
Less allowance for credit losses	**14,941**	**–**	**1,912**	**9,522**	**26,375**
Net	**₱390,928**	**₱233,217**	**₱171,710**	**₱64,532**	**₱860,387**
2009					
Neither past due nor impaired	₱344,032	₱188,237	₱197,114	₱62,189	₱791,572
Past due but not impaired	10,746	–	–	–	10,746
Impaired	21,557	–	2,066	11,337	34,960
Gross	376,335	188,237	199,180	73,526	837,278
Less allowance for credit losses	14,008	–	1,778	6,955	22,741
Net	₱362,327	₱188,237	₱197,402	₱66,571	₱814,537

	Parent Company				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
2010					
Neither past due nor impaired	**₱285,091**	**₱199,813**	**₱119,022**	**₱21,861**	**₱625,787**
Past due but not impaired	**1,082**	**–**	**–**	**–**	**1,082**
Impaired	**13,653**	**–**	**1,738**	**9,522**	**24,913**
Gross	**299,826**	**199,813**	**120,760**	**31,383**	**651,782**
Less allowance for credit losses	**9,124**	**–**	**1,405**	**9,522**	**20,051**
Net	**₱290,702**	**₱199,813**	**₱119,355**	**₱21,861**	**₱631,731**
2009					
Neither past due nor impaired	₱271,816	₱167,336	₱146,065	₱20,722	₱605,939
Past due but not impaired	1,860	–	–	–	1,860
Impaired	16,572	–	1,625	9,557	27,754
Gross	290,248	167,336	147,690	30,279	635,553
Less allowance for credit losses	9,060	–	1,296	6,955	17,311
Net	₱281,188	₱167,336	₱146,394	₱23,324	₱618,242

* Comprised of Due from BSP, Due from other banks and Interbank loans receivable and SPURA.
** Comprised of Financial assets at FVPL, AFS investments and HTM investments.
*** Comprised of applicable accounts under Other assets, financial guarantees and loan commitments and other credit related liabilities.

The table below shows credit quality per class of financial assets that are neither past due nor impaired (gross of allowance for credit losses):

	Consolidated				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
2010					
Loans and advances to banks					
Due from BSP	**₱1,042**	**₱167,360**	**₱–**	**₱–**	**₱168,402**
Due from other banks	**17,126**	**17,219**	**2,115**	**1,848**	**38,308**
Interbank loans receivable and SPURA	**21,590**	**3,586**	**–**	**1,331**	**26,507**
	39,758	**188,165**	**2,115**	**3,179**	**233,217**
Financial assets at FVPL					
Debt securities					
Government	**461**	**7,955**	**–**	**–**	**8,416**
Private	**145**	**–**	**–**	**23**	**168**
Equity securities - quoted	**131**	**338**	**50**	**–**	**519**
Derivative assets	**1,564**	**1,745**	**–**	**168**	**3,477**
	2,301	**10,038**	**50**	**191**	**12,580**
AFS investments					
Debt securities					
Government	**17,487**	**85,085**	**38**	**–**	**102,610**
Private	**16,721**	**4,542**	**–**	**217**	**21,480**
BSP	**–**	**–**	**–**	**–**	**–**
	34,208	**89,627**	**38**	**217**	**124,090**
Equity securities					
Quoted	**231**	**618**	**–**	**191**	**1,040**
Unquoted	**1**	**13**	**144**	**77**	**235**
Subtotal	**232**	**631**	**144**	**268**	**1,275**
	34,440	**90,258**	**182**	**485**	**125,365**
HTM investments					
Government bonds	**–**	**26,701**	**–**	**–**	**26,701**
Private bonds	**–**	**–**	**–**	**–**	**–**
Treasury notes	**44**	**5,918**	**–**	**–**	**5,962**
	44	**32,619**	**–**	**–**	**32,663**
Loans and receivables					
Receivables from customers					
Commercial loans	**148,255**	**72,516**	**10,941**	**70**	**231,782**
Residential mortgage loans	**34,389**	**660**	**292**	**–**	**35,341**
Auto loans	**26,978**	**3,701**	**25**	**44**	**30,748**
Trade	**15,124**	**470**	**209**	**–**	**15,803**
Others	**3,430**	**16,074**	**175**	**18,118**	**37,797**
	228,176	**93,421**	**11,642**	**18,232**	**351,471**
Unquoted debt securities	**4,579**	**4,681**	**955**	**4,119**	**14,334**
Accounts receivable	**36**	**2**	**–**	**6,617**	**6,655**
Accrued interest receivable	**1,799**	**1,394**	**126**	**2,370**	**5,689**
Sales contract receivable	**479**	**–**	**88**	**688**	**1,255**
Other receivables	**–**	**4**	**–**	**180**	**184**
	235,069	**99,502**	**12,811**	**32,206**	**379,588**
Others	**–**	**–**	**–**	**64,532**	**64,532**
	₱311,612	**₱420,582**	**₱15,158**	**₱100,593**	**₱847,945**
2009					
Loans and advances to banks					
Due from BSP	₱875	₱71,106	₱–	₱–	₱71,981
Due from other banks	22,218	7,176	1,385	5,923	36,702
Interbank loans receivable and SPURA	48,196	31,068	–	290	79,554
	71,289	109,350	1,385	6,213	188,237
Financial assets at FVPL					
Debt securities					
Government	–	13,044	–	–	13,044
Private	1	–	–	25	26
Equity securities - quoted	121	175	66	32	394
Derivative assets	891	1,522	–	1,169	3,582
	1,013	14,741	66	1,226	17,046

(Forward)

	Consolidated				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
AFS investments					
Debt securities					
Government	₱1,658	₱145,798	₱30	₱2,484	₱149,970
Private	1,575	578	–	9	2,162
BSP	–	1,761	–	–	1,761
	3,233	148,137	30	2,493	153,893
Equity securities					
Quoted	999	535	10	917	2,461
Unquoted	1	–	16	76	93
Subtotal	1,000	535	26	993	2,554
	4,233	148,672	56	3,486	156,447
HTM investments					
Government bonds	–	21,003	–	–	21,003
Private bonds	526	54	–	–	580
Treasury notes	46	1,992	–	–	2,038
	572	23,049	–	–	23,621
Loans and receivables					
Receivables from customers					
Commercial loans	117,848	63,651	25,240	–	206,739
Residential mortgage loans	30,583	134	972	–	31,689
Auto loans	18,161	5,022	25	–	23,208
Trade	15,695	–	171	–	15,866
Others	3,016	20,309	140	16,301	39,766
	185,303	89,116	26,548	16,301	317,268
Unquoted debt securities	3,706	3,855	1,888	4,728	14,177
Accounts receivable	18	5	25	3,099	3,147
Accrued interest receivable	963	846	168	6,000	7,977
Sales contract receivable	444	–	–	817	1,261
Other receivables	2	3	–	197	202
	190,436	93,825	28,629	31,142	344,032
Others	–	–	–	62,189	62,189
	₱267,543	₱389,637	₱30,136	₱104,256	₱791,572

	Parent Company				
	2010				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
Loans and advances to banks					
Due from BSP	**₱–**	**₱162,391**	**₱–**	**₱–**	**₱162,391**
Due from other banks	**17,684**	**85**	–	**1,647**	**19,416**
Interbank loans receivable and SPURA	**16,675**	–	–	**1,331**	**18,006**
	34,359	**162,476**	–	**2,978**	**199,813**
Financial assets at FVPL					
Held-for-trading debt securities					
Government	**462**	**5,135**	–	–	**5,597**
Private	**145**	–	–	**23**	**168**
Subtotal	**607**	**5,135**	–	**23**	**5,765**
Derivative assets	**1,476**	**1,674**	–	**168**	**3,318**
	2,083	**6,809**	–	**191**	**9,083**
AFS investments					
Debt securities					
Government	**16,839**	**58,182**	**38**	–	**75,059**
Private	**15,924**	**4,528**	–	**217**	**20,669**
BSP	–	–	–	–	–
	32,763	**62,710**	**38**	**217**	**95,728**
Equity securities					
Quoted	–	**49**	–	**154**	**203**
Unquoted	–	–	–	**61**	**61**
Subtotal	–	**49**	–	**215**	**264**
	32,763	**62,759**	**38**	**432**	**95,992**

(Forward)

	Parent Company				
	2010				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
HTM investments					
Government bonds	**₱–**	**₱13,599**	**₱–**	**₱–**	**₱13,599**
Private bonds	–	–	–	–	–
Treasury notes	–	**348**	–	–	**348**
	–	**13,947**	–	–	**13,947**
Loans and receivables					
Receivables from customers					
Commercial loans	**133,409**	**67,068**	**9,780**	–	**210,257**
Residential mortgage loans	**19,730**	**323**	**234**	–	**20,287**
Auto loans	**7,409**	**3,400**	**21**	–	**10,830**
Trade	**14,887**	**470**	**209**	–	**15,566**
Others	**421**	**11,800**	**70**	–	**12,291**
	175,856	**83,061**	**10,314**	–	**269,231**
Unquoted debt securities	–	–	–	**4,119**	**4,119**
Accounts receivable	–	–	–	**6,334**	**6,334**
Accrued interest receivable	**1,494**	**679**	**43**	**2,364**	**4,580**
Sales contract receivable	–	–	–	**688**	**688**
Other receivables	–	–	–	**139**	**139**
	177,350	**83,740**	**10,357**	**13,644**	**285,091**
Others	–	–	–	**21,861**	**21,861**
	₱246,555	**₱329,731**	**₱10,395**	**₱39,106**	**₱625,787**
2009					
Loans and advances to banks					
Due from BSP	₱–	₱63,578	₱–	₱–	₱63,578
Due from other banks	23,898	36	–	5,881	29,815
Interbank loans receivable and SPURA	42,673	30,980	–	290	73,943
	66,571	94,594	–	6,171	167,336
Financial assets at FVPL					
Held-for-trading debt securities					
Government	–	11,375	–	–	11,375
Private	1	–	–	25	26
Subtotal	1	11,375	–	25	11,401
Derivative assets	669	1,448	–	1,169	3,286
	670	12,823	–	1,194	14,687
AFS investments					
Debt securities					
Government	1,659	108,590	30	2,483	112,762
Private	755	578	–	–	1,333
BSP	–	1,761	–	–	1,761
	2,414	110,929	30	2,483	115,856
Equity securities					
Quoted	265	10	–	175	450
Unquoted	–	–	–	76	76
Subtotal	265	10	–	251	526
	2,679	110,939	30	2,734	116,382
HTM investments					
Government bonds	–	14,122	–	–	14,122
Private bonds	526	–	–	–	526
Treasury notes	–	348	–	–	348
	526	14,470	–	–	14,996

(Forward)

	Parent Company				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
Loans and receivables					
Receivables from customers					
Commercial loans	₱110,027	₱62,301	₱25,004	₱–	₱197,332
Residential mortgage loans	17,635	108	946	–	18,689
Auto loans	3,208	4,942	25	–	8,175
Trade	15,695	–	171	–	15,866
Others	115	16,945	140	–	17,200
	146,680	84,296	26,286	–	257,262
Unquoted debt securities	–	–	–	4,040	4,040
Accounts receivable	–	–	–	2,589	2,589
Accrued interest receivable	704	254	143	5,223	6,324
Sales contract receivable	–	–	–	1,444	1,444
Other receivables	–	–	–	157	157
	147,384	84,550	26,429	13,453	271,816
Others	–	–	–	20,722	20,722
	₱217,830	₱317,376	₱26,459	₱44,274	₱605,939

Breakdown of restructured receivables from customers by class are shown below:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Commercial loans	**₱8,517**	₱10,010	**₱7,676**	₱8,969
Residential mortgage loans	**122**	6	**23**	6
Others	**50**	31	**–**	–
	₱8,689	₱10,047	**₱7,699**	₱8,975

Aging analysis of past due but not impaired loans and receivables is shown below:

	Consolidated					
	Within 30 days	**31-60 days**	**61-90 days**	**91-180 days**	**Over 180 days**	**Total**
2010						
Receivables from customers						
Commercial loans	**₱130**	**₱47**	**₱78**	**₱27**	**₱777**	**₱1,059**
Residential mortgage loans	**1,293**	**481**	**125**	**88**	**293**	**2,280**
Auto loans	**1,104**	**554**	**206**	**228**	**576**	**2,668**
Trade	**2**	**2**	**10**	**6**	**12**	**32**
Others	**490**	**319**	**37**	**91**	**1,898**	**2,835**
Receivables from customers - net of unearned discounts and capitalized interest	**3,019**	**1,403**	**456**	**440**	**3,556**	**8,874**
Unquoted debt securities	**–**	**–**	**–**	**–**	**–**	**–**
Accounts receivable	**42**	**15**	**1**	**1**	**280**	**339**
Accrued interest receivable	**20**	**9**	**4**	**6**	**65**	**104**
Sales contract receivable	**28**	**11**	**1**	**3**	**12**	**55**
	₱3,109	**₱1,438**	**₱462**	**₱450**	**₱3,913**	**₱9,372**
2009						
Receivables from customers						
Commercial loans	₱166	₱92	₱108	₱13	₱1,466	₱1,845
Residential mortgage loans	1,511	–	752	110	179	2,552
Auto loans	1,048	–	894	235	697	2,874
Trade	20	–	–	–	–	20
Others	524	315	44	117	1,587	2,587
Receivables from customers - net of unearned discounts and capitalized interest	3,269	407	1,798	475	3,929	9,878
Unquoted debt securities	–	–	–	–	96	96
Accounts receivable	3	–	3	2	440	448
Accrued interest receivable	23	2	14	6	223	268
Sales contract receivable	23	–	19	–	14	56
	₱3,318	₱409	₱1,834	₱483	₱4,702	₱10,746

	Parent Company					
	Within 30 days	31-60 days	61-90 days	91-180 days	Over 180 days	Total
2010						
Receivables from customers						
Commercial loans	**₱7**	**₱24**	**₱63**	**₱21**	**₱761**	**₱876**
Residential mortgage loans	**6**	**–**	**–**	**–**	**127**	**133**
Auto loans	**–**	**–**	**–**	**–**	**30**	**30**
Trade	**2**	**1**	**10**	**6**	**–**	**19**
Others	**7**	**1**	**–**	**–**	**1**	**9**
Receivables from customers - net of unearned discounts and capitalized interest	**22**	**26**	**73**	**27**	**919**	**1,067**
Unquoted debt securities	**–**	**–**	**–**	**–**	**–**	**–**
Accounts receivable	**–**	**–**	**–**	**–**	**–**	**–**
Accrued interest receivable	**–**	**–**	**–**	**–**	**15**	**15**
Sales contract receivable	**–**	**–**	**–**	**–**	**–**	**–**
	₱22	**₱26**	**₱73**	**₱27**	**₱934**	**₱1,082**
2009						
Receivables from customers						
Commercial loans	₱15	₱92	₱62	₱13	₱1,453	₱1,635
Residential mortgage loans	6	–	–	–	134	140
Auto loans		–	–	–	29	29
Trade	20	–	–	–	–	20
Others	2	–	–	–	–	2
Receivables from customers - net of unearned discounts and capitalized interest	43	92	62	13	1,616	1,826
Unquoted debt securities	–	–	–	–	–	–
Accounts receivable	–	–	–	–	–	–
Accrued interest receivable	–	–	–	–	34	34
Sales contract receivable	–	–	–	–	–	–
	₱43	₱92	₱62	₱13	₱1,650	₱1,860

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 are regularly updated according to internal lending policies and regulatory guidelines. Generally, collateral is not held over loans and advances to banks except 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 past due but not impaired and individually impaired loans and receivables:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Against individually impaired				
Property	**₱10,235**	₱10,906	**₱6,298**	₱6,829
Equities	**116**	121	**116**	121
Others	**406**	445	**406**	445
Subtotal	**10,757**	11,472	**6,820**	7,395
Against past due but not impaired				
Property	**10,559**	10,912	**942**	1,523
Equities	**–**	1	**–**	1
Debt securities	**1**	–	**1**	–
Other	**43**	69	**43**	69
Subtotal	**10,603**	10,982	**986**	1,593
Total	**₱21,360**	₱22,454	**₱7,806**	₱8,988

Liquidity Risk
Liquidity risk is defined as the current and prospective risk to earnings or capital arising from the Group's inability to meet its obligations when they become due.

The Group manages its liquidity risk through analyzing net funding requirements under alternative scenarios, diversification of funding sources and contingency planning. Specifically for the Parent Company, it utilizes a diverse range of sources of funds, although short-term deposits made with its network of domestic branches comprise the majority of such funding. To ensure that funding requirements are met, the Parent Company manages its liquidity risk by holding sufficient liquid assets of appropriate quality. It also maintains a balanced loan portfolio that is repriced on a regular basis. Deposits with banks are made on a short-term basis.

In the Parent Company, the Treasury Group uses liquidity forecast models to estimate its cash flow needs based on its actual contractual obligations and under normal and extraordinary circumstances. RSK prepares weekly and monthly Maximum Cumulative Outflow (MCO) reports, which measure the liquidity mismatch risk.

Liquidity capacity is measured by the Group on a daily basis and is also simulated under stressed scenarios. The Group's financial institution subsidiaries (excluding insurance companies) similarly prepare their respective MCO reports. These are reported to the Parent Company's ALCO and RMC at least on a monthly basis.

The table below summarizes the maturity profile of financial instruments and gross-settled derivatives based on contractual undiscounted cash flows.

Financial assets
Analysis of equity and debt securities at FVPL into maturity groupings is based on the expected date on which these assets will be realized. For other financial 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 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.

	Consolidated						
	2010						
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 Year	Total
Financial Assets							
Cash and other cash items	₱20,201	₱–	₱–	₱–	₱–	₱–	₱20,201
Due from BSP	21,699	102,063	44,773	–	–	–	168,535
Due from other banks	34,895	3,302	74	34	–	3	38,308
Interbank loans receivable and SPURA	7,517	16,828	1,729	440	–	–	26,514
Financial assets at FVPL							
Held-for-trading	798	2,855	5,951	–	–	–	9,604
Derivative assets*							
Trading:							
Pay	–	36,998	39,463	20,710	4,697	2,438	104,306
Receive	71	38,230	40,460	21,298	4,873	2,512	107,444
	71	1,232	997	588	176	74	3,138

(Forward)

	Consolidated						
	2010						
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 Year	Total
AFS investments	₱8	₱1,575	₱5,316	₱16,318	₱7,225	₱132,769	₱163,211
HTM investments	–	67	134	193	445	58,864	59,703
Loans and receivables:							
Receivables from customers	6,745	64,468	67,338	34,128	42,632	228,498	443,809
Unquoted debt securities	–	–	1	1,006	3,289	13,644	17,940
Accounts receivable	3,388	381	1	–	5	5,247	9,022
Accrued interest receivable	5,373	344	234	177	4	49	6,181
Sales contract receivable	692	12	24	38	74	506	1,346
Other receivables	185	39	–	–	–	–	224
Other assets							
Returned checks and other cash items	359	–	–	–	–	–	359
Residual value of leased assets	9	12	14	35	42	230	342
Miscellaneous	–	–	–	–	–	493	493
	₱101,940	₱193,178	₱126,586	₱52,957	₱53,892	₱440,377	₱968,930
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities							
Demand	₱68,261	₱–	₱–	₱–	₱–	₱–	₱68,261
Savings	267,930	–	–	–	–	–	267,930
Time	–	220,934	58,490	12,141	10,499	18,060	320,124
	336,191	220,934	58,490	12,141	10,499	18,060	656,315
Bills payable and SSURA	–	9,542	4,333	4,210	2,031	66,496	86,612
Manager's checks and demand drafts outstanding	2,043	–	–	–	–	–	2,043
Accrued interest payable	247	319	450	47	67	691	1,821
Accrued other expenses	1,408	754	2	30	43	541	2,778
Subordinated debt	–	255	84	340	680	24,934	26,293
Other liabilities							
Bills purchased - contra	11,707	54	–	–	–	–	11,761
Accounts payable	129	3,533	19	607	346	–	4,634
Outstanding acceptances	–	694	485	63	54	–	1,296
Marginal deposit	1,901	–	757	–	–	–	2,658
Deposits on lease contract	–	14	24	31	89	339	497
Dividends payable	–	–	21	–	–	–	21
Miscellaneous	–	–	–	–	–	543	543
	353,626	236,099	64,665	17,469	13,809	111,604	797,272
Derivative liabilities*							
Trading:							
Pay	–	28,051	43,926	5,937	7,941	4,839	90,694
Receive	–	27,532	42,952	5,539	7,480	4,441	87,944
	–	519	974	398	461	398	2,750
Loan commitments and financial guarantees	43,577	6,117	6,035	2,911	3,840	409	62,889
	₱397,203	₱242,735	₱71,674	₱20,778	₱18,110	₱112,411	₱862,911

	Consolidated						
	2009						
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 Year	Total
Financial Assets							
Cash and other cash items	₱19,727	₱–	₱–	₱–	₱–	₱–	₱19,727
Due from BSP	24,991	6,915	40,326	–	–	–	72,232
Due from other banks	28,136	8,530	17	16	3	–	36,702
Interbank loans receivable and SPURA	36,600	40,776	–	925	1,271	–	79,572
Financial assets at FVPL							
Held-for-trading	3,317	1,891	11,642	–	–	–	16,850
Derivative assets*							
Trading:							
Pay	–	24,528	54,918	19,291	8,815	2,929	110,481
Receive	222	25,338	56,373	19,994	9,158	3,032	114,117
	222	810	1,455	703	343	103	3,636
AFS investments	18,555	243	664	205	15	163,877	183,559
HTM investments	4,773	–	–	2,420	17	33,216	40,426
Loans and receivables:							
Receivables from customers	6,994	74,434	51,304	31,635	29,910	203,042	397,319
Unquoted debt securities	325	–	–	88	2,811	16,208	19,432
Accounts receivable	3,633	417	2	1	10	405	4,468
Accrued interest receivable	6,742	587	167	39	65	864	8,464
Sales contract receivable	54	25	26	51	76	1,260	1,492
Other receivables	212	4	–	–	–	27	243
Other assets							
Returned checks and other cash items	242	–	–	–	–	–	242
Residual value of lease assets	–	–	–	–	122	235	357
Miscellaneous	–	–	–	–	–	508	508
	₱154,523	₱134,632	₱105,603	₱36,083	₱34,643	₱419,745	₱885,229
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities							
Demand	₱48,909	₱–	₱–	₱–	₱–	₱–	₱48,909
Savings	242,381	–	–	–	138	19	242,538
Time	–	59,470	171,434	45,805	26,779	22,575	326,063
	291,290	59,470	171,434	45,805	26,917	22,594	617,510
Bills payable and SSURA	–	22,526	34,237	11,691	37,238	81	105,773
Manager's checks and demand drafts outstanding	1,954	–	–	–	–	–	1,954
Accrued interest payable	656	251	46	48	7	1,222	2,230
Accrued other expenses	1,080	620	19	32	–	46	1,797
Subordinated debt	–	256	310	417	784	27,715	29,482
Other liabilities							
Bills purchased - contra	17,035	–	–	–	–	–	17,035
Accounts payable	2,555	–	2,311	–	–	–	4,866
Outstanding acceptances	–	594	212	74	33	–	913
Dividends payable	67	–	–	–	–	–	67
Deposits on lease contracts	–	22	20	52	141	288	523
Marginal deposit	–	–	1,548	–	–	–	1,548
Due to BSP	7	–	–	–	–	–	7
Miscellaneous	543	–	–	–	–	–	543
	315,187	83,739	210,137	58,119	65,120	51,946	784,248
Derivative liabilities*							
Trading:							
Pay	–	19,095	26,277	14,355	8,180	1,071	68,978
Receive	–	18,582	25,400	13,840	7,788	976	66,586
	–	513	877	515	392	95	2,392
Loan commitments and financial guarantees	42,226	3,605	5,029	2,614	4,634	2,856	60,964
	₱357,413	₱87,857	₱216,043	₱61,248	₱70,146	₱54,897	₱847,604

	Parent Company						
	2010						
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 Year	Total
Financial Assets							
Cash and other cash items	₱16,996	₱–	₱–	₱–	₱–	₱–	₱16,996
Due from BSP	19,831	99,609	43,085	–	–	–	162,525
Due from other banks	19,416	–	–	–	–	–	19,416
Interbank loans receivable and SPURA	–	15,844	1,729	440	–	–	18,013
Financial assets at FVPL*							
Held-for-trading	–	2	5,863	–	–	–	5,865
Derivative assets*							
Trading:							
Pay	–	36,997	39,453	19,036	4,494	472	100,452
Receive	–	38,230	40,459	19,542	4,711	687	103,629
	–	1,233	1,006	506	217	215	3,177
AFS investments	–	1,315	4,871	49	6,824	112,174	125,233
HTM investments	–	–	–	–	–	28,695	28,695
Loans and receivables							
Receivables from customers	3,751	55,638	51,013	24,704	24,462	168,371	327,939
Unquoted debt securities	–	–	–	–	3,206	4,844	8,050
Accounts receivable	3,087	–	–	–	–	4,935	8,022
Accrued interest receivable	4,689	–	–	–	–	–	4,689
Sales contract receivable	680	–	1	2	8	642	1,333
Other receivables	179	–	–	–	–	–	179
Other assets							
Returned checks and other cash items	331	–	–	–	–	–	331
Miscellaneous	–	–	–	–	–	491	491
	₱68,960	₱173,641	₱107,568	₱25,701	₱34,717	₱320,367	₱730,954
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities							
Demand	₱61,216	₱–	₱–	₱–	₱–	₱–	₱61,216
Savings	260,269	–	–	–	–	–	260,269
Time	–	174,039	49,360	9,795	8,829	936	242,959
	321,485	174,039	49,360	9,795	8,829	936	564,444
Bills payable and SSURA	–	9,176	806	433	2	11	10,428
Manager's checks and demand drafts outstanding	1,393	–	–	–	–	–	1,393
Accrued interest payable	–	6	338	3	3	643	993
Accrued other expenses	1,383	–	–	–	–	–	1,383
Subordinated debt	–	255	85	340	679	20,791	22,150
Other liabilities							
Bills purchased - contra	11,706	–	–	–	–	–	11,706
Accounts payable	–	2,857	–	–	–	–	2,857
Outstanding acceptances	–	694	485	63	54	–	1,296
Dividends payable	–	–	–	–	–	–	–
Marginal deposit	–	–	757	–	–	–	757
	335,967	187,027	51,831	10,634	9,567	22,381	617,407
Derivative liabilities*							
Trading:							
Pay	–	28,015	43,926	5,937	7,941	4,715	90,534
Receive	–	27,532	42,952	5,539	7,480	4,441	87,944
	–	483	974	398	461	274	2,590
Loan commitments and financial guarantees	1,085	6,117	6,035	2,911	3,840	410	20,398
	₱337,052	₱193,627	₱58,840	₱13,943	₱13,868	₱23,065	₱640,395

	Parent Company 2009						
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 Year	Total
Financial Assets							
Cash and other cash items	₱17,049	₱–	₱–	₱–	₱–	₱–	₱17,049
Due from BSP	19,178	4,404	40,242	–	–	–	63,824
Due from other banks	29,815	–	–	–	–	–	29,815
Interbank loans receivable and SPURA	30,990	40,776	–	924	1,271	–	73,961
Financial assets at FVPL*							
Held-for-trading	–	1	11,643	–	–	–	11,644
Derivative assets*							
Trading:							
Pay	–	24,527	54,909	19,265	8,764	1,247	108,712
Receive	–	25,338	56,373	19,992	9,147	1,172	112,022
	–	811	1,464	727	383	(75)	3,310
AFS investments	–	243	664	205	15	141,503	142,630
HTM investments	–	–	–	–	–	31,801	31,801
Loans and receivables							
Receivables from customers	4,546	67,861	40,778	26,070	23,180	156,675	319,110
Unquoted debt securities	230	–	–	–	2,811	6,158	9,199
Accounts receivable	3,377	–	–	–	–	–	3,377
Accrued interest receivable	6,467	–	–	–	–	–	6,467
Sales contract receivable	680	13	1	13	3	1,041	1,751
Other receivables	198	–	–	–	–	–	198
Other assets							
Returned checks and other cash items	196	–	–	–	–	–	196
Miscellaneous	–	–	–	–	–	508	508
	₱112,726	₱114,109	₱94,792	₱27,939	₱27,663	₱337,611	₱714,840
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities							
Demand	₱44,521	₱–	₱–	₱–	₱–	₱–	₱44,521
Savings	234,221	–	–	–	139	19	234,379
Time	–	27,696	166,368	44,879	25,681	1,081	265,705
	278,742	27,696	166,368	44,879	25,820	1,100	544,605
Bills payable and SSURA	–	19,173	36	7,395	1,026	81	27,711
Manager's checks and demand drafts outstanding	1,458	–	–	–	–	–	1,458
Accrued interest payable	110	82	38	10	3	1,222	1,465
Accrued other expenses	686	–	–	–	–	–	686
Subordinated debt	–	255	233	340	679	22,487	23,994
Other liabilities							
Bills purchased - contra	16,905	–	–	–	–	–	16,905
Accounts payable	–	–	2,311	–	–	–	2,311
Outstanding acceptances	–	594	213	73	33	–	913
Dividends payable	–	–	–	–	–	–	–
Marginal deposit	–	–	1,548	–	–	–	1,548
	297,901	47,800	170,747	52,697	27,561	24,890	621,596
Derivative liabilities*							
Trading:							
Pay	–	19,095	26,277	14,355	8,180	1,071	68,978
Receive	–	18,582	25,400	13,840	7,788	976	66,586
	–	513	877	515	392	95	2,392
Loan commitments and financial guarantees	1,279	3,501	5,029	2,614	4,634	2,856	19,913
	₱299,180	₱51,814	₱176,653	₱55,826	₱32,587	₱27,841	₱643,901

*Does not include derivatives embedded in financial and nonfinancial contracts.

Market Risk
Market risk is the possibility of loss to future earnings, fair values or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchange rates, equity prices and other market factors.

The Parent Company's market risk originates from its holdings in foreign currencies, debt securities, equities and derivatives transactions. The Parent Company manages market risk by segregating its balance sheet into a trading book and a banking book. ALCO, chaired by the Parent Company's Chairman is the senior review and decision-making body for the management of all related market risks. The risk limits are approved by the RMC, a sub-committee of the BOD. The RSK serves under the RMC and performs daily market risk analyses to ensure compliance with the Parent Company's policies and makes recommendations based on such analyses. The Treasury Group manages asset/liability risks arising from both banking book and trading operations in financial markets. The BOD, through the RMC, assigned risk limits to the Treasury Group.

Market Risk - Trading Book
In measuring the potential loss in its trading portfolio, the Parent Company uses Value-at-Risk (VaR) as a primary tool. The VaR method is a procedure for estimating portfolio losses exceeding some specified proportion based on a statistical analysis of historical market price trends, correlations and volatilities. VaR estimates the potential decline in the value of a portfolio, under normal market conditions, for a given "confidence level" over a specified holding period.

VaR methodology assumptions and parameters
The VaR using Historical simulation method assumes that asset returns in the future will have the same movement that occurred within the specified historical data set. However, this assumption may or may not cover all possible range of future outcomes, especially those of an exceptional nature that would occur in stressed market conditions.

In calculating VaR, the Parent Company uses a 99.00% confidence level. This means that, statistically, losses on trading operations will exceed VaR on 1 out of 100 trading days.

The validity of the VaR model is verified through quarterly back testing, which examines how frequently both actual and hypothetical daily losses exceed daily VaR. The Parent Company measures and monitors the VaR and profit and loss on a daily basis. The results of the quarterly backtesting are reported to the ALCO and RMC.

The financial institution subsidiaries with trading portfolios adopted the Parent Company methodology in 2010.

A summary of the VaR position of the trading portfolio of the Parent Company and PSBank is as follows:

	Parent Company		PSBank	
	Interest Rate	Foreign Exchange	Interest Rate	Foreign Exchange
As of December 31, 2010				
December 30	**₱278.3**	**₱29.6**	**₱11.8**	**₱1.3**
Average	**68.1**	**15.6**	**5.8**	**0.7**
Highest	**322.8**	**48.6**	**21.2**	**2.6**
Lowest	**14.8**	**0.5**	**0.0**	**0.0**
As of December 31, 2009				
December 29	₱79.4	₱1.6	₱3.5	₱0.7
Average	92.8	14.0	11.3	4.3
Highest	204.2	39.2	32.4	7.6
Lowest	31.9	0.7	0.0	0.4

The VaR for foreign exchange is the foreign exchange risk throughout the Parent Company and PSBank. For the year ended December 31, 2010 and 2009, the year-end VaR is based on the last trading date.

The limitations of the VaR methodology are recognized by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks.

The Parent Company and PSBank performs stress testing on a quarterly basis to complement the VaR methodology. The stress testing results are reported to the ALCO and subsequently to the RMC and the BOD.

Market Risk - Banking Book
The interest rate exposures of the Group are measured and reported to the ALCO and RMC at least on a monthly basis.

Interest rate risk
The Group follows a prudent policy on managing its assets and liabilities to ensure that exposure to fluctuations in interest rates is kept within acceptable limits.

One method by which the Group measures the sensitivity of its assets and liabilities to interest rate fluctuations is by way of "gap analysis". This analysis provides the Group a static view of the maturity and repricing characteristics of its balance sheet positions. An interest rate gap report is prepared by classifying all assets and liabilities into various time period categories according to contracted maturities or anticipated repricing dates, whichever is earlier.

The difference in the amount of assets and liabilities maturing or repricing in any time period category would give an indication of its exposure to the risk of potential changes in net interest income.

From the repricing gap, the Group measures interest rate risk based on earnings perspective through Earnings-at-Risk (EaR). EaR is an interest rate risk measure of the Group's earnings decline either immediately or over time as a result of a change in the level or volatility of interest rates. It is a management tool that evaluates the sensitivity of the accrual portfolio to a 2.326 standard deviation change (similar to current VaR methodology) in interest rates for an assumed defeasance period over the next 12 months.

Below shows the Group and the Parent Company's EaR for 2010 and 2009:

	Parent Company	PSBank	OMLC	MCC	FMIC	Total
2010	**₱584.38**	**(₱34.47)**	**(₱0.09)**	**(₱5.32)**	**(₱223.00)**	**₱321.50**
2009	148.94	(75.35)	(0.07)	(206.37)	(211.07)	(343.92)

The following table sets forth, for the period indicated, the impact of reasonably possible changes in the interest rates on net interest income and equity:

		Combined					
			Sensitivity of equity				
	Movement in basis points	Sensitivity of net interest income	0 up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
2010							
Currency							
PHP	**+10**	**(₱43.51)**	**(₱0.26)**	**(₱1.15)**	**(₱35.17)**	**(₱382.46)**	**(₱419.04)**
USD	**+10**	**(87.69)**	**(0.56)**	**(7.14)**	**(97.20)**	**(152.93)**	**(257.83)**
EUR	**+10**	**(0.52)**	**0.00**	**0.00**	**(4.63)**	**(0.28)**	**(4.91)**
JPY	**+10**	**0.97**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
GBP	**+10**	**(0.01)**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Others	**+10**	**3.24**	**0.00**	**(0.01)**	**(0.08)**	**0.00**	**(0.09)**
Currency							
PHP	**-10**	**43.51**	**0.28**	**1.24**	**58.05**	**388.69**	**448.26**
USD	**-10**	**87.69**	**0.85**	**7.15**	**97.41**	**154.09**	**259.50**
EUR	**-10**	**0.52**	**0.00**	**0.00**	**4.65**	**0.28**	**4.93**
JPY	**-10**	**(0.97)**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
GBP	**-10**	**0.01**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Others	**-10**	**(3.24)**	**0.00**	**0.01**	**0.08**	**0.00**	**0.09**
2009							
Currency							
PHP	+10	₱477.68	(₱0.32)	(₱8.19)	(₱100.60)	(₱229.38)	(₱338.49)
USD	+10	372.06	(0.01)	(1.65)	(33.28)	(252.58)	(287.52)
EUR	+10	2.09	(0.03)	0.00	0.00	(0.35)	(0.38)
JPY	+10	2.23	0.00	0.00	0.00	0.00	0.00
GBP	+10	0.72	0.00	0.00	0.00	0.00	0.00
Others	+10	25.09	0.00	(0.01)	(0.20)	0.00	(0.21)
Currency							
PHP	-10	(536.29)	0.32	8.21	100.91	230.98	340.42
USD	-10	(374.77)	0.01	1.65	33.29	255.51	290.46
EUR	-10	(2.09)	0.03	0.00	0.00	0.35	0.38
JPY	-10	(2.23)	0.00	0.00	0.00	0.00	0.00
GBP	-10	(0.72)	0.00	0.00	0.00	0.00	0.00
Others	-10	(25.09)	0.00	0.01	0.20	0.00	0.21

		Parent Company					
			Sensitivity of equity				
	Movement in basis points	Sensitivity of net interest income	0 up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
2010							
Currency							
PHP	**+10**	**₱27.65**	**(₱0.01)**	**(₱1.15)**	**(₱30.45)**	**(₱172.70)**	**(₱204.31)**
USD	**+10**	**(88.01)**	**(0.56)**	**(7.14)**	**(97.20)**	**(149.04)**	**(253.94)**
EUR	**+10**	**(0.52)**	**0.00**	**0.00**	**(4.63)**	**(0.28)**	**(4.91)**
JPY	**+10**	**0.97**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
GBP	**+10**	**(0.01)**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Others	**+10**	**3.24**	**0.00**	**(0.01)**	**(0.08)**	**0.00**	**(0.09)**
Currency							
PHP	**-10**	**(27.65)**	**0.03**	**1.24**	**53.29**	**175.42**	**229.98**
USD	**-10**	**88.01**	**0.85**	**7.15**	**97.41**	**150.16**	**255.57**
EUR	**-10**	**0.52**	**0.00**	**0.00**	**4.65**	**0.28**	**4.93**
JPY	**-10**	**(0.97)**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
GBP	**-10**	**0.01**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Others	**-10**	**(3.24)**	**0.00**	**0.01**	**0.08**	**0.00**	**0.09**

		Parent Company					
			Sensitivity of equity				
	Movement in basis points	Sensitivity of net interest income	0 up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
2009							
Currency							
PHP	+10	₱522.25	(₱0.29)	(₱8.19)	(₱98.00)	(₱85.23)	(₱191.71)
USD	+10	374.25	(0.01)	(1.65)	(33.28)	(131.04)	(165.98)
EUR	+10	2.09	(0.03)	0.00	0.00	(0.35)	(0.38)
JPY	+10	2.23	0.00	0.00	0.00	0.00	0.00
GBP	+10	0.72	0.00	0.00	0.00	0.00	0.00
Others	+10	25.09	0.00	(0.01)	(0.20)	0.00	(0.21)
Currency							
PHP	-10	(522.25)	0.29	8.19	98.31	85.23	192.02
USD	-10	(374.25)	0.01	1.65	33.39	132.12	167.17
EUR	-10	(2.09)	0.03	0.00	0.00	0.35	0.00
JPY	-10	(2.23)	0.00	0.00	0.00	0.00	0.00
GBP	-10	(0.72)	0.00	0.00	0.00	0.00	0.00
Others	-10	(25.09)	0.00	0.01	0.20	0.00	0.21

For purposes of PFRS 7, the disclosed interest rate sensitivity analysis measures the impact on profit or loss (for rate-sensitive assets and liabilities, including items recorded at fair value through profit or loss) and on equity (for available-for-sale securities) that would arise from possible change in interest rates at the statement of financial position date.

Sensitivity of net interest income for 2010 only covers expected repricing gaps within one year. This shall make the interest rate sensitivity analysis more comparable with the resulting EaR which poses the same computational methodology.

Foreign currency risk
Foreign exchange risk is the probability of loss to earnings or capital arising from changes in foreign exchange rates. The Group takes on exposure to effects of fluctuations in the current foreign currency exchange rates on its financial performance and cash flows.

Foreign currency liabilities generally consist of foreign currency deposits in the Group's FCDU account. Foreign currency deposits are generally used to fund the Group's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency liabilities with the foreign currency assets held in FCDUs. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency liabilities held in the FCDU. Outside the FCDU, the Group has additional foreign currency assets and liabilities in its foreign branch network.

The Group's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines.

The following table sets forth, for the year indicated, the impact of reasonably possible changes in the USD exchange rate and other currencies per Philippine peso on pre-tax income and equity:

	Combined						**Parent Company**					
	2010			2009			**2010**			2009		
	Change in currency rate in %	**Effect on profit before tax**	**Effect on equity**	Change in currency rate in %	Effect on profit before tax	Effect on equity	**Change in currency rate in %**	**Effect on profit before tax**	**Effect on equity**	Change in currency rate in %	Effect on profit before tax	Effect on equity
Currency												
USD	**+1.00%**	**(₱65.87)**	**₱185.65**	+1.00%	₱9.31	₱191.88	**+1.00%**	**(₱68.81)**	**₱146.49**	+1.00%	₱5.62	₱157.65
EUR	**+1.00%**	**0.20**	**0.00**	+1.00%	9.06	0.00	**+1.00%**	**0.20**	**0.00**	+1.00%	9.06	0.00
JPY	**+1.00%**	**4.17**	**0.00**	+1.00%	0.00	0.00	**+1.00%**	**4.17**	**0.00**	+1.00%	0.00	0.00
GBP	**+1.00%**	**0.75**	**0.00**	+1.00%	0.74	0.00	**+1.00%**	**0.75**	**0.00**	+1.00%	0.74	0.00
Others	**+1.00%**	**53.87**	**0.00**	+1.00%	8.99	0.00	**+1.00%**	**53.87**	**0.00**	+1.00%	8.99	0.00
Currency												
USD	**-1.00%**	**65.87**	**89.03**	-1.00%	9.31	97.05	**-1.00%**	**68.81**	**62.07**	-1.00%	5.50	90.59
EUR	**-1.00%**	**(0.20)**	**0.00**	-1.00%	(8.88)	0.00	**-1.00%**	**(0.20)**	**0.00**	-1.00%	(8.88)	0.00
JPY	**-1.00%**	**(4.17)**	**0.00**	-1.00%	0.00	0.00	**-1.00%**	**(4.17)**	**0.00**	-1.00%	0.00	0.00
GBP	**-1.00%**	**(0.75)**	**0.00**	-1.00%	0.72	0.00	**-1.00%**	**(0.75)**	**0.00**	-1.00%	(0.72)	0.00
Others	**-1.00%**	**(53.87)**	**0.00**	-1.00%	8.81	0.00	**-1.00%**	**(53.87)**	**0.00**	-1.00%	(8.81)	0.00

Information relating to Parent Company's currency derivatives is contained in Note 8. As of December 31, 2010 and 2009, the Parent Company has outstanding foreign currency spot transactions (in equivalent peso amounts) of ₱6.8 billion and ₱8.2 billion (sold) and ₱6.3 billion and ₱6.6 billion (bought), respectively.

The impact on the Parent Company's equity already excludes the impact on transactions affecting the profit and loss.

Capital Management

The primary objectives of the Group's capital management are to ensure that it complies with externally imposed capital requirements, and 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 and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital structure, or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

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 that differ from PFRS in some respects.

In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both stand-alone basis (head office and branches) and consolidated basis (Parent Company and subsidiaries engaged in financial allied undertakings but 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.

The BSP, under Circular No. 360, effective July 1, 2003, issued guidelines that required a market risk charge when computing the capital adequacy ratio (CAR). On August 4, 2006, BSP Circular No. 538 was additionally issued. It prescribed guidelines implementing the revised risk-based capital adequacy framework for the Philippine banking system to conform with Basel II recommendations. The new BSP guidelines took effect on July 1, 2007.

	Consolidated		Parent Company	
	December 31			
	2010	2009	**2010**	2009
Tier 1 capital	**₱67,670**	₱56,212	**₱65,134**	₱53,824
Tier 2 capital	**25,796**	25,147	**21,234**	21,114
Gross qualifying capital	**93,466**	81,359	**86,368**	74,938
Less: Required deductions	**2,037**	2,521	**33,655**	23,104
Total qualifying capital	**₱91,429**	₱78,838	**₱52,713**	₱51,834
Risk weighted assets	**₱556,241**	₱551,846	**₱396,433**	₱418,015
Tier 1 capital ratio	**12.0%**	10.0%	**12.2%**	10.1%
Total capital ratio	**16.4%**	14.3%	**13.3%**	12.4%

The regulatory qualifying capital of the Parent Company consists of Tier 1 (core) capital, which comprises paid-up common stock, HT1 Capital, surplus including current year profit, surplus reserves and minority interest less required deductions such as unsecured credit accommodations to DOSRI, 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 individually regulated operations have complied with all externally imposed capital requirements throughout the year.

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 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. BSP requires submission of an ICAAP document every January 31. The Group 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, due from BSP and other banks and interbank loans receivable and SPURA - Carrying amounts approximate fair values in view of the relatively short-term maturities of these instruments.

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

Derivative instruments - Fair values are estimated based on quoted market prices, prices provided by independent parties, or prices derived using acceptable valuation models.

Loans and receivables - Fair values of the Group's loans and receivables are estimated using the discounted cash flow methodology, using 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.

Liabilities - 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, if any. The carrying amount of demand and savings deposit liabilities approximates fair value considering that these are due and demandable.

The following tables summarize the carrying amounts and fair values of the financial assets and liabilities:

	2010			
	Consolidated		Parent Company	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Financial assets at FVPL				
Held-for-trading				
Debt securities				
Government	**₱8,416**	**₱8,416**	**₱5,597**	**₱5,597**
Private	**168**	**168**	**168**	**168**
Equity securities - quoted	**519**	**519**	**–**	**–**
Derivative assets	**3,477**	**3,477**	**3,318**	**3,318**
Subtotal	**12,580**	**12,580**	**9,083**	**9,083**
AFS investments				
Debt securities				
Government	**102,610**	**102,610**	**75,059**	**75,059**
Private	**21,770**	**21,770**	**20,947**	**20,947**
Equity securities				
Quoted	**1,826**	**1,826**	**258**	**258**
Unquoted	**261**	**261**	**61**	**61**
Subtotal	**126,467**	**126,467**	**96,325**	**96,325**
HTM investments				
Government	**26,701**	**30,477**	**13,599**	**15,952**
Treasury notes	**5,962**	**6,908**	**348**	**379**
Private	**–**	**338**	**–**	**338**
Subtotal	**32,663**	**37,723**	**13,947**	**16,669**

(Forward)

	2010			
	Consolidated		Parent Company	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Loans and receivables				
Cash and other cash items	₱20,201	₱20,201	₱16,996	₱16,996
Due from BSP	168,402	168,402	162,391	162,391
Due from other banks	38,308	38,308	19,416	19,416
Interbank loans receivable and SPURA (Note 7)				
Interbank loans receivable	25,507	25,507	18,006	18,006
SPURA	1,000	1,000	–	–
Subtotal	26,507	26,507	18,006	18,006
Loans and receivables-net				
Receivables from customers				
Commercial loans	238,150	239,520	215,621	216,706
Residential mortgage loans	38,364	38,644	21,016	21,220
Auto loans	32,953	35,369	10,837	10,837
Trade	16,118	16,118	15,883	15,883
Others	38,488	40,287	12,324	12,324
Subtotal	364,073	369,938	275,681	276,970
Unquoted debt securities	14,805	14,851	4,804	4,804
Accounts receivable	6,482	6,220	6,055	5,791
Accrued interest receivable	4,075	4,075	2,894	2,894
Sales contract receivable	1,310	897	1,129	1,129
Other receivables	183	183	139	139
Total	390,928	396,164	290,702	291,727
Other assets (Note 13)				
Interoffice float items	436	436	631	631
Returned checks and other cash items	359	359	331	331
Residual value of leased assets	342	342	–	–
Other investments	13	13	10	10
Assets held by SPVs	–	–	–	–
Investment in SPVs	–	–	–	–
Miscellaneous	493	493	491	491
Total financial assets	₱817,699	₱827,995	₱628,329	₱632,076
Financial Liabilities				
Financial liabilities at FVPL				
Derivative liabilities	₱3,161	₱3,161	₱3,001	₱3,001
Financial liabilities at amortized cost				
Deposit liabilities				
Demand	68,261	68,261	61,216	61,216
Savings	267,930	267,930	260,269	260,269
Time	315,071	316,013	242,323	242,323
Subtotal	651,262	652,204	563,808	563,808
Bills payable and SSURA	85,513	85,704	10,405	10,405
Managers checks and demand drafts outstanding	2,043	2,043	1,394	1,394
Accrued interest and other expenses	4,599	4,592	2,375	2,375
Subordinated debt (Note 18)	21,673	24,250	18,406	20,742
Other liabilities (Note 19)				
Bills purchased - contra	11,761	11,761	11,706	11,706
Accounts payable	4,634	4,634	2,857	2,857
Marginal deposits	2,658	2,658	757	757
Outstanding acceptances	1,296	1,296	1,296	1,296
Deposits on lease contracts	485	415	–	–
Liabilities of SPV	–	–	–	–
Dividends payable	21	21	–	–
Due to BSP	–	–	–	–
Miscellaneous	543	543	–	–
Subtotal	21,398	21,328	16,616	16,616
Total financial liabilities	₱789,649	₱793,282	₱616,005	₱618,341

	2009			
	Consolidated		Parent Company	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Financial assets at FVPL (Note 8)				
Held-for-trading				
Debt securities				
Government	₱13,044	₱13,044	₱11,375	₱11,375
Private	26	26	26	26
Equity securities - quoted	394	394	–	–
Derivative assets	3,582	3,582	3,286	3,286
Subtotal	17,046	17,046	14,687	14,687
AFS investments (Note 8)				
Debt securities				
Government	149,970	149,970	112,762	112,762
Private	2,438	2,438	1,660	1,660
BSP	1,761	1,761	1,761	1,761
Equity securities				
Quoted	2,461	2,461	450	450
Unquoted	105	105	78	78
Subtotal	156,735	156,735	116,711	116,711
HTM investments (Note 8)				
Government	21,003	22,074	14,122	14,722
Treasury notes	2,038	2,148	348	425
Private	580	696	526	696
Subtotal	23,621	24,918	14,996	15,843
Loans and receivables				
Cash and other cash items	19,727	19,727	17,049	17,049
Due from BSP	71,981	71,981	63,578	63,578
Due from other banks	36,702	36,702	29,815	29,815
Interbank loans receivable and SPURA (Note 7)				
Interbank loans receivable	42,674	42,674	42,963	42,963
SPURA	36,880	36,880	30,980	30,980
Subtotal	79,554	79,554	73,943	73,943
Loans and receivables-net				
Receivables from customers				
Commercial loans	217,978	212,284	207,210	203,237
Residential mortgage loans	36,008	30,770	18,937	19,118
Auto loans	25,354	21,697	8,189	8,189
Trade	16,258	16,258	16,258	16,258
Others	40,562	40,997	17,216	17,216
Subtotal	336,160	322,006	267,810	264,018
Unquoted debt securities	15,049	15,049	4,646	4,646
Accrued interest receivable	6,422	6,422	4,679	4,679
Accounts receivable	3,040	3,040	2,452	2,452
Sales contract receivable	1,454	1,454	1,444	1,444
Other receivables	202	202	157	157
Total	362,327	348,173	281,188	277,396
Other assets (Note 13)				
Interoffice float items	488	488	479	479
Returned checks and other cash items	242	242	196	196
Residual value of leased assets	357	357	–	–
Other investments	16	16	13	13
Assets held by SPVs	3,994	3,994	–	–
Investment in SPVs	–	–	2,215	2,215
Miscellaneous	510	510	508	508
Total financial assets	₱773,300	₱760,443	₱615,378	₱612,433

(Forward)

	2009			
	Consolidated		Parent Company	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Liabilities				
Financial liabilities at FVPL				
Derivative liabilities	₱2,384	₱2,384	₱ 2,245	₱2,245
Financial liabilities at amortized cost				
Deposit liabilities				
Demand	48,568	48,568	44,521	44,521
Savings	242,145	242,145	234,378	234,378
Time	324,987	326,517	264,630	264,630
Subtotal	615,700	617,230	543,529	543,529
Bills payable and SSURA	95,868	95,868	27,577	27,577
Managers checks and demand drafts outstanding	1,955	1,955	1,458	1,458
Accrued interest and other expenses	4,027	4,027	2,151	2,151
Subordinated debt (Note 18)	21,634	23,453	18,372	19,410
Other liabilities (Note 19)				
Bills purchased - contra	17,035	17,035	16,905	16,905
Accounts payable	4,866	4,866	2,311	2,311
Marginal deposits	1,548	1,548	1,548	1,548
Outstanding acceptances	913	913	913	913
Deposits on lease contracts	518	425	–	–
Liabilities of SPV	3,717	3,717	–	–
Dividends payable	67	67	–	–
Due to BSP	7	7	–	–
Miscellaneous	543	543	–	–
Subtotal	29,214	29,121	21,677	21,677
Total financial liabilities	₱770,782	₱774,038	₱617,009	₱618,047

The following table shows financial instruments recognized at fair value, analyzed among those whose fair value is based on:

- Quoted in 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			
	Level 1	**Level 2**	**Level 3**	**Total**
2010				
Financial Assets				
Financial assets at FVPL				
Held-for-trading				
Debt securities				
Government	**₱8,416**	**₱–**	**₱–**	**₱8,416**
Private	**158**	**10**	–	**168**
Equity securities	**519**	**–**	–	**519**
Derivative assets	–	**3,477**	–	**3,477**
Total financial assets at FVPL	**₱9,093**	**₱3,487**	**₱–**	**₱12,580**
AFS investments				
Debt securities				
Government	**₱100,057**	**₱2,553**	**₱–**	**₱102,610**
Private	**18,805**	**2,686**	**279**	**21,770**
Equity securities - quoted	**1,826**	–	–	**1,826**
Total AFS investments	**₱120,688**	**₱5,239**	**₱279**	**₱126,206**
Financial Liabilities				
Financial liabilities at FVPL				
Derivative liabilities	**₱–**	**₱2,882**	**₱279**	**₱3,161**

(Forward)

	Consolidated			
	Level 1	Level 2	Level 3	Total
2009				
Financial Assets				
Financial assets at FVPL				
Held-for-trading				
Debt securities				
Government	₱13,044	₱–	₱–	₱13,044
Private	25	1	–	26
Equity securities	394	–	–	394
Derivative assets	–	3,582	–	3,582
Total financial assets at FVPL	₱13,463	₱3,583	₱–	₱17,046
AFS investments				
Debt securities				
Government	₱136,395	₱13,480	₱–	₱149,875
Private	2,194	–	294	2,488
BSP	–	1,761	–	1,761
Equity securities - quoted	2,461	–	–	2,461
Total AFS investments	₱141,050	₱15,241	₱294	₱156,585
Financial Liabilities				
Financial liabilities at FVPL				
Derivative liabilities	₱–	₱2,090	₱294	₱2,384

	Parent Company			
	Level 1	Level 2	Level 3	Total
2010				
Financial Assets				
Financial assets at FVPL				
Held-for-trading				
Debt securities				
Government	**₱5,597**	**₱–**	**₱–**	**₱5,597**
Private	**158**	**10**	**–**	**168**
Derivative assets	**–**	**3,318**	**–**	**3,318**
Total financial assets at FVPL	**₱5,755**	**₱3,328**	**₱–**	**₱9,083**
AFS investments				
Debt securities				
Government	**₱74,103**	**₱956**	**₱–**	**₱75,059**
Private	**17,981**	**2,687**	**279**	**20,947**
Equity securities - quoted	**258**	**–**	**–**	**258**
Total AFS investments	**₱92,342**	**₱3,643**	**₱279**	**₱96,264**
Financial Liabilities				
Financial liabilities at FVPL				
Derivative liabilities	**₱–**	**₱2,722**	**₱279**	**₱3,001**
2009				
Financial Assets				
Financial assets at FVPL				
Held-for-trading				
Debt securities				
Government	₱11,375	₱–	₱–	₱11,375
Private	26	–	–	26
Derivative assets	–	3,286	–	3,286
Total financial assets at FVPL	₱11,401	₱3,286	₱–	₱14,687
AFS investments				
Debt securities				
Government	₱100,733	₱12,029	₱–	₱112,762
Private	1,366	–	294	1,660
BSP	–	1,761	–	1,761
Equity securities - quoted	450	–	–	450
Total AFS investments	₱102,549	₱13,790	₱294	₱116,633
Financial Liabilities				
Financial liabilities at FVPL				
Derivative liabilities	₱–	₱1,951	₱294	₱2,245

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

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

Instruments included in Level 3 include those for which there is currently no active market.

The following table shows the Parent Company's reconciliation from the beginning balances to the closing balances of financial assets and liabilities with fair value measurements under level 3 of the fair value hierarchy:

	2010		2009	
	AFS Investments	**Financial liabilities at FVPL**	AFS Investments	Financial liabilities at FVPL
Balance at January 1	**₱294**	**(₱294)**	₱2,584	(₱2,480)
Add:				
Unrealized gains during the year				
Recorded in profit or loss	**–**	**–**	–	59
Recorded in equity	**–**	**–**	268	–
Foreign exchange difference	**(15)**	**15**	–	–
	(15)	**15**	268	59
Less:				
Write-offs	**–**	**–**	1,924	(2,127)
Impairment	**–**	**–**	634	–
	–	**–**	2,558	(2,127)
Balance at December 31	**₱279**	**(₱279)**	₱294	(₱294)

The sensitivity of the Parent Company's embedded credit derivatives to movements of interest rates as of December 31, 2010 and 2009 amounted to ₱0.03 million.

6. Segment Information

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

- Consumer Banking - principally providing consumer type loans and support for effective sourcing and generation of consumer business;
- Corporate Banking - principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers;
- Investment Banking - principally arranging structured financing, and providing services relating to privatizations, initial public offerings, mergers and acquisitions;

- Treasury - principally providing money market, trading and treasury services, as well as the management of the Group's funding operations by use of treasury bills, government securities and placements and acceptances with other banks, through treasury and corporate banking;
- Branch Banking - principally handling branch deposits and providing loans and other loan related businesses for domestic middle market clients; and
- Others - principally handling other services including but not limited to remittances, leasing, account financing, and other support services. Other operations of the Group comprise the operations and financial control groups.

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. The Group has no significant customers which contributes 10.00% or more of the consolidated revenue net of interest expense. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to business segments based on a pool rate which approximates the cost of funds. The following table presents revenue and income information of operating segments presented in accordance with PFRS and segment assets and liabilities:

	Consumer Banking	Corporate Banking	Investment Banking	Treasury	Branch Banking	Others	Total
2010							
Results of Operations							
Net interest income (expense)							
Third party	₱5,231	₱8,079	(₱46)	₱7,634	₱3,438	₱2,054	₱26,390
Intersegment	(90)	(2,246)	–	(2,988)	6,037	(713)	–
	5,141	5,833	(46)	4,646	9,475	1,341	26,390
Noninterest income	2,599	414	648	7,552	3,562	5,317	20,092
Revenue - net of interest expense	7,740	6,247	602	12,198	13,037	6,658	46,482
Noninterest expense	5,813	1,548	67	2,013	11,988	13,674	35,103
Income before share in net income of investees	1,927	4,699	535	10,185	1,049	(7,016)	11,379
Share in net income of investees	–	41	–	–	–	1,577	1,618
Benefit from (provision for) income tax	(514)	(2)	(13)	(2,791)	462	(873)	(3,731)
Minority interest in net income of consolidated subsidiaries	–	–	–	–	–	(900)	(900)
Net income (loss)	₱1,413	₱4,738	₱522	₱7,394	₱1,511	(₱7,212)	₱8,366
Statement of Financial Position							
Total assets	₱49,191	₱174,471	₱2,515	₱372,595	₱187,331	₱101,220	₱887,323
Total liabilities	₱24,936	₱157,158	₱2,444	₱354,344	₱226,728	₱28,696	₱794,306
Other Segment Information							
Capital expenditures	₱426	₱71	₱–	₱91	₱73	₱1,190	₱1,851
Depreciation and amortization	₱286	₱42	₱–	₱25	₱694	₱1,213	₱2,260
Provision for credit and impairment losses	₱2,186	₱481	₱–	₱33	₱371	₱4,214	₱7,285

	Consumer Banking	Corporate Banking	Investment Banking	Treasury	Branch Banking	Others	Total
2009							
Results of Operations							
Net interest income (expense)							
Third party	₱4,973	₱9,456	(₱26)	₱7,540	₱2,711	₱2,025	₱26,679
Intersegment	(111)	(2,727)	–	(3,428)	7,493	(1,227)	–
	4,862	6,729	(26)	4,112	10,204	798	26,679
Noninterest income	2,230	203	486	4,282	3,274	5,606	16,081
Revenue - net of interest expense	7,092	6,932	460	8,394	13,478	6,404	42,760
Noninterest expense	5,118	1,228	57	2,446	11,172	14,614	34,635
Income before share in net income of investees	1,974	5,704	403	5,948	2,306	(8,210)	8,125
Share in net income of investees	–	45	–	–	–	874	919
Provision for income tax	(289)	(48)	(7)	(1,520)	(251)	(134)	(2,249)
Minority interest in net income of consolidated subsidiaries	–	–	–	–	–	(766)	(766)
Net income (loss)	₱1,685	₱5,701	₱396	₱4,428	₱2,055	(₱8,236)	₱6,029
Statement of Financial Position							
Total assets	₱43,973	₱141,812	₱878	₱368,747	₱179,831	₱119,066	₱854,307
Total liabilities	₱22,049	₱133,450	₱611	₱351,781	₱217,467	₱48,631	₱773,989
Other Segment Information							
Capital expenditures	₱207	₱93	₱–	₱74	₱316	₱1,804	₱2,494
Depreciation and amortization	₱380	₱20	₱–	₱25	₱636	₱951	₱2,012
Provision for credit and impairment losses	₱1,984	₱492	₱–	₱1,260	₱472	₱4,585	₱8,793
2008							
Results of Operations							
Net interest income (expense)							
Third party	₱4,329	₱9,539	(₱22)	₱7,566	(₱596)	₱2,253	₱23,069
Intersegment	(126)	(3,644)	–	(4,234)	9,329	(1,325)	–
	4,203	5,895	(22)	3,332	8,733	928	23,069
Noninterest income	2,472	263	(82)	1,157	3,999	3,677	11,486
Revenue - net of interest expense	6,675	6,158	(104)	4,489	12,732	4,605	34,555
Noninterest expense	4,719	943	25	2,395	11,195	8,166	27,443
Income before share in net income of investees	1,956	5,215	(129)	2,094	1,537	(3,561)	7,112
Share in net income of investees	–	47	–	–	–	945	992
Provision for income tax	(433)	(92)	(7)	(1,086)	(195)	(1,214)	(3,027)
Minority interest in net income of consolidated subsidiaries	–	–	–	–	–	(669)	(669)
Net income (loss)	₱1,523	₱5,170	(₱136)	₱1,008	₱1,342	(₱4,499)	₱4,408
Statement of Financial Position							
Total assets	₱42,083	₱157,732	₱734	₱261,572	₱158,932	₱143,756	₱764,809
Total liabilities	₱21,448	₱153,026	₱619	₱254,667	₱193,541	₱72,504	₱695,805
Other Segment Information							
Capital expenditures	₱716	₱15	₱–	₱34	₱236	₱2,492	₱3,493
Depreciation and amortization	₱357	₱24	₱–	₱27	₱536	₱1,075	₱2,019
Provision for credit and impairment losses	₱1,630	₱217	₱–	₱1,620	₱1,409	(₱1,627)	₱3,249

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

Geographical Information
The Group operates in four geographic markets: Philippines, Asia other than Philippines, USA and Europe (Note 2). The following tables show the distribution of Group's external net operating income and non-current assets allocated based on the location of the customers and assets, respectively, for the years ended December 31:

	Philippines	Asia (Other than Philippines)	USA	Europe	Total
2010					
Interest income	**₱40,938**	**₱456**	**₱69**	**₱1**	**₱41,464**
Interest expense	**14,973**	**92**	**9**	**–**	**15,074**
Net interest income	**25,965**	**364**	**60**	**1**	**26,390**
Noninterest income	**18,145**	**1,314**	**310**	**323**	**20,092**
Provision for credit and impairment losses	**7,218**	**51**	**16**	**–**	**7,285**
Total external net operating income	**₱36,892**	**₱1,627**	**₱354**	**₱324**	**₱39,197**
Non-current assets	**₱34,961**	**₱392**	**₱149**	**₱19**	**₱35,521**
2009					
Interest income	₱43,390	₱219	₱105	₱1	₱43,715
Interest expense	16,959	60	17	–	17,036
Net interest income	26,431	159	88	1	26,679
Noninterest income	14,427	1,055	275	324	16,081
Provision for credit and impairment losses	8,668	3	122	–	8,793
Total external net operating income	₱32,190	₱1,211	₱241	₱325	₱33,967
Non-current assets	₱38,278	₱304	₱178	₱22	₱38,782
2008					
Interest income	₱41,163	₱411	₱138	₱2	₱41,714
Interest expense	18,455	123	67	–	18,645
Net interest income	22,708	288	71	2	23,069
Noninterest income	9,695	1,227	246	318	11,486
Provision for credit and impairment losses	3,231	11	7	–	3,249
Total external net operating income	₱29,172	₱1,504	₱310	₱320	₱31,306
Non-current assets	₱40,010	₱374	₱194	₱23	₱40,601

Non-current assets consist of property and equipment, investment properties, chattel properties acquired in foreclosure, intangible assets and assets held under joint venture.

7. Interbank Loans Receivable and Securities Purchased Under Resale Agreements

This account consists of:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Interbank loans receivable (Note 27)	**₱25,507**	₱42,674	**₱18,006**	₱42,963
SPURA	**1,000**	36,880	**–**	30,980
	₱26,507	₱79,554	**₱18,006**	₱73,943

The outstanding balance of SPURA represents overnight placements with the BSP where the underlying securities cannot be sold or repledged to parties other than BSP.

8. Trading and Investment Securities

This account consists of:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Financial assets at FVPL	**₱12,580**	₱17,046	**₱9,083**	₱14,687
AFS investments (Notes 27 and 28)	**126,467**	156,735	**96,325**	116,711
HTM investments (Note 27)	**32,663**	23,621	**13,947**	14,996
	₱171,710	₱197,402	**₱119,355**	₱146,394

Financial assets at FVPL consist of the following:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Held-for-trading				
Debt securities				
Government	**₱8,416**	₱13,044	**₱5,597**	₱11,375
Private	**168**	26	**168**	26
	8,584	13,070	**5,765**	11,401
Equity securities - quoted	**519**	394	**–**	–
	9,103	13,464	**5,765**	11,401
Derivative assets	**3,477**	3,582	**3,318**	3,286
	₱12,580	₱17,046	**₱9,083**	₱14,687

Derivative Financial Instruments

The following are fair values of derivative financial instruments of the Parent Company recorded as derivative assets or derivative liabilities, together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as of December 31, 2010 and 2009 and are not indicative of either market risk or credit risk.

	Assets	Liabilities	Notional Amount	Average Forward Rate (in every US$ 1)
December 31, 2010				
Freestanding derivatives:				
Currency forwards				
BOUGHT:				
USD	**₱525**	**₱1,649**	**USD 3,186**	**₱45.1961**
CNY	**475**	**7**	**CNY 3,870**	**CNY 0.1499**
EUR	**–**	**1**	**EUR 0**	**EUR 1.3901**
AUD	**1**	**–**	**AUD 5**	**AUD 1.0228**
INR	**14**	**1**	**INR 688**	**INR 0.0128**
KRW	**1**	**–**	**KRW 5,715**	**KRW 0.0009**
SOLD:				
USD	**1,677**	**371**	**USD 3,378**	**₱44.2507**
CNY	**14**	**339**	**CNY 3,975**	**CNY 0.1509**
EUR	**1**	**–**	**EUR 13**	**EUR 1.3246**
AUD	**–**	**2**	**AUD 8**	**AUD 1.0129**
INR	**–**	**11**	**INR 237**	**INR 0.0211**
JPY	**–**	**–**	**JPY 66**	**JPY 0.0123**
Put Option Purchased-Warrants	**212**	**–**	**USD 645**	
Interest Rate Swaps-PHP	**366**	**295**	**₱20,150**	
Interest Rate Swaps-FX	**5**	**3**	**USD 80**	
Credit Default Swaps	**7**	**3**	**USD 10**	
Cross Currency Swaps	**13**	**25**	**USD 67**	
Embedded derivatives in:				
Financial contract*	**–**	**294**	**USD 30**	
Nonfinancial contract**	**7**	**–**	**USD 0**	
	₱3,318	**₱3,001**		

	Assets	Liabilities	Notional Amount	Average Forward Rate (in every US$ 1)
December 31, 2009				
Freestanding derivatives:				
Currency forwards				
BOUGHT:				
USD	₱66	₱1,735	USD 1,536	₱47.8089
CNY	8	14	CNY 646	CNY 0.1470
EUR	117	10	EUR 81	EUR 1.4329
SOLD:				
USD	2,734	13	USD 2,235	₱47.8049
CNY	11	–	CNY 439	CNY 0.1482
EUR	81	73	EUR 81	EUR 1.4340
Put Option Purchased-Warrants	250	–	USD 645	
Interest Rate Swaps-PHP	3	4	₱1,050	
Embedded derivatives in:				
Financial contract*	8	396	USD 41	
Nonfinancial contract**	8	–	USD 1	
	₱3,286	₱2,245		

* As of December 31, 2010 and 2009, derivative assets include interest rate derivatives with outstanding notional amounts of nil and US$4.1 million, respectively. Derivative liabilities include credit default swaps, call options and interest rate derivatives embedded in structured debt instrument with outstanding notional amounts of US$30.1 million and US$36.8 million as of December 31, 2010 and 2009, respectively.

** Nonfinancial host contracts include foreign currency derivatives with average notional amounts of US$1,353 and US$1,322 per month as of December 31, 2010 and 2009, respectively (with maturities until 2018).

Derivatives designated as accounting hedges

In 2008, MCC entered into two CCS agreements with a certain bank to hedge the foreign exchange and interest rate risks from its dollar-denominated loan with the same bank. Under the agreements, MCC, on a quarterly basis, pays fixed interest rates of 5.9% and 6.4% on the peso principals amounting to ₱809.8 million for tranche 1 and ₱834.0 million for tranche 2, respectively, and receives floating interest at 3-month LIBOR on the US Dollar principals amounting to US$20.0 million each. At maturity dates, MCC will pay the peso principals aggregating ₱1.6 billion and will receive US$40.0 million in exchange. Effectively, under the CCS agreements, MCC swaps its dollar-denominated floating rate loans into peso fixed rate loans. Same with the loan hedged, the swaps cover a period of three years from March 6, 2008 up to March 7, 2011 and April 3, 2008 up to April 4, 2011, for tranche 1 and tranche 2, respectively. On January 1, 2009, MCC designated the swaps as effective hedging instruments under cash flow hedges. As such, the effective portion of the changes in fair value of the swaps in 2009 was deferred to equity. As of December 31, 2010 and 2009, the swap has a positive fair value of ₱88.1 million and ₱221.7 million, respectively.

On September 21, 2010, the BOD of MCC approved the refinancing plan of the maturing dollar-denominated loan and CCS entered in 2008 amounting to US$40.0 million. To take advantage of low interest rates environment, MCC entered into four deals (with total notional amount of US$ 40.0 million) with the same bank to lock in forward start of CCS at current interest rates.

The drawdown of the loan to be hedged and the CCS will coincide with the maturity date of the maturing dollar-denominated loan and CCS on March 7 and April 4, 2011 for the tranche 1 and tranche 2 transactions, respectively. At inception dates, MCC designated these swaps as effective hedging instruments under cash flow hedge. As of December 31, 2010, the related swaps have an aggregate negative fair value amounting to ₱32.7 million.

Also, on December 17, 2010, MCC entered into a short-term CCS agreement with the same bank to hedge the foreign exchange and interest rate risks from its short-term dollar-denominated loan. Under the agreement, MCC, on a quarterly basis, pays fixed interest rate of 3.95% on the peso principal amounting to ₱154.8 million and receives floating interest at 3-month LIBOR plus 0.8% spread on the US dollar principal amounting to US$3.5 million. At maturity date, MCC will pay the peso principal amounting to ₱154.8 million and will receive US$3.5 million in exchange. At inception date, MCC also designated this swap as effective hedging instrument under the cash flow hedge. As of December 31, 2010, the swap has a negative fair value amounting to ₱3.2 million.

Below is the schedule as at December 31, 2010 and 2009, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss:

	2010			2009		
	Within 1 year	**1-2 years**	**Over 2 years**	Within 1 year	1-2 years	Over 2 years
Cash inflow (asset)	**₱1,919**	**₱17**	**₱1,808**	₱14	₱1,860	₱–
Cash outflows (liability)	**(1,887)**	**(92)**	**(1,874)**	(86)	(1,683)	–
Net cash flow	**₱32**	**(₱75)**	**(₱66)**	(₱72)	₱177	₱–

As of December 31, 2010 and 2009, MCC assessed the hedge relationship of the swaps and the hedged loans as highly effective. The effective fair value changes on the swaps that were deferred in equity under 'Translation adjustment and others' as of December 31, 2010 and 2009 amounted to ₱48.4 million and ₱8.5 million, respectively. No hedge ineffectiveness was recognized in profit or loss in 2010 and 2009.

Movements in net unrealized loss on cash flow hedge consist of:

	2010	2009
Balance at beginning of year	**(₱9)**	₱–
Net changes shown in other comprehensive income:		
Amount deferred to equity	**(169)**	(75)
Amortization of swap fair value recognized in 2008	**13**	13
Transferred to income or loss (foreign exchange revaluation)	**96**	53
Income tax effect	**21**	–
	(39)	(9)
Balance at end of year	**(₱48)**	(₱9)

The table below summarizes the net movement in fair values of MCC's derivatives:

	2010	2009
Balance at beginning of year	**₱222**	₱296
Net changes in fair value of derivatives designated as accounting hedges	**(45)**	(201)
Less fair value of settled instruments*	**125**	(127)
	(170)	(74)
Balance at end of year	**₱52**	₱222

**Included under 'Interest expense' in the statement of income*

AFS investments consist of the following:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Debt securities:				
Government	**₱102,610**	₱149,970	**₱75,059**	₱112,762
Private	**22,843**	3,586	**21,924**	2,656
BSP	**–**	1,761	**–**	1,761
	125,453	155,317	**96,983**	117,179
Equity securities:				
Quoted	**2,203**	2,461	**381**	450
Unquoted	**504**	504	**147**	147
	2,707	2,965	**528**	597
	128,160	158,282	**97,511**	117,776
Less allowance for impairment losses (Note 14)	**1,693**	1,547	**1,186**	1,065
	₱126,467	₱156,735	**₱96,325**	₱116,711

Unquoted equity securities represent long-term investments of the Group and are not actively traded in the market. The Group does not intend to sell these securities in the near future.

As of December 31, 2010 and 2009, AFS investments include government and private debt securities and unquoted equity securities with carrying values of ₱3.5 billion and ₱33.7 billion, respectively, for the Group and nil and ₱25.9 billion, respectively, for the Parent Company that are pledged under the Group and Parent Company's SSURA transactions (Note 16).

The Parent Company has investments in collateralized debt obligation with a total face value of US$20.0 million as of December 31, 2010 and 2009. The embedded credit default swaps have been bifurcated and reported as part of derivative liabilities while the host instruments are classified as AFS investments. As of December 31, 2010 and 2009, the carrying value of the host instruments amounted to ₱278.9 million (net of allowance for credit losses amounting to ₱583.1 million) and ₱294.0 million (net of allowance for credit losses amounting to ₱614.4 million), respectively, with corresponding derivative liabilities of ₱278.9 million and ₱294.0 million, respectively.

In 2010, the Parent Company and PSBank participated in bond exchange transactions affecting its held for trading and AFS investments. The Parent Company and PSBank received 10-year Benchmark Bonds with a minimum coupon of 5.88% and face value of ₱1.5 billion and ₱798.2 million, respectively, at a price of 100.00% and 25-year Benchmark Bonds with a minimum coupon of 8.13% and face value of ₱13.4 billion and ₱11.7 billion, respectively, at a price of 100.00%. The Parent Company and PSBank realized net trading gain of ₱37.4 million and ₱1.2 billion, respectively, from the bond exchange transactions.

AFS investments include net unrealized gains (losses) as follows:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Balance at the beginning of year	**₱536**	(₱6,517)	**₱44**	(₱4,934)
Unrealized gains recognized in other comprehensive income	**6,869**	8,736	**3,675**	5,878
Amounts realized in profit or loss	**(5,982)**	(1,683)	**(2,825)**	(900)
	1,423	536	**894**	44
Tax (Note 26)	**(90)**	(99)	**(72)**	(71)
Balance at end of year	**₱1,333**	₱437	**₱822**	(₱27)

HTM investments consist of the following:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Government bonds	**₱26,701**	₱21,003	**₱13,599**	₱14,122
Treasury notes	**5,962**	2,038	**348**	348
Private bonds	**219**	811	**219**	757
	32,882	23,852	**14,166**	15,227
Less allowance for impairment losses (Note 14)	**219**	231	**219**	231
	₱32,663	₱23,621	**₱13,947**	₱14,996

Interest income on trading and investment securities consists of:

	Consolidated			Parent Company		
	2010	2009	2008	**2010**	2009	2008
Financial assets at FVPL	**₱438**	₱612	₱1,528	**₱398**	₱552	₱451
AFS investments	**6,759**	8,322	5,366	**4,135**	4,821	4,867
HTM investments	**2,356**	1,566	1,291	**1,055**	930	966
	₱9,553	₱10,500	₱8,185	**₱5,588**	₱6,303	₱6,284

In 2010, 2009 and 2008, foreign currency-denominated trading and investment securities bear nominal annual interest rates ranging from 0.80% to 9.50%, from 1.00% to 10.60% and from 1.90% to 10.60%, respectively, for the Group and from 0.80% to 9.50%, from 3.00% to 10.60% and from 1.90% to 10.60%, respectively, for the Parent Company while peso-denominated trading and investment securities bear nominal annual interest rates ranging from 1.56% to 14.00%, from 4.00% to 18.30% and from 2.50% to 18.30%, respectively, for the Group and from 3.70% to 13.20%, from 4.00% to 14.00% and from 2.50% to 14.00%, respectively, for the Parent Company.

Trading and securities gain (loss) - net consists of:

	Consolidated			Parent Company		
	2010	2009	2008	**2010**	2009	2008
Held-for-trading	**₱793**	₱886	(₱373)	**₱394**	₱400	(₱61)
AFS investments	**5,982**	2,113	1,100	**2,825**	1,384	404
Derivative assets and liabilities	**(653)**	624	(1,992)	**(673)**	639	(1,984)
	₱6,122	₱3,623	(₱1,265)	**₱2,546**	₱2,423	(₱1,641)

Trading gains on AFS investments include realized gains/losses previously reported in net unrealized gain (loss) under the equity section of the statement of financial position.

On April 20, 2009, the Parent Company reclassified certain AFS debt securities amounting to ₱9.5 billion for which it had a clear change of intent to hold up to maturity rather than exit at certain foreseeable future to HTM investments. The carrying value of the reclassified securities amounted to ₱9.1 billion as of December 31, 2009.

9. Loans and Receivables

This account consists of:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Receivables from customers:				
Commercial loans	**₱244,955**	₱224,322	**₱221,127**	₱212,835
Residential mortgage loans	**38,571**	36,329	**21,049**	19,016
Auto loans	**39,821**	31,047	**12,242**	9,235
Trade loans	**16,340**	16,608	**16,103**	16,608
Others	**42,459**	43,731	**12,353**	17,249
	382,146	352,037	**282,874**	274,943
Less unearned discounts and capitalized interest	**7,913**	6,445	**1,823**	1,572
	374,233	345,592	**281,051**	273,371
Unquoted debt securities:				
Government	**13,113**	10,710	**3,297**	2,495
Private	**2,706**	5,365	**2,211**	2,890
	15,819	16,075	**5,508**	5,385
Accounts receivable (Note 11)	**9,797**	4,469	**8,797**	3,376
Accrued interest receivable	**6,181**	8,464	**4,689**	6,467
Sales contract receivable	**1,346**	1,492	**1,333**	1,451
Other receivables	**224**	243	**179**	198
	407,600	376,335	**301,557**	290,248
Less allowance for credit losses (Note 14)	**14,941**	14,008	**9,124**	9,060
	₱392,659	₱362,327	**₱292,433**	₱281,188

Receivables from customers consist of:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Loans and discounts	**₱353,762**	₱318,051	**₱254,775**	₱241,086
Less unearned discounts and capitalized interest	**7,913**	6,445	**1,823**	1,572
	345,849	311,606	**252,952**	239,514
Customers' liabilities under letters of credit (LC)/trust receipts	**16,121**	16,608	**16,103**	16,608
Bills purchased (Note 19)	**12,263**	17,378	**11,996**	17,249
	₱374,233	₱345,592	**₱281,051**	₱273,371

Receivables from customers-others of the Group include credit card receivables, notes receivables financed and lease contract receivables amounting to ₱19.0 billion, ₱5.7 billion and ₱1.9 billion, respectively, as of December 31, 2010 and ₱17.3 billion, ₱4.5 billion and ₱1.9 billion, respectively, as of December 31, 2009.

Interest income on loans and receivables consists of:

	Consolidated			Parent Company		
	2010	2009	2008	**2010**	2009	2008
Receivables from customers	**₱19,940**	₱19,929	₱20,201	**₱13,955**	₱14,919	₱15,585
Receivables from cardholders	**4,080**	3,864	3,469	**–**	–	–
Lease contract receivables	**1,042**	705	1,281	**–**	–	–
Customer liabilities under LC trust receipts	**734**	1,141	1,516	**734**	1,141	1,516
Restructured loans	**576**	642	834	**475**	530	689
Unquoted debt securities	**382**	1,207	631	**332**	1,207	192
Agrarian and other agricultural credit loans	**226**	345	420	**86**	167	283
Interest accrued on impaired receivables	**82**	511	724	**9**	406	616
Others	**154**	238	76	**88**	76	2
	₱27,216	₱28,582	₱29,152	**₱15,679**	₱18,446	₱18,883

Interest income accrued on impaired receivables pertains to interest accrued in accordance with PAS 39. Other interest income includes interest income on sales contract receivable.

BSP Reporting
As of December 31, 2010 and 2009, 79.07% and 82.98% of the total receivables from customers of the Group, respectively, are subject to periodic interest repricing. In 2010 and 2009, the remaining peso receivables from customers earn annual fixed interest rates ranging from 2.50% to 42.00% while foreign currency-denominated receivables from customers earn annual fixed interest rates ranging from 1.14% to 36.00% and from 2.00% to 36.00%, respectively.

The following table shows information relating to receivables from customers by collateral, gross of unearned discounts and capitalized interest:

	Consolidated				**Parent Company**			
	2010		2009		**2010**		2009	
	Amount	**%**	Amount	%	**Amount**	**%**	Amount	%
Secured by:								
Real estate	**₱81,644**	**21.36**	₱83,979	23.86	**₱58,535**	**20.69**	₱64,133	23.33
Chattel	**48,634**	**12.73**	39,115	11.11	**14,775**	**5.22**	12,299	4.47
Deposit hold-out	**14,714**	**3.85**	12,953	3.68	**10,369**	**3.67**	12,578	4.57
Securities	**7,290**	**1.91**	9,167	2.60	**5,464**	**1.93**	9,070	3.30
Stand-by letters of credit	**2,051**	**0.54**	3,218	0.91	**1,951**	**0.69**	3,218	1.17
Assignment of receivables	**1,234**	**0.32**	710	0.20	**1,015**	**0.36**	499	0.18
Others	**50,621**	**13.25**	42,831	12.17	**47,289**	**16.72**	41,334	15.04
	206,188	**53.96**	191,973	54.53	**139,398**	**49.28**	143,131	52.06
Unsecured	**175,958**	**46.04**	160,064	45.47	**143,476**	**50.72**	131,812	47.94
	₱382,146	**100.00**	₱352,037	100.00	**₱282,874**	**100.00**	₱274,943	100.00

Information on the concentration of credit as to industry of receivables from customers, gross of unearned discount and capitalized interest, follows:

	Consolidated				**Parent Company**			
	2010		2009		**2010**		2009	
	Amount	**%**	Amount	%	**Amount**	**%**	Amount	%
Manufacturing (various industries)	**₱72,379**	**18.94**	₱63,804	18.12	**₱68,066**	**24.06**	₱62,282	22.65
Real estate, renting and business activities	**63,360**	**16.58**	58,779	16.70	**44,220**	**15.63**	44,188	16.07
Wholesale and retail trade	**57,389**	**15.02**	58,639	16.66	**40,455**	**14.30**	48,105	17.50
Private households	**55,163**	**14.44**	52,720	14.98	**35,887**	**12.69**	34,885	12.69
Financial intermediaries	**35,562**	**9.31**	30,743	8.73	**31,820**	**11.25**	29,394	10.69
Transportation, storage and communication	**27,986**	**7.32**	30,428	8.64	**21,128**	**7.47**	23,972	8.72
Other community, social and personal activities	**24,278**	**6.35**	20,369	5.79	**3,751**	**1.33**	4,081	1.48
Electricity, gas and water	**19,071**	**4.99**	15,549	4.42	**16,226**	**5.74**	12,873	4.68
Hotel and restaurants	**8,790**	**2.30**	5,887	1.67	**8,204**	**2.90**	5,392	1.96
Construction	**7,221**	**1.89**	5,160	1.46	**5,387**	**1.90**	3,928	1.43
Agricultural, hunting and forestry	**4,602**	**1.20**	5,908	1.68	**3,295**	**1.16**	3,040	1.11
Public administration and defense, compulsory social security	**1,941**	**0.51**	1,105	0.31	**136**	**0.05**	26	0.01
Mining and quarrying	**358**	**0.09**	308	0.09	**253**	**0.09**	260	0.09
Others	**4,046**	**1.06**	2,638	0.75	**4,046**	**1.43**	2,517	0.92
	₱382,146	**100.00**	₱352,037	100.00	**₱282,874**	**100.00**	₱274,943	100.00

The BSP considers that concentration of credit exists when total loan exposure to a particular industry or economic sector exceeds 30.00% of total loan portfolio except for thrift banks.

Current banking regulations allow banks with no unbooked valuation reserves and capital adjustments to exclude from nonperforming classification those receivables from customers classified as 'Loss' in the latest examination of the BSP which are fully covered by allowance for credit losses, provided that interest on said receivables shall not be accrued.

Non-performing loans (NPLs) not fully covered by allowance for credit losses follow:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Total NPLs	**₱11,005**	₱12,487	**₱6,046**	₱7,717
Less NPLs fully covered by allowance for credit losses	**5,007**	2,301	**2,237**	1,263
	₱5,998	₱10,186	**₱3,809**	₱6,454

Under banking regulations, NPLs shall, as a general rule, refer to loan accounts 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 rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual, or annual installments, in which case, the total outstanding balance thereof shall be considered nonperforming.

In the case of receivables that are payable in monthly installments, the total outstanding balance thereof shall be considered nonperforming when three (3) or more installments are in arrears. In the case of receivables that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered nonperforming at the same time that they become past due in accordance with existing BSP regulations, i.e., the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches 10% of the total receivable balance. Restructured receivables which do not meet the requirements to be treated as performing receivables shall also be considered as NPLs.

Certain receivables from customers amounting to ₱199.2 million and ₱423.3 million as of December 31, 2010 and 2009, respectively, were rediscounted with the BSP (included under Bills Payable - BSP) under the rediscounting privileges of the Parent Company (Note 16).

10. Property and Equipment

The composition of and movements in this account follow:

	Consolidated					
	Land	**Buildings**	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Building Under Construction**	**Total**
2010						
Cost						
Balance at beginning of year	₱5,089	₱6,671	₱11,530	₱1,607	₱349	₱25,246
Additions	–	193	1,134	204	40	1,571
Disposals	(39)	(18)	(430)	(7)	–	(494)
Reclassification/others	(14)	9	142	9	–	146
Balance at end of year	5,036	6,855	12,376	1,813	389	26,469
Accumulated depreciation and amortization						
Balance at beginning of year	–	2,604	8,690	862	–	12,156
Depreciation and amortization	–	245	1,071	161	–	1,477
Disposals	–	(7)	(293)	(3)	–	(303)
Reclassification/others	–	5	19	(6)	–	18
Balance at end of year	–	2,847	9,487	1,014	–	13,348
Allowance for impairment losses (Note 14)						
Balance at beginning of year	–	–	4	–	–	4
Accounts charged off/others	–	–	(2)	–	–	(2)
Balance at end of year	–	–	2	–	–	2
Net book value at end of year	₱5,036	₱4,008	₱2,887	₱799	₱389	₱13,119

	Consolidated					
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Improvements	Building Under Construction	Total
2009						
Cost						
Balance at beginning of year	₱4,933	₱6,516	₱10,702	₱1,446	₱29	₱23,626
Additions	182	213	1,281	206	349	2,231
Disposals	(20)	(32)	(456)	(77)	–	(585)
Reclassification/others	(6)	(26)	3	32	(29)	(26)
Balance at end of year	5,089	6,671	11,530	1,607	349	25,246
Accumulated depreciation and amortization						
Balance at beginning of year	–	2,402	8,047	750	5	11,204
Depreciation and amortization	–	231	999	134	–	1,364
Disposals	–	(23)	(344)	(34)	–	(401)
Reclassification/others	–	(6)	(12)	12	(5)	(11)
Balance at end of year	–	2,604	8,690	862	–	12,156
Allowance for impairment losses (Note 14)						
Provision for impairment loss	–	–	4	–	–	4
Net book value at end of year	₱5,089	₱4,067	₱2,836	₱745	₱349	₱13,086

	Parent Company					
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Improvements	Building Under Construction	Total
2010						
Cost						
Balance at beginning of year	**₱4,545**	**₱4,893**	**₱8,397**	**₱1,220**	**₱349**	**₱19,404**
Additions	**–**	**122**	**383**	**135**	**40**	**680**
Disposals	**(39)**	**(18)**	**(64)**	**(3)**	**–**	**(124)**
Reclassification/others	**(14)**	**12**	**8**	**9**	**–**	**15**
Balance at end of year	**4,492**	**5,009**	**8,724**	**1,361**	**389**	**19,975**
Accumulated depreciation and amortization						
Balance at beginning of year	–	**2,347**	**7,007**	**653**	**–**	**10,007**
Depreciation and amortization	–	**203**	**479**	**109**	**–**	**791**
Disposals	–	**(8)**	**(37)**	**(2)**	**–**	**(47)**
Reclassification/others	–	**(3)**	**7**	**1**	**–**	**5**
Balance at end of year	–	**2,539**	**7,456**	**761**	**–**	**10,756**
Net book value at end of year	**₱4,492**	**₱2,470**	**₱1,268**	**₱600**	**₱389**	**₱9,219**
2009						
Cost						
Balance at beginning of year	₱4,446	₱4,794	₱7,931	₱1,155	₱29	₱18,355
Additions	105	169	511	124	349	1,258
Disposals	(20)	(32)	(43)	(77)	–	(172)
Reclassification/others	14	(38)	(2)	18	(29)	(37)
Balance at end of year	4,545	4,893	8,397	1,220	349	19,404
Accumulated depreciation and amortization						
Balance at beginning of year	–	2,182	6,548	593	5	9,328
Depreciation and amortization	–	194	474	84	–	752
Disposals	–	(23)	(11)	(34)	–	(68)
Reclassification/others	–	(6)	(4)	10	(5)	(5)
Balance at end of year	–	2,347	7,007	653	–	10,007
Net book value at end of year	₱4,545	₱2,546	₱1,390	₱567	₱349	₱9,397

Building under construction pertains to bank premises yet to be opened by the Parent Company. The capital expenditures of the Parent Company related to the construction amounted to ₱39.6 million and ₱348.7 million in 2010 and 2009, respectively.

As of December 31, 2010 and 2009, the cost of fully depreciated property and equipment still in use amounted to ₱872.4 million and ₱705.0 million, respectively, for the Group and ₱145.4 million and ₱157.2 million, respectively, for the Parent Company.

11. Investments in Subsidiaries and Associates

This account consists of investments in shares of stock as follows:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Subsidiaries:				
Acquisition cost:				
Wholly owned subsidiaries	**₱–**	₱–	**₱10,280**	₱1,622
Majority owned subsidiaries	**–**	–	**15,873**	15,875
	–	–	**26,153**	17,497
Less allowance for impairment losses (Note 14)	**–**	–	**351**	–
	₱–	₱–	**₱25,802**	₱17,497
Associates:				
Acquisition cost:				
Global Business Power Corporation (GBPC) (29.42%* owned in 2010; 60.80%* owned in 2009)	**₱6,354**	₱4,499	**₱–**	₱–
Lepanto Consolidated Mining Company (LCMC) (Note 27) (19.13% owned in 2010; 19.46% owned in 2009)	**2,135**	2,131	**–**	762
Toyota Motor Philippines Corporation (TMPC) (30.00% owned)	**673**	673	**673**	673
Cathay International Resources Corporation (CIRC) (34.32%* owned in 2010; 41.05%* owned in 2009)	**489**	489	**–**	–
Toyota Financial Services Philippines Corporation (TFSPC) (34.00% owned)	**420**	420	**150**	150
Sumisho Motor Financing Corporation (SMFC) (30.39% owned)	**400**	400	**–**	–
Northpine Land, Inc. (NLI) (20.00% owned)	**232**	232	**232**	232
SMBC Metro Investment Corporation (SMBC Metro) (30.00% owned)	**180**	180	**180**	180
Taal Land Inc. (35.00% owned)	**178**	178	**178**	178
Philippine AXA Life Insurance Corporation (PALIC) (27.60% owned)	**172**	278	**–**	–
First Metro Save and Learn Equity Fund (8.81% owned in 2010; 30.99% owned in 2009)	**94**	166	**–**	–
Global Business Holdings, Inc. (GBHI) (44.83% owned in 2009)	**–**	9,232	**–**	9,232
Others	**123**	104	**–**	–
	11,450	18,982	**1,413**	11,407
Less allowance for impairment losses (Note 14)	**252**	150	**150**	150
	11,198	18,832	**1,263**	11,257
Accumulated equity in net income:				
Balance at beginning of year	**2,638**	2,667	–	–
Share in net income of associates	**1,618**	919	–	–
Dividends	**(509)**	(948)	–	–
Divestments	**304**	–	–	–
Balance at end of year	**4,051**	2,638	–	–
Equity in net unrealized gain on AFS investments of associates	**289**	106	–	–
Translation adjustment and others	**37**	75	–	–
	₱15,575	₱21,651	**₱1,263**	₱11,257

**Represents effective economic interest of the Parent Company. GBPC is 70.00% and 30.00% owned by GBHI and FMIC, respectively, while CIRC is 15.00% and 35.00% owned by GBHI and FMIC, respectively.*

Goodwill amounted to ₱6.4 billion as of December 31, 2010 and 2009 for the Group of which ₱1.2 billion pertained to the Parent Company.

Investments in wholly owned subsidiaries include MBCL which assumed the assets and liabilities of Metrobank Shanghai Branch including its sub-branches and started commercial operations on March 2, 2010.

In 2010, the Parent Company sold its investment in GBHI to Cellini Holdings, Inc., a company where the majority stockholders of the Parent Company have indirect minority interest. On August 31, 2010, the Parent Company sold 4.5 million shares for cash amounting to ₱3.6 billion which reduced its ownership in GBHI to 27.58%. On October 28, 2010, the remaining shares were sold for ₱5.7 billion. Receivable of ₱4.0 billion with 6.0% annual interest starting January 1, 2011 will be paid in three equal annual installments starting December 31, 2013 (Note 9).

As of December 31, 2010 and 2009, FMIC's investments in GBPC and CIRC include deposits for future stock subscription amounting to ₱5.3 billion and ₱3.4 billion, respectively, for GBPC and ₱314.0 million for CIRC.

The following tables present financial information of significant associates as of and for the years ended:

	Statement of Financial Position		Statement of Income		
	Total Assets	Total Liabilities	Gross Income (Loss)	Operating Income (Loss)	Net Income (Loss)
December 31, 2010					
GBPC	**₱62,689**	**₱43,110**	**₱4,699**	**₱446**	**₱507**
PALIC	**35,610**	**32,045**	**3,801**	**4,716**	**795**
TFSPC	**18,776**	**16,936**	**1,721**	**329**	**263**
TMPC	**17,299**	**9,599**	**6,607**	**3,537**	**3,111**
LCMC	**8,100**	**3,632**	**134**	**(22)**	**20**
CIRC	**2,212**	**1,741**	**81**	**(3)**	**(3)**
NLI	**1,793**	**523**	**393**	**2**	**45**
SMFC	**993**	**65**	**64**	**(92)**	**(73)**
SMBC Metro	**841**	**63**	**111**	**80**	**71**
December 31, 2009					
GBPC	35,517	18,937	3,876	339	450
PALIC	32,725	30,205	4,438	10,021	848
TFSPC	13,995	12,422	1,390	294	200
TMPC	15,606	9,429	3,693	1,813	1,588
LCMC	8,062	3,696	(376)	(349)	(356)
CIRC	2,060	1,561	122	31	(1)
NLI	1,789	565	326	70	51
SMFC	1,048	60	4	(18)	(12)
SMBC Metro	854	34	73	44	36
GBHI	37,471	26,962	3,867	3,748	(95)

Major assets of significant associates include the following:

	2010	2009
GBPC		
Cash and cash equivalents	**₱6,745**	₱4,076
Receivables - net	**7,023**	5,099
Property, plant and equipment - net	**34,820**	20,337
PALIC		
Cash and cash equivalents	**1,731**	1,713
AFS investments	**9,967**	6,270
Receivables - net	**780**	84
Property, plant and equipment - net	**77**	124
Investments held to cover linked liabilities	**22,914**	22,011

(Forward)

	2010	2009
TFSPC		
Receivables - net	**₱13,839**	₱10,821
Property, plant and equipment	**18**	25
Investment properties	**74**	49
TMPC		
Cash and cash equivalents	**6,949**	6,501
Receivables - net	**2,594**	1,267
Inventories - net	**5,032**	3,023
Property, plant and equipment - net	**727**	783
LCMC		
Receivables - net	**298**	322
Inventories	**337**	372
Property, plant and equipment - net	**6,199**	5,989
CIRC		
Accounts receivables	**249**	444
Advances	**1,251**	1,253
Investment properties - net	**695**	713
NLI		
Real estate properties	**1,060**	1,137
Receivables - net	**441**	400
SMFC		
Cash and cash equivalents	**638**	1003
Receivables - net	**221**	1
Property, plant and equipment	**63**	33
SMBC Metro		
Cash and cash equivalents	**605**	782
AFS investments	**60**	48
Loans receivable - net	**164**	13
GBHI		
Cash and cash equivalents		4,124
AFS investments		718
Receivables - net		5,602
Property, plant and equipment - net		20,337
Investment properties		695

As of December 31, 2010 and 2009, the fair value of investment in LCMC amounted to ₱2.9 billion and ₱1.6 billion, respectively, for the Group and nil and ₱678.6 million, respectively, for the Parent Company.

The following tables summarize dividends declared by significant investee companies:

Subsidiary/Associate	Date of Declaration	Per Share	Total Amount	Date of BSP Approval	Record Date	Payment Date
2010						
Cash Dividend						
TMPC	May 20, 2010	₱102.52	₱1,588	Not required	December 31, 2009	May 21, 2010
FMIC	June 22, 2010	2.65	999	August 11, 2010	September 8 ,2010	September 30, 2010
PSBank	February 19, 2010	2.75	661	April 22, 2010	May 17, 2010	May 31, 2010
PSBank	October 14, 2010	0.15	36	November 15, 2010	December 8, 2010	December 23, 2010
PSBank	July 27, 2010	0.15	36	September 6, 2010	September 29, 2010	October 14, 2010
PSBank	May 17, 2010	0.15	36	June 15, 2010	July 13, 2010	August 3, 2010
PSBank	January 19, 2010	0.15	36	March 8, 2010	March 31, 2010	April 16, 2010
PSBank	October 13, 2009	0.15	36	December 15, 2009	January 14, 2010	January 28, 2010
ORIX Metro	September 30, 2009	10.00	141	December 15, 2009	September 30, 2009	December 21, 2009
SMBC Metro	July 20, 2010	13.33	80	Not required	July 20, 2010	August 25, 2010
SMBC Metro	December 4, 2009	5.00	30	Not required	December 4, 2009	January 8, 2010
2009						
Cash Dividend						
TMPC	May 21, 2009	₱170.37	₱2,644	Not required	May 21, 2009	May 22, 2009
PSBank	October 13, 2009	0.15	36	October 26, 2009	November 13, 2009	December 1, 2009
PSBank	July 29, 2009	0.15	36	August 20, 2009	September 15, 2009	September 30, 2009
PSBank	January 20, 2009	0.15	36	June 29, 2009	July 23, 2009	August 7, 2009
PSBank	October 28, 2008	0.15	36	March 6, 2009	March 26, 2009	April 15, 2009
TFSPC	July 3, 2009	10.71	107	September 28, 2009	July 3, 2009	October 5, 2009
Orix Metro	September 24, 2008	10.00	61	December 22, 2008	September 24, 2008	December 24, 2008
MRC Singapore	August 20, 2009	33.67	17	August 10, 2009	August 20, 2009	August 20, 2009
Stock Dividend						
Orix Metro	September 24, 2008	15.00	92	December 22, 2008	September 24, 2008	December 24, 2008

12. Investment Properties

This account consists of foreclosed real estate properties and investments in real estate:

	Consolidated					
	2010			2009		
	Land	**Buildings and Improvements**	**Total**	Land	Buildings and Improvements	Total
Cost						
Balance at beginning of year	**₱20,703**	**₱6,346**	**₱27,049**	₱22,387	₱6,691	₱29,078
Additions	**800**	**780**	**1,580**	1,497	678	2,175
Disposals	**(3,213)**	**(1,527)**	**(4,740)**	(3,183)	(1,054)	(4,237)
Reclassification/others	**(412)**	**182**	**(230)**	2	31	33
Balance at end of year	**17,878**	**5,781**	**23,659**	20,703	6,346	27,049
Accumulated depreciation and amortization						
Balance at beginning of year	**–**	**2,843**	**2,843**	–	2,980	2,980
Depreciation and amortization	**–**	**468**	**468**	–	365	365
Disposals	**–**	**(793)**	**(793)**	–	(512)	(512)
Reclassification/others	**–**	**(21)**	**(21)**	–	10	10
Balance at end of year	**–**	**2,497**	**2,497**	–	2,843	2,843
Allowance for impairment losses (Note 14)						
Balance at beginning of year	**2,374**	**152**	**2,526**	1,782	177	1,959
Provision for impairment loss	**860**	**18**	**878**	1,069	28	1,097
Disposals	**(326)**	**(38)**	**(364)**	(479)	(49)	(528)
Reclassification/others	**(248)**	**(31)**	**(279)**	2	(4)	(2)
Balance at end of year	**2,660**	**101**	**2,761**	2,374	152	2,526
Net book value at end of year	**₱15,218**	**₱3,183**	**₱18,401**	₱18,329	₱3,351	₱21,680

	Parent Company					
	2010			2009		
	Land	**Buildings and Improvements**	**Total**	Land	Buildings and Improvements	Total
Cost						
Balance at beginning of year	**₱16,901**	**₱4,705**	**₱21,606**	₱18,356	₱5,165	₱23,521
Additions	**500**	**380**	**880**	1,226	362	1,588
Disposals	**(2,896)**	**(1,278)**	**(4,174)**	(2,678)	(867)	(3,545)
Reclassification/others	**(412)**	**182**	**(230)**	(3)	45	42
Balance at end of year	**14,093**	**3,989**	**18,082**	16,901	4,705	21,606
Accumulated depreciation and amortization						
Balance at beginning of year	–	**2,408**	**2,408**	–	2,579	2,579
Depreciation and amortization	–	**401**	**401**	–	301	301
Disposals	–	**(738)**	**(738)**	–	(483)	(483)
Reclassification/others	–	**(21)**	**(21)**	–	11	11
Balance at end of year	–	**2,050**	**2,050**	–	2,408	2,408
Allowance for impairment losses (Note 14)						
Balance at beginning of year	**1,957**	**115**	**2,072**	1,665	140	1,805
Provision for impairment loss	**810**	**17**	**827**	768	24	792
Disposals	**(299)**	**(28)**	**(327)**	(479)	(49)	(528)
Reclassification/others	**(248)**	**(31)**	**(279)**	3	–	3
Balance at end of year	**2,220**	**73**	**2,293**	1,957	115	2,072
Net book value at end of year	**₱11,873**	**₱1,866**	**₱13,739**	₱14,944	₱2,182	₱17,126

As of December 31, 2010 and 2009, foreclosed investment properties still subject to redemption period by the borrower amounted to ₱1.1 billion and ₱1.3 billion, respectively, for the Group and ₱383.6 million and ₱740.5 million, respectively, for the Parent Company.

As of December 31, 2010 and 2009, aggregate market value of investment properties amounted to ₱27.8 billion and ₱27.9 billion, respectively, for the Group and ₱19.5 billion and ₱25.3 billion, respectively, for the Parent Company, of which the aggregate market value of investment properties determined by independent external appraisers amounted to ₱22.1 billion and ₱27.4 billion, respectively, for the Group and ₱19.3 billion and ₱24.8 billion, respectively, for the Parent Company. Fair value has been determined based on valuations made by independent and/or in-house appraisers. Valuations were derived on the basis of recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made.

Rental income on investment properties (included in 'Leasing income' in the statement of income) in 2010, 2009 and 2008 amounted to ₱125.7 million, ₱147.5 million and ₱202.6 million, respectively, for the Group and ₱55.2 million, ₱89.8 million and ₱126.8 million, respectively, for the Parent Company.

Direct operating expenses on investment properties that generated rental income (included under 'Litigation expenses') in 2010, 2009 and 2008 amounted to ₱33.7 million, ₱21.6 million and ₱16.4 million, respectively, for the Group and ₱32.7 million, ₱21.4 million and ₱16.3 million, respectively, for the Parent Company. Direct operating expenses on investment properties that did not generate rental income (included under 'Litigation expenses') in 2010, 2009 and 2008 amounted to ₱270.4 million, ₱427.1 million and ₱296.6 million, respectively, for the Group and ₱239.3 million, ₱426.0 million and ₱295.7 million, respectively, for the Parent Company (Note 25).

Net gains from sale of investment properties (included in 'Profit from assets sold' in the statement of income) in 2010, 2009 and 2008 amounted to ₱1.1 billion, ₱642.4 million and ₱1.6 billion, respectively, for the Group and ₱997.4 million, ₱580.6 million and ₱1.5 billion, respectively, for the Parent Company.

13. **Other Assets**

This account consists of:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Assets held under joint ventures	**₱3,241**	₱3,241	**₱3,241**	₱3,241
Interoffice float items	**1,100**	800	**1,295**	792
Creditable withholding tax	**682**	569	**381**	504
Prepaid expenses	**665**	362	**78**	50
Retirement asset (Note 23)	**520**	857	**510**	857
Software costs - net	**500**	441	**262**	253
Returned checks and other cash items	**359**	242	**331**	196
Residual value of leased property	**342**	357	**–**	–
Chattel properties acquired in foreclosure - net	**260**	334	**9**	132
Documentary and postage stamps on hand	**260**	300	**260**	300
Other investments	**13**	16	**10**	13
Assets held by SPVs - net (Notes 2 and 14)	**–**	3,994	**–**	–
Deposit and other receivable from a third party	**–**	1,157	**–**	1,157
Investments in SPVs - net	**–**	–	**–**	2,215
Miscellaneous	**1,296**	2,961	**903**	846
	9,238	15,631	**7,280**	10,556
Less allowance for impairment losses (Note 14)	**742**	359	**711**	359
	₱8,496	₱15,272	**₱6,569**	₱10,197

Assets held under joint ventures are parcels of land and former branch sites of the Parent Company with net realizable value of ₱3.2 billion as of December 31, 2010 and 2009 which were contributed to separate joint ventures with Federal Land, Inc. and Federal Land Orix Corporation (Note 27).

Movements in software costs account follow:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Balance at beginning of year	**₱441**	₱348	**₱253**	₱173
Additions	**280**	263	**119**	154
Amortization	**(199)**	(160)	**(89)**	(64)
Disposals/others	**(22)**	(10)	**(21)**	(10)
Balance at end of year	**₱500**	₱441	**₱262**	₱253

Movements in chattel properties acquired in foreclosure follow:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Cost				
Balance at beginning of year	**₱1,046**	₱1,090	**₱763**	₱761
Additions	**655**	551	**8**	14
Disposals/others	**(1,283)**	(595)	**(686)**	(12)
Balance at end of year	**418**	1,046	**85**	763
Accumulated depreciation and amortization				
Balance at beginning of year	**690**	622	**620**	550
Depreciation and amortization	**116**	123	**66**	74
Disposals/others	**(658)**	(55)	**(613)**	(4)
Balance at end of year	**148**	690	**73**	620

(Forward)

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Allowance for impairment losses (Note 14)				
Balance at beginning of year	**₱22**	₱16	**₱11**	₱12
Provision for impairment loss	**–**	7	**–**	–
Disposals	**(12)**	(1)	**(8)**	(1)
Balance at end of year	**10**	22	**3**	11
Net book value at end of year	**₱260**	₱334	**₱9**	₱132

Assets held by SPVs consist mainly of certain loans that are in the process of being resolved or disposed of by the SPVs. As of December 31, 2009, Assets held by SPVs are carried net of allowance for impairment losses amounting to ₱6.6 billion.

Investments in SPVs represent subordinated notes issued by CG3AMI and LNC3AMI with face amount of ₱9.4 billion and ₱2.6 billion, respectively. These notes are non-interest bearing and payable over five (5) years starting April 1, 2006, with rollover of two (2) years at the option of the note issuers. These were received by the Parent Company on April 1, 2006 in exchange for the subordinated note issued by Asia Recovery Corporation (ARC) in 2003 with face amount of ₱11.9 billion. The subordinated note issued by ARC represents payment on the nonperforming assets (NPAs) sold by the Parent Company to ARC in 2003. The related deed of absolute sale was formalized on September 17, 2003 and approved by the BSP on November 28, 2003, having qualified as a true sale. As of December 31, 2010 and 2009, the estimated fair value of the subordinated notes, which is the present value of the estimated cash flows from such notes (derived from the sale of the underlying collaterals of the NPAs, net of the payment to senior notes by the SPV) amounted to nil and ₱2.2 billion, respectively, net of allowance for impairment losses of ₱8.8 billion and ₱6.6 billion, respectively.

Miscellaneous account includes certificates of deposits totaling USD11.2 million (with peso equivalent of ₱491.0 million) and USD11.0 million (with peso equivalent of ₱508.2 million) as of December 31, 2010 and 2009, respectively, that are pledged by the Parent Company's New York Branch in compliance with the regulatory requirements of the Federal Deposit Insurance Corporation and the Office of the Controller of the Currency in New York.

14. Allowance for Credit and Impairment Losses

Changes in the allowance for credit and impairment losses follow:

	Consolidated		Parent Company	
	December 31			
	2010	2009	**2010**	2009
Balance at beginning of year:				
AFS investments (Note 8)				
Debt securities - Private	**₱1,148**	₱375	**₱996**	₱375
Equity securities				
Quoted	**–**	–	**–**	–
Unquoted	**399**	227	**69**	69
HTM investments (Note 8)	**231**	237	**231**	237
Loans and receivables (Note 9)	**14,008**	13,541	**9,060**	9,261
Investments in subsidiaries	**–**	–	**–**	–
Investments in associates (Note 11)	**150**	159	**150**	150
Property and equipment (Note 10)	**4**	–	**–**	–
Investment properties (Note 12)	**2,526**	1,959	**2,072**	1,805
Other assets (Note 13)	**7,024**	4,276	**7,013**	4,272
	25,490	20,774	**19,591**	16,169

(Forward)

	Consolidated		Parent Company	
	December 31			
	2010	2009	**2010**	2009
Provisions for credit and impairment losses	**₱7,285**	₱8,793	**₱4,485**	₱5,613
Reversal of allowance on disposal of investment properties and chattel properties	**(376)**	(529)	**(335)**	(529)
Accounts written off/others	**(2,922)**	(3,548)	**(847)**	(1,662)
Balance at end of year:				
AFS investments (Note 8)				
Debt securities - Private	**1,073**	1,148	**977**	996
Equity securities - Quoted	**377**	–	**123**	–
Equity securities - Unquoted	**243**	399	**86**	69
HTM investments (Note 8)	**219**	231	**219**	231
Loans and receivables (Note 9)	**14,941**	14,008	**9,124**	9,060
Investments in subsidiaries (Note 11)	**–**	–	**351**	–
Investments in associates (Note 11)	**252**	150	**150**	150
Property and equipment (Note 10)	**2**	4	**–**	–
Investment properties (Note 12)	**2,761**	2,526	**2,293**	2,072
Other assets* (Note 13)	**9,609**	7,024	**9,571**	7,013
	₱29,477	₱25,490	**₱22,894**	₱19,591

* Allowance for credit and impairment losses of other assets include allowance on investments in SPVs, assets held by SPVs, chattel mortgage properties and miscellaneous assets.

Below is the breakdown of provision for credit and impairment losses.

	Consolidated			Parent Company		
	December 31					
	2010	2009	2008	**2010**	2009	2008
AFS investments	**₱252**	₱2,118	₱425	**₱173**	₱1,727	₱407
HTM investments	**–**	–	223	**–**	–	223
Loans and receivables						
Receivables from customers	**2,983**	2,849	2,747	**170**	376	866
Unquoted debt instruments	**252**	555	–	**104**	555	–
Accounts receivable	**108**	260	264	**97**	260	240
Sales contract receivable	**–**	–	(6)	**196**	–	–
Other receivables	**124**	1,067	12	**–**	1,067	8
Investments in subsidiaries	**–**	–	–	**351**	–	–
Investments in associates	**102**	–	–	**–**	–	–
Property and equipment (Note 10)	**–**	4	–	**–**	–	–
Investment properties (Note 12)	**878**	1,097	627	**827**	792	582
Chattel properties acquired in foreclosure (Note 13)	**–**	7	5	**–**	–	–
Other assets	**2,586**	836	(1,048)	**2,567**	836	(1,048)
	₱7,285	₱8,793	₱3,249	**₱4,485**	₱5,613	₱1,278

With the foregoing level of allowance for credit and impairment losses, management believes that the Group has sufficient allowance to take care of any losses that the Group may incur from the noncollection or nonrealization of its receivables and other risk assets.

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

	Consolidated							
	Commercial Loans	Residential Mortgage Loans	Auto Loans	Trade	Others	Subtotal	Other Receivables*	Total
Balance at January 1, 2010	₱5,587	₱322	₱867	₱351	₱2,305	₱9,432	₱4,576	₱14,008
Provisions during the year	431	15	78	4	2,455	2,983	484	3,467
Accounts written off	(97)	–	(171)	(46)	(1,674)	(1,988)	(4)	(1,992)
Transfers/others	(216)	(25)	(276)	222	29	(266)	(276)	(542)
Balance at December 31, 2010	₱5,705	₱312	₱ 498	₱531	₱3,115	₱10,161	₱4,780	₱14,941
Individual impairment	₱5,187	₱262	₱–	₱529	₱832	₱6,810	₱1,842	₱8,652
Collective impairment	518	50	498	2	2,283	3,351	2,938	6,289
	₱5,705	₱312	₱498	₱531	₱3,115	₱10,161	₱4,780	₱14,941
Gross amount of loans individually determined to be impaired	₱11,581	₱957	₱–	₱544	₱873	₱13,955	₱2,954	₱16,909

	Consolidated							
	Commercial Loans	Residential Mortgage Loans	Auto Loans	Trade	Others	Subtotal	Other Receivables*	Total
Balance at January 1, 2009	₱8,794	₱156	₱462	₱343	₱2,008	₱11,763	₱1,778	₱13,541
Provisions during the year	616	114	493	37	1,589	2,849	1,882	4,731
Accounts written off	(396)	–	(4)	(97)	(5)	(502)	(10)	(512)
Transfers/others	(3,427)	52	(84)	68	(1,287)	(4,678)	926	(3,752)
Balance at December 31, 2009	₱5,587	₱322	₱867	₱351	₱2,305	₱9,432	₱4,576	₱14,008
Individual impairment	₱5,203	₱164	₱–	₱351	₱34	₱5,752	₱1,690	₱7,442
Collective impairment	384	158	867	–	2,271	3,680	2,886	6,566
	₱5,587	₱322	₱867	₱351	₱2,305	₱9,432	₱4,576	₱14,008
Gross amount of loans individually determined to be impaired	₱16,031	₱542	₱–	₱723	₱1,149	₱18,445	₱3,112	₱21,557

	Parent Company							
	Commercial Loans	Residential Mortgage Loans	Auto Loans	Trade	Others	Subtotal	Other Receivables*	Total
Balance at January 1, 2010	**₱5,083**	**₱79**	**₱15**	**₱351**	**₱33**	**₱5,561**	**₱3,499**	**₱9,060**
Provisions during the year	**155**	**14**	**–**	**1**	**–**	**170**	**397**	**567**
Accounts written off	**(97)**	**–**	**–**	**(46)**	**(3)**	**(146)**	**(1)**	**(147)**
Transfers/others	**(483)**	**46**	**8**	**222**	**(8)**	**(215)**	**(141)**	**(356)**
Balance at December 31, 2010	**₱4,658**	**₱139**	**₱23**	**₱528**	**₱22**	**₱5,370**	**₱3,754**	**₱9,124**
Individual impairment	**₱4,570**	**₱135**	**₱–**	**₱528**	**₱22**	**₱5,255**	**₱1,562**	**₱6,817**
Collective impairment	**88**	**4**	**23**	**–**	**–**	**115**	**2,192**	**2,307**
	₱4,658	**₱139**	**₱23**	**₱528**	**₱22**	**₱5,370**	**₱3,754**	**₱9,124**
Gross amount of loans individually determined to be impaired	**₱9,550**	**₱636**	**₱–**	**₱544**	**₱22**	**₱10,752**	**₱2,901**	**₱13,653**
Balance at January 1, 2009	₱7,664	₱62	₱33	₱343	₱33	₱8,135	₱1,126	₱9,261
Provisions during the year	300	26	13	37	–	376	1,882	2,258
Accounts written off	(104)	–	(4)	(97)	(5)	(210)	(10)	(220)
Transfers/others	(2,777)	(9)	(27)	68	5	(2,740)	501	(2,239)
Balance at December 31, 2009	₱5,083	₱79	₱15	₱351	₱33	₱5,561	₱3,499	₱9,060
Individual impairment	₱4,693	₱30	₱–	₱351	₱33	₱5,107	₱1,595	₱6,702
Collective impairment	390	49	15	–	–	454	1,904	2,358
	₱5,083	₱79	₱15	₱351	₱33	₱5,561	₱3,499	₱9,060
Gross amount of loans individually determined to be impaired	₱13,327	₱187	₱–	₱723	₱46	₱14,283	₱2,289	₱16,572

* Allowance for credit losses on other receivables include allowance on unquoted debt securities, accounts receivables, accrued interest receivable on AFS and HTM investments, sales contract receivables and deficiency judgment receivable.

Movements in the allowance for credit and impairment losses on AFS investments, HTM investments and other assets follow:

	Consolidated				
	AFS Investments				
	Debt Securities	Equity Securities	HTM Investments	Other Assets*	Total
At January 1, 2010	**₱1,148**	**₱399**	**₱231**	**₱7,002**	**₱8,780**
Provisions for credit and impairment losses	**32**	**220**	**–**	**2,586**	**2,838**
Accounts written off	**–**	**–**	**–**	**–**	**–**
Reclassifications/others	**(107)**	**1**	**(12)**	**11**	**(107)**
At December 31, 2010	**₱1,073**	**₱620**	**₱219**	**₱9,599**	**₱11,511**
At January 1, 2009	₱375	₱227	₱237	₱4,260	₱5,099
Provisions for credit and impairment losses	1,938	180	–	836	2,954
Accounts written off	(1,924)	–	–	–	(1,924)
Reclassifications/others	759	(8)	(6)	1,906	2,651
At December 31, 2009	₱1,148	₱399	₱231	₱7,002	₱8,780

	Parent Company				
	AFS Investments				
	Debt Securities	Equity Securities	HTM Investments	Other Assets*	Total
Balance at January 1, 2010	**₱996**	**₱69**	**₱231**	**₱7,002**	**₱8,298**
Provisions for credit and impairment losses	**33**	**140**	**–**	**2,567**	**2,740**
Accounts written off	**–**	**–**	**–**	**–**	**–**
Reclassifications/others	**(52)**	**–**	**(12)**	**–**	**(64)**
Balance at December 31, 2010	**₱977**	**₱209**	**₱219**	**₱9,569**	**₱10,974**
Balance at January 1, 2009	₱375	₱69	₱237	₱4,260	₱4,941
Provisions for credit and impairment losses	1,727	–	–	836	2,563
Accounts written off	(1,924)	–	–	–	(1,924)
Reclassifications/others	818	–	(6)	1,906	2,718
Balance at December 31, 2009	₱996	₱69	₱231	₱7,002	₱8,298

* Allowance for credit and impairment losses on other assets include allowance on investments in SPVs and miscellaneous assets.

15. **Deposit Liabilities**

As of December 31, 2010 and 2009, 7.50% and 7.70% of the total interest-bearing deposit liabilities of the Group, respectively, are subject to periodic interest repricing. Remaining peso deposit liabilities earn annual fixed interest rates ranging from 0.00% to 14.85%, from 0.00% to 15.00%, and from 0.10% to 14.80% in 2010, 2009 and 2008, respectively, while foreign currency-denominated deposit liabilities earn annual fixed interest rates ranging from 0.00% to 7.50%, from 0.00% to 6.50% and from 0.00% to 7.50% in 2010, 2009 and 2008, respectively.

Interest expense on deposit liabilities consists of:

	Consolidated			Parent Company		
	2010	2009	2008	**2010**	2009	2008
Demand	**₱191**	₱157	₱291	**₱135**	₱96	₱113
Savings	**1,069**	962	1,176	**1,022**	923	1,143
Time	**8,453**	10,174	11,959	**5,913**	7,882	9,908
	₱9,713	₱11,293	₱13,426	**₱7,070**	₱8,901	₱11,164

Under existing BSP regulations, non-FCDU deposit liabilities of the Parent Company and deposit substitutes of FMIC, Orix Metro and MCC are subject to liquidity reserves equivalent to 11.00% and statutory reserves equivalent to 8.00%. On the other hand, non-FCDU deposit liabilities of PSBank are subject to liquidity reserves equivalent to 2.00% and statutory reserves equivalent to 4.00%. The Parent Company, PSBank, FMIC, ORIX Metro, and MCC were in compliance with such regulations as of December 31, 2010 and 2009.

The total liquidity and statutory reserves as reported to BSP follows:

	Parent Company		PSBank		FMIC	
	2010	2009	**2010**	2009	**2010**	2009
Cash and other cash items	**₱16,763**	₱16,738	**₱3,084**	₱2,555	**₱7,979**	₱7,343
Due from BSP	**65,930**	62,751	**1,047**	915	**880**	1,965
Unquoted debt securities	**2,830**	2,442	–	–	**–**	–
AFS investments	**–**	–	**1,490**	1,236	**–**	–
	₱85,523	₱81,931	**₱5,621**	₱4,706	**₱8,859**	₱9,308

	ORIX Metro		MCC	
	2010	2009	**2010**	2009
Due from other banks	**₱–**	₱–	**₱1,629**	₱1,610
Due from BSP	**1,004**	430	**1,042**	875
	₱1,004	₱430	**₱2,671**	₱2,485

16. **Bills Payable and Securities Sold Under Repurchase Agreements**

This account consists of borrowings from:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Deposit substitutes	**₱48,803**	₱49,406	**₱–**	₱–
Local banks (Note 9)	**15,347**	6,701	**452**	246
Foreign banks	**13,723**	5,330	**9,754**	3,211
SSURA (Note 8)	**7,441**	34,008	**–**	23,697
BSP (Note 9)	**199**	423	**199**	423
	₱85,513	₱95,868	**₱10,405**	₱27,577

Interbank borrowings with foreign and local banks are mainly short-term borrowings. The Group's peso borrowings are subject to annual fixed interest rates ranging from 1.00% to 8.40%, from 3.00% to 8.00% and from 2.88% to 8.55% in 2010, 2009 and 2008, respectively, while the Group's foreign currency-denominated borrowings are subject to annual fixed interest rates ranging from 0.15% to 4.10%, from 0.20% to 4.10% and from 0.75% to 5.80% in 2010, 2009 and 2008, respectively.

Deposit substitutes pertain to borrowings from the public of FMIC, ORIX Metro and MCC.

Interest expense on bills payable (included in the 'Interest expense on bills payable and SSURA, subordinated debt and others' in the statement of income) in 2010, 2009 and 2008 amounted to ₱3.5 billion, ₱4.3 billion and ₱3.5 billion, respectively, for the Group and ₱0.5 billion, ₱0.7 billion and ₱0.2 billion, respectively, for the Parent Company.

17. **Accrued Interest and Other Expenses**

This account consists of:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Accrued interest	**₱1,821**	₱2,230	**₱992**	₱1,465
Accrued other expenses	**3,353**	2,617	**1,780**	1,421
	₱5,174	₱4,847	**₱2,772**	₱2,886

Accrued other expenses include accruals for salaries and wages, fringe benefits, rentals, percentage and other taxes, insurance on deposits, professional fees, advertisements and information technology expenses.

18. Subordinated Debt

This account consists of the following Peso Notes:

		Consolidated		Parent Company	
	Maturity Date	2010	2009	2010	2009
Parent Company					
2017	October 19, 2017	**₱8,470**	₱8,455	**₱8,470**	₱8,455
2018	October 3, 2018	**5,466**	5,455	**5,466**	5,455
2019	May 6, 2019	**4,470**	4,462	**4,470**	4,462
PSBank - 2016	January 27, 2016	**1,977**	1,974	–	–
MCC - 2019	June 30, 2019	**1,290**	1,288	–	–
		₱21,673	₱21,634	**₱18,406**	₱18,372

Peso Notes issued by the Parent Company are unsecured and subordinated obligations and will rank *pari passu* and without any preference among themselves and at least equally with all other present and future unsecured and subordinated obligations of the Parent Company. These Peso Notes have a term of 10 years and are redeemable at the option of the Parent Company (but not the holders) after the fifth year in whole but not in part at redemption price equal to 100.00% of the principal amount together with accrued and unpaid interest on the date of redemption, subject to the prior consent of the BSP.

Further, at any time within the first five (5) years from respective issue dates of these Notes, upon (a) a change in tax status due to changes in laws and/or regulations or (b) the non-qualification of as Lower Tier 2 capital as determined by BSP of these Notes, the Parent Company may, upon prior approval of BSP and at least 30-day prior written notice to the Noteholders on record, redeem all and not less than all of the outstanding Peso Notes prior to stated maturity by paying the face value plus accrued interest at the interest rate. Also, the following shall be prohibited from purchasing and/or holding these Peso Notes: (1) subsidiaries and affiliates, including the subsidiaries and affiliates of the Parent Company's subsidiaries and affiliates; (2) unit investment trust funds managed by the Trust Department of the Parent Company, its subsidiaries and affiliates or other related entities; (3) other funds being managed by the Trust Department of the Parent Company, its subsidiaries and affiliates or other related entities where (a) the fund owners have not given prior authority or instruction to the Trust Department to purchase or invest in the Peso Notes or (b) the authority or instruction of the fund owner and his understanding of the risk involved in purchasing or investing in the Peso Notes are not fully documented.

Each Noteholder may not exercise or claim any right of set-off in respect of any amount owed to it by the Parent Company arising under or in connection with the Peso Notes and to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off. These Notes are not deposits and are not insured by the Philippine Deposit Insurance Corporation (PDIC).

Specific terms of these Notes follow:

Parent Company
2019 Peso Notes - issued on May 6, 2009, at 100.00% of the principal amount of ₱4.5 billion

- Bear interest at 7.50% per annum from and including May 6, 2009 to but excluding May 6, 2014. Interest will be payable quarterly in arrears on August 6, November 6, February 6, and May 6, commencing August 6, 2009 up to and including May 6, 2014. Unless these are previously redeemed, the interest rate from and including May 6, 2014 to but excluding May 6, 2019 will be reset at the equivalent of the five-year PDST-F as of Reset Date multiplied by 80.00% plus a spread of 3.5310% per annum. Interest will be payable quarterly in arrears on August 6, November 6, February 6 and May 6 of each year, commencing August 6, 2014 up to and including May 6, 2019.

2018 Peso Notes - issued on October 3, 2008, at 100.00% of the principal amount of ₱5.5 billion

- Bear interest at 7.75% per annum from and including October 3, 2008 to but excluding October 3, 2013. Interest will be payable quarterly in arrears on January 3, April 3, July 3 and October 3 of each year, commencing January 3, 2009 up to and including October 3, 2013. Unless these are previously redeemed, the interest rate from and including October 3, 2013 to but excluding October 3, 2018 will be reset at the equivalent of the five-year PDST-F as of Reset Date multiplied by 80.00% plus a spread of 2.708% per annum. Interest will be payable quarterly in arrears on January 3, April 3, July 3 and October 3 of each year, commencing January 3, 2014 up to and including October 3, 2018.

2017 Peso Notes - issued on October 19, 2007 at 100.00% of the principal amount of ₱8.5 billion
Bear interest at 7.00% per annum from and including October 19, 2007 to but excluding October 19, 2012. Interest will be payable quarterly in arrears on January 19, April 19, July 19 and October 19 of each year, commencing on January 19, 2008 up to and including October 19, 2012. Unless these Notes are previously redeemed, the interest rate from and including October 19, 2017 will be reset at the equivalent of the five-year PDST-F as of Reset date multiplied by 80% plus a spread of 2.4485% per annum, and such interest will be payable quarterly in arrears on January 19, April 19, July 19 and October 19 each year, commencing on January 19, 2012 up to and including October 19, 2017.

On September 17, 2008, the BOD of the Parent Company approved the listing of the 2018 Peso Notes and the 2017 Peso Notes with the Philippine Dealing Exchange (PDEX).

2019 Peso Notes - issued by MCC on June 30, 2009 at 100.00% of the principal amount of ₱1.3 billion

- Bear interest at 8.3958% per annum from and including June 30, 2009 but excluding June 30, 2014 which is payable quarterly in arrears every 30th of September, December, March and June of each year, commencing on September 30, 2009.
- Constitute direct, unconditional, and unsecured obligations of MCC and claim in respect of the 2019 Notes shall be at all times *pari passu* and without any preference among themselves.
- Subject to the written approval of the BSP, MCC may redeem all and not less than the entire outstanding 2019 Notes, at a redemption price equal to the face value together with accrued and unpaid interest based on the interest rate.

On September 30, 2014 (the Reset date), the Step-up Interest Rate will be based on a 5-year PDST-F FXTN as of Reset date multiplied by 80.00%, plus the Step-up Credit Spread on the twenty-first interest period up to the last interest period in the event that the issuer does not exercise the Call Option. The Step-up Credit Spread is equivalent to 4.91874%.

2016 Peso Notes - issued by PSBank on January 27, 2006 at 100.00% of the principal amount of ₱2.0 billion

- Bear interest at 10.00% per annum from and including January 27, 2006 but excluding January 27, 2011 which is payable quarterly in arrears every 27th of January, April, July and October of each year, commencing on April 27, 2006.
- Constitute direct, unconditional, and unsecured obligations of PSBank and claim in respect of the 2016 Notes shall be at all times *pari passu* and without any preference among themselves.
- Subject to satisfaction of certain regulatory approval requirements, PSBank may redeem all and not less than the entire outstanding 2016 Notes, at a redemption price equal to the face value together with accrued and unpaid interest based on the interest rate (Note 34).

On January 27, 2011 (the Reset date), the Step-up Interest Rate will be based on a 5-year Mart1 FXTN as of Reset date multiplied by 80.00%, plus the Step-up Credit Spread on the twenty-first interest period up to the last interest period in the event that the issuer does not exercise the Call Option. The Step-up Credit Spread is equivalent to 4.2815%.

As of December 31, 2010 and 2009, the market values of the Group's Peso Notes follow:

		Market Value	
	Face Value	**2010**	2009
Parent Company			
2017	₱8,500	**₱9,355**	₱8,737
2018	5,500	**6,186**	5,812
2019	4,500	**5,201**	4,861
PSBank - 2016	2,000	**2,039**	2,586
MCC - 2010	1,300	**1,469**	1,457
	₱21,800	**₱24,250**	₱23,453

As of December 31, 2010 and 2009, the Parent Company, PSBank and MCC are in compliance with the terms and conditions upon which these subordinated notes have been issued.

Interest expense on subordinated debt (included in the 'Interest expense on bills payable and SSURA, subordinated debt and others') in 2010, 2009 and 2008 amounted to ₱1.7 billion, ₱1.5 billion and ₱1.7 billion, respectively, for the Group and ₱1.4 billion, ₱1.3 billion and ₱1.5 billion, respectively, for the Parent Company.

19. **Other Liabilities**

This account consists of:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Bills purchased - contra (Note 9)	**₱11,761**	₱17,035	**₱11,706**	₱16,905
Accounts payable	**4,634**	4,866	**2,857**	2,311
Marginal deposits	**2,658**	1,548	**757**	1,548
Outstanding acceptances	**1,296**	913	**1,296**	913
Deposits on lease contracts	**485**	518	–	–
Other credits	**464**	399	**277**	210
Deferred revenues	**452**	45	**–**	–
Non-equity non-controlling interests	**452**	111	**–**	–
Withholding taxes payable	**354**	475	**215**	325
Retirement benefit liability (Note 23)	**277**	215	–	–
Liabilities of SPVs (Note 2)	**–**	3,717	**–**	–
Miscellaneous	**2,179**	1,109	**736**	757
	₱25,012	₱30,951	**₱17,844**	₱22,969

Deferred revenues refer to deferral and release of MCC's loyalty points program transactions and membership fees and dues.

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

As of December 31, 2009, liabilities of SPV account represents the principal balance of the senior notes carried in the accounts of CG3AMI and LNC3AMI, net of the costs and expenses.

Miscellaneous liabilities of the Group include notes payable to ₱543.3 million as of December 31, 2010 and 2009.

20. **Maturity Profile of Assets and Liabilities**

The following tables present the assets and liabilities by contractual maturity and settlement dates:

	Consolidated					
	2010			2009		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Financial Assets - at gross						
Cash and other cash items	**₱20,201**	**₱–**	**₱20,201**	₱19,727	₱–	₱19,727
Due from BSP	**168,402**	**–**	**168,402**	71,981	–	71,981
Due from other banks	**38,308**	**–**	**38,308**	36,636	66	36,702
Interbank loans receivable and SPURA (Note 7)	**26,507**	**–**	**26,507**	79,554	–	79,554
Financial assets at FVPL (Note 8)	**4,876**	**7,704**	**12,580**	4,781	12,265	17,046
Available for sale investments (Note 8)	**30,268**	**97,892**	**128,160**	19,766	138,516	158,282
HTM investments (Note 8)	**392**	**32,490**	**32,882**	2,415	21,437	23,852
Receivables from customers (Note 9)	**180,308**	**201,838**	**382,146**	169,914	182,123	352,037
Unquoted debt securities (Note 9)	**4,206**	**11,613**	**15,819**	676	15,399	16,075

(Forward)

	Consolidated					
	2010			2009		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Accrued interest receivable (Note 9)	**₱6,181**	**₱–**	**₱6,181**	₱7,603	₱861	₱8,464
Accounts receivable (Note 9)	**7,203**	**863**	**8,066**	3,833	636	4,469
Sales contract receivable (Note 9)	**697**	**649**	**1,346**	719	773	1,492
Other receivables (Note 9)	**224**	**–**	**224**	243	–	243
Other assets (Note 13)						
Interoffice float items	**1,100**	**–**	**1,100**	800	–	800
Pledged certificate of time deposit	**493**	**–**	**493**	510	–	510
Returned checks and other cash items	**359**	**–**	**359**	242	–	242
Residual value of leased assets	**112**	**230**	**342**	122	235	357
Other investments	**–**	**13**	**13**	3	13	16
Investments in SPVs	**8,857**	**–**	**8,857**	–	–	–
Assets held by SPVs	**–**	**–**	**–**	–	10,636	10,636
	498,694	**353,292**	**851,986**	419,525	382,960	802,485
Nonfinancial Assets - at gross						
Property and equipment (Note 10)	**–**	**26,469**	**26,469**	–	25,246	25,246
Investments in associates (Note 11)	**–**	**15,827**	**15,827**	–	21,801	21,801
Investment properties (Note 12)	**–**	**23,659**	**23,659**	–	27,049	27,049
Deferred tax assets (Note 26)	**–**	**7,496**	**7,496**	–	8,476	8,476
Goodwill (Note 11)	**–**	**6,449**	**6,449**	–	6,449	6,449
Retirement asset (Note 23)	**–**	**520**	**520**	–	857	857
Asset held by joint ventures	**–**	**3,241**	**3,241**	–	3,241	3,241
Accounts receivable (Note 9)	**–**	**1,731**	**1,731**	–	–	–
Other assets (Note 13)	**1,607**	**1,722**	**3,329**	1,231	5,096	6,327
	1,607	**87,114**	**88,721**	1,231	98,215	99,446
	₱500,301	**₱440,406**	**940,707**	₱420,756	₱481,175	901,931
Less:						
Unearned discounts and capitalized interest (Note 9)			**7,913**			6,445
Accumulated depreciation and amortization (Notes 10, 12 and 13)			**15,994**			15,689
Allowance for credit and impairment losses (Note 14)			**29,477**			25,490
Total			**₱887,323**			₱854,307
Financial Liabilities						
Deposit liabilities						
Demand	**₱68,261**	**₱–**	**₱68,261**	₱48,568	₱–	₱48,568
Savings	**267,930**	**–**	**267,930**	242,145	–	242,145
Time	**294,858**	**20,213**	**315,071**	258,653	66,334	324,987
	631,049	**20,213**	**651,262**	549,366	66,334	615,700
Bills payable and SSURA (Note 16)	**75,605**	**9,908**	**85,513**	93,225	2,643	95,868
Derivative liabilities	**3,037**	**124**	**3,161**	2,245	139	2,384
Manager's checks and demand drafts outstanding	**2,043**	**–**	**2,043**	1,459	496	1,955
Accrued interest and other expenses	**4,524**	**254**	**4,778**	3,279	748	4,027
Subordinated debt	**1,977**	**19,696**	**21,673**	–	21,634	21,634
Other liabilities (Note 19):						
Bills purchased - contra	**11,761**	**–**	**11,761**	17,035	–	17,035
Accounts payable	**4,634**	**–**	**4,634**	4,866	–	4,866
Marginal deposits	**2,658**	**–**	**2,658**	1,548	–	1,548
Outstanding acceptances	**1,296**	**–**	**1,296**	913	–	913
Deposits on lease contracts	**146**	**339**	**485**	230	288	518
Liabilities of SPV	**–**	**–**	**–**	–	3,717	3,717
Dividends payable	**21**	**–**	**21**	67	–	67
Due to BSP	**–**	**–**	**–**	7	–	7
Miscellaneous	**55**	**488**	**543**	–	543	543
	738,806	**51,022**	**789,828**	674,240	96,542	770,782
Nonfinancial Liabilities						
Retirement liability	**–**	**277**	**277**	16	199	215
Income taxes payable	**331**	**–**	**331**	479	6	485
Accrued interest and other expenses	**396**	**–**	**396**	820	–	820
Withholding taxes payable (Note 19)	**354**	**–**	**354**	475	–	475
Deferred tax and other liabilities (Notes 19 and 26)	**2,519**	**601**	**3,120**	648	564	1,212
	3,600	**878**	**4,478**	2,438	769	3,207
	₱742,406	**₱51,900**	**₱794,306**	₱676,678	₱97,311	₱773,989

	Parent Company					
	2010			2009		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Financial Assets - at gross						
Cash and other cash items	**₱16,996**	**₱–**	**₱16,996**	₱17,049	₱–	₱17,049
Due from BSP	**162,391**	**–**	**162,391**	63,578	–	63,578
Due from other banks	**19,416**	**–**	**19,416**	29,815	–	29,815
Interbank loans receivable and SPURA (Note 7)	**18,006**	**–**	**18,006**	73,943	–	73,943
Financial assets at FVPL (Note 8)	**3,123**	**5,960**	**9,083**	4,056	10,631	14,687
AFS investments (Note 8)	**13,568**	**83,943**	**97,511**	19,525	98,251	117,776
HTM investments (Note 8)	**348**	**13,818**	**14,166**	–	15,227	15,227
Receivables from customers (Note 9)	**139,777**	**143,097**	**282,874**	138,549	136,394	274,943
Unquoted debt securities (Note 9)	**3,139**	**2,369**	**5,508**	443	4,942	5,385
Accrued interest receivable (Note 9)	**4,689**	**–**	**4,689**	6,467	–	6,467
Accounts receivable (Note 9)	**6,208**	**858**	**7,066**	2,903	473	3,376
Sales contract receivable (Note 9)	**691**	**642**	**1,333**	709	742	1,451
Other receivables (Note 9)	**179**	**–**	**179**	198	–	198
Other assets (Note 13)						
Interoffice float items	**1,295**	**–**	**1,295**	792	–	792
Returned checks and other cash items	**331**	**–**	**331**	196	–	196
Other investments	**–**	**10**	**10**	–	13	13
Investments in SPVs	**8,857**	**–**	**8,857**	–	8,857	8,857
Pledged certificate of time deposit	**491**	**–**	**491**	508	–	508
	399,505	**250,697**	**650,202**	358,731	275,530	634,261
Nonfinancial Assets - at gross						
Property and equipment (Note 10)	**–**	**19,975**	**19,975**	–	19,404	19,404
Investment in subsidiaries (Note 11)	**–**	**26,153**	**26,153**	–	17,497	17,497
Investment in associates (Note 11)	**–**	**1,413**	**1,413**	–	11,407	11,407
Investment properties (Note 12)	**–**	**18,082**	**18,082**	–	21,606	21,606
Deferred tax assets (Note 26)	**–**	**6,361**	**6,361**	–	6,941	6,941
Goodwill (Note 11)	**–**	**1,203**	**1,203**	–	1,203	1,203
Retirement asset (Note 23)	**–**	**510**	**510**	–	857	857
Assets held under joint venture	**–**	**3,241**	**3,241**	–	3,241	3,241
Accounts receivable (Note 9)	**–**	**1,731**	**1,731**			
Other assets (Note 13)	**718**	**760**	**1,478**	854	2,512	3,366
	718	**79,429**	**80,147**	854	84,668	85,522
Total	**₱400,223**	**₱330,126**	**730,349**	₱359,585	₱360,198	719,783
Less:						
Unearned discounts and capitalized interest (Note 9)			**1,823**			1,572
Accumulated depreciation and amortization (Notes 10, 12 and 13)			**12,879**			13,035
Allowance for credit and impairment losses (Note 14)			**22,894**			19,591
Total			**₱692,753**			₱685,585
Financial Liabilities						
Deposit liabilities						
Demand	**₱61,216**	**₱–**	**₱61,216**	₱44,521	₱–	₱44,521
Savings	**260,269**	**–**	**260,269**	234,378	–	234,378
Time	**236,555**	**5,768**	**242,323**	258,095	6,535	264,630
	558,040	**5,768**	**563,808**	536,994	6,535	543,529
Bills payable and SSURA (Note 16)	**10,395**	**10**	**10,405**	27,543	34	27,577
Derivative liabilities	**3,001**	**–**	**3,001**	2,245	–	2,245
Manager's checks and demand drafts outstanding	**1,394**	**–**	**1,394**	1,458	–	1,458
Accrued interest and other expenses	**2,376**	**–**	**2,376**	2,151	–	2,151
Subordinated debt	**–**	**18,406**	**18,406**	–	18,372	18,372
Other liabilities (Note 19):						
Bills purchased - contra	**11,706**	**–**	**11,706**	16,905	–	16,905
Accounts payable	**2,857**	**–**	**2,857**	2,311	–	2,311
Marginal deposits	**757**	**–**	**757**	1,548	–	1,548
Outstanding acceptances	**1,296**	**–**	**1,296**	913	–	913
	591,822	**24,184**	**616,006**	592,068	24,941	617,009
Nonfinancial Liabilities						
Income taxes payable	**69**	**–**	**69**	258	–	258
Accrued interest and other expenses	**396**	**–**	**396**	735	–	735
Withholding taxes payable (Note 19)	**215**	**–**	**215**	325	–	325
Other liabilities (Note 19)	**736**	**277**	**1,013**	757	210	967
	1,416	**277**	**1,693**	2,075	210	2,285
	₱593,238	**₱24,461**	**₱617,699**	₱594,143	₱25,151	₱619,294

21. Capital Stock

This account consists of (amounts in millions, except par value and number of shares):

	Shares		Amount	
	2010	2009	**2010**	2009
Common stock - ₱20 par value				
Authorized	**2,500,000,000**	2,500,000,000		
Issued and outstanding				
Balance at beginning of year	**1,807,269,350**	1,807,269,350	**₱36,145**	₱36,145
Issuance of common stock	**104,116,667**	–	**2,083**	–
Balance at end of year	**1,911,386,017**	1,807,269,350	**38,228**	36,145
HT1 Capital	**–**	–	**6,351**	6,351
	1,911,386,017	1,807,269,350	**₱44,579**	₱42,496

On October 13, 2010, the BOD of the Parent Company has authorized the Parent Company to conduct a stock rights offering for subscription by its existing eligible shareholders of unissued common shares for the purpose of raising additional capital of up to ₱10.0 billion (Note 34).

On April 29, 2010, the BOD of the Parent Company approved the issuance of 104,116,667 shares out of its unissued authorized capital stock. On April 30, 2010, the Parent Company launched and priced an overnight top-up placement raising approximately ₱5.0 billion in primary capital to strengthen its position in the Philippine banking sector. As part of the top-up placement which was consummated on May 6, 2010, certain shareholders (the "Selling Shareholders") of the Parent Company sold 104,116,667 shares to global investors (the "Placement") at ₱48.00 per share ("Offer Price"). Concurrent to the Placement, Parent Company issued an equal number of new primary shares at the same Offer Price to the Selling Shareholders. All proceeds from the Placement were received by the Parent Company.

HT1 Capital represents US$125.0 million, 9.00% non-cumulative step-up callable perpetual capital securities with liquidation preference of US$100,000 per capital security issued by the Parent Company on February 15, 2006 pursuant to a trust deed with The Bank of New York (Trustee) and listed with the Singapore Exchange Securities Trading Limited. The HT1 Capital is governed by English law except on certain clauses in the Trust Deed which are governed by Philippine law. Basic features of the HT1 Capital follow:

- Coupons - bear interest at 9.00% per annum payable semi-annually in arrear from (and including) February 15, 2006 to (but excluding) February 15, 2016, and thereafter at a rate, reset and payable quarterly in arrear, of 6.10% per annum above the then prevailing London interbank offered rate for three-month U.S. dollar deposits. Under certain conditions, the Parent Company is not obliged to make any coupon payment if the BOD of the Parent Company, in its absolute discretion, elects not to make any coupon payment in whole or in part.

- Coupon Payment Dates - payable on February 15 and August 15 in each year, commencing on August 15, 2006 (in respect of the period from (and including) February 15, 2006 to (but excluding) August 15, 2006 and ending on February 15, 2016 (first optional redemption date); thereafter coupon amounts will be payable (subject to adjustment for days which are not business days) on February 15, May 15, August 15 and November 15 in each year commencing on May 15, 2016.

- Dividend and Capital Stopper - in the event that any coupon payment is not made, the Parent Company: (a) will not declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on any junior share capital or any parity securities; or (b) will not redeem, purchase, cancel, reduce or otherwise acquire any junior share capital or any parity securities. Such dividend and capital stopper shall remain in force so as to prevent the Parent Company from undertaking any such declaration, payment or other activity unless and until payment is made to the holders in an amount equal to the unpaid amount, if any, of coupon payments in respect of coupon periods in the 12 months including and immediately preceding the date such coupon payment was due, and the BSP does not otherwise object.

- Redemption
  - may be redeemed at the option of the Parent Company (but not the holders) under optional redemption, tax event call, and regulatory event call, subject to limitation of the terms of the issuance.
  - may not be redeemed (i) for so long as the dividend and capital stopper is in force; and (ii) without the prior written approval of the BSP which, as of February 8, 2006, is subject to the following conditions: (a) the Parent Company's capital adequacy must be at least equal to the BSP's minimum capital ratio; and (b) the HT1 Capital are simultaneously replaced with the issue of new capital which is neither smaller in size nor lower in quality than the original issue.

The HT1 Capital is unsecured and subordinated to the claims of senior creditors. In the event of the dissolution or winding-up of the Parent Company, holders will be entitled, subject to satisfaction of certain conditions and applicable law, to receive a liquidation distribution equivalent to the liquidation preference. Also, the HT1 Capital is not treated as deposit and is not guaranteed or insured by the Parent Company or any of its related parties or the PDIC and these may not be used as collateral for any loan availments. The Parent Company or any of its subsidiaries may not at any time purchase HT1 Capital except as permitted under optional redemption, tax event call, and regulatory event call as described in the terms of issuance. The HT1 Capital is sold to non-U.S. persons outside the United States pursuant to Regulation under the U.S. Securities Act of 1933, as amended, and represented by a global certificate registered in the name of a nominee of, and deposited with, a common depository for Euroclear and Clearstream.

The Parent Company paid the semi-annual coupon amounting to USD5.6 million in 2006 to 2010 after obtaining their respective BSP approvals. Details are as follows:

Date of BSP Approval	Date Paid
August 9, 2010	August 16, 2010
February 4, 2010	February 16, 2010
August 12, 2009	August 17, 2009
February 16, 2009	February 17, 2009
August 8, 2008	August 14, 2008
February 14, 2008	February 14, 2008
July 26, 2007	August 15, 2007
February 9, 2007	February 15, 2007
August 8, 2006	August 15, 2006

Details of the Parent Company's cash dividend distributions follow:

Date of Declaration	Per Share	Total Amount	Date of BSP Approval	Record date	Payment date
February 17, 2010	₱0.60	₱1,084	March 8, 2010	March 25, 2010	April 15, 2010
August 19, 2009	0.40	723	October 7, 2009	October 23, 2009	November 10, 2009
March 11, 2009	0.60	1,084	April 15, 2009	April 30, 2009	May 18, 2009
June 18, 2008	0.60	1,084	August 8, 2008	September 15, 2008	October 3, 2008
December 2, 2007	0.40	723	January 3, 2008	January 18, 2008	January 22, 2008

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following BSP guidelines.

22. Surplus Reserves

This account consists of:

	2010	2009
Reserve for trust business	**₱603**	₱556
Reserve for self-insurance	**309**	287
	₱912	₱843

In compliance with existing BSP regulations, 10.00% of the Parent Company's income from trust business is appropriated to surplus reserves. This yearly appropriation is required until the surplus reserve for trust business equals 20.00% of the Parent Company's regulatory net worth.

Reserve for self-insurance represents the amount set aside to cover losses due to fire, defalcation by and other unlawful acts of the Parent Company's personnel or third parties.

23. Retirement Plan and Other Employee Benefits

The Group and most of its subsidiaries have funded noncontributory defined benefit retirement plan covering all their respective permanent and full-time employees.

The principal actuarial assumptions used in determining retirement liability of the Parent Company and significant subsidiaries as of January 1, 2010 and 2009 are shown below:

	Parent Company	**FMIC**	**PSBank**	**MTI**	**MCC**	**OMLFC**
As of January 1, 2010						
Average remaining working life	**10 years**	**8 years**	**21 years**	**14 years**	**11 years**	**25 years**
Discount rate	**9.00%**	**9.10% to 9.39%**	**10.56%**	**9.65%**	**10.00%**	**10.10%**
Expected rate of return on assets	**8.60%**	**6.00%**	**8.44%**	**6.00%**	**7.30%**	**6.00%**
Future salary increases	**6.00%**	**10.00%**	**8.00%**	**6.00%**	**9.00%**	**7.00%**
As of January 1, 2009						
Average remaining working life	11 years	9 to 11 years	21 years	14 years	7 years	25 years
Discount rate	13.00%	8.3% to 14.0%	34.00%	9.65%	14.00%	10.00%
Expected rate of return on assets	6.00%	6.00%	6.00%	6.00%	7.30%	6.00%
Future salary increases	8.00 to 10.00%	10.00%	10.00%	6.00%	9.00%	7.00%

For employees of the Parent Company, retirement from service is compulsory upon the attainment of the 55th birthday or 30th year of service, whichever comes first.

The overall expected rate of return on plan assets is determined based on the market prices prevailing on that date applicable to the year over which the obligation is to be settled.

The amounts recognized in the statement of financial position follow:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Present value of the obligation	**₱6,782**	₱5,257	**₱5,608**	₱4,333
Fair value of plan assets	**(6,629)**	(6,112)	**(5,656)**	(5,330)
Funded status	**153**	(855)	**(48)**	(997)
Unrecognized actuarial gains (losses)	**(320)**	220	**(395)**	140
Unrecognized past service cost - nonvested benefits	**(76)**	(7)	**(67)**	–
Net retirement asset	**(₱243)**	(₱642)	**(₱510)**	(₱857)

Net retirement asset included in the statement of financial position follows:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Net retirement asset (Note 13)	**(₱520)**	(₱857)	**(₱510)**	(₱857)
Net retirement liability (Note 19)	**277**	215	**–**	–
Net retirement liability (asset)	**(₱243)**	(₱642)	**(₱510)**	(₱857)

Discount rates used in computing for the present value of the obligation of the Parent Company and significant subsidiaries as of December 31, 2010 and 2009 follow:

	Parent Company	FMIC	PSBank	MTI	MCC	OMLFC
2010	**7.25%**	**9.10% to 9.39%**	**11.16%**	**7.54%**	**8.88%**	**10.00%**
2009	9.00%	9.10% to 9.39%	10.56%	9.65%	10.00%	10.10%

The movements in the retirement liability (assets) recognized in the statement of financial position follow:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Balance at beginning of year	**(₱642)**	₱1	**(₱857)**	(₱224)
Retirement expense	**506**	733	**347**	563
Contribution paid	**(107)**	(1,376)	**–**	(1,196)
Balance at end of year	**(₱243)**	(₱642)	**(₱510)**	(₱857)

Changes in the present value of the defined benefit obligation follow:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Balance at beginning of year	**₱5,257**	₱4,496	**₱4,333**	₱3,795
Current service cost	**484**	364	**361**	321
Interest cost	**492**	646	**398**	486
Past service cost	**121**	–	**113**	–
Benefits paid	**(442)**	(578)	**(400)**	(474)
Actuarial losses	**870**	329	**803**	205
Balance at end of year	**₱6,782**	₱5,257	**₱5,608**	₱4,333

The movements in the fair value of plan assets recognized follow:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Balance at beginning of year	**₱6,112**	₱4,578	**₱5,330**	₱4,048
Expected return on plan assets	**519**	274	**458**	244
Contribution paid	**107**	1,376	**–**	1,196
Benefits paid	**(442)**	(578)	**(400)**	(474)
Actuarial gains	**333**	462	**268**	316
Balance at end of year	**₱6,629**	₱6,112	**₱5,656**	₱5,330

The actual return on plan assets of the Parent Company amounted to ₱726.5 million and ₱558.5 million in 2010 and 2009, respectively.

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

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Debt instruments	**75.50%**	78.33%	**82.80%**	85.83%
Equity instruments	**22.53%**	19.86%	**16.24%**	13.25%
Other assets	**1.97%**	1.81%	**0.96%**	0.92%
	100.00%	100.00%	**100.00%**	100.00%

The amounts included in 'Compensation and fringe benefits' in the statement of income follow:

	Consolidated			Parent Company		
	2010	2009	2008	**2010**	2009	2008
Current service cost	**₱484**	₱364	₱600	**₱361**	₱321	₱484
Interest cost	**492**	646	524	**398**	486	443
Expected return on plan assets	**(519)**	(274)	(251)	**(458)**	(244)	(202)
Net actuarial losses (gains) recognized	**(3)**	(5)	145	**–**	–	139
Past service cost	**52**	2	8	**46**	–	–
	₱506	₱733	₱1,026	**₱347**	₱563	₱864

Amounts for the current and previous years follow:

	Consolidated				
	2010	2009	2008	2007	2006
Present value of unfunded obligation	**₱6,782**	₱5,257	₱4,496	₱6,690	₱5,654
Fair value of plan assets	**(6,629)**	(6,112)	(4,578)	(3,975)	(3,488)
Funded status	**153**	(855)	(82)	2,715	2,166
Experience adjustments on plan liabilities	**(870)**	(329)	2,798	(523)	(2,883)
Experience adjustments on plan assets	**333**	462	(391)	(131)	562

	Parent Company				
	2010	2009	2008	2007	2006
Present value of unfunded obligation	**₱5,608**	₱4,333	₱3,795	₱5,737	₱4,795
Fair value of plan assets	**(5,656)**	(5,330)	(4,048)	(3,362)	(3,028)
Funded status	**(48)**	(997)	(253)	2,375	1,767
Experience adjustments on plan liabilities	**(803)**	(205)	2,491	(616)	(2,605)
Experience adjustments on plan assets	**268**	316	(221)	(180)	514

In addition, the Parent Company has a Provident Plan which is a supplementary contributory retirement plan to and forms part of the main plan, the Retirement Plan, for the exclusive benefit of eligible employees of the Parent Company in the Philippines. Based on the provisions of the plan, upon retirement or resignation, a member shall be entitled to receive as retirement or resignation benefits 100.00% of the accumulated value of the personal contribution plus a percentage of the accumulated value arising from the Parent Company's contributions in accordance with the completed number of years serviced. The Parent Company's contribution to the Provident Fund in 2010 and 2009 amounted to ₱127.9 million and ₱103.5 million, respectively.

As of December 31, 2010 and 2009, the retirement fund of the Parent Company's employees amounting to ₱5.7 billion and ₱5.3 billion, respectively, is being managed by the Parent Company's Trust Banking Group.

Directors' fees and bonuses of the Parent Company in 2010, 2009 and 2008 amounted to ₱32.4 million, ₱32.1 million and ₱37.4 million, respectively. On the other hand, officers' compensation and benefits of the Parent Company aggregated to ₱3.7 billion, ₱3.2 billion and ₱3.0 billion, respectively.

24. **Long-term Leases**

The Parent Company leases the premises occupied by some of its branches (about 50.00% and 50.71% of the branch sites in 2010 and 2009, respectively, are Parent Company-owned). Also, some of its subsidiaries lease the premises occupied by their Head Offices and most of their branches. The lease contracts are for periods ranging from 1 to 25 years and are renewable at the Group's option under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 5.00% to 10.00%. As of December 31, 2010 and 2009, the Group has no contingent rent payable.

Rent expense (included in 'Occupancy and equipment-related cost' in the statement of income) in 2010, 2009 and 2008 amounted to ₱1.2 billion, ₱1.0 billion and ₱0.9 billion, respectively, for the Group and ₱683.7 million, ₱610.4 million and ₱510.9 million, respectively, for the Parent Company.

Future minimum rentals payable under non-cancelable operating leases follows:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Within one year	**₱523**	₱475	**₱220**	₱373
After one year but not more than five years	**1,225**	1,104	**526**	974
More than five years	**511**	455	**206**	475
	₱2,259	₱2,034	**₱952**	₱1,822

The Group has entered into commercial property leases on its investment property portfolio, consisting of the Group's available office spaces and real and other properties acquired and finance lease agreements over various items of machinery and equipment. These non-cancelable leases have remaining non-cancelable lease terms between 1 and 20 years.

In 2010, 2009 and 2008, leasing income amounted to ₱824.0 million, ₱1.0 billion and ₱365.4 million, respectively, for the Group and ₱217.4 million, ₱255.3 million and ₱325.3 million, respectively, for the Parent Company.

Future minimum rentals receivable under non-cancelable operating leases follows:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Within one year	**₱303**	₱278	**₱138**	₱130
After one year but not more than five years	**440**	427	**189**	154
More than five years	**3**	121	**3**	121
	₱746	₱826	**₱330**	₱405

25. Miscellaneous Income and Expenses

In 2010, 2009 and 2008, miscellaneous income includes gain on initial recognition of investment properties amounting to ₱446.1 million, ₱509.1 million and ₱411.9 million, respectively, for the Group and ₱220.7 million, ₱308.4 million and ₱194.0 million, respectively, for the Parent Company and recovery on charged-off assets amounting to ₱289.0 million, ₱319.9 million and ₱243.6 million, respectively, for the Group and ₱8.1 million, ₱0.1 million and nil, respectively for the Parent Company. Also in 2008, miscellaneous income of the Group includes demutualization of Visa shares amounting to ₱222.5 million.

Miscellaneous expenses consist of:

	Consolidated			Parent Company		
	2010	2009	2008	**2010**	2009	2008
Insurance	**₱1,314**	₱1,223	₱1,182	**₱1,072**	₱1,027	₱956
Security, messengerial and janitorial	**1,223**	1,219	1,180	**1,027**	1,025	995
Litigation (Note 12)	**715**	976	906	**562**	781	759
Advertising	**665**	412	512	**102**	52	76
Information technology	**571**	579	556	**690**	694	496
Communication	**527**	394	348	**132**	129	111
Management and professional fees	**436**	526	313	**279**	368	434
Stationery and supplies used	**367**	274	246	**164**	153	149
Transportation and travel	**342**	308	312	**249**	225	232
Repairs and maintenance	**326**	302	312	**190**	192	225
Supervision fees	**249**	259	242	**188**	198	184
Entertainment, amusement and representation (EAR) (Note 26)	**208**	148	176	**175**	121	151
Others	**1,014**	1,338	1,506	**327**	359	326
	₱7,957	₱7,958	₱7,791	**₱5,157**	₱5,324	₱5,094

Other expenses of the Group include CG3AMI and LNC3AMI net income amounting to ₱219.9 million in 2009 and net losses of ₱799.2 million in 2008. Other expenses also include cost of rewards due to redemption of loyalty points, collection fees, freight expenses, fuel and lubricants, membership fees and donation and other charitable contributions.

26. Income and Other Taxes

Under Philippine tax laws, the RBU of the Parent Company and its domestic subsidiaries are subject to percentage and other taxes (presented as 'Taxes and licenses' in the statement of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp taxes (DST). Income taxes include corporate income tax, as discussed below, and 20.00% final taxes paid, which is a final withholding tax on gross interest income from government securities and other deposit substitutes. The regular corporate income tax (RCIT) rate is reduced from 35% to 30% effective January 1, 2009 pursuant to

Republic Act No. 9337, *An Act Amending the National International Revenue Code*. Interest allowed as a deductible expense is reduced by an amount equivalent to 33% of interest income subjected to final tax.

Current tax regulations also provide for the ceiling on the amount of EAR expense (Note 25) 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 some of its subsidiaries is limited to the actual EAR paid or incurred but not to exceed 1.00% of net revenue. The regulations also provide for MCIT of 2.00% on modified gross income and allow a NOLCO. The MCIT and NOLCO may be applied against the Group's income tax liability and taxable income, respectively, over a three-year period from the year of inception.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is subject to 10.00% income tax. In addition, interest income on deposit placements with other FCDUs and offshore banking units (OBUs) is taxed at 7.50%. Income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

Following are the applicable taxes and tax rates for the foreign branches of the Parent Company:

Foreign Branches	Income Tax	Business Tax (BT)	Value Added Tax (VAT)/Capital/ Surplus Tax
United States of America:			
Guam Branch (US $)		4.00% (GRT)	
$50,000 and below	15.00%		
>$50,000 up to $75,000	25.00%		
>$75,000 up to $100,000	34.00%		
>$100,000 up to $335,000	39.00%		
Above $335,000	34.00%		
New York Branch	30.00%		8.875% VAT NYS-0.01% (Capital / Surplus Tax) NYC-0.26% (Capital / Surplus Tax)
Japan - Tokyo and Osaka Branches	30.00%	7.552% (BT)	0.504% (VAT) 0.210% (Capital / Surplus Tax)
Korea:			
Seoul Branch	23.10%	0.50% (Education Tax)	
Pusan Branch	24.20%	0.50% (Education Tax)	
Taiwan - Taipei Branch	17.00%	2.00% (Gross Business Receipt Tax)	5.00% (VAT)

The provision for income tax consists of:

	Consolidated			Parent Company		
	2010	2009	2008	**2010**	2009	2008
Current:						
Final tax	**₱1,911**	₱1,734	₱1,202	**₱1,205**	₱1,172	₱917
RCIT*	**1,231**	757	799	**536**	228	201
MCIT	**3**	296	268	**3**	233	218
	3,145	2,787	2,269	**1,744**	1,633	1,336
Deferred*	**586**	(538)	758	**183**	(338)	743
	₱3,731	₱2,249	₱3,027	**₱1,927**	₱1,295	₱2,079

* Includes income taxes of foreign subsidiaries.

Components of net deferred tax assets of the Group and the Parent Company follow:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Deferred tax asset on:				
Allowance for credit and impairment losses	**₱6,160**	₱6,471	**₱5,134**	₱5,019
Accumulated depreciation of investment properties	**661**	935	**611**	882
Unamortized past service cost	**522**	625	**489**	587
MCIT	**393**	808	**334**	679
Unrealized foreign exchange loss	**317**	309	**311**	305
Unrealized losses on financial assets at FVPL	**207**	–	**207**	–
Deferred membership/awards	**136**	54	**–**	–
Accrued expenses	**82**	61	**43**	46
Accrued retirement liability	**78**	55	**–**	–
Unearned rental income	**8**	45	**7**	7
NOLCO	**–**	387	**–**	387
Others	**133**	82	**41**	27
	8,697	9,832	**7,177**	7,939
Deferred tax liability on:				
Unrealized gain on initial measurement of investment properties	**847**	889	**591**	651
Retirement asset	**153**	257	**153**	257
Unrealized gain on AFS investments (Note 8)	**80**	91	**72**	71
Unrealized gain on financial assets at FVPL	**4**	27	**–**	19
Others	**117**	92	**–**	–
	1,201	1,356	**816**	998
Net deferred tax assets	**₱7,496**	₱8,476	**₱6,361**	₱6,941

Components of net deferred tax liabilities of the Group follow:

	2010	2009
Deferred tax asset on:		
Allowance for credit and impairment losses	**₱29**	₱16
Unamortized past service cost	**6**	4
Accumulated depreciation of investment properties	**2**	2
Retirement benefit liability	**1**	1
	38	23
Deferred tax liability on:		
Leasing income differential between finance and operating lease method	**161**	178
Unrealized gain on AFS investments (Note 8)	**10**	8
Retirement asset	**3**	–
Unrealized gain on financial assets at FVPL	**1**	–
Others	**–**	2
	175	188
Net deferred tax liabilities	**₱137**	₱165

The Parent Company and certain subsidiaries did not recognize deferred tax assets on the following temporary differences:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Allowance for credit and impairment losses	**₱4,328**	₱447	**₱2,977**	₱–
NOLCO	**2,653**	1,991	**243***	–
MCIT	**12**	53	**8***	48
Others	**174**	109	**–**	–

*Represents FCDU's MCIT and NOLCO

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

There are no income tax consequences attaching to the payment of dividends by the Group to the shareholders of the Group.

The Parent Company applied NOLCO balance as of December 31, 2009 amounting to ₱1.3 billion against its taxable income in 2010.

Details of the Parent Company's MCIT follow:

Inception Year	Amount	Used	Balance	Expiry Year
2007	₱276	₱276	₱–	2010
2008	218	117	101	2011
2009	233	–	233	2012
	₱727	₱393	₱334	

A reconciliation of the statutory income tax rates and the effective income tax rates 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 effect of:						
Tax-paid and tax-exempt income	**(22.66)**	(30.83)	(24.23)	**(23.17)**	(20.58)	(21.56)
Nondeductible interest expense	**8.43**	15.78	10.06	**9.24**	10.64	11.66
Nonrecognition of deferred tax asset	**14.79**	(3.92)	(5.38)	**15.47**	(6.10)	0.59
FCDU income	**(6.06)**	(10.64)	8.49	**(9.23)**	(6.32)	13.44
Others - net	**4.21**	24.48	13.42	**6.40**	15.74	(0.63)
Effective income tax rate	**28.71%**	24.87%	37.36%	**28.71%**	23.38%	38.50%

Supplementary Information Under Revenue Regulations No. 15-2010

On November 25, 2010, the Bureau of Internal Revenue issued Revenue Regulation (RR) 15-2010 to amend certain provisions of RR 21-2002. The Regulations provide that starting 2010 the notes to financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year.

The Parent Company reported the following types of taxes for the year ended December 31, 2010 included under 'Taxes and licenses' account in the statement of income:

GRT	₱1,595
Documentary stamp taxes	882
Local taxes	65
Real estate tax	64
Others	13
	₱2,619

Details of total withholding taxes remitted for the taxable year December 31, 2010 follow:

Final withholding taxes	₱1,396
Withholding taxes on compensation and benefits	1,237
Expanded withholding taxes	128
	₱2,761

27. **Related Party Transactions**

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

In the ordinary course of business, the Group has loan transactions with investees and with certain directors, officers, stockholders and related interests (DOSRI). Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and book value of their respective investments in the lending company within the Group. In the aggregate, loans to DOSRI generally should not exceed the respective total equity or 15.00% of total loan portfolio, whichever is lower, of the Parent Company, PSBank, and FMIC.

BSP Circular No. 423 dated March 15, 2004 amended the definition of DOSRI accounts. The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to said Circular, and new DOSRI loans, other credit accommodations granted under said circular:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Total outstanding DOSRI accounts	**₱16,141**	₱12,375	**₱10,868**	₱9,013
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**0.00%**	0.02%	**0.00%**	0.02%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	**4.22%**	3.50%	**3.84%**	3.26%
Percent of DOSRI accounts to total loans	**4.22%**	3.52%	**3.84%**	3.28%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**13.58%**	16.26%	**13.29%**	18.10%
Percent of past due DOSRI accounts to total DOSRI accounts	**3.69%**	4.88%	**0.00%**	0.00%
Percent of nonaccruing DOSRI accounts to total DOSRI accounts	**3.69%**	4.88%	**0.00%**	0.00%

BSP Circular No. 560 provides 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 loans, other credit accommodation and guarantees to each of the bank's/quasi-bank's subsidiaries and affiliates shall not exceed 10.00% of the net worth of the lending bank/quasi-bank, provided that the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding loans, credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank/quasi-bank; and the subsidiaries and affiliates of the lending bank/quasi-bank are not related interest of any director, officer and/or stockholder of the lending institution, except where such director, officer or stockholder sits in the BOD 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 did not exceed 10.00% of the Parent Company's net worth, as reported to the BSP, and the unsecured portion did not exceed 5.00% of such net worth and the total outstanding loans, other credit accommodations and guarantees to all such subsidiaries and affiliates represent 9.46% and 12.51%, respectively, of the Parent Company's net worth.

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 (25.00%) of the net worth of the lending bank/quasi-bank: provided, that the unsecured portion thereof shall not exceed twelve and one-half percent (12.50%) 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 25.00% of the Parent Company's net worth, as reported to the BSP, and the unsecured portion did not exceed 12.50% of such net worth.

Total interest income on the DOSRI loans in 2010, 2009 and 2008 amounted to ₱652.7 million, ₱738.6 million and ₱704.4 million , respectively, for the Group and ₱511.1 million, ₱546.7 million and ₱692.3 million, respectively, for the Parent Company.

Other significant related party transactions of the Parent Company follow:

Interbank call loans receivable from subsidiaries amounting to ₱1.8 billion and ₱290.0 million as of December 31, 2010 and 2009, respectively, with related interest income of ₱35.4 million, ₱49.7 million and ₱137.6 million in 2010, 2009 and 2008, respectively.

As of December 31, 2010 and 2009, sales contract receivable from a wholly-owned real estate subsidiary amounted to ₱627.0 million with allowance for credit losses of ₱195.9 million as of December 31, 2010. Sales contract receivables from a related party amounted to ₱516.8 million and ₱629.1 million as of December 31, 2010 and 2009, respectively.

Deposit liabilities to subsidiaries, associates and other related parties amounted to ₱17.5 billion and ₱8.9 billion as of December 31, 2010 and 2009, respectively, with related interest expense of ₱28.8 million, ₱35.3 million and ₱41.6 million in 2010, 2009 and 2008, respectively.

Bills payable to subsidiaries amounted to ₱613.7 million and ₱308.0 million as of December 31, 2010 and 2009, respectively, with related interest expense of ₱14.8 million, ₱4.2 million and ₱96.8 million in 2010, 2009 and 2008, respectively.

In 2010, 2009 and 2008, service fees and commissions from subsidiaries amounted to ₱57.1 million, ₱52.1 million and ₱44.0 million, respectively, and information technology expenses with a wholly-owned subsidiary amounted to ₱173.1 million, ₱168.8 million and ₱169.0 million, respectively.

Rent income from subsidiaries, associates and related parties in 2010, 2009 and 2008 amounted to ₱39.4 million, ₱29.3 million and ₱26.0 million, respectively.

In 2010 and 2009, held-for-trading and AFS investment securities transactions with subsidiaries, affiliates and other related parties include outright purchases totaling to ₱12.3 billion and ₱38.5 billion, respectively, and outright sales totaling to ₱12.8 billion and ₱27.9 billion, respectively.

As of December 31, 2010 and 2009, treasury bills (classified under HTM investments) with total face value of ₱50.0 million are pledged by PSBank to the Parent Company to secure its payroll account with the Parent Company. As of December 31, 2010 and 2009, the Parent Company has assigned to PSBank, government securities (classified under AFS investments) with total face value of ₱3.0 billion and ₱1.5 billion, respectively, to secure PSBank deposits to the Parent Company (Note 8).

In June 2010, the Parent Company sold its investment in LCMC to FMIC for ₱763.4 million (Note 11).

The compensation of the key management personnel of the Group and Parent Company follows:

	Consolidated			**Parent Company**		
	2010	2009	2008	**2010**	2009	2008
Short-term employee benefits	**₱992**	₱846	₱727	**₱523**	₱434	₱326
Post employment benefits	**2,607**	1,858	1,570	**2,579**	1,829	1,529
	₱3,599	₱2,704	₱2,297	**₱3,102**	₱2,263	₱1,855

28. **Trust Operations**

Properties held by the Parent Company and certain subsidiaries in fiduciary or agency capacity for their customers are not included in the accompanying statements of financial position since these are not resources of the Parent Company and its subsidiaries (Note 29).

In compliance with current banking regulations relative to the Parent Company and a certain subsidiary's trust functions, government securities (classified under AFS investments) with a total face value of ₱2.6 billion and ₱2.2 billion as of December 31, 2010 and 2009, respectively, are deposited with the BSP.

29. **Commitments and Contingent Liabilities**

In the normal course of the Group's operations, there are various outstanding commitments and contingent liabilities which are not reflected in the accompanying financial statements. No material losses are anticipated as a result of these transactions.

The following is a summary of contingencies and commitments at their peso-equivalent contractual amounts arising from off-balance sheet items:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Trust Banking Group accounts (Note 28)	**₱271,029**	₱210,342	**₱270,398**	₱209,711
Commitments - credit card lines	**41,946**	40,946	**–**	–
Unused commercial letters of credit	**19,469**	17,633	**18,943**	17,529
Credit line certificate with bank commission	**3,949**	4,039	**3,949**	4,039
Bank guaranty with indemnity agreement	**2,272**	2,411	**2,272**	2,411
Late deposits/payments received	**1,395**	2,060	**1,337**	1,972
Outstanding shipside bonds/airway bills	**1,195**	1,593	**1,195**	1,593
Outward bills for collection	**581**	745	**545**	745
Inward bills for collection	**459**	513	**459**	513
Confirmed export letters of credits	**156**	183	**137**	183
Outstanding guarantees	**123**	707	**123**	607
Traveler's check unsold	**15**	28	**15**	28
Others	**2,452**	716	**508**	716

In September 2008, the Parent Company filed petitions for rehabilitation against two Philippine subsidiaries of Lehman Brothers Holdings, Inc. in connection with a combined ₱2.4 billion loan exposure. These came as a result of the declaration of bankruptcy filed by Lehman Brothers Holdings, Inc., a surety under the loan agreements. The rehabilitation plans were duly approved by the handling courts. A Management Committee was created for each of the two (2) Lehman subsidiaries. These Management Committees are now overseeing and managing the company assets and will continue to do so during the term of the rehabilitation plans or until 2015 and 2017, respectively. A third party's petition to exclude certain assets from the portfolio of the Lehman subsidiaries is still pending with the Court of Appeals. In September 2010, the majority stockholder of Philippine Investment Two (SPV-AMC), Inc. filed an Omnibus Motion to terminate the rehabilitation proceedings, dissolve the Management Committee, and remove the imposition of creditors' consent in the approved rehabilitation plan. Similarly, in October 2010, Philippine Investment One (SPV-AMC), Inc. filed with the rehabilitation court an Omnibus Motion to terminate the rehabilitation proceedings and abolish the Management Committee. In January 2011, the rehabilitation court denied these Omnibus Motions. In February 2011, Philippine Investment Two (SPV-AMC) elevated the order denying its Omnibus Motion to the Court of Appeals which is still pending to date.

Several suits and claims relating to the Group's lending operations and labor-related cases remain unsettled. In the opinion of the management, these suits and claims, if decided adversely, will not involve sums having a material effect on the Group's financial statements.

30. **Financial Performance**

The basis of calculation for earnings per share attributable to equity holdings of the Parent Company follows (amounts in millions except for earnings per share):

	2010	2009	2008
a. Net income attributable to equity holders of the Parent Company	**₱8,366**	₱6,029	₱4,408
b. Share of hybrid capital securities holders	**(515)**	(484)	(484)
c. Net income attributable to common shareholders	**7,851**	5,545	3,924
d. Weighted average number of outstanding common shares of the Parent Company	**1,876**	1,807	1,807
e. Basic/diluted earnings per share (c/d)	**₱4.18**	₱3.07	₱2.17

As of December 31, 2010, 2009 and 2008, there were no outstanding dilutive potential common shares.

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

	Consolidated			**Parent Company**		
	2010	2009	2008	**2010**	2009	2008
Return on average equity	**10.27%**	8.59%	6.77%	**6.77%**	6.75%	5.39%
Return on average assets	**0.96%**	0.74%	0.69%	**0.69%**	0.65%	0.54%
Net interest margin on average earning assets	**3.43%**	3.82%	3.75%	**2.69%**	3.19%	3.14%

31. **Notes to Statements of Cash Flows**

The amounts of interbank loans receivable and securities purchased under agreements to resell considered as cash and cash equivalents follow:

	Consolidated			**Parent Company**		
	2010	2009	2008	**2010**	2009	2008
Interbank loans receivable and SPURA	**₱26,507**	₱79,554	₱19,910	**₱18,006**	₱73,943	₱19,968
Interbank loans receivable and SPURA not considered as cash and cash equivalents	**(2,732)**	(2,190)	(3,564)	**(2,732)**	(2,190)	(3,564)
	₱23,775	₱77,364	₱16,346	**₱15,274**	₱71,753	₱16,404

32. **Foreign Exchange**

PDS closing rates as of December 31 and PDSWAR for the year ended December 31 are as follows:

	2010	2009	2008
PDS Closing	**₱43.84**	₱46.20	₱47.52
PDSWAR	**45.12**	47.64	44.47

33. **Other Matters**

The Group has no significant matters to report in 2010 on the following:

a. Known trends, events or uncertainties that would have material impact on liquidity and on the sales or revenues.

b. Explanatory comments about the seasonality or cyclicality of operations.

c. Issuances, repurchases and repayments of debt and equity securities except for the issuances of the 104.1 million common shares by the Parent Company as discussed in Note 21.

d. Unusual items as to nature, size or incidents affecting assets, liabilities, equity, net income or cash flows except for the payments of the 3.00% cash dividend on April 15, 2010 and semi-annual coupons on the HT1 Capital securities on February 16 and August 16, 2010 as discussed in Note 21.

e. Effect of changes in the composition of the Group, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations except those discussed in Note 11.

34. **Subsequent Events**

a. On January 20, 2011, the BOD of PSBank declared a 1.50% regular cash dividend for the fourth quarter of 2010 amounting to ₱36.04 million or ₱0.15 per share which was submitted to BSP for approval.

b. On January 24, 2011, the Parent Company has concluded the ₱10.0 billion stock rights offering (Note 21), involving 200 million common shares with a par value of ₱20.00 priced at ₱50.00 per share (Offer Price). The Offer Price was computed based on the 10-trading day volume-weighted average price of the Parent Company's common shares on the PSE prior to the December 10, 2010 pricing date, subject to a discount of 30.5%. Stockholders were entitled to the rights as of December 20, 2010, the record date, at the ratio of one (1) right share for every 9.557 common shares held.

c. PSBank exercised the call option on its 2016 Peso Notes (Note 18) amounting to ₱2.0 billion last January 28, 2011. The redemption fell under the call provisions which had an original maturity of ten years or until 2016. The call option allowed PSBank to buy back after five years from the date of issuance. Relative to this, the unamortized debt issuance cost of ₱22.5 million was charged against 2011 operations.

d. On February 10, 2011, the BSP approved the semi-annual coupon payment on HT1 Capital amounting to USD5.6 million which the Parent Company paid on February 15, 2011.

35. **Approval of the Release of the Financial Statements**

The accompanying financial statements of the Group and of the Parent Company were authorized for issue by the BOD on February 23, 2011.

Federal Land, Inc. and Subsidiaries

Consolidated Financial Statements
December 31, 2011 and 2010 and January 1, 2010
and Years Ended December 31, 2011, 2010 and 2009

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

FEDERAL LAND
Metrobank Group
KEEPING YOU IN MIND

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of FEDERAL LAND, INC. is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2011 and 2010, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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

Francisco Sebastian
Chairman

Jose Mari Banzon
Executive Vice President/General Manager

Bella E. Ang
Assistant Treasurer

February 13, 2012

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BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Federal Land, Inc.

We have audited the accompanying consolidated financial statements of Federal Land, Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011 and 2010 and January 1, 2010, and the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended December 31, 2011, 2010 and 2009, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

SGV&Co
Ernst & Young

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Federal Land, Inc. and its Subsidiaries as at December 31, 2011 and 2010 and January 1, 2010, and their financial performance and their cash flows for the years ended December 31, 2011, 2010 and 2009 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-AR-2 (Group A),
February 11, 2010, valid until February 10, 2013
Tax Identification No. 102-082-365
BIR Accreditation No. 08-001998-10-2009,
June 1, 2009, valid until May 31, 2012
PTR No. 3174583, January 2, 2012, Makati City

February 13, 2012

FEDERAL LAND, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31		January 1
	2011	2010 (As Restated - Note 28)	2010 (As Restated - Note 28)
ASSETS			
Current Assets			
Cash and cash equivalents (Notes 4, 23 and 26)	**₱382,539,917**	₱496,807,102	₱198,087,908
Receivables (Notes 5 and 26)	**2,104,021,339**	1,175,627,247	754,968,420
Inventories (Note 6)	**11,338,367,323**	7,889,219,200	6,927,608,992
Due from related parties (Notes 23 and 26)	**938,859,224**	477,974,260	872,062,998
Prepayments and other current assets (Note 7)	**955,370,479**	723,571,642	563,315,837
Total Current Assets	**15,719,158,282**	10,763,199,451	9,316,044,155
Noncurrent Assets			
Noncurrent installment contracts receivables (Notes 5 and 26)	**1,114,943,862**	908,865,891	284,535,117
Long-term cash investments (Note 23)	**2,440,084,378**	–	–
Deposits (Note 11)	**4,085,000,000**	–	–
Investments in associate and a jointly controlled entity (Note 8)	**446,938,240**	359,385,224	460,897,577
Investment properties (Note 9)	**5,227,423,530**	5,299,217,182	3,906,242,718
Property and equipment (Note 10)	**394,229,741**	430,887,963	373,046,962
Deferred tax assets (Note 25)	**3,791,675**	6,746,662	759,255
Other noncurrent assets (Notes 12 and 26)	**111,893,447**	94,509,242	95,714,605
Total Noncurrent Assets	**13,824,304,873**	7,099,612,164	5,121,196,234
	₱29,543,463,155	₱17,862,811,615	₱14,437,240,389
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts and other payables (Notes 13 and 26)	**₱4,498,572,759**	₱1,854,503,431	₱566,614,525
Current portion of:			
Liabilities on purchased land (Notes 16 and 26)	**–**	118,989,240	112,254,000
Loans payable (Notes 14 and 26)	**4,557,000,000**	3,847,191,076	2,993,300,000
Customers' deposits (Note 17)	**457,625,624**	417,461,273	615,365,978
Due to related parties (Notes 23 and 26)	**403,598,150**	320,571,614	498,192,878
Dividends payable (Notes 19 and 26)	**244,000**	244,000	–
Income tax payable	**–**	1,982,814	1,956,766
Other current liabilities (Note 15)	**57,884,393**	23,808,095	29,652,205
Total Current Liabilities	**9,974,924,926**	6,584,751,543	4,817,336,352
Noncurrent Liabilities			
Noncurrent portion of:			
Liabilities on purchased land (Notes 16 and 26)	**–**	397,856,760	516,846,000
Loans payable (Notes 14 and 26)	**8,600,000,000**	–	1,638,891,076
Pension liabilities (Note 24)	**28,111,610**	24,448,701	24,894,733
Deferred tax liabilities (Note 25)	**80,613,144**	7,294,339	35,241,965
Other noncurrent liabilities (Note 18)	**62,932,335**	52,663,113	38,338,257
Total Noncurrent Liabilities	**8,771,657,089**	482,262,913	2,254,212,031
Total Liabilities	**18,746,582,015**	7,067,014,456	7,071,548,383

(Forward)

	December 31		January 1
	2011	2010 (As Restated - Note 28)	2010 (As Restated - Note 28)
Equity (Note 19)			
Capital stock	**₱10,000,000,000**	₱10,000,000,000	₱5,000,000,000
Deposit for future subscription	**–**	–	2,000,000,000
Retained earnings	**720,171,208**	730,430,613	305,489,686
Equity attributable to equity holders of Federal Land, Inc.	**10,720,171,208**	10,730,430,613	7,305,489,686
Non-controlling interests (Note 28)	**76,709,932**	65,366,546	60,202,320
Total Equity	**10,796,881,140**	10,795,797,159	7,365,692,006
	₱29,543,463,155	₱17,862,811,615	₱14,437,240,389

See accompanying Notes to Consolidated Financial Statements.

FEDERAL LAND, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2011	2010 (As Restated - Note 28)	2009 (As Restated - Note 28)
REVENUE			
Real estate sales	**₱2,512,196,616**	₱2,160,695,953	₱1,148,005,785
Sale of goods and services	**764,665,350**	644,692,097	584,192,149
Interest income (Note 5)	**195,924,132**	174,567,600	180,643,623
Rent income (Notes 9 and 27)	**237,995,163**	197,991,209	176,853,527
Commissions	**95,970,876**	47,054,822	–
Interest income from banks (Notes 4 and 23)	**58,021,391**	3,983,193	1,683,374
Equity in net earnings of an associate and a jointly controlled entity (Note 8)	**87,553,016**	41,154,903	–
Other income (Notes 20 and 23)	**526,253,020**	123,121,743	146,458,159
	4,478,579,564	3,393,261,520	2,237,836,617
COSTS AND EXPENSES			
Cost of real estate sales (Note 6)	**1,553,768,313**	1,364,808,171	636,731,568
Cost of goods and services (Notes 6 and 21)	**709,726,583**	584,566,497	497,583,999
General and administrative expenses (Note 22)	**1,023,041,257**	788,690,578	738,142,209
Interest expense (Note 14)	**443,495,165**	55,808,648	154,311,106
Equity in net loss of an associate and a jointly controlled entity (Note 8)	**–**	–	167,535
	3,730,031,318	2,793,873,894	2,026,936,417
INCOME BEFORE INCOME TAX	**748,548,246**	599,387,626	210,900,200
PROVISION FOR INCOME TAX (Note 25)	**147,464,265**	69,038,473	58,687,863
NET INCOME	**601,083,981**	530,349,153	152,212,337
OTHER COMPREHENSIVE INCOME	**–**	–	–
TOTAL COMPREHENSIVE INCOME	**₱601,083,981**	₱530,349,153	₱152,212,337
Attributable to:			
Equity holders of Federal Land, Inc.	**₱589,740,595**	₱524,940,927	₱156,801,474
Non-controlling interests	**11,343,386**	5,408,226	(4,589,137)
	₱601,083,981	₱530,349,153	₱152,212,337

See accompanying Notes to Consolidated Financial Statements.

FEDERAL LAND, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	For the Year Ended December 31, 2011			
	Attributable to Equity Holders of Federal Land Inc.		Attributable to Non-controlling interests of Subsidiaries (Notes 19 and 28)	Total Equity
	Capital Stock (Note 19)	Retained earnings (Note 19)		
Balance at January 1, as previously reported	**₱10,000,000,000**	**₱180,103,393**	**₱54,464,931**	**₱10,234,568,324**
Effect of uniting of interest (Note 2)	**–**	**550,327,220**	**10,901,615**	**561,228,835**
Balance at January 1, as restated	**10,000,000,000**	**730,430,613**	**65,366,546**	**10,795,797,159**
Effect of uniting of interest (Note 2)	**–**	**(420,000,000)**	**–**	**(420,000,000)**
Dividends declared (Note 19)	**–**	**(180,000,000)**	**–**	**(180,000,000)**
Net income	**–**	**589,740,595**	**11,343,386**	**601,083,981**
Balance at end of year	**₱10,000,000,000**	**₱720,171,208**	**₱76,709,932**	**₱10,796,881,140**

	For the Year Ended December 31, 2010 (As restated)				
	Attributable to Equity Holders of Federal Land, Inc.			Attributable to Non-controlling interests of Subsidiaries (Notes 19 and 28)	Total Equity
	Capital Stock (Note 19)	Deposits on Future Stock Subscription (Note 19)	Retained earnings (Deficit) (Note 19)		
Balance at January 1, as previously reported	₱5,000,000,000	₱2,000,000,000	(₱140,860,882)	₱49,505,231	₱6,908,644,349
Effect of uniting of interest (Note 2)	–	–	446,350,568	10,697,089	457,047,657
Balance at January 1, as restated	5,000,000,000	2,000,000,000	305,489,686	60,202,320	7,365,692,006
Additional issuance of shares of stock	5,000,000,000	(2,000,000,000)	–	–	3,000,000,000
Dividends declared (Note 19)	–	–	(100,000,000)	(244,000)	(100,244,000)
Net income	–	–	524,940,927	5,408,226	530,349,153
Balance at end of year	₱10,000,000,000	₱–	₱730,430,613	₱65,366,546	₱10,795,797,159

	For the year ended December 31, 2009 (As restated)				
	Attributable to Equity Holders of Federal Land, Inc.			Attributable to Non-controlling interests of Subsidiaries (Notes 19 and 28)	Total Equity
	Capital Stock (Note 19)	Deposits on Future Stock Subscription (Note 19)	Retained earnings (Deficit) (Note 19)		
Balance at January 1, as reported	₱5,000,000,000	₱–	(₱182,955,554)	₱59,048,973	₱4,876,093,419
Effect of uniting of interest (Note 2)	–	–	347,065,077	10,485,089	357,550,166
Balance at January 1, as restated	5,000,000,000	–	164,109,523	69,534,062	5,233,643,585
Additions to future stock subscriptions	–	2,000,000,000	–	–	2,000,000,000
Acquisition of minority interest	–	–	(421,311)	(4,742,605)	(5,163,916)
Dividends declared (Note 19)	–	–	(15,000,000)	–	(15,000,000)
Net income	–	–	156,801,474	(4,589,137)	152,212,337
Balance at end of year, as restated	₱5,000,000,000	₱2,000,000,000	₱305,489,686	₱60,202,320	₱7,365,692,006

See accompanying Notes to Consolidated Financial Statements.

FEDERAL LAND, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2011	2010 (As restated - Note 28)	2009 (As restated - Note 28)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱748,548,246**	₱599,387,626	₱210,900,200
Adjustments for:			
Interest expense (Note 14)	**443,495,165**	55,808,648	154,311,106
Depreciation and amortization (Notes 9, 10, 12 and 22)	**71,336,030**	66,102,943	72,346,926
Unrealized foreign exchange loss (Note 22)	**193,784**	604,708	219,715
Equity in loss (net earnings) of an associate and a jointly controlled entity (Note 8)	**(87,553,016)**	(41,154,903)	167,535
Impairment losses (Note 5)	**879,708**	1,235,987	320,064
Gain on disposal of property and equipment	**(302,585)**	(112,714)	(2,087,833)
Interest income	**(253,945,523)**	(178,550,793)	(182,326,997)
Pension expense (Note 23)	**16,621,998**	9,368,388	5,695,785
Operating income before changes in working capital	**939,273,807**	512,689,890	259,546,501
Decrease (increase) in:			
Receivables	**(1,608,330,957)**	(1,253,693,108)	(248,832,945)
Inventories	**(3,221,426,652)**	389,452,638	(374,023,530)
Prepayments and other current assets	**(291,733,137)**	(160,255,805)	(111,184,999)
Increase (decrease) in:			
Accounts and other payables	**2,644,069,328**	1,287,888,906	(56,876,724)
Customers' deposits	**40,164,351**	(197,904,705)	134,758,727
Other current liabilities	**34,076,298**	(5,844,110)	7,083,408
Net cash generated by (used in) operations	**(1,463,906,962)**	572,333,706	(389,529,562)
Contributions to pension plan assets (Note 23)	**(12,959,089)**	(9,814,420)	(3,000,000)
Interest received	**726,924,709**	386,018,313	331,910,213
Interest paid	**(546,070,061)**	(115,622,301)	(277,315,826)
Income taxes paid	**(13,238,987)**	(102,947,458)	(66,300,995)
Net cash provided by (used in) operating activities	**(1,309,250,390)**	729,967,840	(404,236,170)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of:			
Property and equipment	**475,003**	6,909,772	1,807,406
Investments in associate and a jointly controlled entity (Note 8)	–	142,667,256	(240,000,000)
Acquisition of:			
Long-term cash investment (Note 23)	**(2,440,084,378)**	–	–
Deposits (Note 11)	**(4,085,000,000)**	–	–
Investment properties (Note 9)	**(57,705,511)**	(1,411,585,709)	(57,550,246)
Land and improvement	**(7,165,853)**	(1,281,774,720)	(446,537,537)
Property and equipment (Note 10)	**(16,386,318)**	(117,646,488)	(34,769,861)
Other noncurrent assets	**(24,329,671)**	(2,752,379)	(26,795,482)
Acquisition of noncontrolling interest	–	–	(5,163,916)
Acquisition under business combination (Notes 1 and 28)	**(420,000,000)**	–	(102,000,000)
Decrease (increase) in due from related parties	**(460,884,964)**	394,088,738	155,807,882
Net cash used in investing activities	**(7,511,081,692)**	(2,270,093,530)	(755,201,754)

(Forward)

	Years Ended December 31		
	2011	2010 (As restated - Note 28)	2009 (As restated - Note 28)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Issuance of capital stock (Note 19)	**₱–**	₱5,000,000,000	₱–
Loan availments (Note 14)	**17,305,000,000**	–	1,796,000,000
Deposit for future subscription	**–**	(2,000,000,000)	2,000,000,000
Payments of:			
Cash dividends (Note 19)	**(180,000,000)**	(100,000,000)	(315,000,000)
Loans payable	**(7,995,191,076)**	(785,000,000)	(338,442,257)
Increase (decrease) in:			
Due to related parties	**83,026,536**	(177,621,264)	138,569,215
Liabilities on purchased land	**(516,846,000)**	(112,254,000)	(230,868,600)
Other noncurrent liabilities	**10,269,221**	14,324,856	(1,816,940,537)
Net cash provided by financing activities	**8,706,258,681**	1,839,449,592	1,233,317,821
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(193,784)**	(604,708)	(219,715)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(114,267,185)**	298,719,194	73,660,182
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**496,807,102**	198,087,908	124,427,726
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱382,539,917**	₱496,807,102	₱198,087,908

See accompanying Notes to Consolidated Financial Statements.

FEDERAL LAND, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Corporate Information**

Federal Land, Inc. (the Parent Company) was incorporated on May 28, 1997, primarily to acquire, develop and sell properties of every kind and description including but not limited to real estate and bonds, debentures, promissory notes, shares of capital stock, or other securities or obligations. The Parent Company's registered office is at 2nd Floor, GT Tower International, Ayala Ave. cor. H.V. dela Costa Street, Makati City.

Group Activities
The Parent Company (referred herein as "Fed Land") and its subsidiaries are collectively referred herein as the Group. The main principal activities of the Group are to acquire, develop and sell properties of every kind and description and to act as a marketing agent for and in behalf of any real estate development company or companies. The Group is also engaged in the business of trading of goods such as petroleum, non-fuel products on wholesale or retail basis, maintains a petroleum service station and engaged in the food and restaurant service. The Group also has a significant proportionate interest on the joint controlled entity on which the Group is involve in administration of the joint venture project development.

The Group's ultimate parent is GT Capital Holdings, Inc., which owns 80% and the remaining 20% is owned by domestic corporations and private individuals.

The consolidated financial statements of the Group were approved and authorized for issue by the Board of Directors (BOD) on February 13, 2012.

2. **Summary of Significant Accounting Policies**

Basis of Preparation
The accompanying consolidated financial statements of the Group have been prepared using the historical cost basis. The Group's consolidated financial statements are presented in Philippine Peso (₱), which is the functional and presentation currency of the Parent Company, and all amounts are rounded to the nearest peso unless otherwise indicated.

Statement of Compliance
The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation
Basis of consolidation from January 1, 2011
The consolidated financial statements comprise the financial statements of the Group as at December 31, 2011 and January 1, 2010, and for the years then ended December 31, 2011, 2010 and 2009.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Non-controlling interests (NCI) represent the portion of profit or loss and net assets in subsidiaries not wholly owned and are presented separately in the consolidated statements of comprehensive income, consolidated statements of changes in equity and within equity in the consolidated statements of financial position, separately from the Parent Company's equity.

Losses within a subsidiary are attributed to the NCI even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any NCI and the cumulative translation differences, recorded in equity.
- Recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss.
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Basis of consolidation prior to January 1, 2011
Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests, prior to January 1, 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognized in goodwill.
- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to January 1, 2010 were not reallocated between NCI and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying values of such investments at January 1, 2011 have not been restated.

Combinations of Entities Under Common Control
Business combinations between entities under common control are accounted for by applying either the purchase accounting method or the uniting of interest method.

Where the purchase method of accounting is selected, the transaction must have substance from the perspective of the reporting entity. Careful consideration is required of all the facts and circumstances from the perspective of each entity, before it is concluded that a transaction has substance. If there is no substance to the transaction, the uniting of interest method is applied to the transaction. Where the uniting of interest method is used, comparative financial information in the consolidated financial statements are retrospectively adjusted for the periods during which the entities were under common control, as if the combination occurred at the beginning of that comparative period.

Under the uniting of interest method, the acquirer accounts for the combination as follows:
- the assets and liabilities of the acquiree are consolidated using the existing carrying values instead of fair values;
- intangible assets and contingent liabilities are recognized only to the extent that they were recognized by the acquiree in accordance with applicable PFRS;
- no amount is recognized as goodwill. The difference between the acquirer's cost of investment and the acquiree's equity is presented in equity as "Effect of uniting of interest" in the consolidated statement of financial position and any subsequent changes are presented within statement of changes in equity under "Changes in effect of uniting of interest" under the Retained earnings of the acquirer;
- any non-controlling interest is measured as a proportionate share of the book values of the related assets and liabilities; and
- comparative amounts are restated as if the combination had taken place at the beginning of the earliest comparative period presented.

The consolidated financial statements represent the consolidation of the financial statements of the Parent Company and the following subsidiaries:

	Percentage of Ownership	
	2011	2010
Southern Horizon Development Corp. (SHDC)	**100.00%**	100.00%
FLI - Management and Consultancy, Inc. (FMCI)	**100.00**	100.00
Fedsales Marketing, Inc. (FMI)	**100.00**	100.00
Baywatch Project Management Corporation (BPMC)	**100.00**	100.00
Horizon Land Property and Development Corporation (HLPDC) (previously known as Heritage Consolidated Assets, Inc).	**100.00**	100.00
Bonifacio Landmark Realty and Dev't Corp (BLRDC) (previously known as Morano Holdings Corporation)	**100.00**	100.00
Omni-Orient Marketing Network, Inc. (OOMNI)	**87.80**	87.80
Federal Brent Retail, Inc. (FBRI) [2]	**51.66**	51.66
Top Leader Property Management Corp. (TLPMC)	**100.00**	–
Central Realty and Development Corp. (CRDC) [1]	**75.80**	75.80
Harbour Land Realty & Dev Corp. (HLRC) [1]	**100.00**	100.00

1 Effective ownership in 2010 was due to the effect of uniting of interest method
2 Engaged in trading of petroleum and non-fuel products and food and restaurant services

TLPMC
On April 27, 2011, the SEC approved the Articles of Incorporation and By Laws of TLPMC, a wholly owned subsidiary of the Parent Company for a total subscription of ₱0.50 million. It has started its operations in May 2011.

CRDC
On June 23, 2011, CRDC issued its remaining unissued capital stock to the Parent Company consisting of 375,000 common shares with ₱100 par value share for ₱37.50 million. As a result, the Group acquired 75.8% interest over CRDC. The Group accounted the business combination under common control using uniting of interest method (see Note 28).

HLRC
In 2011, the Group acquired 100% holdings on HLRC, from affiliated companies for a total consideration of ₱420.00 million. The Group accounted the business combination under common control transaction using uniting of interest method (see Note 28).

BLRDC
In 2011, Parent Company and BLRDC entered into a Deed of Assignment and Subscription Agreement under a joint venture arrangement with ORIX Risingsun Properties II, Inc. (Orix) (see Note 29). On January 25, 2012, the SEC approved the change in name of MHC from Morano Holdings Corporation to Bonifacio Landmark Realty and Development Corporation.

Non-controlling interests represent the portion of profit and loss and net assets in subsidiaries not wholly owned by the Parent Company and are presented separately in the consolidated statement of comprehensive income and consolidated statement of changes in equity and within equity in the consolidated statement of financial position separate from the Parent Company's equity.

Acquisitions and disposals of non-controlling interest are accounted for using the "Entity concept method". Under this method, the entire difference between the cost of additional interest in the subsidiary and the non-controlling interest's share of the assets and liabilities reflected in the consolidated statement of financial position at the date of acquisition of the non-controlling interest is treated as being a transaction between owners. Consequently, the entire difference is presented in the consolidated statement of financial position within equity, separately from the Parent Company's equity.

The retrospective restatements in the consolidated financial statements of Parent Company as of December 31, 2010 and January 1, 2010 represents the effect of uniting of interest method used for accounting the transactions of business combination under common control (see Notes 19 and 28). The Group provides full set of notes for the consolidated statement of financial position as of December 31, 2010 and January 1, 2010, including the related notes affected by the restatement.

Reconciliations

The following reconciliations show the effect of the business combination under uniting interest method on the Parent Company's equity at December 31, 2010 and January 1, 2010, and on the Group's net income for the year ended December 31, 2010:

Reconciliation of Equity

		January 1	
	2011	2010	2009
As previously reported	**₱10,234,568,324**	₱6,908,644,349	₱4,876,093,419
Effect of business combination under uniting of interest method	**561,228,835**	457,047,657	357,550,166
	₱10,795,797,159	₱7,365,692,006	5,233,643,585

Reconciliation of Net Income

	For the Year Ended	
	December 31, 2010	December 31, 2009
As previously reported	₱426,167,975	₱154,714,846
Effect of business combination under uniting of interest method	104,181,178	(2,502,509)
As restated	₱530,349,153	₱152,212,337

Effects on the Consolidated Cash Flow statement for the year ended December 31, 2010
The effect of restatement due to uniting of interest method under business combination had no significant impact on the cash flows for the year ended December 31, 2010.

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended PFRSs and Philippine Interpretations which were adopted as of January 1, 2011. Adoption of these changes in PFRS did not have any significant effect on the Group's consolidated financial statements.

- PAS 24, *Related Party Transactions* (Amendment)
  PAS 24 clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of relate d party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

- PAS 32, *Financial Instruments: Presentation* (Amendment)
  The amendment alters the definition of a financial liability in PAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have these type of instruments.

- Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement* (Amendment)
  The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognized as a pension asset. The Group is not subject to minimum funding requirements in the Philippines, therefore the amendment of the interpretation has no effect on the financial position nor performance of the Group.

Improvements to PFRSs
Improvements to PFRSs, an omnibus of amendments to standards, deal primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments did not have any impact on the consolidated financial position or performance of the Group.

Improvements to PFRS 2010
- PFRS 3, *Business Combinations*: The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

The amendments to PFRS 3 are effective for annual periods beginning on or after 1 July 2011. The Group, however, adopted these as of January 1, 2011 and changed its accounting policy accordingly as the amendment was issued to eliminate unintended consequences that may arise from the adoption of PFRS 3.

- PFRS 7, *Financial Instruments- Disclosures*: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

- PAS 1, Presentation of Financial Statements: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements.

Other amendments resulting from the 2010 Improvements to PFRSs to the following standards did not have any impact on the accounting policies, consolidated financial position or performance of the Group.

- PFRS 3, *Business Combinations* (Contingent consideration arising from business combination prior to adoption of PFRS 3 (as revised in 2008))
- PFRS 3, *Business Combinations* (Un-replaced and voluntarily replaced share-based payment awards)
- PAS 27, *Consolidated and Separate Financial Statements*
- PAS 34, *Interim Financial Statements*

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* (determining the fair value of award credits)

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*

Improvements to PFRS 2009
- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, clarifies that the disclosures required in respect of noncurrent assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRSs only apply if specifically required for such noncurrent assets or discontinued operation.

- PFRS 8, *Operating Segment*
  This Amendment clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

- PAS 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. This amendment will impact, among others, the presentation in the statement of cash flows of the contingent consideration on the business combination completed in 2010 upon cash settlement.

- 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.

Other amendments resulting from the 2009 Improvements to PFRSs to the following standards did not have any impact on the accounting policies, consolidated financial position or performance of the Group.

- PFRS 2, *Share-based Payment*
- 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*

<u>New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2011</u>
The Group will adopt the following standards and interpretations 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 consolidated financial statements.

- PAS 1, *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income*
  The amendments to PAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has therefore no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012.

- PAS 12, *Income Taxes - Recovery of Underlying Assets*
  The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after January 1, 2012.

- PAS 19, *Employee Benefits* (Amendment)
  Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group is currently assessing the impact of the amendment to PAS 19. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

- PAS 27, *Separate Financial Statements* (as revised in 2011)
  As a consequence of the new PFRS 10, *Consolidated Financial Statement* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

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

- PFRS 7, *Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements*
  The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

- PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*
  These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

  a) The gross amounts of those recognized financial assets and recognized financial liabilities;
  b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
  c) The net amounts presented in the statement of financial position;
  d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
     i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
     ii. Amounts related to financial collateral (including cash collateral); and
  e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

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

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

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

- PFRS 12, *Disclosure of Involvement with Other Entities*
  PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after January 1, 2013.

- PFRS 13, *Fair Value Measurement*
  PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after January 1, 2013.

- PFRS 9, *Financial Instruments: Classification and Measurement*
  PFRS 9 as issued reflects the first phase 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, 2015. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

- PAS 32*, Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities*
  These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While the amendment is expected not to have any impact on the net assets of the Group, any changes in offsetting is expected to impact leverage ratios and regulatory capital requirements. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014. The Group is currently assessing impact of the amendments to PAS 32.

Effective in 2012

- PAS 12, *Income Taxes* (Amendment) - *Deferred Tax: Recovery of Underlying Assets*
  The amendment 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.

Effective in 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 early 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.

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
The interpretation 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. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue Standard is issued by International Accounting Standards Board (IASB) and an evaluation of the requirements and guidance of the final Revenue Standard in relation to the practices of the Philippine real estate industry is completed

The adoption of this Philippine Interpretation may significantly affect the determination of the revenue from real estate sales and the corresponding costs, and the related trade receivables, deferred tax liabilities and retained earnings accounts. The Group is in the process of quantifying the impact of adoption of this Interpretation.

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and that are subject to an insignificant risk of change in value.

Long Term Cash Investments
Long term cash investment are highly liquid investment that are subject to explicit time restriction and used as collateral to guarantee a loan obtained by a related party.

Financial Instruments
Date of recognition
The Group recognizes a financial asset or a financial liability in the Group's consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. 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.

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

As of December 31, 2011 and 2010, the Group's financial assets are of the nature of loans and receivables and AFS financial assets, while financial liabilities are of the nature of other financial liabilities at amortized cost.

Determination of fair value
The fair value for financial instruments traded in active markets at the financial reporting date is based on their quoted market price 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. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

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

Loans and receivables
Loans and receivables are nonderivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL. This accounting policy relates to the Group's statement of financial position captions "Cash and cash equivalents", "Receivables", except for advances to contractors and suppliers and advances to officers, employees and agents, "Long-term cash investments" and "Due from related parties".

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in the "Interest income" account in profit or loss. The losses arising from impairment of such loans and receivables are recognized in profit or loss.

AFS financial assets
AFS financial assets are those which are designated as such or do not qualify to be classified as designated as FVPL, HTM, or loans and receivables.

Financial assets may be designated at initial recognition if they are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. The Group's AFS financial assets pertain to unquoted equity securities included under the consolidated statement of financial position caption "Other noncurrent assets".
These are carried at cost less impairment and approximate fair value because fair value cannot be measured reliably due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

Other financial liabilities
Other financial liabilities are financial liabilities not designated at FVPL 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. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate 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 effective interest rate.

This accounting policy applies primarily to the Group's accounts and other payables, liabilities on purchased land, loans payable, due to related parties and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

<u>Derecognition of Financial Assets and Liabilities</u>
Financial asset
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

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

Financial liability
A financial liability is derecognized when the obligation under the liability is discharged, 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 profit or loss.

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

Loans and receivables
For loans and receivables carried at amortized cost, 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. 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. 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.

If there is objective evidence that an impairment loss has been incurred, 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 carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to profit or loss. Interest income continues to be recognized based on the original effective interest rate of the asset. Receivables, 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 reversed. Any subsequent reversal of an impairment loss is recognized in the profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as customer 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. 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.

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

In case of equity investments classified as AFS financial assets, 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 consolidated statement of comprehensive income is removed from the statement of changes in equity and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in other comprehensive income.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated 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.

Inventories
Inventories consists of condominium units held for sale, crude oil and petroleum products, food and nonfood products that are available for sale in the Group's ordinary course of business and undeveloped land which will be developed for sale as part of the Group's future projects. These are carried at the lower of cost or net realizable value (NRV). NRV is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs to make the sale. Cost includes those costs incurred for development and improvement of the properties, including capitalized borrowing costs.

Investments in a Jointly Controlled Entity
Investments in a jointly controlled entity is accounted for under the equity method of accounting. A joint venture is a contractual agreement whereby two or more parties undertake an economic activity that is subject to joint control.

An investment is accounted for using the equity method from the day it becomes a jointly controlled entity. On acquisition of investment, the excess of the cost of investment over the investor's share in the net fair value of the investee's identifiable assets, liabilities and contingent liabilities is accounted for as goodwill and included in the carrying amount of the investment and neither amortized nor individually tested for impairment. Any excess of the investor's share of the net fair value of the jointly controlled entity's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment, and is instead included as income in the determination of the share in the earnings of the investees.

Under the equity method, the investments in jointly controlled entity are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share in the net assets of the investees, less any impairment in value. The consolidated statement of comprehensive income reflects the Group's share in the results of operations of the investee companies. The Group's share of post-acquisition movements in the investee's equity reserves is recognized directly in equity. Profits and losses resulting from transactions between the Group and the investee companies are eliminated to the extent of the interest in the investee companies and for unrealized losses to the extent that there is no evidence of impairment of the assets transferred. Dividends received are treated as a reduction in the accumulated earnings.

The Group discontinues applying the equity method when its investments in investee companies are reduced to zero. Accordingly, additional losses are not recognized unless the Group has guaranteed certain obligations of jointly controlled entity. When the investees subsequently report profit or loss, the Group will resume applying the equity method but only after its share in the profit or loss equals the share of net losses not recognized during the period the equity method was suspended.

Investment Properties

Investment properties consist of properties that are held to earn rentals and that are not occupied by the companies in the Group. Investment properties, except for land, are carried at cost less accumulated depreciation and amortization and any impairment in value. Land is carried at cost less any impairment in value.

Depreciation and amortization of investment properties are computed using the straight-line method over the estimated useful lives of the properties which is 25 years.

Investment properties are derecognized when either they have been disposed of, or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of retirement or disposal.

Transfers are made to investment property when there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property 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. Transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value. The initial cost of property and equipment comprises its purchase price, including import duties, taxes and any directly attributable costs of bringing the property and equipment to its working condition and location for its intended use, including capitalized borrowing costs.

Construction-in-progress (CIP) is stated at cost. This includes cost of construction and other direct costs. CIP is not depreciated until such time that the relevant assets are completed and put into operational use.

Major repairs are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance are charged against operations as incurred.

Depreciation and amortization of property and equipment commences once the property and equipment are available for use and are calculated on the straight-line basis over the following estimated useful lives (EUL) of the property and equipment as follows:

	Years
Transportation equipment	5
Furniture, fixtures and equipments	5
Leasehold improvements	2 to 10 or lease term (whichever is shorter)
Machineries, tools and equipment	3 to 5
Building	15 to 41

The assets residual values, EUL and depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

When property and equipment are retired or otherwise disposed of, the cost of the related accumulated depreciation and amortization and provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Software Costs
Software costs are stated at cost less accumulated amortization and any impairment in value. Costs related to software purchased by the Group for use in the operations are amortized on a straight-line basis over a period of 3 years.

Costs associated with developing and maintaining computer software programs are recognized as an expense when incurred. Costs that are directly associated with identifiable and unique software controlled by the Group and will generate economic benefits exceeding costs beyond one year, are recognized as intangible assets to be measured at cost less accumulated amortization and provision for impairment losses, if any.

Franchise
Franchise fee is stated at cost and amortized over the franchise period which ranges from three (3) to five (5) years.

Impairment of Nonfinancial Assets
The Group assesses at each financial reporting date whether there is an indication that their nonfinancial assets (e.g. investments in associate and jointly controlled entity, investment properties, property and equipment, software costs and franchise), may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit'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 of those from other assets or groups of assets. 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. Impairment losses of continuing operations are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

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

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

Investments in a jointly controlled entity
After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in its associate and jointly controlled entity. The Group determines at each financial reporting date whether there is any objective evidence that the investment in associate and jointly controlled entity is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the fair value of the associate and jointly controlled entity and the carrying cost and recognizes the amount in the profit or loss.

Intangible assets
Intangible assets acquired separately are measured on initial recognition at cost. Subsequently, intangible assets are measured at cost less accumulated amortization and provision for impairment loss, if any. The useful lives of intangible assets with finite life are assessed at the individual asset level. Intangible assets with finite life are amortized over their useful life. Periods and method of amortization for intangible assets with finite useful lives are reviewed annually or earlier when an indicator of impairment exists.

The Group's intangible assets consist of software costs and franchise. Intangible assets have an estimated useful life of 2 to 5 years. A gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the intangible asset and is recognized in profit or loss when the intangible asset is derecognized.

Equity
The Group records common stock at par value and additional paid-in capital in excess of the total contributions received over the aggregate par values of the equity share. Incremental costs incurred directly attributable to the issuance of new shares are deducted from proceeds.

Retained earnings represent accumulated earnings of the Group less dividends declared, if any.

Revenue and Cost Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue can be reliably measured. 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 principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Real estate sales
Real estate revenue and cost from completed projects is accounted for using the full accrual method. The percentage of completion method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work. When the sale of real estate does not meet the requirements for revenue recognition, the sale is accounted under the deposit method. Under this method, revenue is not recognized and the receivable from the buyer is not recorded. The real estate inventories continue to be reported in the consolidated statement of financial position as "Inventories" and the related liability as deposit under "Customers' deposits".

Cost of condominium units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works, as determined by the Group's in-house technical staff.

Sale of goods and services
Sale of goods is recognized from retail customers at the point of sale in the stores. This is measured at the fair value of the consideration received, excluding (or 'net of,' or 'reduced for') discounts, returns, rebates and sales taxes.

Management fees
Management fees from administrative, property management and other fees are recognized when services are rendered.

Rental income
Rental income under noncancellable and cancellable leases is recognized in the consolidated statement of comprehensive income on a straight-line basis over the lease term and the terms of the lease, respectively, or based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract.

Interest income
Interest is recognized as it accrues using the effective interest method.

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

Commission income
Commission income from acting as marketing agent to third party real estate developer and others are recognized when service are rendered.

Cost and Expense Recognition
Cost of real estate sales
Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of subdivision land and condominium units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works, as determined by the Group's project and construction department.

Commissions and other selling expenses
Selling expenses such as commissions paid to sales or marketing agents on the sale of pre-completed real estate units are deferred when recovery is reasonably expected and are charged to expense in the period in which the related revenue is recognized as earned. Accordingly, when the percentage of completion method is used, commissions are likewise charged to expense in the period the related revenue is recognized.

General and administrative expenses
General and administrative expenses constitute costs of administering the business and are expensed as incurred.

Pension Cost
The Group has a funded, noncontributory defined benefit retirement plan, administered by trustees, covering substantially all of their permanent employees.

Pension cost is actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur. Pension cost includes current service cost, interest cost, expected return on any plan assets, actuarial gains and losses and the effect of any curtailment or settlement.

The liability recognized in the consolidated statement of financial position in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the financial reporting date less the fair value of the plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using risk-free interest rates that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses is recognized as income or expense if the cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded the greater of 10% of the present value of defined benefit obligation or 10% of the fair value of plan assets. These gains and losses are recognized over the expected average remaining working lives of the employees participating in the plans.

Income Tax
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 at the financial reporting dates.

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

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

Deferred tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries and associates.

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

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rate and tax laws that have been enacted or substantively enacted at the reporting date.

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

Foreign Currency Transactions
The functional and presentation currency of the Group is the Philippine Peso. Transactions denominated in foreign currency are recorded using the exchange rate prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are restated using the closing exchange rates prevailing at reporting date. Exchange gains or losses resulting from rate fluctuations upon actual settlement and from restatement at year-end are credited to or charged against current operations.

Operating Leases
Leases where the lessor retains substantially all the risks and benefits of the ownership of the asset are classified as operating leases. Fixed lease payments are recognized on a straight-line basis over the lease term. Variable rent is recognized as expense based on the terms of the lease contract.

Group as Lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Fixed lease payments are recognized as an expense in profit or loss on a straight-line basis while the variable rent is recognized as expense based on terms of the lease contract.

Group as Lessor
Leases where the Group does not transfer substantially all the risk and benefits of ownership of the assets are classified as operating leases. Lease payments received are recognized as an income in profit or loss on a straight-line basis over the lease term. 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.

Borrowing Costs
Interest and other financing costs incurred during the construction period on borrowings used to finance property development are capitalized as part of development costs (included in "Inventories" account in the Group's consolidated statement of financial position). Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalization of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are

complete. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Capitalized borrowing cost is based on applicable weighted average borrowing rate for those coming from general borrowings and the actual borrowing costs eligible for capitalization for funds borrowed specifically. All other borrowing costs are expensed in the period they occur.

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, 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 a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. 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. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

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

Events After the Reporting Date
Post year-end events up to the auditors' report that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

3. **Management's Accounting Judgments and Use of Estimates**

The preparation of the consolidated financial statements in compliance with PFRS requires the Group's management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including future events that are believed to be reasonable under circumstances.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Revenue and cost recognition
Selecting an appropriate revenue recognition method for a particular real estate sale transaction requires certain judgments based on, among others:

- Buyer's commitment on the sale which may be ascertained through the significance of the buyer's initial investment; and
- Stage of completion of the project.

Operating lease commitments - the Group as lessee
The Group has entered into a lease contract with its related parties with respect to the parcels of land where its retail malls are located. The Group has determined that all significant risks and rewards of ownership of the leased property remains to the since the leased property, together with the buildings thereon, and all permanent fixtures, will be returned to the lessor upon termination of the lease (see Note 27).

Operating lease commitments - the Group as lessor
The Group entered into commercial property leases on its retail mall, investment properties and certain units of its real estate projects to different parties for a specific amount depending on the lease contracts. The Group has determined that it retains all significant risks and rewards of ownership on the properties as the Group considered risks and rewards of ownership on the properties as the Group considered among others the length of the lease as compared with the estimated life of the assets. The rental income from these lease commitments amounted to ₱238.00 million, ₱197.99 million and ₱176.85 million in 2011, 2010 and 2009, respectively (see Notes 9 and 27).

A number of the Group's operating lease contracts are accounted for as noncancellable operating leases and the rest are cancellable. In determining whether a lease contract is cancellable or not, the Group considered among others, the significant of the penalty, including the economic consequences to the lessee (see Note 27).

Impairment of AFS financial assets
The Group treats AFS financial assets as impaired when there has been a significant or prolonged decline or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Group treats 'significant' generally as 20% or more and 'prolonged' as greater than six months for quoted equity securities. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

The carrying value of AFS financial assets amounted to ₱9.92 million, ₱27.63 million and ₱29.64 million in December 31, 2011, 2010 and January 1, 2010, respectively.

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.

Distinction between real estate inventories and investment properties
The Group determines whether a property will be classified as real estate inventories or investment properties. In making this judgment, the Group considers whether the property is held for sale in the ordinary course of business (real estate inventories) or which are held primarily to earn rental and capital appreciation and are not occupied substantially for use by, or in the operations of the Group (investment properties).

Collectibility of the sales price
In determining whether the sales prices are collectible, the Group considers that initial and continuing investments by the buyer of about 10% would demonstrate the buyer's commitment to pay.

Distinction between investment properties and owner-occupied properties
The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions cannot be sold separately as of financial reporting date, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

Contingencies
The Group's estimate of probable costs for the resolution of legal claims and proceedings are developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group is currently not involved in any legal proceedings.

<u>Management's Use of Estimates</u>
The key assumptions concerning the future and other key sources of estimation and uncertainty at the financial reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Revenue and cost recognition
The Group's revenue recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenue and costs. The Group's revenue from real estate and construction contracts recognized based on the percentage of completion are measured principally on the basis of the estimated completion of a physical proportion of the contract work, and by reference to the actual costs incurred to date over the estimated total costs of the project. The carrying value of the Group's installment contract receivables amounted to ₱1,924.21 million, ₱1,361.19 million and ₱750.93 million as of December 31, 2011 and 2010 and January 1, 2010, respectively (see Note 5).

Estimating allowance for impairment losses on loans and receivables
The Group maintains allowance for impairment losses based on the results of the individual and collective assessment under PAS 39. Under the individual assessment, the Group is required to obtain the present value of estimated cash flows using the receivable's original effective interest rate. Impairment loss is determined as the difference between the receivable's carrying balance and the computed present value. The collective assessment would require the Group to group its receivables based on the credit risk characteristics (customer type, past-due status and term) of the customers. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile. 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. The methodology and assumptions used for the individual and collective assessments are based on management's judgment and estimate.

Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year. As of December 31, 2011, 2010 and January 1, 2010, allowance for impairment losses on receivables amounted to ₱3.77 million, ₱2.93 million and ₱1.69 million, respectively (see Note 5).

Evaluating net realizable value of real estate inventories
The Group adjusts the cost of its real estate inventories to net realizable value based on its assessment of the recoverability of the inventories. In determining the recoverability of the inventories, management considers whether those inventories are damaged or if their selling prices have declined. Likewise, management also considers whether the estimated costs of completion or the estimated costs to be incurred to make the sale have increased. The amount and timing of recorded expense for any period would differ if different judgments were made or different estimates were utilized. The carrying value of the Group's inventories amounted to ₱11,338.37 million, ₱7,889.22 million and ₱6,927.61 million as of December 31, 2011 and 2010 and January 1, 2010, respectively (see Note 6).

Evaluating asset impairment
The Group reviews investment properties, investments in a jointly controlled entity, property and equipment, software costs and franchise. This includes considering certain indications of impairment such as significant changes in asset usage, significant decline in assets' market value, obsolescence or physical damage of an asset, plans in the real estate projects, significant underperformance relative to expected historical or projected future operating results and significant negative industry or economic trends.

As described in the accounting policy, the Group estimates the recoverable amount as the higher of the fair value less cost to sell and value in use. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that may affect investments in associates and jointly controlled entity, property and equipment and software cost. The following table sets forth the carrying values of investment properties, investments in a jointly controlled entity, property and equipment, software costs and franchise as of December 31, 2011 and 2010 and January 1, 2010:

	December 31		January 1
	2011	2010 (As restated)	2010 (As restated)
Investment properties (Note 9)	**₱5,227,423,530**	₱5,299,217,182	₱3,906,242,718
Investments in a jointly controlled entity (Note 8)	**446,938,240**	359,385,224	460,897,577
Property and equipment (Note 10)	**394,229,741**	430,887,963	373,046,962
Software costs (Note 12)	**8,425,386**	8,386,285	13,840,392
Franchise (Note 12)	**72,697**	145,424	2,063,057

Estimating useful lives of property and equipment, investment properties, software costs and franchise
The Group estimated useful lives (EUL) of its properties, software costs and franchise are based on the period over which the assets are expected to be available for use. The Group reviews annually the EUL of these based on factors that include asset utilization, internal technical evaluation, and anticipated use of the assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the EUL of these assets would increase the recorded depreciation and amortization expense and decrease noncurrent assets.

	December 31		January 1
	2011	2010 (As restated)	2010 (As restated)
Investment properties (Note 9)	**₱5,227,423,530**	₱5,299,217,182	₱3,906,242,718
Property and equipment (Note 10)	**394,229,741**	430,887,963	373,046,962
Software costs (Note 12)	**8,425,386**	8,386,285	13,840,392
Franchise (Note 12)	**72,697**	145,424	2,063,057

Deferred tax assets
The Group reviews the carrying amounts of deferred income taxes at each financial reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable profit to allow all or part of deferred income tax assets to be utilized. The Group looks at its projected performance in assessing the sufficiency of future taxable income.

As of December 31, 2011, 2010 and January 1, 2010, the recognized net deferred tax assets amounted to ₱3.79 million, ₱6.75 million and ₱0.76 million, respectively. Unrecognized temporary differences pertaining to NOLCO, MCIT and unrealized foreign exchange loss amounted to ₱2.92 million, ₱0.02 million and ₱6.83 million, respectively (see Note 25).

Estimating pension and other retirement benefits
The determination of the obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, expected returns on plan assets and salary increase rates. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension obligations. As of December 31, 2011, 2010 and January 1, 2010, the pension liabilities amounted to ₱28.11 million, ₱24.45 million and ₱24.89 million, respectively. As of December 31, 2011 and 2010 and January 1, 2010, the unrecognized actuarial losses amounted to ₱42.95 million, ₱42.81 million and ₱6.31 million (see Note 24).

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the consolidated financial reporting cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation (see Note 26)

4. **Cash and Cash Equivalents**

This account consists of:

	December 31		January 1
	2011	2010 (As restated)	2010 (As restated)
Cash on hand and in banks	**₱311,753,692**	₱163,628,606	₱164,447,235
Cash equivalents	**70,786,225**	333,178,496	33,640,673
	₱382,539,917	₱496,807,102	₱198,087,908

Cash in banks earn interest at the prevailing bank deposit rates. Cash equivalents are made for varying periods of up to three months depending on the immediate cash requirements of the Group and earn interest at the prevailing short-term investment rates.

Interest income from deposits and savings accounts of the Group amounted to ₱17.94 million, ₱3.98 million and ₱1.68 million in 2011, 2010 and 2009, respectively.

5. **Receivables**

This account consists of:

	December 31		January 1
	2011	2010 (As restated)	2010 (As restated)
Installment contracts receivable	**₱1,924,210,550**	₱1,361,188,994	₱750,928,270
Advances to contractors and suppliers	**890,524,121**	479,942,744	151,154,261
Trade receivables	**178,816,574**	93,286,102	83,200,686
Accrued commission income	**21,252,081**	14,703,308	4,519,931
Advances to officers, employees and agents	**7,215,861**	12,211,791	7,141,616
Accrued rent income	**5,300,029**	26,256,933	8,378,764
Accrued interest receivable	**2,269,418**	34,559,913	24,984,384
Others	**193,144,956**	65,273,914	10,890,199
Total	**3,222,733,590**	2,087,423,699	1,041,198,111
Less noncurrent portion	**1,114,943,862**	908,865,891	284,535,117
Total current portion	**2,107,789,728**	1,178,557,808	756,662,994
Less allowance for impairment losses	**3,768,389**	2,930,561	1,694,574
	₱2,104,021,339	₱1,175,627,247	₱754,968,420

The details of the installment contracts receivable follow:

	December 31		January 1
	2011	2010 (As restated)	2010 (As restated)
Installment contracts receivable	**₱2,348,347,412**	₱1,508,270,802	₱865,110,158
Less unearned interest income	**424,136,862**	147,081,808	114,181,888
Net installment contracts receivable	**1,924,210,550**	1,361,188,994	750,928,270
Less noncurrent portion	**1,104,578,763**	908,865,891	284,535,117
Current portion	**₱819,631,787**	₱452,323,103	₱466,393,153

Movements in the unamortized discount for the years ended December 31:

	2011	2010	2009
Balance at beginning of year	**₱147,081,808**	₱114,181,888	₱187,551,788
Additions	**472,979,186**	207,467,520	107,273,723
Accretion	**(195,924,132)**	(174,567,600)	(180,643,623)
Balance at end of year	**₱424,136,862**	₱147,081,808	₱114,181,888

Installment contracts receivables are collected over a period of one (1) to ten (10) years and are noninterest-bearing. The fair value upon initial recognition is derived using discounted cash model using the discount rate ranging from 8% to 18% in December 31, 2011, 2010 and January 1, 2010. Interest income recognized from these receivables amounted to ₱195.92 million, ₱174.57 million and ₱180.64 million in 2011, 2010 and 2009, respectively. Unamortized discount amounted to ₱424.14 million, ₱147.08 million and ₱114.18 million in 2011, 2010 and 2009, respectively.

Installment contract receivable pertains to receivables from the sale of condominium units. Titles to the sold condominium units are transferred to the buyers only upon full payment of the contract price.

Trade receivables pertain to tenants' rentals already billed but not yet collected and their share in utilities (electricity, water and liquefied petroleum gas).

Advances to contractors and suppliers pertain to advances and initial payment for the purchase of construction materials and supplies. These are recouped upon every progress billing payments.

Accrued rent income and accrued commission income pertain to rent and commission earned but not yet collected and billed. These accounts have a with a 15- to 30- day term.

Advances to officers and employees pertain to cash advances for representation and entertainment and employee cash loans. Advances for representation and entertainment are liquidated within 30 days after incurrence of expense while employee cash loans are collected through salary deduction. Cash advances to agents pertain to mobilization funds granted to agents to finance their sales-related needs. These advances are subjected to liquidation within 30 days after the release of cash advance.

Other receivables pertain to advances on value-added tax (VAT), interest receivables and deposit receivables. Advances on VAT pertains to payments made to the BIR that are remitted in advance by the Group at the time of sale.

As of December 31, 2011, 2010 and January 1, 2010, the Group's other receivables which are past due were provided with full allowance amounting to ₱3.77 million, ₱2.93 million and ₱1.69 million, respectively (see Note 26). The impairment loss pertains to individually impaired accounts. These are presented as gross amounts before directly deducting impairment allowance. No impairment losses resulted from performing collective impairment test.

The movement in the Group's allowance for impairment losses for the years ended December 31 follows:

	2011	2010 (As restated)	2009
Balance at beginning of year	**₱2,930,561**	₱1,694,574	₱1,374,510
Provision for the year	**879,708**	1,235,987	320,064
Write off	**(41,880)**	–	–
Balance at end of year	**₱3,768,389**	₱2,930,561	₱1,694,574

6. **Inventories**

This account consists of:

	December 31		January 1
	2011	2010 (As restated)	2010 (As restated)
Condominium units held for sale	**₱5,931,704,263**	₱3,154,520,645	₱1,882,373,019
Land for development at cost	**4,653,076,618**	4,279,214,214	4,492,170,030
Materials, supplies and others	**743,058,180**	443,479,143	544,370,758
Gasoline retail and petroleum products (Note 21)	**8,367,927**	10,014,263	5,620,580
Food (Note 21)	**2,160,335**	1,990,935	3,074,605
	₱11,338,367,323	₱7,889,219,200	₱6,927,608,992

The Group started the development of its parcels of land previously accounted for as property and equipment amounting to ₱4.22 million and investment properties amounting to ₱2.41 million both in 2009. The transfers of properties into "Inventories" account are in line with the Group's intention of constructing condominium units for sale and as evidenced by its commencement of development with the view to sale (see Notes 9 and 10).

The rollforward of land for development is for the years ended December 31 as follows:

	2011	2010	2009
Balance at beginning of year	**₱4,279,214,214**	₱4,492,170,030	₱4,233,598,038
Acquisitions	**7,165,853**	1,281,774,720	446,537,537
Transfer from materials, supplies and others	**475,473,513**	–	–
Transfers to condominium units held for sale	**(108,776,962)**	(1,494,730,536)	(187,965,545)
Balance at end of year	**₱4,653,076,618**	₱4,279,214,214	₱4,492,170,030

As of December 31, 2011, 2010 and 2009, inventories recognized as "Cost of real estate sales" amounted to ₱1,553.77 million, ₱1,364.81 million and ₱636.73, respectively, while other inventory items recognized as "Cost of goods and services" amounted to ₱709.73 million, ₱584.57 million and ₱497.58 million, respectively (see Note 21).

The Group capitalized borrowing cost on real estate inventories amounting to ₱171.54 million, ₱174.54 million, ₱155.86 million in 2011, 2010 and 2009, respectively for loans with interest rates ranging from 3.25% to 7.09% in 2011, 2.89% to 12.00% in 2010 and 5.77% to 7.00% in 2009 specifically used to finance the Group's project construction. Also, the Group capitalized borrowing with regard to its general borrowing amounting to ₱79.28 in 2011. The average capitalization rate used to determine the amount of borrowing costs eligible for capitalization is 7.29% in 2011. Said capitalized interest is added to "Condominium units held for sale" account and recognized as expense upon the sale of condominium units. The Group expensed out capitalized interest amounted to ₱59.81 million in 2011, ₱36.06 million in 2010 and ₱12.66 million in 2009 (see Note 14).

On February 23, 2011, the Group acquired a parcel of land from an affiliated company and was paid in full during the year. The acquisition cost of land amounted to ₱7.17 million (see Note 23).

7. Prepayments and Other Current Assets

This account consists of:

	December 31		January 1
	2011	2010 (As restated)	2010 (As restated)
Input VAT	**₱694,883,588**	₱627,419,235	₱406,909,715
Creditable withholding taxes	**186,685,573**	91,436,663	136,985,163
Prepaid expenses	**73,539,590**	3,178,322	16,041,724
Others	**261,728**	1,537,422	3,379,235
	₱955,370,479	₱723,571,642	₱563,315,837

Input VAT will be applied against output VAT in the succeeding periods.

Creditable withholding taxes (CWT) are attributable to taxes withheld by third parties arising from real estate revenue, rental income and service fees.

Input VAT and CWT are fully realizable and will be applied against future taxes payable.

8. Investments in Associate and a Jointly Controlled Entity

On October 11, 2008, the Parent Company entered into a joint venture agreement with ORIX Risingsun Properties, Inc. (ORIX) for the organization of a joint venture company, Federal Land Orix Corporation (FLOC), to manage the development and selling of a certain real estate project for a 60% equity interest.

The movements in Group's investments in associate and a jointly controlled entity follow:

	2010	2009
Associate:		
Cost		
Balance at beginning of year	₱150,000,000	₱150,000,000
Disposal	(150,000,000)	–
Balance at the end of year	–	150,000,000
Accumulated equity in net loss		
Balance at beginning of year	(7,686,800)	(9,608,622)
Equity in net earnings of associate	354,056	1,921,822
Disposal	(7,332,744)	–
Balance at end of year	–	(7,686,800)
	₱–	₱142,313,200

	2011	2010	2009
Jointly controlled entity:			
Cost			
Balance at beginning of year	**₱330,000,000**	₱330,000,000	90,000,000
Additions	–	–	240,000,000
Balance at end of year	**330,000,000**	330,000,000	330,000,000
Accumulated equity in net earnings (loss)			
Balance at beginning of year	**29,385,224**	(11,415,623)	(9,326,266)
Equity in net earnings	**87,553,016**	40,800,847	(2,089,357)
Balance at end of year	**116,938,240**	29,385,224	(11,415,623)
	446,938,240	359,385,224	₱318,584,377
	₱446,938,240	₱359,385,224	₱460,897,577

The financial highlights of the Group's jointly controlled entity and the related percentage of ownership follow:

	Joint Venture Federal Land Orix Corp. (in thousands)
Nature of Business	Real estate
2011	
Percentage of ownership.	60.00%
Net assets	₱446,938
Comprehensive income (loss)	87,553
2010	
Percentage of ownership.	60.00%
Net assets	359,385
Comprehensive income (loss)	40,801
2009	
Percentage of ownership.	60.00%
Net assets	318,584
Comprehensive income (loss)	(2,089)

Disposal of an associate
In December 2010, the Parent Company sold its interest in Cathay International Resources Corporation to Global Business Holdings, Inc. for a consideration of ₱142.22 million. The disposal of the investment resulted to a loss amounting to ₱0.45 million.

9. **Investment Properties**

The composition and rollforward analyses of this account follow:

	2011		
	Land	**Buildings**	**Total**
Cost			
At January 1, as restated	**₱5,091,340,619**	**₱305,138,230**	**₱5,396,478,849**
Additions	**57,180,342**	**525,169**	**57,705,511**
Transfer	**(117,980,722)**	**–**	**(117,980,722)**
At December 31	**5,030,540,239**	**305,663,399**	**5,336,203,638**
Accumulated Depreciation			
At January 1, as restated	**–**	**97,261,667**	**97,261,667**
Depreciation	**–**	**11,518,441**	**11,518,441**
At December 31	**–**	**108,780,108**	**108,780,108**
Net Book Value at December 31	**₱5,030,540,239**	**₱196,883,291**	**₱5,227,423,530**

	2010 (As Restated)		
	Land	Buildings	Total
Cost			
At January 1, as restated	₱3,786,488,826	₱207,878,788	₱3,994,367,614
Additions	1,305,590,709	105,995,000	1,411,585,709
Transfer	(738,916)	(8,735,558)	(9,474,474)
At December 31	5,091,340,619	305,138,230	5,396,478,849
Accumulated Depreciation			
At January 1, as restated	–	88,124,896	88,124,896
Depreciation	–	9,136,771	9,136,771
At December 31	–	97,261,667	97,261,667
Net Book Value at December 31	₱5,091,340,619	₱207,876,563	₱5,299,217,182

	2009 (As Restated)		
	Land	Buildings	Total
Cost			
At January 1	₱3,788,161,462	₱151,067,457	₱3,939,228,919
Additions	738,915	56,811,331	57,550,246
Transfer	(2,411,551)	–	(2,411,551)
At December 31	3,786,488,826	207,878,788	3,994,367,614
Accumulated Depreciation			
At January 1	–	81,300,957	81,300,957
Depreciation	–	6,823,939	6,823,939
At December 31	–	88,124,896	88,124,896
Net Book Value at December 31	₱3,786,488,826	₱119,753,892	₱3,906,242,718

Certain parcels of land were transferred to the "Inventories" account with carrying amount of ₱117.98 million and ₱39.74 million as of December 31, 2011 and January 1, 2010, respectively (see Note 6). The transferred properties are intended for the construction of condominium units for sale.

In 2010, the Group acquired additional offices spaces at GT Tower and these are currently being leased out to third parties.

Various parcels of land are leased to several individuals and corporations. Some of the lease contracts provide, among others, that within a certain period from the expiration of the contracts, the lessee will have to demolish and remove any and all improvements (like buildings) introduced or built within the leased properties. Otherwise, the lessor will cause the demolition and removal thereof and charge the cost to the lessee unless the lessor occupies and appropriates the same for its use and benefit. Rental income recognized from these properties amounted to ₱238.00 million, ₱197.99 million and ₱176.85 million in 2011, 2010 and 2009, respectively.

The depreciation of the investment properties amounting to ₱11.52 million, ₱9.14 million and ₱6.82 million in 2011, 2010 and 2009, respectively, is included in the "General and administrative expenses" account in the consolidated statements of comprehensive income (see Note 22).

The aggregate fair value of the Group's investment properties amounted to ₱7.90 billion, ₱3.26 billion and ₱1.87 billion as of December 31, 2011, 2010 and January1, 2010, respectively. The fair value of the Group's investment properties has been determined based on valuations performed by Philippine Appraisal Company, Inc., an accredited independent appraiser. Philippine Appraisal Company, Inc. is an industry specialist in valuing these types of investment properties. The value of the land was estimated by using the Market Data Approach, a valuation approach that considers the sales, listings and other related market data within the vicinity of the subject properties and establishes a value estimate by processes involving comparison. Valuation of the Group's investment properties are done every three years with the latest valuation report issued in February 2012.

10. **Property and Equipment**

The composition and rollforward analyses of this account follow:

December 31, 2011	Transportation Equipment	Furniture, Fixtures and Equipments	Leasehold Improvements	Machinery, Tools and Equipment	Construction-in-Progress	Building	Total
Cost							
At January 1	**₱21,596,996**	**₱86,919,287**	**₱476,541,640**	**₱13,700,765**	**₱1,660,746**	**₱116,712,824**	**₱717,132,258**
Additions	**2,239,406**	**8,265,213**	**4,737,800**	**108,090**	**203,500**	**832,309**	**16,386,318**
Transfer	**–**	**283,085**	**101,831**	**–**	**(384,916)**	**–**	**–**
Disposals	**(1,354,630)**	**–**	**–**	**–**	**–**	**–**	**(1,354,630)**
At December 31	**22,481,772**	**95,467,585**	**481,381,271**	**13,808,854**	**1,479,330**	**117,545,133**	**732,163,946**
Accumulated Depreciation and Amortization							
At January 1	**13,142,437**	**76,158,106**	**186,229,157**	**9,063,059**	**–**	**1,651,535**	**286,244,295**
Depreciation and amortization	**3,313,544**	**8,338,910**	**36,700,081**	**1,228,279**	**–**	**3,291,307**	**52,872,121**
Disposals	**(1,182,211)**	**–**	**–**	**–**	**–**	**–**	**(1,182,211)**
Reclassification	**326,392**	**–**	**(326,392)**	**–**	**–**	**–**	**–**
At December 31	**15,600,162**	**84,497,016**	**222,602,846**	**10,291,338**	**–**	**4,942,842**	**337,934,205**
Net Book Value at December 31	**₱6,881,610**	**₱10,970,569**	**₱258,778,425**	**₱3,517,516**	**₱1,479,330**	**₱112,602,291**	**₱394,229,741**

December 31, 2010	Transportation Equipment	Furniture, Fixtures and Equipments	Leasehold Improvements	Machinery, Tools and Equipment	Construction-in-Progress	Building	Total
Cost							
At January 1	₱20,193,247	₱93,884,649	₱484,681,051	₱13,700,765	₱182,233	₱15,077,824	₱627,719,769
Additions	4,237,845	4,563,062	5,549,836	–	1,660,746	101,635,000	117,646,489
Transfer	–	(11,528,424)	182,233	–	(182,233)	–	(11,528,424)
Disposals	(2,834,096)	–	(13,871,480)	–	–	–	(16,705,576)
At December 31	21,596,996	86,919,287	476,541,640	13,700,765	1,660,746	116,712,824	717,132,258
Accumulated Depreciation and Amortization							
At January 1	12,784,281	77,593,713	155,782,031	7,821,715	–	691,067	254,672,807
Depreciation and amortization	2,883,574	9,806,046	38,116,998	1,241,345	–	960,468	53,008,431
Disposals	(2,525,418)	(11,241,653)	(7,669,872)		–	–	(21,436,943)
At December 31	13,142,437	76,158,106	186,229,157	9,063,059	–	1,651,535	286,244,295
Net Book Value at December 31	₱8,454,559	₱10,761,181	₱290,312,482	₱4,637,706	₱1,660,746	₱115,061,289	₱430,887,963

January 1, 2010	Transportation Equipment	Furniture, Fixtures and Equipments	Leasehold Improvements	Machinery, Tools and Equipment	Construction-in-Progress	Building	Total
Cost							
At January 1	₱18,019,937	₱89,238,340	₱389,913,128	₱13,700,765	₱88,147,743	₱–	₱599,019,913
Additions	3,980,716	4,685,755	10,843,333	–	182,233	15,077,824	34,769,861
Transfer	–	(39,446)	83,924,590	–	(88,147,743)	–	(4,262,599)
Disposals	(1,807,406)	–	–	–	–	–	(1,807,406)
At December 31	20,193,247	93,884,649	484,681,051	13,700,765	182,233	15,077,824	627,719,769
Accumulated Depreciation and Amortization							
At January 1	10,956,518	62,750,887	120,331,300	6,346,111	–	–	200,384,816
Depreciation and amortization	2,910,170	14,842,826	35,450,731	1,289,993	–	691,067	55,184,787
Disposals	(1,082,407)	–	–	–	–	–	(1,082,407)
Adjustments	–	–	–	185,611	–	–	185,611
At December 31	12,784,281	77,593,713	155,782,031	7,821,715	–	691,067	254,672,807
Net Book Value at December 31	₱7,408,966	₱16,290,936	₱328,899,020	₱5,879,050	₱182,233	₱14,386,757	₱373,046,962

The additions on the building pertain to 20th floor of GT Tower International, which was acquired by the Group on December 14, 2010.

Construction-in-progress (CIP) amounting to ₱88.15 million was reclassified to leasehold improvements and inventories amounting to ₱83.92 million and ₱4.22 million, respectively, as of January 1, 2010 (see Note 6). CIP transferred to leasehold improvements represents the construction cost of leasehold improvements for Bluewave II building in 2008 which will be used by FBRI as a supermarket while CIP transferred to inventories pertain to parcels of land which the Group had commenced development.

11. **Deposits**

Deposits, which are stated at cost, represents option money granted by a third party for the exclusive rights for three years to either (a) purchase the property, (b) purchase shares of stock of the third party which own the property, (c) to develop the property as developer in joint venture with the third party or (d) to undertake combination of any of the foregoing, as may be agreed upon the parties (see Note 23).

12. **Other Noncurrent Assets**

This account consists of:

	December 31		January 1
	2011	2010 (As restated)	2010 (As restated)
Rental and other deposits (Note 27)	**₱90,146,272**	₱44,801,630	₱45,497,849
AFS financial assets (Note 26)	**9,921,760**	27,632,005	29,642,215
Software costs	**8,425,386**	8,386,285	13,840,392
Franchise	**72,697**	145,424	2,063,057
Others	**3,327,332**	13,543,898	4,671,092
	₱111,893,447	₱94,509,242	₱95,714,605

Rental and other deposits include deposits for the leased offices of the Group and deposits for the initial set-up of the services rendered by public utility companies. Rental deposits are to be applied on the last month's rent of the lease contract.

The rollforward analysis of the Group's software costs and franchise fee follows:

Software costs

	2011	2010	2009
Cost			
At January 1	**₱30,408,860**	₱26,253,970	₱18,646,311
Additions	**6,911,842**	4,154,890	7,607,659
At December 31	**37,320,702**	30,408,860	26,253,970
Accumulated amortization			
At January 1	**22,022,575**	12,413,578	4,222,821
Amortization (Note 22)	**6,872,741**	9,608,997	8,190,757
At December 31	**28,895,316**	22,022,575	12,413,578
Net Book Value At December 31	**₱8,425,386**	₱8,386,285	₱13,840,392

Additions in 2011, 2010 and 2009 pertain to acquisitions of software licenses, programs and upgrade of SAP. Fed Land maintains a Systems, Applications and Products in Data Processing (SAP) system rights and it was fully implemented on July 1, 2008. The said system has an estimated useful life of three (3) years.

Franchise

	2011	2010	2009
Cost			
At January 1	**₱800,000**	₱4,671,713	₱4,671,713
Write off	–	(3,871,713)	–
At December 31	**800,000**	800,000	4,671,713
Accumulated amortization			
At January 1	**654,576**	2,608,656	1,912,032
Amortization (Note 22)	**72,727**	497,760	696,624
Write off	–	(2,451,840)	–
At December 31	**727,303**	654,576	2,608,656
Net Book Value At December 31	**₱72,697**	₱145,424	₱2,063,057

Franchise fee pertains to the Group's operating rights for its fast food stores with estimated useful lives of 3 to 5 years.

The amortization of the franchise fee amounting to ₱0.07 million, ₱0.50 million and ₱0.70 million in December 31, 2011, 2010 and 2009, respectively, is included in the "General and administrative expenses" account in the consolidated statements of comprehensive income (see Note 22).

AFS Financial Assets
AFS financial assets are carried at cost due to the unpredictable nature of future cash flows and the lack of suitable valuation of arriving at a reliable fair value. The AFS financial assets are preferred shares of a utility company and are issued to the Group as a consequence of its subscription to the electricity services of said utility company needed for the Group's real estate projects. The said preferred shares have no active market and the Group does not intend to dispose such as these are directly related to the continuity of its business.

13. Accounts and Other Payables

This account consists of:

	December 31		January 1
		2010	2010
	2011	(As restated)	(As restated)
Trade	**₱3,787,440,600**	₱1,386,602,709	₱306,706,174
Deferred output tax	**269,881,627**	133,831,105	–
Retentions payable	**213,576,285**	176,605,322	80,572,092
Accrued expenses	**145,194,226**	146,001,123	77,369,965
Accrued interest payable	**9,536,357**	11,463,172	30,149,918
Others	**72,943,664**	–	71,816,376
	₱4,498,572,759	₱1,854,503,431	₱566,614,525

Trade payables pertain to billings received from contractors for construction costs incurred on a per project basis which are normally settled within a year and commissaries for food products ordered which are normally settled on a 30- to 60-day terms.

Retentions payable represent a portion of construction cost withheld by the Group and paid to the contractors upon completion of the project.

Accrued expenses consist mainly of expenses incurred but not yet paid for interests on bank loans, light and power, marketing costs, postal and communication, supplies, repairs and maintenance and security. These expenses are noninterest-bearing and are normally settled on a 15 to 60 day term.

Deferred output tax pertains mostly to VAT on the uncollected portion of the contract price of sold units.

Other payables include refunds from cancelled sales and other government-related payables which are noninterest-bearing and are normally settled within one (1) year.

14. **Loans Payable**

This account consists of:

	December 31		January 1
	2011	2010 (As restated)	2010 (As restated)
Affiliated:			
Loans from local banks	**₱2,000,000,000**	₱–	₱–
Non-affiliated:			
Notes facility	**6,600,000,000**	–	–
Loans from local banks	**4,557,000,000**	3,847,191,076	4,632,191,076
	13,157,000,000	3,847,191,076	4,632,191,076
Less current portion of:			
Non-affiliated loans from local banks	**4,557,000,000**	3,847,191,076	2,993,300,000
	₱8,600,000,000	₱–	₱1,638,891,076

Loans from local banks bear interest rates ranging from 3.09% to 9.50% that has lump sum maturity within one year and interest payable in arrears quarterly.

On March 18, 2011, the Parent Company entered into a Notes Facility Agreement (Notes) with First Metro Corporation, Metropolitan Bank & Trust Company – Trust Banking Group and various Institutions whereby the Parent Company will issue a ₱6,600.00 million worth of fixed rate notes outstanding at any one time to finance projects, working capital and for general corporate purposes. The note is payable in five years with interest rate based on the latest PDST-F plus 2.50% plus gross receipts tax.

The agreements covering the above mentioned Notes provide for restrictions and requirements with respect to, among others, declaration or making payment of cash dividends/retirement of shares (other than dividends payable solely in shares of its capital stock and cash dividends due on its then-outstanding preferred shares); making distribution on its share capital; purchase, redemption or acquisition of any share of stock; incurrence or assumption of indebtedness; sale or transfer and disposal of all or a substantial part of its capital assets; restrictions on use of funds; maintaining certain financial ratios; and entering into any partnership, merger, consolidation or reorganization.

As of December 31, 2011, the Group has complied with the loan covenants.

During the year, the Parent Company also obtained both partially secured and fully secured peso-denominated loans with an aggregate amount of ₱2,000.00 million from MBTC, an affiliate with interest at prevailing market rate of ranging from 7.0981% with spread of 85-100 basis point, payable in lump sum after 5 years. These loans are secured by Phil Exim Guarantee under Mortgage Participation Certificate.

Interest expense recognized in 2011, 2010 and 2009 amounted to ₱443.50 million, ₱55.81 million and ₱154.31 million, respectively.

The Group capitalized borrowing in its real estate inventories amounting to ₱171.54 million, ₱174.54 million and 155.86 million in 2011, 2010 and 2009, respectively for loans with interest rates ranging from 3.25% to 7.09% in 2011 and 2.89% to 12.00% in 2010 specifically used to finance the Group's project construction. Also, the Group capitalized borrowing with regards to its general borrowing amounting to ₱79.28 in 2011. The average capitalization rate used to determine the amount of borrowing costs eligible for capitalization is 7.29% in 2011. Said capitalized interest is added to "Condominium units held for sale" account and recognized as expense upon the sale of condominium units. The Group expensed out capitalized interest amounted to ₱59.81 million in 2011 and ₱36.06 million in 2010 (see Note 6).

In 2010, the Group's loan payable pertains to unsecured peso-denominated short-term borrowings from a local bank with floating interest rates at 1.5% spread over benchmark 90-day PDST-R2 and gross receipts tax. The interest rates ranges from 2.89% to 7.00% in 2010.

15. Other Current Liabilities

This account consists of:

	December 31		January 1,
		2010	2010
	2011	(As restated)	(As restated)
Withholding taxes payable	**₱39,280,476**	₱11,189,434	₱26,945,685
VAT payable	**1,946,421**	–	886,585
Others	**16,657,496**	12,618,661	1,819,935
	₱57,884,393	₱23,808,095	₱29,652,205

Other payables pertain to payable on utilities, contracted maintenance and security agencies and regulatory premium or contribution payable of the Group.

16. Liabilities on Purchased Land

Liabilities on purchased land are payables to various real estate property sellers. Under the terms of the agreements executed by the Group covering the purchase of certain real estate properties, the titles of the subject properties shall be transferred to the Group only upon full payment of the real estate loans. As of December 31, 2010, the current and non-current portion of the liabilities on this purchased land amounted to ₱118.99 million and ₱397.86 million, respectively.

During the year, the Group paid in full the remaining balance to property sellers.

17. **Customers' Deposits**

The Group requires buyers of condominium units to pay a minimum percentage of the total selling price before the two parties enter into a sale transaction. In relation to this, the customers' deposits represent payment from buyers which have not reached the minimum required percentage. When the level of required payment is reached by the buyer, sales are recognized and these deposits and down payments will be applied against the related installment contracts receivable. In the event that the customer decides to terminate the purchase prior to recognition of sale, an amount equivalent to the cash surrender value of the deposit will be refunded to the buyer. This account also includes excess of collections over the recognized receivables based on percentage of completion.

18. **Other Noncurrent Liabilities**

This account consists of:

	December 31		January 1
	2011	2010 (As restated)	2010 (As restated)
Refundable and other deposits	**₱51,023,479**	₱46,983,113	₱33,728,076
Finance lease obligation - net of discount amounting to ₱127.70 million	**11,908,856**	–	–
Others	–	5,680,000	4,610,181
	₱62,932,335	₱52,663,113	₱38,338,257

Refundable and other deposits consist mainly of tenants' rental deposit from operating lease contracts with terms ranging from 5 to 10 years. Rental deposits are obtained to secure faithful compliance of tenants' obligation under the lease contract and to answer for unpaid bills of lessees affecting the leased premises, any damage to the leased premises, and other similar costs. Rental deposits may also be applied for the unpaid rentals upon termination of the lease contract.

19. **Equity**

Capital stock
The composition and rollforward analysis of this account follow:

	2011	**2010**	2009
Common stock - ₱100 par value			
Authorized - 100,000,000 shares in 2011 and 2010 and 50,000,000 shares in 2009			
Beginning of year – 100,000,000 in 2011 and 50,000,000 shares in 2010 and 2009	**₱10,000,000,000**	₱5,000,000,000	₱5,000,000,000
Issuances - 50,000,000 shares in 2010	–	5,000,000,000	–
	₱10,000,000,000	₱10,000,000,000	₱5,000,000,000

Effect of uniting on HLRDC and CRDC
The net effect of uniting of interest on the acquisition of HLRDC and CRDC, representing the difference between the Fed Land's aggregate cost of investment amounting to ₱420.00 million and the respective HLRDC and CRDC's equity attributable to parent at the time of the combination, amounts to ₱550.33 million (see Note 28). The HLRDC and CRDC's equity (deficit) attributable to parent at the time of the combination amounted to ₱553.68 million and (₱3.34) million as of December 31, 2010 and ₱450.34 million and (₱4.10) million as of December 31, 2009, respectively. The effect of uniting on NCI interest represents the equity of CRDC attributable to NCI as of December 31, 2010 and January 1 2010 amounting to ₱10.91 million and ₱10.67 million, respectively.

Acquisition of Non-controlling interest
In 2009, the Parent Company acquired 4.47% equity interest of FBRI amounting to ₱4.74 million from Toyota Manila Bay for a total consideration of ₱5.16 million. Consequently, the Parent Company's equity interest in FBRI has increased from 47.19% to 51.66%. The entire difference between the acquisition cost and noncontrolling interest in net assets acquired amounting to ₱0.42 million is treated as an equity transaction and presented separately in the consolidated statement of changes in equity

Dividend declaration
On December 23, 2011, the Parent Company's BOD approved and authorized the declaration of cash dividends amounting to ₱100.00 million to stockholders on record as of November 30, 2011, payable on or before December 31, 2011. The said cash dividends were distributed to the stockholders in December 23, 2011.

In 2011, HLRDC declared a cash dividend amounting to 80.00 million to its former stockholders before the Parent Company gained control over HLRDC. The said cash dividends were distributed before Parent Company acquired HLRDC in 2011.

In November 2010, the Parent Company's BOD approved and authorized the declaration of cash dividends amounting to ₱100.00 million to stockholders on record as of November 30, 2010, payable on or before December 15, 2010. The said cash dividends were distributed to the stockholders on December 12, 2010.

On September 15, 2009, PCRDC paid cash dividends to its stockholders amounting ₱15.00 million or ₱15.00 cash dividends per its outstanding share.

Retained earnings amounting to ₱720.17 million, ₱730.43 million, and ₱305.49 million as of December 31, 2011, 2010 and January 1, 2010, respectively, include undistributed net earnings representing accumulated equity in the net earnings of subsidiaries, associates and joint ventures.

Capital Management
The primary objectives of the Group's capital management policies are to afford the financial flexibility to support its business initiatives while providing a sufficient cushion to absorb cyclical industry risks, to ensure that it maintains its premier credit rating so that access to the financial markets are unhampered and to maximize stakeholder value. The Group will manage its capital structure and make adjustments to it, in light of changes in economic decisions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. The Group's sources of capital are its capital stock totaling to ₱10,000.00 million as of December 31, 2011, 2010 and ₱7,000.00 million as at January 1, 2010 and equity attributable to equity holders of the Group less effect of uniting of interest. No changes were made in the objectives, policies and processes from the previous years. The Group is not subject to any externally imposed capital requirements.

Dividend payment in 2009 includes declaration of cash dividends by Parent Company's BOD on October 27, 2008 amounting to ₱300.00 million or at ₱6 per share as at record date.

20. Other Income

This account consists of:

	2011	2010 (As restated)	2009 (As restated)
Real estate forfeitures, charges and penalties	**₱430,633,949**	₱72,115,558	₱65,801,313
Management fees (Note 23)	**36,834,278**	20,807,368	42,924,978
Dividend income	**25,200**	408,600	95,131
Others	**58,759,593**	29,790,217	37,636,737
	₱526,253,020	₱123,121,743	₱146,458,159

The real estate forfeitures, charges and penalties are earned when a buyer is delinquent on his payment or cancels his purchase of condominium units, after deducting any cash surrender value. Also, it includes reimbursement of interest expense from option money granted to affiliates amounting to ₱337.71 million (see Note 23).

Management fee pertains to services rendered by the Parent Company in administering the different projects of Parent Company with joint venture.

Other income mainly consists of gain on sale of assets and miscellaneous income.

21. Cost of Goods and Services

This account consists of:

	2011	2010	2009
Beginning inventory			
Gasoline retail and petroleum products	**₱10,014,263**	₱5,620,580	₱5,117,142
Food	**1,990,935**	3,074,605	2,778,165
	12,005,198	8,695,185	7,895,307
Add net purchases	**665,201,704**	545,247,436	450,936,768
Total inventories available for sale	**₱677,206,902**	₱553,942,621	₱458,832,075
Less ending inventory (Note 6)			
Gasoline retail and petroleum products	**₱8,367,927**	₱10,014,263	₱5,620,580
Food	**2,160,335**	1,990,935	3,074,605
	666,678,640	541,937,423	450,136,890
Direct labor	**15,196,151**	16,669,340	18,237,037
Overhead	**27,851,792**	25,959,734	29,210,072
	₱709,726,583	₱584,566,497	₱497,583,999

Overhead consist of rent expense and common usage and service area charges.

22. **General and Administrative Expenses**

This account consists of:

	2011	2010 (As Restated)	2009 (As Restated)
Salaries, wages and employee benefits (Note 24)	**₱228,130,753**	₱186,755,996	₱174,598,371
Commissions	**168,976,570**	114,758,144	83,624,516
Taxes and licenses	**109,648,206**	89,263,899	126,859,283
Advertising and promotions	**102,537,529**	69,604,934	48,152,427
Light, water and other utilities	**77,841,350**	46,123,514	46,969,505
Depreciation and amortization (Notes 9 and 12)	**71,336,030**	66,102,943	72,346,926
Outside services	**54,291,761**	45,899,800	41,873,844
Professional fees	**53,077,824**	26,215,496	20,188,275
Administrative and management fees	**22,766,550**	4,713,125	21,573,268
Rent	**18,338,131**	10,556,281	22,587,694
Entertainment, amusement and recreation	**16,883,072**	10,490,698	10,023,555
Repairs and maintenance	**13,046,896**	17,871,348	12,906,098
Office supplies	**12,193,706**	13,184,886	12,582,465
Royalty and service fees	**5,600,385**	6,667,898	7,786,000
Transportation and travel	**7,623,012**	5,236,105	5,024,882
Foreign exchange loss	**193,784**	604,708	219,715
Others	**60,555,698**	74,640,803	30,825,385
	₱1,023,041,257	₱788,690,578	₱738,142,209

Other expenses include provision for allowance for impairment losses of receivable, communication expenses, insurance, representation and directors' fees.

23. **Related Party Transactions**

The Group, in its regular conduct of its business, has entered into transactions with its associate and other related parties principally consisting of cash advances and reimbursement of expenses, leasing agreements, acquisition of undeveloped land and management agreements.
Related 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 the financing and operating activities. Parties are also considered to be related if they are subject to common control of common significant influence. Related parties may be individuals or corporate entities.

The consolidated financial statements include the following amounts resulting from the above transactions with related parties:

	December 31		January 1
	2011	2010 (As restated)	2010 (As restated)
Cash and cash equivalents (Note 4)	**₱291,621,687**	₱147,206,855	₱120,227,539
Due from related parties	**938,859,224**	477,974,260	872,062,998
Land for development (Note 6)	**7,165,853**	9,048,551	–
Long-term cash investments	**2,440,084,378**	–	–
Deposits (Note 11)	**4,085,000,000**	–	–
Due to related parties	**403,598,150**	320,571,614	498,192,878
Management fees	**36,834,278**	20,807,368	42,924,978
Interest income from banks	**25,757,972**	2,036,427	1,631,350

On April 13, 2011, the Parent Company invested long term cash investments with a local bank in exchange for a loan obtained by an affiliate of ₱2.4 billion. The Parent Company recognized interest income from such long term investment amounting to ₱40.08 million.

Deposit pertains to option money granted to a related party for the exclusive rights of three years to either (a) purchase the property, (b) purchase shares of stock of the third party which own the property, (c) to develop the property as developer in joint venture with the third party or (d) to undertake combination of any of the foregoing, as may be agreed upon the parties (see Note 11). The Parent Company recognized other income amounting to ₱337.71 million representing reimbursement of interest expense incurred by the Parent Company (see Note 20).

Due to and from related parties consist mostly of operational advances which are noninterest-bearing and due and demandable.

Certain parcels of land were acquired on February 2011 and March 2010 from an affiliated local company and affiliated bank, respectively. These parcels of land were acquired at their fair market value at time of acquisition date.

Management fees pertain to services rendered by Parent Company administering the different projects of joint venture.

The details of the Group's due from related parties as of December 31, 2011 and 2010 and January 1, 2010 follow:

	December 31		January 1
	2011	2010 (As restated)	2010 (As restated)
Due from:			
Affiliates	**₱907,105,814**	₱462,757,773	₱401,170,145
Jointly controlled entity	**31,753,410**	15,216,487	5,896,056
Associate	**–**	–	464,996,797
	938,859,224	₱477,974,260	₱872,062,998

The details of the Group's due to related parties as of December 31, 2011, 2010 and January 1, 2010 follow:

	December 31		January 1
	2011	2010 (As restated)	2010 (As restated)
Due to:			
Affiliates	**₱403,306,150**	₱318,940,868	₱492,059,935
Jointly controlled entity	**292,000**	1,630,746	6,000,000
Associate	**–**	–	132,943
	₱403,598,150	₱320,571,614	₱498,192,878

The Group's due to/from related parties are due and demandable.

The Group's loans payable to affiliated commercial bank bear interest rates ranging from 6.52% to 6.78% per annum in 2011 and 2010.

Compensation of key management benefits for the years ended December 31, 2011, 2010 and 2009 follow:

	2011	2010	2009
Short-term employee benefits	**₱73,605,529**	₱55,917,574	₱47,037,826
Post employment benefits	**2,628,321**	3,469,682	2,392,276
	₱76,233,850	₱59,387,256	₱49,430,102

24. Pension Cost

The Group provides defined benefit pension plans for substantially all of its employees. Provisions for pension obligations are established for benefits payable in the form of retirement pensions. Benefits are dependent on years of service and the respective employee's final compensation.

The components of pension expense (included in "Salaries, wages and employee benefits" under "General and administrative expenses" in the profit or loss) follow:

	2011	2010	2009
Current service cost	**₱9,137,003**	₱6,027,767	₱3,367,280
Interest cost on benefit obligation	**6,899,167**	5,333,901	4,241,596
Net actuarial gains recognized	**1,688,974**	56,030	(521,189)
Expected return on plan assets	**(1,103,146)**	(2,049,310)	(1,391,902)
Total pension expense	**₱16,621,998**	₱9,368,388	₱5,695,785

Actual return on plan assets is computed as follows:

	2011	2010	2009
Expected return on plan assets	**₱1,103,146**	₱2,049,310	₱1,391,902
Actuarial losses	**(995,799)**	(13,821,936)	2,182,180
	₱107,347	(₱11,772,626)	₱3,574,082

The following table reconciles the funded status of defined benefit plans to the amounts recognized in the consolidated statements of financial position as of December 31, 2011, 2010 and January 1, 2010:

	December 31		January 1
	2011	2010	2010
Present value of funded defined benefit obligations	**₱94,019,346**	₱78,287,581	₱51,699,062
Fair value of plan assets	**22,958,040**	11,031,465	20,493,099
Unfunded obligations	**71,061,306**	67,256,116	31,205,963
Unrecognized actuarial losses	**(42,949,696)**	(42,807,415)	(6,311,230)
Liability recognized in the consolidated statement of financial position	**₱28,111,610**	₱24,448,701	₱24,894,733

Changes in the present value of the defined benefit obligation follow:

	December 31		January 1
	2011	2010	2010
Balance at beginning of year	**₱78,287,581**	₱51,699,062	₱27,549,257
Current service cost	**9,137,003**	6,027,767	3,367,280
Interest cost on benefit obligation	**6,899,167**	5,333,901	4,241,596
Actuarial losses	**835,456**	22,730,279	16,540,929
Benefits paid	**(1,139,861)**	(7,503,428)	–
Balance at end of year	**₱94,019,346**	₱78,287,581	₱51,699,062

Changes in the fair value of plan assets follow:

	December 31		January 1
	2011	2010	2010
Balance at beginning of year	**₱11,031,465**	₱20,493,099	₱13,919,017
Expected return on plan assets	**1,103,146**	2,049,310	1,391,902
Actuarial losses	**(995,799)**	(13,821,936)	2,182,180
Contributions paid	**12,959,089**	9,814,420	3,000,000
Benefits paid	**(1,139,861)**	(7,503,428)	–
Balance at end of year	**₱22,958,040**	₱11,031,465	₱20,493,099

There are no reimbursement rights recognized as a separate asset as of December 31, 2011, 2010 and January 1, 2010. The Group's plan assets consist of investments in government bonds and time deposits.

Principal actuarial assumptions used to determine pension obligations follow:

	December 31		January 1
	2011	2010	2010
Discount rate	**6.34%**	8.81%	15.40%
Expected return on plan assets	**10.00**	10.00	10.00
Salary increase rate	**8.00**	10.00	10.00

Amounts for the current and the previous annual periods are as follows:

	2011	2010	2009	2008	2007
Experience adjustments on plan liabilities	**₱–**	₱22,730,279	₱16,540,929	(₱26,192,959)	(₱5,202,750)
Experience adjustments on plan assets	**–**	(13,821,936)	2,182,180	9,223,153	(16,476,837)

There are no reimbursement rights recognized as a separate asset as of December 31, 2011, 2010 and January 1, 2010. The Group's plan assets consist of investments in government bonds and time deposits.

The Group's expected contribution amounting to ₱12.00 million in 2012.

Amounts for the current and the previous periods follow:

	2011	2010	2009
Defined benefit obligation	**₱94,019,346**	₱78,287,581	₱51,699,062
Plan assets	**22,958,039**	11,031,465	20,493,099
Deficit	**₱71,061,307**	₱67,256,116	₱31,205,963

25. **Income Taxes**

Provision for income tax account consists of:

	2011	2010	2009
Current			
Final	**₱11,256,174**	₱364,368	₱262,099
RCIT/MCIT	**59,934,299**	102,609,138	58,679,599
	71,190,473	102,973,506	58,941,698
Deferred	**76,273,792**	(33,935,033)	(253,835)
	₱147,464,265	₱69,038,473	₱58,687,863

The reconciliation of the provision for income tax computed at statutory income tax rate to the provision for income tax shown in the consolidated statements of income follows:

	2011	2010	2009
Provision for income tax computed at statutory rate	**₱224,564,474**	₱179,816,288	₱64,020,813
Adjustments for:			
Tax exempt income	**(49,570,431)**	(61,797,430)	(30,107,454)
Equity in net losses of associate and jointly controlled entity	**(26,265,905)**	(12,346,471)	50,260
Change in unrecognized deferred tax assets	**885,471**	(32,896,533)	7,196,851
Nondeductible interest and other expenses	**5,955,507**	(1,287,400)	17,705,837
Interest income subjected to final tax	**(5,628,523)**	(250,158)	(133,247)
Excess of MCIT over RCIT	**(2,476,328)**	–	–
Others	**–**	(2,199,823)	(45,197)
	₱147,464,265	₱69,038,473	₱58,687,863

The components of deferred taxes as of December 31, 2011, 2010 and January 1, 2010 are as follows:

Net deferred tax assets:

	December 31		January 1
	2011	2010	2010
Deferred tax assets on:			
Accrued expenses	**₱2,777,036**	₱10,897,944	₱112,737
Unearned income	**2,462,937**	369,510	217,592
Excess of tax basis over book basis of deferred gross profit	–	33,080,050	–
Provision for impairment losses on receivables	**568,380**	799,722	428,926
Customers' deposits	–	(79,599)	–
	5,808,353	45,067,627	759,255
Deferred tax liabilities on:			
Capitalized borrowing cost	–	28,736,626	–
Unamortized discount on receivables	–	6,017,855	–
Accrued income	**1,590,009**	2,048,397	–
Excess of book basis over tax basis of deferred gross profit	**426,669**	1,271,917	–
Lease differential	–	246,170	–
	2,016,678	38,320,965	–
Net deferred tax assets	**₱3,791,675**	₱6,746,662	₱759,255

Net deferred liabilities:

	December 31		January 1
	2011	2010	2010
Deferred tax assets on:			
Accrued expenses	**₱3,736,604**	₱3,157,026	11,993,896
Accrued retirement	**10,487,842**	–	–
Earned interest income	**7,849,950**	–	–
NOLCO	–	725,096	725,096
Provision for impairment losses on receivables	**495,254**	–	79,446
Unearned income	**1,014,184**	–	–
MCIT	**432,073**	432,073	432,073
	24,015,907	4,314,195	13,230,511
Deferred tax liabilities on:			
Accrued income	**3,838,931**	11,608,534	15,263,135
Capitalized borrowing cost	**53,386,194**	–	15,463,536
Lease differential	**3,427,862**	–	
Excess of book basis over tax basis of deferred gross profit	**36,206,461**	–	7,123,186
Others	**7,769,603**	–	10,622,619
	104,629,051	11,608,534	48,472,476
Net deferred tax liabilities	**₱80,613,144**	₱7,294,339	₱35,241,965

The Group has deductible temporary differences for which deferred tax assets have not been recognized since management believes that it is not probable that taxable income will be available against which the said deductible temporary differences can be utilized.

As of December 31, 2011, the Group's unrecognized deductible temporary differences pertain to its NOLCO and MCIT with details as follow:

NOLCO

Year Incurred	Amount	Expired/Applied	Balance	Expiry Date
2011	₱2,915,620	₱–	₱2,915,620	2014
2010	4,810,125	–	4,810,125	2013
2009	15,967,623	–	15,967,623	2012
2008	63,965,293	63,965,293	–	2011
	₱87,658,661	₱63,965,293	₱23,693,368	

MCIT

Year Incurred	Amount	Expired/Applied	Balance	Expiry Date
2011	₱17,559	₱–	₱17,559	2014
2010	1,587,387	–	1,587,387	2013
2009	1,707,384	–	1,707,384	2012
2008	540,080	540,080	–	2011
	₱3,852,410	₱540,080	₱3,312,330	

Board of Investments (BOI) Incentives
On various dates in 2009 and 2008, the BOI issued a Certificate of Registrations as a New Developer of Mass Housing Project for its 2 real estate projects in accordance with the Omnibus Investment Code of 1987. Pursuant thereto, the registered projects have been granted Income Tax Holiday (ITH) for a period of three to four years. The projects namely: Marquinton-Cordova Tower and The Oriental Place are entitled of ITH in years 2008 to 2012. The projects namely: The Capital Towers-Beijing, Marquinton Gardens Terraces-Toledo, Oriental Gardens-Lilac and Peninsula Garden Midtown Homes-Tower A are entitled of ITH in years 2009 to 2013. Oriental Garden Heights - A, B and C in 2010 to 2014 and Marquinton Garden Terraces - Valderrama Tower in 2010 to 2013.

26. **Financial Instruments**

Fair Value Information
The following table summarizes the carrying values and fair values of the Group's financial assets and liabilities in the consolidated statements of financial position:

	December 31, 2011		December 31, 2010		January 1, 2010	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value	Carrying Value	Fair Value
Loans and receivables						
Cash and cash equivalents (Note 4)	**₱379,633,267**	**₱379,633,267**	₱494,999,452	₱494,999,452	₱197,462,908	₱197,462,908
Receivables (Note 5)						
Installment contracts receivable	**1,924,210,550**	**1,890,986,221**	1,361,188,994	1,373,826,211	750,928,270	754,073,163
Trade	**178,816,574**	**178,816,574**	93,286,102	93,286,102	83,200,686	83,200,686
Accrued interest receivable	**2,269,418**	**2,269,418**	34,559,913	34,559,913	24,984,384	24,984,384
Accrued rent income	**5,300,029**	**5,300,029**	26,256,933	26,256,933	8,378,764	8,378,764
Accrued commission income	**21,252,081**	**21,252,081**	14,703,308	14,703,308	4,519,931	4,519,931
Due from related parties (Note 23)	**938,859,224**	**938,859,224**	477,974,260	477,974,260	872,062,998	872,062,998
Long-term cash investments	**2,440,084,378**	**2,440,084,378**	–	–	–	–
	5,890,425,521	**5,857,201,192**	2,502,968,962	2,515,606,179	1,941,537,941	1,944,682,834
AFS financial assets - unquoted (Note 12)	**9,921,760**	**9,921,760**	27,632,005	27,632,005	29,642,215	29,642,215
Total Financial Assets	**₱5,900,347,281**	**₱5,867,122,952**	₱2,530,600,967	₱2,543,238,184	₱1,971,180,156	₱1,974,325,049
Other financial liabilities						
Accounts and other payables (Note 13)						
Trade	**₱3,787,440,600**	**₱3,787,440,600**	₱1,386,602,709	₱1,386,602,709	₱306,706,174	₱306,706,174
Retentions payable	**213,576,285**	**213,576,285**	176,605,322	176,605,322	80,572,092	80,572,092
Accrued expenses	**145,194,226**	**145,194,226**	146,001,123	146,001,123	77,369,965	77,369,965
Loans payable (Note 14)	**13,157,000,000**	**14,065,366,358**	3,847,191,076	3,847,191,076	4,632,191,076	4,632,191,076
Liabilities on purchased land (Note 16)	**–**	**–**	516,846,000	437,319,540	629,100,000	629,100,000
Due to related parties (Note 23)	**403,598,150**	**403,598,150**	320,571,614	320,571,614	498,192,878	498,192,878
Dividends payable (Note 19)	**244,000**	**244,000**	244,000	244,000	–	–
Total Financial Liabilities	**₱17,707,053,261**	**₱18,615,419,619**	₱6,394,061,844	₱6,314,535,384	₱6,224,132,185	₱6,224,132,185

The carrying amounts for cash and cash equivalents, due from related parties, accounts and other payables, loans payable and due to related parties approximate their fair values due to their short-term maturity.

Noncurrent accounts and other receivables - The fair values of installment contracts receivable are based on the discounted value of future cash flows using the applicable rates for similar types of instruments. The discount rates used ranged from 8.69% to 8.87% and 8.00% to 12.00% as of December 31, 2011 and 2010, respectively.

AFS unquoted financial assets - These are carried at cost less allowance for impairment losses because fair value cannot be measured reliably due to lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value.

Financial Risk Management and Objectives

The Group's principal financial instruments comprise of cash and cash equivalents, receivables, AFS financial assets, accounts and other payables and loans payable, liabilities on purchase land, due to related parties, rental and other deposit. The main purpose of these financial instruments is to fund its operations and for capital expenditures. Exposure to credit, foreign currency, liquidity and interest rate risks arise in the normal course of the Group's business activities.

The BOD reviews and agrees with policies for managing each of these risks. The Group monitors market price risk arising from all financial instruments and regularly report financial management activities and the results of these activities to the BOD.

The main objectives of the Group's financial risk management are as follows:

- to identify and monitor such risks on an ongoing basis;
- to minimize and mitigate such risks; and
- to provide a degree of certainty about costs.

The Group's financing and treasury function operates as a centralized service for managing financial risks and activities as well as providing optimum investment yield and cost-efficient funding for the Group.

The Group's risk management policies are summarized below:

Credit risk

The Group's credit risks are primarily attributable to financial assets and installment contracts receivable. To manage credit risks, the Group maintains defined credit policies and monitors on a continuous basis its exposure to credit risks. Given the Group's diverse base of counterparties, it is not exposed to large concentrations of credit risk.

Financial assets include cash and cash equivalents. The Group adheres to fixed limits and guidelines in its dealings with counterparty banks and its investment in financial instruments. Bank limits are established on the basis of an internal rating system that principally covers the areas of liquidity, capital adequacy and financial stability. The rating system likewise makes use of available international credit ratings. Given the high credit standing of its accredited counterparty banks, management does not expect any of these financial institutions to fail in meeting their obligations.

With respect to installment contracts receivable from the sale of properties, credit risk is managed primarily through credit reviews and an analysis of receivables on a continuous basis. The Group also undertakes supplemental credit review procedures for certain installment payment structures. Customer payments are facilitated through various collection modes including the use of post dated checks and auto-debit arrangements. Exposure to bad debts is not significant and the requirement for remedial procedures is minimal given the profile of buyers.

The table below shows the maximum exposure to credit risk for the components of the Group's statements of financial position:

	December 31		January 1
	2011	2010 (As Restated)	2010 (As Restated)
Cash and cash equivalents (exclusive of cash on hand)	**₱379,633,267**	₱494,999,452	₱197,462,908
Receivables (Note 5)			
Installment contracts	**1,924,210,550**	1,361,188,994	750,928,270
Trade	**178,816,574**	93,286,102	83,200,686
Accrued interest receivable	**2,269,418**	34,559,913	24,984,384
Accrued rent income	**5,300,029**	26,256,933	8,378,764
Accrued commission income	**21,252,081**	14,703,308	4,519,931
Due from related parties (Note 23)	**938,859,224**	477,974,260	872,062,998
Long-term cash investments	**2,440,084,378**	–	–
AFS financial assets (Note 12)	**9,921,760**	27,632,005	29,642,215
	₱5,900,347,281	₱2,530,600,967	₱1,971,180,156

As of December 31, 2011, 2010 and January 1, 2010, the aging analyses of past due but not impaired financial assets presented per class, are as follows:

December 31, 2011

	Neither past due nor Impaired	Past due but not impaired <30 days	30-60 days	61-90 days	91-120 days	>120 days	Total	Impaired	Total
Receivables (Note 5)									
Installment contracts receivable	₱1,704,429,661	₱31,947,598	₱5,376,647	₱10,583,380	₱16,398,117	₱155,475,147	₱219,780,889	₱–	₱1,924,210,550
Trade	145,645,903	10,194,950	5,146,173	4,002,196	4,257,716	9,569,636	33,170,671	–	178,816,574
Accrued interest receivable	2,269,418	–	–	–	–	–	–	–	2,269,418
Accrued rent income	5,300,029	–	–	–	–	–	–	–	5,300,029
Accrued commission income	21,252,081	–	–	–	–	–	–	–	21,252,081
Others	189,376,567	–	–	–	–	–	–	3,768,389	193,144,956
Due from related parties (Note 23)	938,859,224	–	–	–	–	–	–	–	938,859,224
Long-term cash investments	2,440,084,378	–	–	–	–	–	–	–	2,440,084,378
AFS Financial assets (Note 12)	9,921,760	–	–	–	–	–	–	–	9,921,760
	₱5,457,139,021	₱42,142,548	₱10,522,820	₱14,585,576	₱20,655,833	₱165,044,783	₱252,951,560	₱3,768,389	₱5,713,858,970

December 31, 2010

	Neither past due nor Impaired	Past due but not impaired <30 days	30-60 days	61-90 days	91-120 days	>120 days	Total	Impaired	Total
Receivables (Note 5)									
Installment contracts receivable	₱1,054,748,092	₱68,654,115	₱20,913,921	₱17,666,086	₱13,051,124	₱186,155,656	₱306,440,902	₱–	₱1,361,188,994
Trade	69,531,781	1,217,150	3,344,084	2,428,464	3,737,285	13,027,338	23,754,321	–	93,286,102
Accrued interest receivable	34,559,913	–	–	–	–	–	–	–	34,559,913
Accrued rent income	26,256,933	–	–	–	–	–	–	–	26,256,933
Accrued commission income	14,703,308	–	–	–	–	–	–	–	14,703,308
Others	62,343,353	–	–	–	–	–	–	2,930,561	65,273,914
Due from related parties (Note 23)	477,974,260	–	–	–	–	–	–	–	477,974,260
AFS Financial assets (Note 12)	27,632,005	–	–	–	–	–	–	–	27,632,005
	₱1,767,749,645	₱69,871,265	₱24,258,005	₱20,094,550	₱16,788,409	₱199,182,994	₱330,195,223	₱2,930,561	₱2,100,875,429

January 1, 2010

	Neither past due nor Impaired	Past due but not impaired <30 days	30-60 days	61-90 days	91-120 days	>120 days	Total	Impaired	Total
Receivables (Note 5)									
Installment contracts receivable	₱519,967,481	₱41,726,684	₱16,168,769	₱10,706,887	₱9,147,169	₱153,211,280	₱230,960,789	₱–	₱750,928,270
Trade	49,740,333	10,227,100	10,706,887	3,854,949	8,671,417		33,460,353	–	83,200,686
Accrued interest receivable	24,984,384	–	–	–	–	–	–	–	24,984,384
Accrued rent income	8,378,764	–	–	–	–	–	–	–	8,378,764
Accrued commission income	4,519,931	–	–	–	–	–	–	–	4,519,931
Others	9,195,625	–	–	–	–	–	–	1,694,574	10,890,199
Due from related parties (Note 23)	872,062,998	–	–	–	–	–	–	–	872,062,998
AFS Financial assets (Note 12)	29,642,215	–	–	–	–	–	–	–	29,642,215
	₱1,518,491,731	₱51,953,784	₱26,875,656	₱14,561,836	₱17,818,586	₱153,211,280	₱264,421,142	₱1,694,574	₱1,784,607,447

The table below shows the credit quality of the Group's financial assets:

December 31, 2011

	Neither past due nor impaired High Grade	Medium Grade	Low Grade	Total	Past due but not impaired	Impaired	Total
Cash and cash equivalents (Note 4)	**₱379,633,267**	**₱–**	**₱–**	**₱379,633,267**	**₱–**	**₱–**	**₱379,633,267**
Receivables (Note 5)							
Installment contracts receivable	**1,063,555,960**	**212,810,388**	**428,063,313**	**1,704,429,661**	**219,780,889–**	**–**	**1,924,210,550**
Trade	**134,327,516**	**3,331,121**	**4,218,877**	**141,877,514**	**33,170,671**	**3,768,389**	**178,816,574**
Accrued interest receivable	**2,269,418**	**–**	**–**	**2,269,418**	**–**	**–**	**2,269,418**
Accrued rent income	**5,300,029**	**–**	**–**	**5,300,029**	**–**	**–**	**5,300,029**
Accrued commission income	**21,252,081**	**–**	**–**	**21,252,081**	**–**	**–**	**21,252,081**
Due from related parties (Note 23)	**938,859,224**	**–**	**–**	**938,859,224**	**–**	**–**	**938,859,224**
Long-term cash investments	**2,440,084,378**	**–**	**–**	**2,440,084,378**	**–**	**–**	**2,440,084,378**
AFS financial assets (Note 12)	**9,921,760**	**–**	**–**	**9,921,760**	**–**	**–**	**9,921,760**
	₱4,995,203,633	**₱216,141,509**	**₱432,282,190**	**₱5,643,627,332**	**₱252,951,560**	**₱3,768,389**	**₱5,900,347,281**

December 31, 2010

	Neither past due nor impaired				Past due but		
	High Grade	Medium Grade	Low Grade	Total	not impaired	Impaired	Total
Cash and cash equivalents (Note 4)	₱496,807,102	₱–	₱–	₱496,807,102	₱–	₱–	₱496,807,102
Receivables (Note 5)							
Installment contracts receivable	779,267,067	209,642,508	65,838,517	1,054,748,092	306,440,902	–	1,361,188,994
Trade	61,068,037	2,032,551	3,500,632	66,601,220	23,754,321	2,930,561	93,286,102
Accrued interest receivable	34,559,913	–	–	34,559,913	–	–	34,559,913
Accrued commission income	26,256,933	–	–	26,256,933	–	–	26,256,933
Accrued rent income	14,703,308	–	–	14,703,308	–	–	14,703,308
Due from related parties (Note 23)	477,974,260	–	–	477,974,260	–	–	477,974,260
AFS financial assets (Note 12)	23,265,215	4,366,790	–	27,632,005	–	–	27,632,005
	₱1,913,901,835	₱216,041,849	₱69,339,149	₱2,199,282,833	₱330,195,223	₱2,930,561	₱2,532,408,617

January 1, 2010

	Neither past due nor impaired				Past due but		
	High Grade	Medium Grade	Low Grade	Total	not impaired	Impaired	Total
Cash and cash equivalents (Note 4)	₱198,087,908	₱–	₱–	₱198,087,908	₱–	₱–	₱198,087,908
Receivables (Note 5)							
Installment contracts receivable	317,189,893	128,163,977	74,613,611	519,967,481	230,960,789	–	750,928,270
Trade	48,045,759			48,045,759	33,460,353	1,694,574	83,200,686
Accrued interest receivable	24,984,384	–	–	24,984,384	–	–	24,984,384
Accrued rent income	8,378,764	–	–	8,378,764	–	–	8,378,764
Accrued commission income	4,519,931	–	–	4,519,931	–	–	4,519,931
Due from related parties (Note 23)	872,062,998	–	–	872,062,998	–	–	872,062,998
AFS financial assets (Note 12)		29,642,215	–	29,642,215	–	–	29,642,215
	₱1,473,269,637	₱157,806,192	₱74,613,611	₱1,705,689,440	₱264,421,142	₱1,694,574	₱1,971,805,156

The credit quality of the financial assets was determined as follows:

Cash and cash equivalents and Long term cash investments- based on the nature of the counterparty and the Group's internal rating system.

Receivables - high grade pertains to receivables from buyers that had no default in payment; medium grade pertains to receivables from buyers who has history of being 30 to 90 days past due; and low grade pertains to receivables from buyers who has a history of being over 120 days past due.

Available-for-sale financial assets - the unquoted financial assets are unrated.

Liquidity risk
The Group monitors its cash flow position, debt maturity profile and overall liquidity position in assessing its exposure to liquidity risk. The Group maintains a level of cash and cash equivalents deemed sufficient to finance operations and to mitigate the effects of fluctuation in cash flows. Accordingly, its loan maturity profile is regularly reviewed to ensure availability of funding through an adequate amount of credit facilities with financial institutions.

Overall, the Group's funding arrangements are designed to keep an appropriate balance between equity and debt, to give financing flexibility while continuously enhancing the Group's businesses. To serve as back-up liquidity, management develops variable funding alternatives either by issuing debt or raising capital.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments as well as the financial assets used to manage the Group's liquidity risks:

2011

	< 1 year	> 1 to < 5 years	Total
Financial assets			
Cash and cash equivalents (Note 4)	**₱379,633,267**	**₱–**	**₱379,633,267**
Receivables (Note 5)			
Installment contracts receivable	**819,631,787**	**1,104,578,763**	**1,924,210,550**
Trade	**178,816,574**	–	**178,816,574**
Accrued interest receivable	**2,269,418**	–	**2,269,418**
Accrued rent income	–	**5,300,029**	**5,300,029**
Accrued commission income	**21,252,081**	–	**21,252,081**
Due from related parties (Note 23)	–	**938,859,224**	**938,859,224**
Long-term cash investments	–	**2,440,084,378**	**2,440,084,378**
AFS financial assets - unquoted (Note 12)	–	**9,921,760**	**9,921,760**
Total undiscounted financial assets	**₱1,401,603,127**	**₱4,498,744,154**	**₱5,900,347,281**
Other financial liabilities			
Accounts and other payables (Note 12)			
Trade	**3,787,440,600**	–	**3,787,440,600**
Retentions payable	**213,576,285**	–	**213,576,285**
Accrued expenses	**145,194,226**	–	**145,194,226**
Loans payable (Note 14)	**4,557,000,000**	**8,600,000,000**	**13,157,000,000**
Due to related parties (Note 23)	–	**403,598,150**	**403,598,150**
Total undiscounted other financial liabilities	**₱8,703,211,111**	**₱9,003,598,150**	**₱17,706,809,261**
Liquidity Gap	**(₱7,301,607,984)**	**(₱4,504,853,996)**	**(₱11,806,461,980)**

2010

	< 1 year	> 1 to < 5 years	Total
Financial assets			
Cash and cash equivalents (Note 4)	₱496,807,102	₱–	₱496,807,102
Receivables (Note 5)			
Installment contracts receivable	452,323,103	908,865,891	1,361,188,994
Trade	93,286,102	–	93,286,102
Accrued interest receivable	34,559,913	–	34,559,913
Accrued rent income	26,256,933	–	14,703,308
Accrued commission income	14,703,308	–	26,256,933
Due from related parties (Note 23)	477,974,260	–	477,974,260
AFS financial assets - unquoted (Note 12)	–	27,632,005	27,632,005
Total undiscounted financial assets	₱1,595,910,721	₱936,497,896	₱2,532,408,617
Other financial liabilities			
Accounts and other payables (Note 13)			
Trade	1,386,602,709	–	1,386,602,709
Retentions payable	176,605,322	–	176,605,322
Accrued expenses	146,001,123	–	146,001,123
Loans payable (Note 14)	3,847,191,076	–	3,847,191,076
Liabilities on purchased land (Note 16)	118,989,240	397,856,760	516,846,000
Due to related parties (Note 23)	320,571,614	–	320,571,614
Total undiscounted other financial liabilities	₱5,995,961,084	₱397,856,760	₱6,393,817,844
Liquidity Gap	(₱4,400,050,363)	₱538,641,136	(₱3,861,409,227)

January 1, 2010

	< 1 year	> 1 to < 5 years	> 5 years	Total
Financial assets				
Cash and cash equivalents (Note 4)	₱197,462,908	₱–	₱–	₱197,462,908
Receivables (Note 5)				
Installment contracts receivable	469,538,046	219,056,900	62,333,324	750,928,270
Trade	83,200,686	–	–	83,200,686
Accrued interest receivable	24,984,384	–	–	24,984,384
Accrued rent income	8,378,764	–	–	8,378,764
Accrued commission income	4,519,931	–	–	4,519,931
Due from related parties (Note 23)	872,062,998	–	–	872,062,998
AFS financial assets - unquoted (Note 23)	–	29,642,215	–	29,642,215
Total undiscounted financial assets	₱1,660,147,717	₱248,699,115	₱62,333,324	₱1,971,180,156
Other financial liabilities				
Accounts and other payables (Note 13)				
Trade	₱306,706,174	₱–	₱–	₱306,706,174
Retentions payable	80,572,092	–	–	80,572,092
Accrued expenses	77,369,965	–	–	77,369,965
Accrued interest	30,149,918	–	–	30,149,918
Others	71,816,376	–	–	71,816,376
Loans payable (Note 14)	1,215,600,000	3,416,591,076	–	4,632,191,076
Liabilities on purchased land (Note 16)	112,254,000	516,846,000	–	629,100,000
Due to related parties (Note 23)	498,192,878	–	–	498,192,878
Total undiscounted financial liabilities	₱2,392,661,403	₱3,933,437,076	₱–	₱6,326,098,479
Liquidity Gap	(₱732,513,686)	(₱3,684,737,961)	₱62,333,324	(₱4,384,560,538)

Foreign currency risk
Financial assets and financing facilities extended to the Group were mainly denominated in Philippine Peso. As such, the Group's foreign currency risk is minimal.

The Group's foreign currency-denominated financial instruments are included in cash and cash equivalents amounting to US$0.01 million, US$0.23 million and US$.26 million in December 31, 2011, 2010, and January 1, 2010 respectively. The Philippine peso value of these instruments amounted to ₱0.32 million, ₱10.08 million and ₱11.92 million in December 31, 2011, 2010, and January 1, 2010, respectively.

In translating the foreign currency-denominated monetary assets and liabilities into peso amounts, the exchange rates used were ₱43.84 to US$1.00 and ₱46.20 to US$ 1.00 the Philippine peso-U.S. dollar exchange rates as at December 31, 2011 and 2010, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in the Philippine peso-US dollar exchange rate, with all variables held constant, of the Group's income before tax (due to changes in the fair value of monetary assets and liabilities) on December 31, 2011, 2010 and January 1, 2010. There is no other impact on the Group's equity other than those already affecting profit or loss.

US$ appreciates (depreciates)	Increase (decrease) in income before tax		
	December 31		January
	2011	2010	2010
₱1.00	**₱7,207**	₱232,662	₱258,051
(1.00)	**(7,207)**	(232,662)	(258,051)

Interest rate risk
The Group's interest rate exposure management policy centers on reducing the Group's overall interest expense and exposure to changes in interest rates. Changes in market interest rates relate primarily to the Group's interest-bearing debt obligations with floating interest rate as it can cause a change in the amount of interest payments.

The Group manages its interest rate risk by leveraging on its premier credit rating and maintaining a debt portfolio mix of both fixed and floating interest rates. The portfolio mix is a function of historical, current trend and outlook of interest rates, volatility of short-term interest rates, the steepness of the yield curve and degree of variability of cash flows.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all variables held constant, of the Group's income before tax (through the impact on floating rate borrowings).

Change in basis points	Increase (decrease) in income before tax		
	December 31		January
	2011	2010	2010
3%	**(₱394,710,000)**	(₱115,415,732)	(₱138,965,732)
(3%)	**394,710,000**	115,415,732	138,965,732

The Group follows a prudent policy in managing its assets and liabilities so as to ensure that exposure to fluctuation in interest rates are kept within acceptable limits.

27. Lease Commitments

The Group as a lessee
The Group started leasing land for its mall and gasoline station in 2005. The operating lease agreement is for a period of 10 years from the date of the contract. The Group also leases its office space under an operating lease agreement for 2 years from the date of the contract and is renewable under certain terms and conditions. The Group's rentals incurred on this lease, presented as "Overhead" and included in the cost of goods sold account, amounted to ₱27.85 million, ₱25.96 million ₱29.21 million and in December 31, 2011, 2010 and 2009, respectively (see Note 21).

As of December 31, 2011, 2010 and January 1, 2010, the future minimum rental payments are as follows:

	December 31		January 1
	2011	2010	2010
Within one year	**₱11,629,390**	₱48,939,003	₱43,789,694
After one year but not more than five years	**10,738,324**	122,536,962	135,105,717
More than five years	–	137,382,645	153,522,667
	₱22,367,714	₱308,858,610	₱332,418,078

The Group as a lessor
The Group also leases its mall to different parties. The lease term ranges from 5 to 10 years. The Group's rental income on these leases amounted to ₱238.00 million, ₱197.99 million and ₱176.85 million in 2011, 2010 and 2009, respectively.

As of December 31, 2011, 2010 and January 1, 2010, the future minimum receipts from these lease commitments are as follows:

	December 31		January 1
	2011	2010	2010
Within one year	**₱133,483,943**	₱114,298,064	₱89,321,336
After one year but not more than five years	**259,667,873**	343,987,463	240,689,477
More than five years	**42,734,086**	26,320,697	203,346,080
	₱435,885,902	₱484,606,224	₱533,356,893

28. Business Combinations

2011
Common control business combination
On October 3, 2011, East West Investment Ltd. (EIL), Great Co. Limited (GCL) and Titan Resources Corporation (TRC) (collectively referred herein as "Seller") and Fed Land entered into a deed of sale agreement to transfer its respective shares of stock held over HLRC for a total consideration of ₱420.00 million. Equivalent number of shares transferred is detailed below:

	Number of Shares Transferred
East West (EIL)	200,000
Great Co. (GCL)	200,000
Titan Resources (TRC)	3,600,000

On June 23, 2011, Fed Land subscribed additional common shares issued by CRDC of 400,000 common shares obtaining an effective interest of 75.8% over CRDC after issuance. Before the acquisition, CRDC was majority owned by City Tower Realty Corporation (CTRC) which resulted to a dilution of its shares to Fed Land.

The two acquisitions were accounted for using the uniting of interest method and accordingly, the December 31, 2010 and January 1, 2010 comparatives were restated to reflect the following changes in consolidated balances as of December 31, 2010 and January 1, 2010:

	Increase due to uniting of:	
	HLRC	CRDC
Total assets	₱2,362,397,879	₱530,083,728
Total liabilities	1,808,717,040	522,535,734
Total revenue	135,503,171	4,475,619
Total costs and expenses	25,539,444	2,981,516
Total comprehensive income	103,336,030	974,367

Net effect of uniting, representing the difference between the Fed Land's cost of investment and the respective subsidiaries' equity attributable to parent and NCI at the time of the combination, amounted to ₱130.33 million and ₱10.91 million as of December 31, 2011 and 2010.

Merger

Merger between Parent Company with Baywatch Realty Corporation (BRC)

On April 15, 2010, the plan of merger BRC has been approved and ratified by the respective BOD and stockholders of the Parent Company and BRC. On April 29, 2010, the articles of merger has been signed by the BOD and stockholders. On June 24, 2010, SEC has approved and certified the filing of the merger.

The effective date of the merger was January 2, 2010 with the Parent Company as the surviving entity. The Parent Company has acquired all the rights and privileges on the net assets of BRC as of December 31, 2009 amounting to ₱457.27 million. No consideration was paid nor shares issued by Parent Company on the said merger. The transaction was accounted for using the uniting of interest method on the premise of common control.

Merger among HLPDC, PCDRC and PRDI

On June 23, 2010, the SEC approved the Plans and Articles of Merger (Merger) between PCDRC, PRDI and HLPDC, the latter being the surviving entity. The merger were approved and ratified by the respective Board of Directors (BOD) and stockholders on April 15, 2010. Under the approved merger, the entire assets and liabilities of PCDRC and PRDI were merged and absorbed by the HLPDC based on the audited statement of financial position as of December 31, 2009 effective on January 1, 2010. The merger was accounted using the uniting of interest method on the premise of common control since all parties involved in the said merger are wholly owned subsidiaries of the Parent Company.

The merger resulted in increased authorized capital stock from 20,000,000 shares with a par value of ₱10.00 per share to 40,000,000 shares with a par value of ₱10.00 per share.

The consideration given up in exchange for the net assets of PRDRC and PRDI is 18,555,259 shares with a par value of ₱10.00. The difference of one ₱1.00 between the total par value and net asset was accounted as an additional paid-in capital (APIC) in the books of the HLPDC.

On December 23, 2010, the Securities and Exchange Commission (SEC) approved the change in name of HCAI to Horizon Land Property and Development Corporation (HLPDC).

29. **Events after the Reporting Period**

Fed Land, together with ORIX, executed a memorandum of agreement (MOA) dated December 8, 2011 and Omnibus Subscription Agreement (OSA) dated December 21, 2011.

Under the MOA, Fed Land shall make additional capital contributions in the form of cash and property and ORIX shall make capital contributions in the form of cash in exchange for shares of stock of MHC pursuant to the terms and conditions set forth in the Omnibus Subscription Agreement;

Fed Land and Orix intends to (i) develop a residential condominium and a hotel/retail/ office building on two (2) parcels of land located in Bonifacio Global City, Fort Bonifacio, Taguig City, Metro Manila, Philippines.

Fed Land intends to transfer a certain parcel of land as full payment for its subscription of 12,074,800 MHC's common shares (Note 6).

MHC Release of the Escrow Cash Account
Under the OSA, MHC, Fed Land and ORIX (the Parties) agreed to designate and appoint an Escrow Agent that will hold in trust and safeguard for the benefit of MHC the cash contribution of ₱351.91 million made by ORIX. Accordingly, on December 31, 2011, an Escrow Agreement was created and designated Standard Chartered Bank as its Escrow Agent. An Escrow Cash Account was created and it contained the amount of ₱351.91 million representing its payment to the subscription on the proposed increase in authorized capital stock. On January 31, 2011, the Escrow has been released resulting to the increase in deposit for future subscription and APIC of MHC by ₱307.15 million and ₱44.76 million, respectively.

Global Business Power Corporation and Subsidiaries

Consolidated Financial Statements
December 31, 2011, 2010 and 2009

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

GBP Global Business Power Corporation

22nd Floor, GT Tower International
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STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of **Global Business Power Corporation** is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2011 and 2010, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

SyCip Gorres Velayo & Co., the independent auditors appointed by the stockholders for the period December 31, 2011 and 2010, has examined the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

GLOBAL BUSINESS POWER CORPORATION

MR. FRANCISCO C. SEBASTIAN
Chairman

MR. ARTHUR N. AGUILAR
President

MR. JAIME T. AZURIN
Chief Finance Officer

Signed this 14th day of February, 2012

SGV & Co
Ernst & Young

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BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Global Business Power Corporation

We have audited the accompanying consolidated financial statements of Global Business Power Corporation and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011, 2010 and 2009, and the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

SGV&Co
Ernst & Young

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Global Business Power Corporation and Subsidiaries as at December 31, 2011, 2010 and 2009, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2011 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Jaime F. del Rosario
Partner
CPA Certificate No. 56915
SEC Accreditation No. 0076-AR-2 (Group A),
March 18, 2010, valid until March 17, 2013
Tax Identification No. 102-096-009
BIR Accreditation No. 08-001998-72-2009,
June 1, 2009, Valid until May 31, 2012
PTR No. 3174591, January 2, 2012, Makati City

March 18, 2012

GLOBAL BUSINESS POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31		
	2011	2010	2009
ASSETS			
Current Assets			
Cash and cash equivalents (Notes 4 and 22)	**₱8,606,665,944**	₱6,132,670,613	₱4,076,356,416
Receivables (Notes 5, 8 and 22)	**4,026,447,263**	2,617,439,423	2,102,313,018
Inventories (Note 6)	**1,114,633,912**	833,250,532	481,295,804
Advances to suppliers and contractors	**230,149,744**	193,973,908	1,581,048,967
Due from related parties (Notes 17 and 22)	**414,305,739**	4,392,145,496	629,465,215
Prepayments and other current assets - net (Notes 7and 22)	**2,019,722,947**	3,296,329,810	3,269,781,831
Total Current Assets	**16,411,925,549**	17,465,809,782	12,140,261,251
Noncurrent Assets			
Long-term receivables - net of current portion (Notes 5, 8 and 22)	**1,083,560,553**	802,386,249	786,469,185
Available-for-sale (AFS) investments (Notes 9 and 22)	**444,076,657**	545,479,988	687,677,763
Property, plant and equipment (Note 11)	**36,714,361,296**	34,692,592,427	20,337,662,132
Deferred tax assets (Note 21)	**147,208,290**	114,331,507	235,066,659
Goodwill and other noncurrent assets - net (Note 12)	**2,039,710,407**	2,089,236,674	1,330,576,892
Total Noncurrent Assets	**40,428,917,203**	38,244,026,845	23,377,452,631
TOTAL ASSETS	**₱56,840,842,752**	₱55,709,836,627	₱35,517,713,882
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses (Notes 13 and 22)	**₱3,789,614,957**	₱6,095,238,217	₱4,519,295,786
Short-term loans (Notes 14 and 22)	**–**	54,350,915	1,462,121,540
Current portion of long-term debt (Notes 15 and 22)	**964,633,246**	361,383,246	329,133,246
Income tax payable (Note 21)	**36,633,536**	78,366,832	27,961,048
Dividends payable	**29,425,000**	–	–
Equity in net losses over cost of investment in an associate (Note 10)	**18,183,358**	22,559,715	21,130,777
Total Current Liabilities	**4,838,490,097**	6,611,898,925	6,359,642,397
Noncurrent Liabilities			
Long-term debt - net of current portion (Notes 15 and 22)	**29,176,410,074**	25,030,487,598	11,682,549,638
Deferred tax liabilities (Note 21)	**274,697,262**	322,602,737	449,539,159
Retirement benefit obligation (Note 19)	**64,611,638**	32,657,448	41,937,375
Other noncurrent liabilities (Note 16)	**639,438,864**	407,309,147	404,240,939
Total Noncurrent Liabilities	**30,155,157,838**	25,793,056,930	12,578,267,111

(Forward)

	December 31		
	2011	2010	2009
Equity Attributable to Equity Holders of the Parent			
Capital stock - ₱100 par value			
Authorized - 2,400,000 shares			
Issued - 2,400,000 shares in 2011 and 2,366,966 shares in 2010	**₱240,000,000**	₱236,699,600	₱236,699,600
Additional paid-in capital	**4,630,646,513**	4,546,846,800	4,546,846,800
Deposits for future stock subscription (Note 23)	**8,907,956,855**	13,622,805,348	7,115,590,227
Unrealized valuation gains on AFS investments (Note 9)	**294,076,657**	395,479,988	537,677,763
Retained earnings	**3,467,824,030**	1,887,834,467	1,365,648,010
	17,540,504,055	20,689,666,203	13,802,462,400
Non-controlling Interests	**4,306,690,762**	2,615,214,569	2,777,341,974
Total Equity	**21,847,194,817**	23,304,880,772	16,579,804,374
TOTAL LIABILITIES AND EQUITY	**₱56,840,842,752**	₱55,709,836,627	₱35,517,713,882

See accompanying Notes to Consolidated Financial Statements.

GLOBAL BUSINESS POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2011	2010	2009
NET FEES (Notes 1 and 23)	**₱16,786,078,857**	₱4,655,698,422	₱3,876,522,801
COSTS AND EXPENSES			
Power plant operations and maintenance costs (Note 18)	**8,753,590,773**	2,723,449,155	2,231,445,843
Depreciation (Note 11)	**1,569,597,811**	479,366,590	413,718,093
Personnel (Note 19)	**523,208,798**	400,001,807	284,531,747
Outside services	**393,911,955**	103,854,892	107,404,744
Regulatory, taxes and licenses	**355,826,793**	99,408,383	96,383,041
Insurance	**165,211,922**	69,457,319	50,572,922
Rent and utilities (Notes 1 and 17)	**71,727,516**	35,303,401	31,781,925
Travel and representation	**45,503,273**	31,143,090	30,086,084
Supplies	**19,043,637**	9,035,153	10,383,273
Professional fees	**10,897,345**	15,488,196	21,660,860
Telephone and postage	**9,558,168**	8,941,401	7,335,984
Others	**185,880,746**	168,476,265	70,164,325
	12,103,958,737	4,143,925,652	3,355,468,841
FINANCE COSTS - net (Note 20)	**(2,451,327,884)**	(127,179,846)	(310,951,153)
OTHER INCOME - net (Note 20)	**135,184,927**	280,952,522	129,076,819
INCOME BEFORE INCOME TAX	**2,365,977,163**	665,545,446	339,179,626
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 21)			
Current	**217,280,924**	184,542,625	83,638,632
Deferred	**(80,782,256)**	(6,201,270)	25,982,964
	136,498,668	178,341,355	109,621,596
NET INCOME	**2,229,478,495**	487,204,091	229,558,030
OTHER COMPREHENSIVE LOSS			
Changes in fair value of AFS investments (Note 9)	**(101,403,331)**	(142,197,775)	221,455,551
TOTAL COMPREHENSIVE INCOME	**₱2,128,075,164**	₱345,006,316	₱451,013,581
NET INCOME (LOSS) ATTRIBUTABLE TO:			
Equity holders of the parent	**₱1,579,989,563**	₱522,252,451	₱253,002,373
Non-controlling interests	**649,488,932**	(35,048,360)	(23,444,343)
	₱2,229,478,495	₱487,204,091	₱229,558,030
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:			
Equity holders of the parent	**₱1,478,586,232**	₱380,054,676	₱474,457,924
Non-controlling interests	**649,488,932**	(35,048,360)	(23,444,343)
	₱2,128,075,164	₱345,006,316	₱451,013,581

See accompanying Notes to Consolidated Financial Statements.

GLOBAL BUSINESS POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

	Equity Attributable to Equity Holders of the Parent							
	Capital Stock	Additional Paid-in Capital	Deposits for Future Stock Subscription (Note 23)	Unrealized Valuation Gains (Losses) on AFS Investments	Retained Earnings	Total	Non-controlling Interests	Total
Balances at December 31, 2008	₱236,699,600	₱4,546,846,800	₱3,401,867,511	₱316,222,212	₱1,112,579,643	₱9,614,215,766	₱19,059,345	₱9,633,275,111
Deposits for future stock subscription	–	–	3,713,722,716	–	–	3,713,722,716	–	3,713,722,716
Non-controlling interests in a subsidiary	–	–	–	–	–	–	2,781,792,966	2,781,792,966
Total comprehensive income (loss)	–	–	–	221,455,551	253,002,373	474,457,924	(23,444,343)	451,013,581
Balances at December 31, 2009	236,699,600	4,546,846,800	7,115,590,227	537,677,763	1,365,582,016	13,802,396,406	2,777,407,968	16,579,804,374
Deposits for future stock subscription	–	–	6,507,215,121	–	–	6,507,215,121	–	6,507,215,121
Reduction of non-controlling interests	–	–	–	–	–	–	(127,145,039)	(127,145,039)
Total comprehensive income (loss)	–	–	–	(142,197,775)	522,252,451	380,054,676	(35,048,360)	345,006,316
Balances at December 31, 2010	₱236,699,600	₱4,546,846,800	₱13,622,805,348	₱395,479,988	₱1,887,834,467	₱20,689,666,203	₱2,615,214,569	₱23,304,880,772

	Equity Attributable to Equity Holders of the Parent							
	Capital Stock	Additional Paid-in Capital	Deposits for Future Stock Subscription (Note 23)	Unrealized Valuation Gains (Losses) on AFS Investments (Note 9)	Retained Earnings	Total	Non-controlling Interests	Total
Balances at December 31, 2010	₱236,699,600	₱4,546,846,800	₱13,622,805,348	₱395,479,988	₱1,887,834,467	₱20,689,666,203	₱2,615,214,569	₱23,304,880,772
Conversion of deposits for future stock subscription to capital stock	3,300,400	83,799,713	(87,100,113)	–	–	–	–	–
Additional deposits for future stock subscription	–	–	432,554,452	–	–	432,554,452	–	432,554,452
Refund of deposits for future stock subscription and others	–	–	(5,060,302,832)	–	–	(5,060,302,832)	1,099,232,261	(3,961,070,571)
Share of holders of non-controlling interests in dividends	–	–	–	–	–	–	(57,245,000)	(57,245,000)
Total comprehensive income (loss)	–	–	–	(101,403,331)	1,579,989,563	1,478,586,232	649,488,932	2,128,075,164
Balances at December 31, 2011	₱240,000,000	₱4,630,646,513	₱8,907,956,855	₱294,076,657	₱3,467,824,030	₱17,540,504,055	₱4,306,690,762	₱21,847,194,817

See accompanying Notes to Consolidated Financial Statements.

GLOBAL BUSINESS POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱2,365,977,163**	₱665,545,446	₱339,179,626
Adjustments for:			
Depreciation (Note 11)	**1,569,597,811**	479,366,590	413,718,093
Interest expense (Note 20)	**2,587,952,111**	174,979,228	211,689,895
Loss on disposal of property and equipment (Note 11)	**8,318,397**	25,512,176	15,016,297
Movements in retirement benefit obligation	**31,954,190**	(9,279,927)	5,967,202
Accretion on decommissioning liability (Notes 16 and 20)	**6,149,717**	3,068,208	2,741,375
Equity in net losses (earnings) of an associate (Notes 5 and 10)	**(4,376,357)**	1,428,938	(3,706,148)
Interest income (Note 20)	**(191,414,489)**	(32,962,914)	(23,592,807)
Net unrealized foreign exchange loss (gains)	**43,747,762**	(21,056,644)	5,451,130
Dividend income (Notes 9 and 20)	**(20,700,266)**	(13,637,000)	(11,274,419)
Operating income before working capital changes	**6,397,206,039**	1,272,964,101	955,190,244
Increase in:			
Receivables	**(1,690,182,144)**	(760,641,067)	(551,362,475)
Inventories	**(281,383,380)**	(353,024,647)	(60,148,442)
Prepayments and other current assets	**1,276,606,863**	(1,820,393,379)	(2,856,102,538)
Increase in accounts payable and accrued expenses	**(2,305,623,262)**	444,445,641	1,817,439,257
Net cash generated from (used in) operations	**3,396,624,116**	(1,216,649,351)	(694,983,954)
Interest received	**191,414,489**	72,059,640	52,912,759
Interest paid	**(2,564,770,268)**	(2,007,139,806)	(575,095,281)
Income tax paid	**(259,014,220)**	(84,862,686)	(68,205,478)
Net cash flows from (used in) operating activities	**764,254,117**	(3,236,592,203)	(1,285,371,954)
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in other noncurrent assets (Note 12)	**49,526,267**	330,651,120	72,269,017
Dividends received	**20,700,266**	24,911,535	11,274,419
Collection of advances to suppliers and contractors (Note 11)	**(36,175,836)**	3,307,943	–
Additions to property, plant and equipment (Notes 11)	**(3,567,128,919)**	(9,522,162,806)	(13,575,532,172)
Issuance of long-term notes receivable	**–**	–	(58,800,000)
Proceeds from disposal of property and equipment	**–**	–	734,820
Net cash flows used in investing activities	**(3,533,078,222)**	(9,163,292,208)	(13,550,053,916)

(Forward)

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	Years Ended December 31		
	2011	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of:			
Long-term debt (Note 15)	**₱5,095,361,471**	₱13,471,657,342	₱9,979,095,000
Short-term loans	–	–	1,484,692,552
Proceeds from (withdrawal of) deposits for future stock subscription	**(3,615,616,232)**	6,507,215,121	3,713,722,716
Proceeds from issuance of capital stock	**87,100,113**	–	–
Changes in accounts with related parties	**3,977,839,757**	(3,844,766,915)	(142,375,664)
Payments of:			
Long-term debt	**(371,383,245)**	–	(634,386,672)
Notes payable	**(54,350,915)**	(1,317,770,625)	(22,571,012)
Financing cost	**(3,883,286)**	(201,610,040)	(207,947,410)
Changes in amounts due to holders of non-controlling interests (Note 16)	**199,319,535**	–	378,287,322
Cash dividends paid	**(27,820,000)**	–	–
Increase (decrease) in non-controlling interest	**–**	(127,145,039)	2,781,968,966
Increase in liabilities with suppliers and contractors	**–**	–	982,781,343
Net cash flows from financing activities	**5,286,567,198**	14,487,579,844	18,313,267,141
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(43,747,762)**	(31,381,236)	(5,451,130)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**2,473,995,331**	2,056,314,197	3,472,390,141
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**6,132,670,613**	4,076,356,416	603,966,275
CASH AND CASH EQUIVALENTS AT END OF YEAR (Notes 4 and 22)	**₱8,606,665,944**	₱6,132,670,613	₱4,076,356,416

See accompanying Notes to Consolidated Financial Statements.

GLOBAL BUSINESS POWER CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Corporate Information**

Global Business Power Corporation (the Company) was registered with the Philippine Securities and Exchange Commission (SEC) on March 13, 2002 primarily to invest in, hold, purchase, import, acquire (except land), lease, contract or otherwise, with the limits allowed for by law, any and all real and personal properties of every kind and description, whatsoever, and to do acts of being a holding company except to act as brokers dealers in securities. The Company is 69%-owned by Global Business Holdings, Inc. (GBHI) and 31%-owned by First Metro Investment Corp. (FMIC).

ARB Power Ventures, Inc. (APVI), GBH Cebu Limited Duration Company (GCLDC) and Toledo Power Company (TPC)
The Company owns 100% interest in APVI and GCLDC. APVI has an assigned capital of 52.5% and a 95% share in the profit of TPC, a power generation company engaged in the operation of a 66-megawatt coal and 40-megawatt industrial fuel oil power stations both located in Toledo City, Cebu while GCLDC has an assigned capital of 47.5% and a 5% share in the profit of TPC and a 40% equity interest in the shares of stock of Toledo Holdings Corporation (THC), a company that leases land to its related parties.

Under the cooperation period of 12 years commencing on February 26, 2003, TPC has a Power Supply Agreement (PSA) with Cebu III Electric Cooperative, Inc. (CEBECO III) that specify agreed minimum supply levels and fees denominated in Philippine peso. The agreement provides for, among others, the payment of fees/penalty or liquidated damages in the event of termination of agreement under certain circumstances, or default or breach of agreement by any of the parties and the recovery of any costs incurred as a result of change in circumstances including change in any laws or regulations of the Philippines, among others, from CEBECO III. TPC supplies the electric power requirements of CEBECO III and its industrial customers, Balamban Enerzone Corporation (BEZ) and Carmen Copper Corporation (CCC).

THC owns certain parcels of land where the power stations of TPC, Panay Power Corporation (PPC) and, GBH Power Resources, Inc. (GPRI) are located. THC leases land to TPC, PPC and GPRI for a period of one year, renewable every year and under such terms and conditions as may be agreed upon by both parties. THC also leases parcels of land to Cebu Energy Development Corporation (CEDC) for a period of five years, renewable every end of the lease term and under such terms and conditions as may be agreed upon by both parties.

Panay Power Holdings Corporation (PPHC; formerly Claredon Towers Holdings, Inc.; CTHI)
On February 11, 2011, the SEC approved the change of the Company's name from CTHI to Panay Power Holdings Corporation.

The Company owns 89.3% interest in PPHC. PPHC owns 100% interest in PPC and Panay Energy Development Corporation (PEDC).

PPC
PPC owns and operates a total of 109.5-megawatt bunker fuel power plants located in La Paz, Iloilo City and Aklan. PPC has a Power Purchase Agreement (PPA) with Panay Electric Company (PECO) under which PECO contracted a capacity of 15 megawatts for its intermediate and peak power supply requirements for a period of fifteen years until 2026. The energy fees and

fuel costs shall be paid to PPC in accordance with the terms specified in the PPA. The agreed fees are denominated in Philippine peso. PPC also has Electric Power Purchase Agreements (EPPAs) with Iloilo I Electric Cooperative, Inc. (ILECO-1) and Aklan Electric Cooperative, Inc. (AKELCO) under which ILECO-1 and AKELCO will purchase in each contract month from the start of commercial operations a minimum number of kilowatt hours of net electrical output for a cooperation period of 20 years from the start of commercial operations.

PECO
In 1997, PPC entered into a PPA with PECO where PECO was obligated to purchase, in each contract year, a minimum number of kilowatt hours of net electrical output.

On October 8, 2010, PPC and PECO has agreed to amend the terms and conditions of the PPA to reflect the supply of only the intermediate and peak power requirements of PECO. Under the amended terms, during the cooperation period, PPC is obligated to allocate 15 megawatts of its capacity to PECO. Both PPC and PECO are responsible for complying with all applicable requirements in force from time to time during the term hereof required for the performance of its obligations. PECO is responsible for any governmental permits required for the purchase of electricity from PPC. The PPA provides for, among others, the payment of fees/penalty or liquidated damages in the event of termination of the agreement under certain circumstances.

ILECO-1
Under the EPPA with ILECO-1, PPC is committed to supply and in turn, ILECO-1 is committed to accept electricity from PPC at agreed minimum levels and prices during the cooperation period of 20 years from the start of commercial operations. The agreed fees are denominated in Philippine peso. PPC is responsible for the financing, construction, operation and maintenance of the power plant. ILECO-1 is responsible for any governmental permits required for the purchase of electricity from PPC. This agreement provides for, among others, the payment of fees/penalty or liquidated damages in the event of termination of the agreement under certain circumstances, or default or breach of the agreement by any parties.

AKELCO
Under the EPPA with AKELCO, PPC is committed to supply electricity to AKELCO during the cooperation period of 20 years from start of commercial operations, and in turn, AKELCO is committed to accept electricity from PPC at agreed minimum levels and prices. The agreed fees are denominated in Philippine peso. AKELCO is responsible for any governmental permits required for the purchase of electricity from PPC. The agreement provides for, among others, the payment of fees/penalty or liquidated damages in the event of termination of agreement under certain circumstances, or default or breach of agreement by any parties.

In 2008, Avon River Power Holdings, Corp. (now merged under PPC) entered into an Ancillary Services Procurement Agreement with the National Grid Corporation of the Philippines (then National Transmission Corporation) under which PPC is obligated to provide spinning reserve to the Visayas Grid. While the contract has a term of three years from the approval of the Energy Regulatory Commission (ERC), the agreement may be terminated when spinning reserve is tradable under the Wholesale Electricity Spot Market.

Central Negros Electric Cooperative, Inc. (CENECO)
On March 1, 2011, PPC has signed an Electric Power Purchase Agreement (EPPA) with CENECO under which PPC is committed to supply electricity to CENECO during the cooperation period of 10 years commencing on December 26, 2011, and in turn, CENECO is committed to accept electricity from PPC at contracted capacity of 10 megawatts. The agreed fees are denominated in Philippine peso.

PEDC
On February 27, 2009, the Philippine SEC approved the incorporation of PEDC, primarily to carry on the general business of generating power, derived from coal, fossil fuel, geothermal, nuclear, natural gas, hydroelectric and other viable sources of power, for lighting and power purposes and whole selling the electric power to the NPC, private electric cooperatives, and for the carrying on of all business incident hereto, including but not limited to the sale of the by-products of power generation, e.g. steam, water, etc., to acquire, build, construct, own, maintain, and operate all necessary and convenient buildings, structures, dams, machinery, sub-stations, transmission lines, poles, wires, and other things and devices, to acquire and hold water and flowage rights and to acquire, lease, hold, occupy, or use land rights of way and easement therein, and to purchase and/or import raw materials, equipment and spare parts to be used for its business as power generator. PEDC is the project entity that owns and operates the power plant expansion project in La Paz, Iloilo City (Panay Expansion Project; see Note 11).

In 2011, PEDC entered into various EPPAs with ILECO-1, Iloilo III Electric Cooperative, Inc. (ILECO-3) and Central Negros Electric Cooperative, Inc. (CENECO). In 2010, PEDC entered into various EPPAs with PECO, AKELCO, Iloilo II Electric Cooperative, Inc. (ILECO-2), Capiz Electric Cooperative, Inc. (CAPELCO) and Antique Electric Cooperative, Inc. (ANTECO). These agreements provide for, among others, the agreed minimum supply levels and electricity fees, denominated in Philippine peso, and payment of fees/penalty or liquidated damages in the event of termination of agreement under certain circumstances, and the recovery of any costs incurred as a result of change in circumstances including change in any laws or regulations of the Philippines, among others, from PEDC's customers. Under the EPPAs, PEDC is committed to supply electricity during the 25-year cooperation period which shall commence on March 26, 2011 or the date when the units have been completed, inspected, tested and is ready to commence operation, whichever is earlier.

PECO
On August 3, 2010, PEDC entered into an EPPA with PECO for a period of 25 years from date of commercial operations of the plant, which date shall not be later than March 26, 2011. Under the EPPA, PEDC is committed to supply electricity to PECO and PECO has agreed to purchase electricity from PEDC at agreed minimum levels per month during the cooperation period of 25 years. The agreed fees are denominated in Philippine peso. PEDC is responsible for the financing, construction, operation and maintenance of the power plant. PECO is responsible for any governmental permits required for the purchase of electricity from PEDC. This agreement provides for, among others, the payment of fees/penalty or liquidated damages in the event of termination of the agreement under certain circumstances, or default or breach of the agreement by any parties.

ILECO-1
The EPPA entered into by PEDC with ILECO-1 on April 26, 2010 with ILECO-1, PEDC has cooperation period of 25 years. Under the EPPA PEDC is committed to supply electricity to ILECO-1, and in turn, ILECO-1 is committed to accept electricity from PEDC at agreed minimum levels and prices. The agreed fees are denominated in Philippine peso. PEDC is responsible for the financing, construction, operation and maintenance of the power plant. ILECO-1 is responsible for any governmental permits required for the purchase of electricity from PEDC. This agreement provides for, among others, the payment of fees/penalty or liquidated damages in the event of termination of the agreement under certain circumstances, or default or breach of the agreement by any parties.

ILECO-2
Under the EPPA entered on April 16, 2010 with ILECO-2, PEDC is committed to supply electricity to ILECO-2 during the cooperation period of 25 years from start of commercial operations (which date shall not be later than March 26, 2011), and in turn, ILECO-2 is committed to accept electricity from PEDC at agreed minimum levels and prices. The agreed fees are denominated in Philippine peso. This agreement provides for, among others, the payment of fees/penalty or liquidated damages in the event of termination of the agreement under certain circumstances, or default or breach of the agreement by any parties.

ILECO-3
Under the EPPA entered on January 12, 2011 with ILECO-3, PEDC is committed to supply electricity to ILECO-3 during the cooperation period of 25 years from start of commercial operations (which date shall not be later than March 26, 2011), and in turn, ILECO-3 is committed to accept electricity from PEDC at agreed minimum levels and prices. The agreed fees are denominated in Philippine peso. This agreement provides for, among others, the payment of fees/penalty or liquidated damages in the event of termination of the agreement under certain circumstances, or default or breach of the agreement by any parties.

ANTECO
Under the EPPA entered on May 19, 2010 with ANTECO, PEDC is committed to supply electricity to ANTECO during the cooperation period of 25 years from start of commercial (which date shall not be later than March 26, 2011), and in turn, ANTECO is committed to accept electricity from PEDC at agreed minimum levels and prices. The agreed fees are denominated in Philippine peso. This agreement provides for, among others, the payment of fees/penalty or liquidated damages in the event of termination of the agreement under certain circumstances, or default or breach of the agreement by any parties.

AKELCO
Under the EPPA entered on May 14, 2010 with AKELCO, PEDC is committed to supply electricity to AKELCO during the cooperation period of 25 years from start of commercial operations (which date shall not be later than March 26, 2011), and in turn, AKELCO is committed to accept electricity from PEDC at agreed minimum levels and prices. The agreed fees are denominated in Philippine peso. This agreement provides for, among others, the payment of fees/penalty or liquidated damages in the event of termination of the agreement under certain circumstances, or default or breach of the agreement by any parties.

CAPELCO
Under the EPPA entered on June 3, 2010 with CAPELCO, PEDC is committed to supply electricity to CAPELCO during the cooperation period of 25 years from start of commercial operations (which date shall not be later than March 26, 2011), and in turn, CAPELCO is committed to accept electricity from PEDC at agreed minimum levels and prices. The agreed fees are denominated in Philippine peso. This agreement provides for, among others, the payment of fees/penalty or liquidated damages in the event of termination of the agreement under certain circumstances, or default or breach of the agreement by any parties.

CENECO
Under the EPPA entered on March 1, 2011 with CENECO, PEDC is committed to supply electricity to CENECO during the cooperation period of 15 years from start of commercial operations, and in turn, CENECO is committed to accept electricity from PEDC at agreed minimum levels and prices. The agreed fees are denominated in Philippine peso. This agreement

provides for, among others, the payment of fees/penalty or liquidated damages in the event of termination of the agreement under certain circumstances, or default or breach of the agreement by any parties. This agreement was terminated on August 2011.

PEDC was registered with the Board of Investments (BOI) under the provisions of the Omnibus Investments Code as a new operator of 246MW coal-fired power generation plant in Panay under BOI registration number 2008-171 granted on July 24, 2008, initially under the name of GBPC. It has been transferred under PEDC's name upon its incorporation. Under the terms of its registration, PEDC is subject to certain requirements, principally: (a) that PEDC should start operations no later than December 2011, (b) that PEDC should increase its authorized, subscribed, and paid-up capital stock to at least ₱4.45 billion and (c) that PEDC should secure a Certificate of Compliance (COC) from Energy Regulatory Commission (ERC) prior to the start of its commercial operations. PEDC's paid-up capital amounted to ₱4.45 billion and ₱1.39 billion as of December 31, 2011 and 2010, respectively. Also, as of this date, PEDC has obtained the COC from ERC.

PEDC declared commercial operations on March 26, 2011.

GBH Power Resources, Inc. (GPRI)
The Company owns 100% interest in GPRI. GPRI is engaged in the business of generating electric power in areas not connected to the present Luzon Grid, Mindanao Grid and major Visayas Grid(s) of NPC.

GPRI has a PPA with Oriental Mindoro Electric Cooperative, Inc. (ORMECO) wherein GPRI commits to provide and ORMECO commits to purchase in each contract year a minimum number of kilowatt-hours of net electrical output for a cooperation period of 20 years. The agreed fees are denominated in Philippine peso. This agreement also provides for, among others, the payment of fees/penalty or liquidated damages in the event of termination of agreement under certain circumstances, or default or breach of agreement by any parties. While GPRI has been delivering energy to ORMECO since 2000, as of December 31, 2011 and 2010, GPRI and ORMECO have not yet agreed on the date of start of cooperation period.

Global Formosa Power Holdings, Inc. (GFPHI)
On November 12, 2007, the Company, Formosa Heavy Industries, Inc., a corporation duly organized and existing under the laws of Taiwan/Republic of China and Flat World Ltd., a corporation duly organized and existing under the laws of British Virgin Islands, collectively referred to as the "Parties", entered into an agreement to form a strategic partnership and to establish a joint venture corporation to be incorporated as a holding company for the purpose of holding interest in power generation projects in the Philippines. This joint venture was incorporated on May 5, 2008 as GFPHI, primarily to acquire and own, hold, use, manage, sell, assign, transfer, mortgage, pledge, exchange or otherwise dispose of real and personal property and to do acts of being a holding company in power generation projects in Philippines except to act as brokers dealers in securities. The Company has 93% interest in GFPHI.

CEDC
On August 11, 2007, the Company and Aboitiz-Garcia Group entered into a Memorandum of Agreement (MOA) whereby both parties agreed to form a joint venture company for the purpose of constructing a new coal-fired power plant in Toledo City, Cebu (Toledo Expansion Project). This joint venture was incorporated on December 5, 2008 as CEDC, primarily to engage in the

general business of generating power for lighting and power purposes and whole-selling the electric power to the NPC, private electric cooperatives and other entities, and for carrying on of all businesses incidental thereto. The MOA allows a third party investor to participate on a minority basis in the equity contribution of the Company to CEDC. GFPHI has 56% interest in CEDC.

CEDC and Visayan Electric Company, Inc. (VECO) entered into an EPPA on October 18, 2009 wherein CEDC agreed to supply and deliver to VECO, and for which VECO agreed to pay in accordance with the provisions of the EPPA, electricity at a contracted capacity of 105 MW (90% load factor) upon commencement of commercial operations when all of CEDC's three units have been completed, inspected and tested. However, during the commissioning and testing phases, CEDC will deliver electricity to VECO on a non-firm basis subject to VECO's payment of electricity fees for actual energy taken; then, upon pre-commissioning, VECO shall take the proportionate net electrical output for each unit of the power plant delivered by CEDC on a firm basis subject to VECO's payment of electricity fees in accordance with the provisions of the EPPA. The EPPA shall have a term of 25 years commencing on the start of the commercial operations. The agreed fees are denominated in Philippine peso.

In 2010, CEDC entered into various EPPAs with Bohol I Electric Cooperative, Inc. (BOHECO I), Mactan Electric Company (MECO), Philippine Economic Zone Authority - Mactan Economic Zone I (PEZA-MEZ I), BEZ, CEBECO I, CEBECO II and CEBECO III. These agreements provide for, among others, the agreed minimum supply levels and electricity fees, denominated in Philippine peso, and payment of termination fees/penalty or liquidated damages in the event of termination of agreement under certain circumstances, or default or breach of agreement by any of the parties and the recovery of any costs incurred as a result of change in circumstances including change in any laws or regulations of the Philippines, among others, from CEDC's customers.

The EPPA with BOHECO I provides that CEDC shall supply electricity on a non-firm basis starting on September 26, 2010. The contracted capacity shall be 14 MW within the 15-year cooperation period which shall commence on the commercial operations date. BOHECO I shall take the net electrical output for each unit of the power plant delivered by CEDC during the testing and commissioning period, subject to payment of electricity fees set out in the agreement.

Under the EPPA with PEZA-MEZ I, the supply of electricity shall start upon pre-commercial operation of Unit 2 and upon satisfaction of the conditions in accordance with the provisions specified in the agreement. The contracted capacity shall be 25 MW within the cooperation period of 10 years starting on April 26, 2011, renewable for another two years subject to the terms and conditions under the agreement.

Under the EPPA with MECO, CEDC is committed to supply electricity upon pre-commercial operation of Unit 2 and upon satisfaction of the conditions in accordance with the provisions specified in the agreement. The contracted capacity shall be 15 MW during the cooperation period of 15 years from the start of commercial operations.

For CEBECO I, II and III, supply of electricity shall commence on March 31, 2011 or the date when all of the three units have been completed, inspected, tested and is ready to commence operation, whichever is earlier. CEDC is committed to supply electricity with an aggregate contracted capacity of 21 MW during the cooperation period of 20 years which shall commence on the commercial operations date.

Under the EPPA with BEZ, CEDC is committed to supply electricity upon pre-commercial operation of Unit 2 and upon satisfaction of the conditions in accordance with the provisions specified in the agreement. The contracted capacity shall be 4 MW within the cooperation period of 15 years which shall commence on the commercial operations date.

CEDC was registered with the BOI on a pioneer status under Executive Order No. 226 or the Omnibus Investments Code of 1987 on June 25, 2008, initially under the name of GBPC. On February 18 2009, BOI granted the request to transfer the registration from GBPC to CEDC. Incentives include, among others, an income tax holiday of six (6) years from December 2010 or actual start of commercial operations, whichever is earlier, and zero percent duty for importation of capital equipment, spare parts and accessories from date of registration up to June 16, 2011. Under the terms of its registration, CEDC is subject to certain requirements, principally: (a) that CEDC should start operations no later than December 2010, (b) that CEDC should increase its authorized, subscribed, and paid-up capital stock to at least ₱5.54 billion and (c) that CEDC should secure a COC from ERC prior to the start of its commercial operations. CEDC's paid-up capital amounted to ₱5.54 billion as of December 31, 2011 and 2010. Also, as of this date, CEDC has obtained the COC from ERC. In 2010, CEDC informed the BOI of the change in the schedule of the construction of the plant and the operations of the plant was scheduled to begin first quarter of 2011.

CEDC declared pre-commercial operations on January 26, 2011 and started commercial operations on February 26, 2011.

Global Energy Supply Corporation (GESC)
The Company owns 100% interest in GESC, a company with primary purpose to supply retail electricity.

A summary of project agreements of TPC, PPC, GPRI, PEDC and CEDC (collectively referred to as "Operating Subsidiaries") with customers covering the construction and operation of power stations follows:

Name of Company	Power Station	Location	Customer	Cooperation Period
TPC	106-megawatt coal and industrial fuel	Toledo City, Cebu	VECO	February 26, 2003 to February 26, 2015 Terminated on February 26, 2011
			CEBECO	February 26, 2003 to February 26, 2015
PPC	72-megawatt bunker fuel oil	La Paz, Iloilo City	PECO	March 26, 2011 to March 25, 2026
	20-megawatt industrial fuel oil	La Paz, Iloilo City	ILECO-I	2005 to 2025
	12.5-megawatt industrial fuel oil	Aklan	AKELCO	2005 to 2025
GPRI	7.5-megawatt bunker fuel oil	Pinamalayan Oriental Mindoro,	ORMECO	20 years from start of cooperation period

(Forward)

Name of Company	Power Station	Location	Customer	Cooperation Period
PEDC	164-megawatt coal-fired CFB technology	Iloilo City	CAPELCO ILECO-3 PECO ANTECO AKELCO ILECO-1 ILECO-2	25 years commencing on the commercial operation date
			CENECO	15 years contract until August 11 only
CEDC	246-megawatt coal-fired CFB technology	Toledo City	VECO	25 years commencing on the commercial operations date
			MECO	15 years commencing on the commercial operations date
			MEZ	10 years commencing on the commercial operations date
			BOHECO	15 years commencing on the commercial operations date
			BEZ	15 years commencing on the commercial operations date
			CEBECO I CEBECO II CEBECO III	15 years commencing on the commercial operations date

The registered office address of the Company is 22nd Floor, GT Tower International, corner H.V. dela Costa St., 6813 Ayala Avenue, Makati City.

The consolidated financial statements of the Company and its subsidiaries (collectively referred to as the Group) as of December 31, 2011, 2010 and 2009 and for each of the three years in the period ended December 31, 2011 were authorized for issue by the Board of Director (BOD) on March 18, 2012.

2. Basis of Preparation, Statement of Compliance and Summary of Significant Accounting Policies

Basis of Preparation
The accompanying consolidated financial statements have been prepared under the historical cost basis except for available-for-sale (AFS) investments which have been measured at fair value. The consolidated financial statements are presented in Philippine peso, which is the Group's functional currency. All values are rounded to the nearest peso except when otherwise indicated.

These consolidated financial statements have been prepared solely for inclusion in the prospectus prepared by GT Capital Holdings, Inc. for initial public offering of its shares, and for no other purpose.

Statement of Compliance
The financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) as adopted by the Philippines SEC. PFRS includes statements named PFRS and Philippine Accounting Standards (PAS) and interpretations issued by the Philippine Financial Reporting Standards Council.

Principles of Consolidation
The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries: APVI, GCLDC, GPRI, GESC and the Company's 89.3% and 93%-owned subsidiaries, PPHC and GFPHI, respectively, with respect to which the Company has the ability to control financial and operating policies. All the subsidiaries are incorporated in the Philippines, except GFPHI and GCLDC which were incorporated in Taiwan and Cayman Islands, British West Indies, respectively.

The financial statements of PPHC, APVI, GCLDC and GFPHI include the accounts of their respective subsidiaries. PPHC's subsidiaries are PPC and PEDC. TPC is owned by APVI and GCLDC while GFPHI's subsidiary is CEDC (see Note 1).

Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Subsidiaries are consolidated from the date on which control is transferred to the Company and ceased to be consolidated from the date on which control is transferred out from the Company.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. Intercompany balances and transactions, including intercompany profits and losses, are eliminated. Profit or loss incorporates the results of operations of subsidiaries from the dates of acquisitions. The fair value of identifiable assets and liabilities of the subsidiaries and any goodwill arising from the acquisitions are recognized in the consolidated statement of financial position. Non-controlling interests represent the interests in the subsidiaries not held by the Group and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from the equity attributable to equity holders of the parent. Acquisitions of non-controlling interests are accounted for using the entity concept method, whereby, the difference between the consideration and the book value of the share of the net assets is reflected as an equity transaction.

Non-controlling interest
Where the ownership of a subsidiary is less than 100%, and therefore a non-controlling interests exists, any losses of that subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Derecognizes the cumulative translation differences, recognized in equity
- 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
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Prior to January 1, 2010

Business Combinations and Goodwill

Business combinations are accounted for using the purchase method. This involves recognizing identifiable assets and liabilities of the acquired business initially at fair value. If the acquirer's interest in the net fair value of the identifiable assets and liabilities exceeds the cost of the business combination, the acquirer shall (a) reassess the identification and measurement of the acquiree's identifiable assets and liabilities and the measurement of the cost of the combination; and (b) recognize immediately in profit or loss any excess remaining after that reassessment.

When a business combination involves more than one exchange transaction, each exchange transaction shall be treated separately using the cost of the transaction and fair value information at the date of each exchange transaction to determine the amount of any goodwill associated with that transaction. This results in a step-by-step comparison of the cost of the individual investments with the Company's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities at each exchange transaction. The fair values of the acquiree's identifiable assets, liabilities and contingent liabilities may be different at the date of each exchange transaction. Any adjustments to those fair values relating to previously held interests of the Company is a revaluation to be accounted for as such and presented separately as part of equity.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share in the net identifiable assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is recognized separately as a noncurrent asset. Goodwill on acquisitions of associates is included in investments in associates and is tested annually for impairment as part of the overall balance. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (CGU) or group of CGUs to which the goodwill relates. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods. The Company performs its impairment test of goodwill at each reporting date.

Subsequent to January 1, 2010

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with PAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be re-measured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the fair value of the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Changes in Accounting Policies and Disclosures
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, 2011.

- PAS 24, *Related Party Disclosures (Revised)*
  The revised standard is effective for annual periods beginning on or after January 1, 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. Furthermore, the revised standard introduces a partial exemption of disclosure requirements for government-related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard. The revised standard does not have an impact on the financial position or performance of the Group.

- PAS 32, *Financial Instruments: Presentation (Amendments) - 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. This amendment has no impact on the Group after initial application.

- Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 14, *Prepayments of a Minimum Funding Requirement (Amendments)*
  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. The amendment is deemed to have no impact on the financial statements of the Group.

- 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. The adoption of this interpretation has no effect on the financial statements of the Group.

- Improvements to PFRS 2010
  Improvements to IFRS are an omnibus of amendments to PFRS. The amendments have been adopted as they become effective for annual periods on or after either July 1, 2010 or January 1, 2011.
  - PFRS 3, *Business Combinations (Measurement options available to noncontrolling interest)*
  - PFRS 3, *Business Combinations [Contingent consideration arising from business combination prior to adoption of PFRS 3 (as revised in 2008)]*
  - PFRS 3, *Business Combinations (Unreplaced and voluntarily replaced share-based payment awards)*
  - PFRS 7, *Financial Instruments: Disclosures*
  - PAS 1, *Presentation of Financial Statements*
  - PAS 27, *Consolidated and Separate Financial Statements*
  - PAS 34, *Interim Financial Statements*
  - Philippine Interpretation IFRIC 13, *Customer Loyalty Programme*

The new, revised, amended and improved standards and/or interpretations that have been adopted are deemed to have no impact on the financial position or performance of the Group.

<u>New Accounting Standards, Interpretations and Amendments Effective Subsequent to December 31, 2011</u>
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 standards and interpretations to have a significant impact on its financial statements.

- Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*
  This interpretation, effective for annual periods beginning on or after January 1, 2015, 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. Implementation of this interpretation has been deferred until the final *Revenue Standard* is issued by the International Accounting Standards Board and after an evaluation on the requirements and guidance in the said standard vis-a vis the practices and regulations in the Philippine real estate industry is completed.

Effective in 2012:

- PAS 12, *Income Taxes (Amendment) - Deferred Taxes: Recovery of Underlying Assets*
  The amendment becomes effective for annual periods beginning on or after January 1, 2012. The amendment 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.

- PFRS 7, *Financial Instruments: Disclosures (Amendments)* - *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.

Effective in 2013:

- PAS 1, *Presentation of Financial Statements (Amendments) - Presentation of Items of Other Comprehensive Income*
  The amendments are effective for annual periods beginning on or after July 1, 2012. The amendments change the grouping of items presented in other comprehensive income. Items that would be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendments do not change the nature of the items that are currently recognized in other comprehensive income, nor do they impact the determination of whether items of other comprehensive income are classified through profit or loss in the future periods. The amendments will be applied retrospectively.

- PAS 19, *Employee Benefits (Revised)*
  The revised standard is effective for annual periods beginning on or after January 1, 2013. The revised standard includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The significant changes include immediate recognition of actuarial gains or losses for defined benefit plans in other comprehensive income when they occur, new disclosure requirements including qualitative information of sensitivity of the defined benefit obligation, recognition of

termination benefits and distinction between short-term and long-term employee benefits. The revised standard will be applied retrospectively. This standard will have an impact in the financial statements of the Group.

- PAS 27, *Separate Financial Statements (Amendments)*
As a consequence of the new PFRS 10, *Consolidated Financial Statement* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

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

- PFRS 7, *Financial Instruments: Disclosures - Offsetting of Financial Assets and Financial Liabilities*
The amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

  a) The gross amounts of those recognized financial assets and recognized financial liabilities;
  b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
  c) The net amounts presented in the statement of financial position;
  d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
     i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
     ii. Amounts related to financial collateral (including cash collateral); and
  e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

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

- PFRS 10, *Consolidated Financial Statements*
  This standard is effective for annual periods beginning on or after January 1, 2013. PFRS 10 replaces the portion of PAS 27, *Separate and Consolidated Financial Statements*, which addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC 12, *Consolidation - Special Purpose Entities*, resulting to SIC being withdrawn. It does not change the consolidation procedures. Rather, it changes whether an entity is consolidated by revising the definition of control. It also provides a number of clarifications in applying this new definition. The new standard will be applied retrospectively.

- PFRS 11, *Joint Arrangements*
  This standard is effective for annual periods beginning on or after January 1, 2013. PFRS 11 replaces PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 introduces the definition of "joint control", for which the reference to "control" in "joint control" refers to the definition of "control" in PFRS 10. It also changes the accounting for joint arrangements by moving from three categories under PAS 31 to two categories, either joint operation or joint venture. Under this new classification, the structure of the joint arrangement is not the only factor considered when classifying the joint arrangement as either joint operation or a joint venture. Further, parties are required to consider whether a separate vehicle exists and, if so, the legal form of the separate vehicle, the contractual terms and conditions, and other facts and circumstances. In addition, PAS 28, *Investment in Associates*, was amended to include the application of the equity method to investments in joint ventures. PFRS 11 will be applied using modified retrospective approach.

- PFRS 12, *Disclosure of Interests in Other Entities*
  This standard is effective for annual periods beginning on or after January 1, 2013. PFRS 12 applies to an entity that has an interest in subsidiaries, joint arrangements, associates and/or structured entities. The objective of the new disclosure requirements is to help the users of the financial statements to understand the effects of an entity's interests in other entities on its financial position, financial performance and cash flows and the nature of, and the risks associated with, the entity's interest in other entities. It also includes more extensive qualitative and quantitative disclosures. PFRS 12 will be applied retrospectively.

- PFRS 13, *Fair Value Measurement*
  This standard is effective for annual periods beginning on or after January 1, 2013. PFRS 13 does not affect when fair value is used, but rather describes how to measure fair value where fair value is required or permitted by PFRS.

  Under PFRS 13, fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". Fair value as used in PFRS 2, *Share-based Payments*, and PAS 17, *Leases* is excluded from the scope of PFRS 13. The standard also provides clarification on a number of areas. New disclosures related to fair value measurements are also required to help users understand the valuation techniques and inputs used to develop fair value measurement and the effect of fair value measurements on profit or loss. PFRS 13 is applied prospectively. Early application is permitted and must be disclosed.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
  This interpretation becomes effective for annual periods beginning on or after January 1, 2013 and applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset.

Effective in 2014:

- PAS 32, *Financial Instruments: Presentation - Offsetting of Financial Assets and Financial Liabilities*
  The amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While the amendment is expected not to have any impact on the net assets of the Group, any changes in offsetting is expected to impact leverage ratios and regulatory capital requirements. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

Effective in 2015:

- PFRS 9, *Financial Instruments: Classification and Measurement*
  This standard is effective for annual periods beginning on or after January 1, 2015. It introduces new requirements on the classification and measurement of financial assets. It uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in PAS 39, *Financial Instruments: Recognition and Measurement*. The approach in the new standard is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in PAS 39. The Group is currently evaluating the impact of the possible early adoption of PFRS 9, *Financial Instruments: Classification and Measurement*, on its consolidated financial statements. However, the Group expects that this will have a significant impact on its consolidated financial statements.

The revised, amended and additional disclosure or accounting changes provided by the standards and interpretations will be included in the financial statements in the year of adoption, if applicable.

Summary of Significant Accounting Policies

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. The following specific recognition criteria must also be met before revenue is recognized:

Net Fees
Net fees consist of energy fees for the energy and services supplied by the operating companies as provided for in their respective PPAs or EPPAs with respective customers. Energy fee is recognized based on actual delivery of energy generated and made available to customers multiplied by the applicable tariff rate, net of adjustments, as agreed upon between the parties.

In case the actual energy delivered by PPC and GPRI to customers is less than the minimum energy off-take, PPC and GPRI shall reimburse their customers for the difference between the actual cost for sourcing the shortfall from another source and tariff rate, multiplied by the actual shortfall. On the other hand, if the customers fail to accept the minimum supply, the customers shall be subject to penalty equivalent to the cost of power unused or not accepted on an annual basis. For TPC, energy fee is recognized based on actual delivery of energy generated and made available to its customers, multiplied by the applicable tariff rate, net of adjustments, as agreed upon between TPC and its customers.

Interest Income
Interest income from bank deposits and short-term investments is recognized as it accrues using the effective interest rate method (EIR).

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

Other Income
Other income pertains to sale of scrap and sludge oil which is recognized when there is delivery of goods to the buyer and recovery from insurance which is recognized when the right to receive payment is established.

Costs and Expenses
Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Costs and expenses, such as taxes and licenses, professional fees and other administrative charges are generally recognized when the service is used or the expense arises while interest expense is accrued in the appropriate period. Contract cost represents the accumulated cost of construction.

Cash and Cash Equivalents
Cash includes cash on hand and with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of placement and that are subject to an insignificant risk of change in value.

Financial Instruments
Financial instruments are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each reporting date.

All regular way purchases and sales of financial assets are recognized on the settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial instruments are recognized initially at fair value of the consideration given (in the case of an asset) or received (in the case of a liability). Except for financial assets at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. Financial assets under PAS 39, are classified as either financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments or AFS investments. The Group's financial assets are in the nature of loans and receivables and AFS investments. As of December 31, 2011, 2010 and 2009, the Group has no outstanding financial assets at FVPL and HTM investments.

Also under PAS 39, financial liabilities are classified as at FVPL or as other financial liabilities. The Group's financial liabilities are in the nature of other financial liabilities. As of December 31, 2011, 2010 and 2009, the Group has no outstanding financial liabilities at FVPL.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

(a) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments 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, designated as AFS investments or designated at FVPL. This accounting policy relates to the Group's "Cash and cash equivalents", "Receivables", "Due from related parties", "Long-term receivables" and marginal deposits and security deposit under "Prepayments and other current assets" accounts.

Loans and receivables are recognized initially at fair value, which normally pertains to the billable amount. After initial measurement, loans and receivables are subsequently measured at amortized cost using the EIR method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization, if any, is included in the "Interest income" account in the profit or loss. The losses arising from impairment of receivables are recognized in the profit or loss. The level of allowance for impairment losses is evaluated by management on the basis of factors that affect the collectibility of accounts (see accounting policy on Impairment of Financial Assets Carried at Amortized Cost).

Loans and receivables are classified as current when they are expected to be realized within twelve months from the reporting date or within the normal operating cycle, whichever is longer. Otherwise, these are classified as noncurrent assets.

(b) AFS Investments

AFS investments are those non-derivative financial assets that are designated as AFS or are not classified as financial assets at FVPL, HTM investments and loans and receivables. After initial recognition, AFS investments are measured at fair value with gains or losses recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously included in equity are included in the consolidated statement of comprehensive income. Dividends on an AFS equity instrument are recognized in the consolidated statement of comprehensive income when the entity's right to receive payment is established.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's-length transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis; and option pricing models.

The change in the fair value of the AFS investments is recorded as "Unrealized valuation gains on AFS investments" in the equity section of the consolidated statement of financial position.

(c) Other Financial Liabilities

Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue. Other financial liabilities are initially recorded at fair value, less directly attributable transaction costs. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the EIR method.

Amortized cost is calculated by taking into account any issue cost, and any discount or premium on settlement. Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized as well as through the amortization process. Any effects of restatement of foreign currency-denominated liabilities are recognized in foreign exchange gains (losses) in profit or loss.

Other financial liabilities are presented as current when these are expected to be settled within 12 months from the reporting date or the Group does not have any unconditional right to defer settlement within 12 months from reporting date.

This accounting policy applies primarily to the Group's "Accounts payable and accrued expenses", "Short-term loans", "Long-term debt", due to holders of non-controlling interests under "Other noncurrent liabilities" and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

Derivative Financial Instruments

Derivative financial instruments are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. An embedded derivative is separated from the host contract and accounted for as derivative if all the following conditions are met:

1. the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;

2. a separate instrument with the same terms as the embedded derivative would meet the definition of the derivative; and

3. the hybrid or combined instrument is not recognized at FVPL.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract. 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 forward currency contracts have expired on December 31, 2010

Determination of Fair Value
The fair value of financial instruments traded in active markets at the reporting date is based on their quoted market price 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.

Day 1 Profit
Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a Day 1 profit) in the profit or loss. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the profit or loss 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 amount.

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated 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, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Impairment of Financial Assets Carried at Amortized Cost
The Group assesses at each reporting date whether there is objective evidence that a financial or group of financial assets is impaired. Objective evidence includes observable data that comes to the attention of the Group about loss events such as, but not limited to, significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, probability that borrower will enter bankruptcy or other financial reorganization. If there is objective evidence that an impairment loss on financial assets carried at amortized cost (e.g., receivables) has been incurred, the amount of the loss is measured as the difference between the assets's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Time value is generally not considered when the effect of discounting is not material. The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed 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. 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 of impairment.

If, in a subsequent period, 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. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

AFS Investments

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

In case of equity investments classified as AFS, 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 consolidated comprehensive income, is removed from equity and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in equity.

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

Derecognition of Financial Assets and Liabilities

Financial Assets

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

1. the rights to receive cash flows from the asset have expired;

2. 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

3. 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 substantially all the risks and rewards of the asset but has transferred control of the asset.

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

Inventories
Inventories, which consist of coal, industrial fuel, lubricating oil, spare parts and supplies are stated at the lower of cost or net realizable value (NRV). Cost is determined using the weighted average method while the NRV is the current replacement cost. In determining the NRV, the Group considers any adjustment necessary for obsolescence.

Input Value-Added Tax (VAT)
Input VAT represents VAT imposed on the Group by its suppliers for the acquisition of goods and services as required by Philippine taxation laws and regulations.

Input VAT, which is presented as part of "Prepayments and other current assets" and "Goodwill and other noncurrent assets" accounts in the consolidated statement of financial position, is recognized as an asset and will be used to offset the Group's current output VAT liabilities and any excess will be claimed as tax credits. Input VAT is stated at its estimated NRV.

Investment in an Associate
An associate is an enterprise in which the Group has significant influence but not control over the financial and operating policies. The Group follows the equity method of accounting for its 40% investment in THC. Under the equity method, the investment is initially recorded at cost and the carrying amount is increased or decreased to recognize the investor's share of the profits and losses of the investee after the date of the acquisition. Dividends received from an investee reduce the carrying amount of investment. When the Group's share of losses exceeds the carrying amount of an associate, the recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate. Any excess of accumulated equity in net losses over the cost of investment is recognized as a liability under "Equity in net losses over cost of investment in an associate" account in the consolidated statement of financial position.

Property, Plant and Equipment
Property, plant and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and amortization and any impairment loss.

The initial cost of property, plant and equipment comprises its purchase price, including import duties, nonrefundable taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing part of such property, plant and equipment when that cost is incurred if the recognition criteria are met.

Expenditures incurred after the property, plant and equipment have been put into operations, such as repairs and maintenance and overhaul costs, are normally charged to income in the period when the costs are incurred.

In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of property, plant and equipment. The carrying amount of the replaced part regardless of whether the replaced part had been depreciated separately is derecognized if an entity recognizes in the carrying amount of an item of property, plant and equipment the cost of a replacement for part of the item. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.

When each major inspection is performed, its cost is recognized in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied.

The power plant complex components and other property and equipment and their related estimated useful lives are as follows:

Category	Number of Years
Boilers and Powerhouse	9 to 25
Turbine Generators and Desox System	9 to 25
Buildings and Land Improvements	9 to 25
Electrical Distribution System	7 to 25
Other Property and Equipment	3 to 5

Depreciation and amortization is calculated using the straight-line method over the estimated useful lives of the assets. The remaining useful lives and the depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

When assets are retired or otherwise disposed of, the cost, the related accumulated depreciation and amortization any allowance for impairment loss are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Power plant construction in progress represents power plant complex under construction and is stated at cost. Cost of power plant construction in progress includes purchase price of the components, capitalized borrowing cost, cost of testing and other directly attributable cost of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Construction in progress is not depreciated until such time that the relevant assets are ready for use.

Impairment or losses of items of property, plant and equipment, related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately.

Impairment of Nonfinancial Assets

Property, plant and equipment and other nonfinancial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds its estimated recoverable amount, the asset or CGU is written down to its recoverable amount. The estimated recoverable amount is the higher of fair value less cost to sell and value in use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. 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 non-financial asset. For an asset that does not generate largely independent cash inflows, the estimated recoverable amount is determined for the CGU to which the asset belongs. Impairment losses are recognized in the profit or loss.

Recovery of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The recovery is recorded in the statement of comprehensive income. However, the increased carrying amount of an asset due to a recovery of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of depreciation and amortization) had no impairment loss been recognized for that asset in prior years.

Related Party Relationships and Transactions

Related party relationship exists when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities, which are under the common control with the reporting enterprises and its key management personnel, directors, or its shareholders. In considering each related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, 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. 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 the current market assessment 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 an interest expense.

Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of comprehensive income, net of any reimbursement.

Decommissioning Liability
The decommissioning liability arose from PPC's, TPC's, GPRI's, PEDC's and CEDC's obligation, under their Environmental Compliance Certificate, to decommission or dismantle their power plant complex at the end of its useful lives. A corresponding asset is recognized as part of property, plant and equipment. Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognized in the consolidated statement of comprehensive income as an "Accretion of decommissioning liability" under the "Finance costs" account. The estimated future costs of decommissioning are reviewed annually and adjusted prospectively. Changes in the estimated future costs or in the discount rate applied are added or deducted from the cost of the power plant complex. The amount deducted from the cost of the power plant complex, shall not exceed its carrying amount.

If the decrease in the liability exceeds the carrying amount of the power plant complex, the excess shall be recognized immediately in the consolidated statement of comprehensive income.

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

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;

(c) there is a change in the determination of whether fulfillment is dependent on a specific 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 gives rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Operating Leases
Operating leases represent those leases which substantially all the risks and rewards of ownership of the leased assets remain with the lessors. Lease payments under an operating lease are recognized in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Retirement Benefit Plan
The Company, PPC, GPRI, CEDC and PEDC have unfunded and TPC has funded defined benefit plan which requires contributions to be made to separately administered fund. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for the plan at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized and reduced by past service cost not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service cost 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.

Borrowing Costs
Borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset are capitalized. These borrowing costs are included in the cost of the asset; all other borrowing costs are recognized as expense in the period these are incurred. In determining which borrowing costs satisfy the "directly attributable" criterion, the Group starts from the premise that directly attributable borrowing costs are those which would have been avoided if the expenditure on the qualifying asset had not been made.

Capitalization of borrowing costs commences when the activities to prepare the assets are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. Investment income on the temporary investment of the Group's borrowings is deducted from borrowing costs, and only the net amount is capitalized.

Capitalized borrowing costs also include amortized deferred financing cost. This refers to transaction costs incurred in connection with the availment of loan specifically used to finance the on-going construction of power plants.

Foreign Currency-Denominated Transactions
Transactions in foreign currencies are initially recorded in Philippine peso using the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the functional currency using the rate of exchange prevailing at the reporting date. Foreign exchange differences between rate at transaction date and settlement date or reporting date are credited to or charged against current operations. Nonmonetary assets that are measured in terms of historical costs in foreign currency are translated using the exchange rate at the date of initial transactions.

Capital Stock
The Company has issued common stock that is classified as equity. Incremental costs directly attributable to the issue of new common stock are shown in equity as a deduction, net of tax, from the proceeds.

Where the Company purchases the Company's common stock (treasury shares), the consideration paid, including any directly attributable incremental costs (net of applicable taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related tax effects, and is included in equity attributable to the Company's equity holders.

Additional Paid-in Capital
Amount of contribution in excess of par value is accounted for as an additional paid-in capital. Additional paid-in capital also arises from additional capital contribution from the shareholders.

Deposits for Future Stock Subscriptions
Deposits for future stock subscriptions are recorded based on the amounts received from stockholders and amounts of advances to be converted to equity.

Retained Earnings
The amount included in retained earnings includes profit or loss attributable to the Group's equity holders and reduced by dividend on common stock. Dividends on common stock are recognized as a liability and deducted from equity when they are declared. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

Income Taxes
Current Income Tax
Current tax liabilities for the current and prior year periods are measured at the amount expected to be paid to the tax authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as of reporting date.

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

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, 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 profit will be available against which the temporary differences can be utilized.

Deferred tax liabilities are recognized for all taxable temporary differences 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 profit nor taxable income; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, 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.

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

Deferred tax relating to items recognized directly in equity is recognized in equity and not in the profit or loss.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply 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 reporting date.

Deferred tax assets and deferred tax liabilities are offset, if legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the and the same taxable entity and the same tax authority.

Contingencies
Contingent liabilities are not recognized in the Group's financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the Group's financial statements but are disclosed in the notes to Group's financial statements when an inflow of economic benefits is probable.

Events After the Reporting Date
Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the Group's financial statements when material. Post year-end events that are not adjusting events are disclosed in the notes to Group's financial statements when material.

3. **Significant Accounting Judgments and Estimates**

The Group's consolidated financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the consolidated financial statements and related notes. Future events may occur which will cause the assumptions used in arriving at the estimates to change, the effect of any change in estimates are reflected in the Group's financial statements as they become reasonably determinable. The judgments and estimates used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the Group's consolidated financial statements. Actual results could differ from such estimates.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Determining Functional Currency
Based on the economic substance of underlying circumstances relevant to the Group, the functional currency of the Group has been determined to be the Philippine peso. It is the currency of the primary economic environment in which the Group operates. It is the currency that mainly influences its revenue and cost of operations.

Determining Whether an Arrangement Contains a Lease
The PPAs and EPPAs qualify as a lease on the basis that PPC, TPC and GPRI sell all its output to PECO, AKELCO, ILECO-1, CEBECO III, VECO, NGCP, CCC, BEZ and ORMECO. The agreements calls for a take or pay arrangement where payment is made on the basis of the availability of the power plant complex and not on actual deliveries. The lease arrangement is determined to be an operating lease where a significant portion of the risks and rewards of ownership are retained by PPC, TPC and GPRI. Accordingly, the power plant complex is recorded as part of property, plant and equipment and the fees billed to PECO, AKELCO, ILECO-1, CEBECO III, VECO, NGCP, CCC, BEZ and ORMECO are recorded as revenue.

Operating Leases - PPC, GPRI, TPC and CEDC as Lessees
PPC, GPRI, TPC and CEDC have entered into lease agreements with THC as lessees for the land where their power stations are located (see Notes 1 and 17). PPC, GPRI, TPC and CEDC have determined that THC retains all significant risks and rewards of ownership of the parcels of land which are leased out on operating leases.

Outcome of Pending Cases and Claims
The Group currently is involved in certain legal proceedings and claims. The Group has determined the probable costs for the legal proceedings and claims in consultation with in-house and outside counsel handling the prosecution and defense of these cases and is based upon an analysis of potential results. The Group believes these legal proceedings and claims will not have a material adverse effect on its consolidated financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings (see Notes 23f and 23g).

Classification of Financial Instruments
The Group exercises judgments in classifying a financial instrument on initial recognition either as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the statement of financial position.

In addition, 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 the quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

Estimates
The key assumptions concerning the future and other key sources of estimation uncertainties at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Estimating Fair Value of Financial Instruments
PFRS requires that certain financial assets and liabilities be carried at fair value, which requires extensive use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates), the amount of change in fair value would differ if the Group utilized a different valuation methodology. Any changes in the fair value of these financial assets and liabilities would affect the profit or loss and statement of changes in equity (see Note 22).

Estimating Impairment Losses of Receivables
The Group reviews its receivables, long-term receivable and due from related parties at each reporting date to assess whether an allowance for impairment losses should be recorded. In particular, judgment by 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.

Receivables, net of unamortized discount, and due from related parties amounted to ₱5.53 billion, ₱7.81 billion and ₱3.52 billion as of December 31, 2011, 2010 and 2009, respectively (see Notes 5, 8, 17 and 22). In 2011, 2010 and 2009, no impairment loss was recognized for long-term receivable and due from related parties account.

Estimating NRV of Inventories
The Group provides allowance for inventory losses whenever utility of inventories becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes (i.e., pre-termination of contracts). The allowance account is reviewed regularly to reflect the accurate valuation in the financial records.

Allowance for inventory losses amounted to ₱0.16 million, ₱4.72 million and ₱10.12 million as of December 31, 2011, 2010 and 2009, respectively. Inventories, at lower of cost and NRV, amounted to ₱1.11 billion, ₱0.83 billion and ₱0.48 billion as of December 31, 2011, 2010 and 2009, respectively (see Note 6).

Estimating Realizability of Advances to Suppliers and Contractors
The Group reviews its advances to suppliers and contractors to assess whether an allowance for impairment losses should be recorded. In particular, judgment by 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. Advances to suppliers and contractors amounted to ₱230.15 million, ₱193.97 million and ₱1,581.05 million as of December 31, 2011, 2010 and 2009, respectively.

Estimating Impairment of AFS Investments
The Group treats AFS investments as impaired when there has been significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or when is 'prolonged' requires judgment. The Group treats 'significant' generally as 20% or more of the cost of AFS and 'prolonged' if greater than six months. In addition, the Group evaluates other factors, including normal and/or unusual volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. The Group also considers the ability of the investee company to provide dividends.

The carrying amounts of AFS investments amounted to ₱444.08 million, ₱545.48 million and ₱687.68 million as of December 31, 2011, 2010 and 2009, respectively (see Notes 9 and 22). The change in the fair value of the AFS investments is recorded as "Unrealized valuation gains on AFS investments" account in the equity section of the consolidated statement of financial position. As of December 31, 2011, 2010 and 2009, the unrealized valuation gains on AFS investments amounted to ₱294.08 million, ₱395.48 million and ₱537.68 million, respectively. There was no impairment loss recognized in 2011, 2010 and 2009.

Estimating Useful Lives of Property, Plant and Equipment
The Group estimates the useful lives of significant parts of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the Group's estimation of the useful lives of property, plant and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. As of December 31, 2011, 2010 and 2009, the net book value of property, plant and equipment amounted to ₱36.71 billion, ₱34.69 billion and ₱20.34 billion, respectively (see Note 11).

Estimating Impairment of Input VAT, Creditable Withholding Tax, Property, Plant and Equipment and Other Noncurrent Assets
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.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the consolidated financial statements. No impairment loss was recognized in 2011, 2010 and 2009.

As of December 31, 2011, 2010 and 2009, the aggregate net book value of nonfinancial assets, which include "Input VAT", "Creditable withholding tax", "Property, plant and equipment" and "Other noncurrent assets" amounted to ₱39.58 billion, ₱38.26 billion and ₱22.92 billion, respectively (see Notes 7, 11 and 12).

Estimating the Decommissioning Liability
The Group has a legal obligation to decommission or dismantle its power plant asset at the end of its useful life. The Group recognizes the present value of the obligation to dismantle the power plant asset and capitalizes the present value of this cost as part of the balance of the related property, plant and equipment, which are being depreciated and amortized on a straight-line basis over the useful life of the related asset.

Cost estimates expressed at current price levels at the date of the estimate are discounted using a rate of interest of 9.8% per annum to take into account the timing of payments. Each year, the provision is increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with charges being recognized as accretion expense, included under "Finance costs" in the consolidated statement of comprehensive income.

Changes in the decommissioning liability that result from a change in the current best estimate of cash flow required to settle the obligation or a change in the discount rate are added to (or deducted from) the amount recognized as the related asset and the periodic unwinding of the discount on the liability is recognized in the consolidated statement of comprehensive income as it occurs.

While the Group has made its best estimate in establishing the decommissioning provision, because of potential changes in technology as well as safety and environmental requirements, plus the actual time scale to complete decommissioning activities, the ultimate provision requirements could either increase or decrease significantly from the Group's current estimates. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

Decommissioning liability amounted to ₱61.66 million, ₱28.85 million and ₱25.78 million as of December 31, 2011, 2010 and 2009, respectively (see Note 16).

Estimating Realizability of Deferred tax Assets
The Group reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

The Group has deferred tax assets amounting to ₱147.21 million, ₱114.33 million and ₱124.24 million as of December 31, 2011, 2010 and 2009, respectively (see Note 21).

As of December 31, 2011, 2010 and 2009, the Group has deductible temporary differences, unused tax credits and unused tax losses amounting to ₱30.21 million, ₱37.36 million and ₱94.60 million, respectively, for which no deferred tax assets were recognized as it is not probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized (see Note 21).

Determining Retirement Benefit Expense
The determination of the Group's obligation and cost for retirement and other post-employment benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. The assumptions described in Note 19 to the consolidated financial statements include among others, discount rates, expected returns on plan assets and rates of compensation increase. Actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While management believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect pension and other retirement obligations.

Retirement benefit expense amounted to ₱45.95 million, ₱15.69 million and ₱5.97 million for the years ended December 31, 2011, 2010 and 2009, respectively. Net retirement benefit obligation amounted to ₱64.61 million, ₱32.66 million and ₱41.94 million as of December 31, 2011, 2010 and 2009, respectively (see Note 19).

Estimating Impairment of Goodwill
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the 'value in use' of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose appropriate discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as of December 31, 2011, 2010 and 2009 amounted to ₱1.22 billion (see Note 12). No impairment of goodwill was recognized in 2011, 2010 and 2009.

4. Cash and Cash Equivalents

	2011	2010	2009
Cash on hand and with banks	**₱4,718,333,631**	₱4,459,541,195	₱1,215,947,913
Short-term investments	**3,888,332,313**	1,673,129,418	2,860,408,503
	₱8,606,665,944	₱6,132,670,613	₱4,076,356,416

Cash in banks earns interest at the respective bank deposits rates. Short-term investments earn interest at the short-term investment rates and are made for varying periods of up to three months depending on the immediate cash requirements of the Group.

In 2011, the interest income earned on cash and cash equivalents amounted to ₱114.55 million. In 2010, out of the ₱66.95 million interest income, ₱56.28 million of which was offset against the capitalized borrowing cost. In 2009, the interest income earned ₱23.59 million.

5. **Receivables**

	2011	2010	2009
Trade	**₱3,448,842,203**	₱2,167,832,574	₱1,731,446,781
Current portion of long-term receivables (see Note 8)	**413,830,776**	241,362,122	229,597,265
Claims (see Notes 20 and 23i)	**–**	106,888,144	82,500,028
Dividends (see Note 9)	**–**	–	11,274,535
Others	**199,336,990**	131,657,047	77,794,873
	4,062,009,969	2,647,739,887	2,132,613,482
Less allowance for impairment losses	**35,562,706**	30,300,464	30,300,464
	₱4,026,447,263	₱2,617,439,423	₱2,102,313,018

Trade receivables represent outstanding billings for energy fees and passed through fuel costs arising from the delivery of electricity. The Group's normal credit term is 30 days from the date of receipt of billing.

The uncollected output VAT portion of the trade receivables as of December 31, 2011, 2010 and 2009 amounted to ₱938.37 million, ₱626.81 million and ₱481.42 million, respectively.

Claims receivables include the receivable from insurance companies for business interruption (see Note 23j). The whole ₱106.89 million was collected on February 4, 2011.

Other receivables include transmission and ancillary charges which are passed through charges by CEBECO III and VECO to their customers.

Additional provision on advances to suppliers and contractors amounting to ₱5.26 million was made during 2011. In 2010, the Group had written off uncollectible receivables amounting to ₱66.05 million. There is no movement in the allowance for impairment losses in 2010 and 2009.

6. **Inventories**

	2011	2010	2009
Coal (at cost)	**₱575,961,788**	₱339,815,077	₱23,360,495
Spare parts and supplies (at NRV)	**404,229,678**	357,699,953	346,444,114
Industrial fuel and lubricating oil (at cost)	**134,442,446**	135,735,502	111,491,195
	₱1,114,633,912	₱833,250,532	₱481,295,804

Movements in the allowance for spare parts and supplies inventory losses are as follows:

	2011	2010	2009
Balances at beginning of year	**₱4,718,832**	₱10,117,120	₱10,117,120
Provision for inventory losses	**–**	1,117,791	–
Reversal of allowance for inventory losses	**(4,558,461)**	(6,516,079)	–
Balances at end of year	**₱160,371**	₱4,718,832	₱10,117,120

7. **Prepayments and Other Current Assets**

	2011	2010	2009
Input VAT (see Note 12)	**₱1,852,439,603**	₱2,456,577,000	₱2,303,246,690
Marginal deposits (see Note 17b)	**1,742,740**	597,031,354	773,807,266
Creditable withholding tax	**61,187,216**	124,794,443	76,884,614
Prepaid insurance	**31,289,755**	54,761,686	10,384,257
Security deposit	**29,469,117**	22,071,424	20,817,123
Others	**43,594,516**	41,093,903	84,641,881
	₱2,019,722,947	₱3,296,329,810	₱3,269,781,831

Marginal deposits pertain to accounts set aside for payment to the contractors and suppliers of CEDC and PEDC (see Note 17b). Security deposit substantially represents TPC's deposit to NGCP for power delivery and ancillary services.

Unutilized input VAT pertains mainly from VAT imposed on the Group's purchases of goods and services during the construction phase of the plant. These are expected to be offset against output VAT arising from the Group's net fees subject to VAT in the future and during the commercial operations. As at December 31, 2011, 2010 and 2009, input VAT amounting to ₱942.92 million, ₱991.67 million and ₱200.10 million, respectively, is classified under noncurrent assets.

8. **Long-term Receivables**

	2011	2010	2009
PECO - net of unamortized discount of ₱107.51 million, ₱41.17 million and ₱39.14 million in 2011, 2010 and 2009, respectively	**₱917,550,075**	₱401,559,914	₱332,438,372
ILECO -1 - net of unamortized discount of ₱15.40 million, ₱13.69 million and ₱21.79 million in 2011, 2010 and 2009, respectively	**120,920,422**	144,580,568	170,412,444
VECO - net of unamortized discount of ₱4.38 million, ₱13.13 million and ₱17.54 million in 2011, 2010 and 2009, respectively	**105,730,322**	141,123,064	169,995,245
CEBECO III - net of unamortized discount of ₱22.81 million, ₱30.19 million and ₱30.86 million in 2011, 2010 and 2009, respectively	**120,814,531**	132,898,650	148,396,973
AKELCO - net of unamortized discount of ₱1.13 million, ₱4.41 million and ₱11.17 million in 2011, 2010 and 2009, respectively	**83,273,439**	84,699,135	123,310,505
Long-term notes receivable (Note 23m)	**143,710,000**	129,710,000	58,800,000
THC (see Note 17)	**5,392,540**	9,177,040	12,712,911
	1,497,391,329	1,043,748,371	1,016,066,450
Less current portion (see Notes 5 and 17)	**413,830,776**	241,362,122	229,597,265
	₱1,083,560,553	₱802,386,249	₱786,469,185

PECO

In August 2005, the ERC ordered PECO to benchmark its generation rate to the average NPC grid rate. This was later lifted when the ERC approved the Amendment Agreement to the Power Purchase Agreement (APPA) where ERC approved a tariff formula allowing fuel pass through. Consequently, for the period of August to December 2005, PPC accumulated receivables from PECO.

On May 21, 2008, PPC and PECO agreed to settle PECO's outstanding receivable, subject to the final decision of the ERC regarding giving authority to PECO to collect the outstanding obligation from its consumers, of ₱468.49 million. The obligation will be settled in sixty (60) equal monthly installments of ₱7.81 million bearing 12% interest.

The ERC has approved the joint settlement agreement on May 4, 2009. Based on the ERC decision released on June 2, 2009, the allowable generation cost to be recovered by PPC amounts to ₱427.17 million based on the approved formula in the Amended Power Purchase Agreement (APPA) per ERC's order dated June 27, 2006 compared to the ₱468.49 million computed by PPC and PECO. Out of the total allowable generation, the ERC disallowed the ₱26.83 million representing the alleged uncollected generation cost for the period November 2004 to June 2005. Also, the ERC disallowed the 12% per annum interest charges for the under recoveries. The net allowable generation cost to be recovered by PPC amounted to ₱400.34 million is collectible for a period of 5 years. The long-term portion of this receivables amounting to ₱118.69 million, ₱196.89 million and ₱249.87 million as of December 31, 2011, 2010 and 2009, respectively, was recorded at amortized cost, net of discount on long-term receivable amounting to ₱10.57 million, ₱25.66 million and ₱39.14 million, respectively (see Note 20).

The ERC in its decision dated March 10, 2006 approved the electricity fees contained in the APPA of PPC and PECO. However, the ERC reduced the US $ component of the capacity fees beginning January 16, 2009 until the expiration of the cooperation period stating that PPC's debts would have been fully paid and hence, interest expense would have discontinued. As a result, PPC's capital recovery fee was reduced.

On March 23, 2009, PPC and PECO filed for the suspension of the implementation of the reduced capacity fee. The ERC approved such application on April 19, 2010. Subsequently, both PPC and PECO applied with the ERC for the recovery of the lost capacity fee from January 16, 2009 to April 2010 amounting to ₱146.00 million. This was approved by the ERC on December 6, 2010.

As such, the whole of ₱146.00 million was recognized as revenue in 2010. The long-term portion of this receivable amounting to ₱84.08 million and ₱101.28 million as of December 31, 2011 and 2010, respectively, was recorded at amortized cost, net of discount on the long-term portion amounting to ₱9.42 million in 2011 and ₱15.51 million in 2010 (see Note 20).

On August 22, 2011, ERC approved with modification the agreements between PEDC and PECO on the rates to be used by PEDC upon commercial operation date. Pursuant to the requirements of the ERC, the Company submitted on October 28, 2011 the amount of under-recoveries and the collection scheme for PECO. The amount of under-recoveries from March 26, 2011 to August 10, 2011 computed by PEDC and PECO amounted to ₱692.30 million. The whole amount was recognized as revenue in 2011. As of December 31, 2011, the long-term portion of the related receivable amounting to ₱466.37 million was recorded at amortized cost, net of discount of ₱87.51 million.

In 2011, PPC entered in a Securitization Agreement with Security Bank Corporation-Trust Division FAO Resiliency in relation with its ₱50.00 million receivable from PECO.

ILECO-1
On November 10, 2009, PPC and ILECO-1 entered into a settlement agreement by allocating ₱0.10/kWh of the electricity bills to consumers as payment to PPC. The allocation will be increased by ₱0.05/kWh every year until the receivable is fully paid. ILECO-1 shall make monthly payments depending on the total number of kilowatt hours it has sold to consumers. Long-term portion of the receivables from ILECO-1 amounting to ₱89.72 million, ₱105.01 million and ₱131.32 million as of December 31, 2011, 2010 and 2009, respectively, was recorded at amortized cost, net of discount on receivables amounting to ₱15.40 million, ₱13.69 million and ₱21.79 million, respectively.

VECO and CEBECO III
In February 2009, TPC, VECO and CEBECO III filed a joint petition with the ERC for the approval of their agreements on interim rates. They prayed that the ERC approve the terms of their interim rate thereby authorizing TPC to charge and collect the interim rate and authorizing VECO and CEBECO III to pass the adjustment to their consumers. Moreover, TPC prayed that the provisional authority and permanent approval to be issued by the ERC shall be retroactively applied beginning February 2008, when TPC's cost exceeded the approved NPC rates.

On August 10, 2009, ERC approved with modification the agreements on the interim rate with VECO and CEBECO III, with prayer for provisional authority filed subject to the following conditions: (1) capacity fee, fixed and variable operation and maintenance fees will be computed at ₱0.3832, ₱0.4546 and ₱0.1652 per kilowatt hour delivered, respectively; and (2) actual fuel cost shall be a pass-on cost, subject to fuel consumption rate of ₱1.00kg/kwh or actual, whichever is lower. The interim rates are effective starting August 26, 2009 until TPC, VECO and CEBECO III are able to file an application or petition for the approval of a new independent tariff rate.

Pursuant to the requirements of the ERC, on October 8, 2009, TPC submitted to the ERC the amount of under-recoveries and its proposed collection scheme, both for VECO and CEBECO III. Total under-recoveries computed by TPC amounted to ₱256.81 million and ₱240.46 million for VECO and CEBECO III, respectively. On ERC's order dated December 14, 2009, the ERC directed VECO and CEBECO III to refund to TPC the amount of ₱187.53 million (within 4 years) and ₱179.25 million (within 8 years), respectively, from the date of receipt of the decision. ERC also authorized VECO and CEBECO III to collect from their consumers the same amount within the same period.

Total revenue related to the ERC decision recognized in the profit or loss amounted to ₱366.78 million in 2009. As of December 31, 2011, 2010 and 2009, the current portion of the related receivables amounted to ₱71.92 million, ₱59.77 million and ₱69.29 million, respectively.

AKELCO
In October 2009, PPC and AKELCO entered into a settlement agreement for the settlement of the outstanding receivable of PPC from AKELCO. The long-term portion of these receivables amounting to ₱20.96 million, ₱46.06 million and ₱84.67 million as of December 31, 2011, 2010 and 2009, respectively, is collectible for a period of 3 years based on the settlement agreement and was recorded at amortized cost, net of discount on long-term receivable amounting to ₱1.13 million, ₱4.41 million and ₱11.17 million, respectively.

THC

The long-term notes receivable from THC arose from the sale of TPC's parcels of land. The receivable bears interest at 12% per annum and is collectible over 25 years up to February 2021. The current portion of long-term notes receivable and the related interest receivable are presented under "Due from related parties" account in the consolidated statements of financial position (see Note 17). Interest earned amounted to ₱1.98 million, ₱1.69 million and ₱1.65 million in 2011, 2010 and 2009, respectively (see Note 20).

9. **AFS Investments**

AFS investments represent investments in listed shares measured at fair value amounting to ₱444.08 million, ₱545.48 million and ₱687.68 million as of December 31, 2011, 2010 and 2009, respectively. The fair value changes of the investments are recorded as "Unrealized valuation gains on available-for-sale investments" account, a separate component of the "Equity" section in the consolidated statement of financial position. The unrealized valuation gains on AFS investments amounted to ₱294.08 million, ₱395.48 million and ₱537.68 million as of December 31, 2011, 2010 and 2009, respectively.

Movements in the carrying value of AFS investments are as follows:

	2011	2010	2009
Balances at beginning of year	**₱545,479,988**	₱687,677,763	₱466,222,212
Change in fair value	**(101,403,331)**	(142,197,775)	221,455,551
Balances at end of year	**₱444,076,657**	₱545,479,988	₱687,677,763

Dividend income from AFS investments amounted to ₱20.70 million, ₱13.64 million and ₱11.27 million in 2011, 2010 and 2009, respectively. The dividends in 2011, 2010 and 2009 were collected in 2011, 2010 and 2009, respectively. Dividends receivable in 2009 pertaining to 2008 dividends were collected in 2010.

10. **Equity in Net Losses Over Cost of Investment in an Associate**

The Group's investment in associate pertains to the 40% investment in THC. THC was registered with the Philippine SEC on February 9, 1996, as a holding company, to purchase, acquire, own, hold, use, assign, transfer, mortgage, pledge, exchange, or otherwise dispose of real and personal property, and to receive, collect, hold and dispose of the interest, dividends, rent and income arising from such property.

On April 20, 2007, Toledo Cebu International Trading Resources Corporation (TCITRC) was incorporated to engage in the business of trading goods such as consumable goods on wholesale or retail basis. TCITRC is a wholly owned subsidiary of THC.

	2011	2010	2009
Acquisition cost	**₱80,000**	₱80,000	₱80,000
Accumulated equity in net losses:			
Balances at beginning of year	**(22,639,715)**	(21,210,777)	(24,916,925)
Equity in net earnings (losses) for the year	**4,376,357**	(1,428,938)	3,706,148
Balances at end of year	**(18,263,358)**	(22,639,715)	(21,210,777)
Equity in net losses over cost of investment	**(₱18,183,358)**	(₱22,559,715)	(₱21,130,777)

The summarized financial information of THC is as follows:

	2011	2010	2009
Total assets	**₱433,308,025**	₱617,328,134	₱861,452,367
Total liabilities	**478,271,562**	673,232,563	914,284,452
Net income (loss)	**10,940,892**	(3,572,344)	9,265,371

11. **Property, Plant and Equipment**

2011

	Boilers and Powerhouse	Turbine Generators and Desox System	Buildings and Land Improvements	Electrical Distribution System	Other Property and Equipment	Power Plant Construction in Progress	Total
Cost:							
Balances at beginning of year	**₱5,499,477,606**	**₱594,234,858**	**₱876,892,780**	**₱259,153,981**	**₱546,104,049**	**₱29,322,657,662**	**₱37,098,520,936**
Additions	**1,583,044,892**	**–**	**5,845,610**	**291,190**	**125,200,897**	**1,885,302,488**	**3,599,685,077**
Disposals	**(8,428,006)**	**(22,267,581)**	**–**	**–**	**(3,593,032)**	**–**	**(34,288,619)**
Reclassifications	**23,850,213,048**	**23,870,957**	**2,365,717,641**	**2,785,689,737**	**1,861,226,643**	**(30,886,718,026)**	**–**
Balances at end of year	**30,924,307,540**	**595,838,234**	**3,248,456,031**	**3,045,134,908**	**2,528,938,557**	**321,242,124**	**40,663,917,394**
Accumulated depreciation:							
Balances at beginning of year	**1,987,847,915**	**30,302,317**	**198,049,768**	**34,725,613**	**155,002,896**	**–**	**2,405,928,509**
Depreciation	**1,178,007,644**	**48,948,384**	**113,610,330**	**97,065,752**	**131,965,701**	**–**	**1,569,597,811**
Disposals	**(3,243,367)**	**(20,825,689)**	**–**	**–**	**(1,901,166)**	**–**	**(25,970,222)**
Balances at end of year	**3,162,612,192**	**58,425,012**	**311,660,098**	**131,791,365**	**285,067,431**	**–**	**3,949,556,098**
Net book values	**₱27,761,695,348**	**₱537,413,222**	**₱2,936,795,933**	**₱2,913,343,543**	**₱2,243,871,126**	**₱321,242,124**	**₱36,714,361,296**

2010

	Boilers and Powerhouse	Turbine Generators and Desox System	Buildings and Land Improvements	Electrical Distribution System	Other Property and Equipment	Power Plant Construction in Progress	Total
Cost:							
Balances at beginning of year	₱5,570,410,009	₱585,949,716	₱598,115,181	₱165,837,335	₱495,617,247	₱15,047,515,230	₱22,463,444,718
Additions	10,346,641	–	259,508,136	93,316,646	53,185,134	14,443,452,504	14,859,809,061
Disposals	(187,998,789)	(10,191,175)	–	–	(9,021,990)	(17,520,889)	(224,732,843)
Reclassifications	106,719,745	18,476,317	19,269,463	–	6,323,658	(150,789,183)	–
Balances at end of year	5,499,477,606	594,234,858	876,892,780	259,153,981	546,104,049	29,322,657,662	37,098,520,936
Accumulated depreciation:							
Balances at beginning of year	1,837,527,870	(1,430,248)	159,553,555	22,313,392	107,818,017	–	2,125,782,586
Depreciation	331,973,864	40,327,598	38,496,213	12,412,221	56,156,694	–	479,366,590
Disposals	(181,653,819)	(8,595,033)	–	–	(8,971,815)	–	(199,220,667)
Balances at end of year	1,987,847,915	30,302,317	198,049,768	34,725,613	155,002,896	–	2,405,928,509
Net book values	₱3,511,629,691	₱563,932,541	₱678,843,012	₱224,428,368	₱391,101,153	₱29,322,657,662	₱34,692,592,427

2009

	Boilers and Powerhouse	Turbine Generators and Desox System	Buildings and Land Improvements	Electrical Distribution System	Other Property and Equipment	Power Plant Construction in Progress	Total
Cost:							
Balances at beginning of year	₱5,448,056,203	₱589,500,187	₱533,593,254	₱163,209,574	₱452,877,535	₱1,459,004,597	₱8,646,241,350
Additions (see Note 24)	4,655,447	–	44,516,927	–	43,994,884	13,811,315,195	13,904,482,453
Disposals	(52,638,957)	(28,250,042)	(3,887,459)	(754,892)	(1,747,735)	–	(87,279,085)
Reclassifications	170,337,316	24,699,571	23,892,459	3,382,653	492,563	(222,804,562)	–
Balances at end of year	5,570,410,009	585,949,716	598,115,181	165,837,335	495,617,247	15,047,515,230	22,463,444,718
Accumulated depreciation:							
Balances at beginning of year	1,589,360,162	(8,640,975)	126,690,074	12,526,993	63,656,207	–	1,783,592,461
Depreciation	292,750,455	30,199,522	35,027,642	10,541,259	45,199,215	–	413,718,093
Disposals	(44,582,747)	(22,988,795)	(2,164,161)	(754,860)	(1,037,405)	–	(71,527,968)
Balances at end of year	1,837,527,870	(1,430,248)	159,553,555	22,313,392	107,818,017	–	2,125,782,586
Net book values	₱3,732,882,139	₱587,379,964	₱438,561,626	₱143,523,943	₱387,799,230	₱15,047,515,230	₱20,337,662,132

The power plant complex of PPC, TPC, CEDC and PEDC, with a carrying value of ₱468.04 million, have been mortgaged/pledged as security for their long-term debt totaling to ₱30.34 billion in 2011, ₱25.03 billion in 2010 and ₱10.93 billion in 2009 (see Note 15).

Power Plant Construction in Progress
In 2010, the Group had the following power plant construction in progress:

Panay Expansion Project
The Panay Expansion Project pertains to the 2 X 82 megawatt Coal-Fired Boiler (CFB) power plant project in La Paz, Iloilo City (see Note 1). The Company, on behalf of PEDC, made advance payments to Panay Expansion Project suppliers and contractors in the amount of ₱0.17 billion as of December 31, 2009. The advances were reimbursed to the Company by PEDC in 2010. The amount is included in the "Advances to suppliers and contractors" account in the consolidated statements of financial position.

In April 2009, the Company, on behalf of PEDC, entered into various agreements for the supply of backfilling materials and rental of equipment for the backfill spreading and compaction activity relative to the construction of the Panay Expansion Project.

Toledo Expansion Project
The Toledo Expansion Project pertains to the construction of the 3 X 82 megawatt coal-fired power plant by CEDC in Toledo City, Cebu.

On behalf of CEDC, prior to its incorporation, the Company entered into construction and supply contracts for the Toledo Expansion Project, as follows:

a. *Construction Contract*

   On November 12, 2007, the Company and True North Manufacturing Services Corporation (True North) entered into a Construction Contract for the 3 X 82 megawatt CFB power plant expansion in Toledo City, Cebu. True North shall design, execute and complete the 3 X 82 megawatt CFB power plant. True North shall also provide the personnel, goods, consumables and other services necessary for the completion of the project. It shall also be responsible for the adequacy, stability and safety of all operations and of all methods of construction. The contract price amounted to $17.71 million and $7.29 million for Phase 1 and Phase 2, respectively.

b. *Contract for Supervisory Services and Supply Contract*

   Also on November 12, 2007, the Company and Formosa Heavy Industries Corporation (FHIC) entered into a Contract for Supervisory Services and Supply Contract for the 3 X 82 megawatt CFB power plant expansion in Toledo City, Cebu.

   Under the Contract for Supervisory Services, FHIC shall provide advisory services including the erection, commissioning and start-up of the 3 X 82 megawatt CFB power plant. On the other hand, the Supply Contract requires FHIC to deliver plant and materials to be incorporated in the 3 X 82 megawatt CFB power plant. FHIC shall also supply drawings, manuals, procedures and working methods to be used in erection of the power plant. Moreover, it shall supply codes and standards applicable for the installation of the plant. The contract price for the Contract for Supervisory Services amounted to $0.43 million and $0.18 million for Phase 1 and Phase 2, respectively. The contract price for the Supply Contract amounted to $195.74 million and $80.54 million for Phase 1 and Phase 2, respectively.

The construction, supervisory services and supply contracts of PEDC and CEDC allow automatic assignment of all the shareholders rights and obligations under these contracts in favor of PEDC and CEDC.

The Company assigned its rights and obligations under the respective contracts for construction, supervisory services and supply, among others, to CEDC and PEDC by way of assignment and assumption agreements.

Payable to contractors and suppliers of CEDC and PEDC totals to ₱1.04 billion, ₱3.76 billion and ₱2.52 billion as of December 31, 2011, 2010 and 2009, respectively (see Note 13).

Capitalized borrowing costs amounted to ₱423.91 million, ₱2.01 million and ₱321.71 million as of December 31, 2011, 2010 and 2009, respectively (see Notes 14 and 15). The rate used to determine the amount of borrowing costs eligible for capitalization is the EIR of the specific borrowing (see Note 15).

In 2011, the power plant construction in-progress was substantially completed and reclassified to boilers and powerhouse, turbine generators and desox and electrical distribution system.

12. **Goodwill and Other Noncurrent Assets**

	2011	2010	2009
Goodwill	**₱1,223,002,378**	₱1,223,002,378	₱1,223,002,378
Input VAT - net of current portion of ₱1.85 billion, ₱2.46 billion and ₱2.31 billion in 2011, 2010 and 2009, respectively (see Note 7)	**942,921,251**	991,666,662	200,095,133
Prepaid rent - net of current portion of ₱1.75 million	**23,770,833**	25,520,833	27,270,833
Other noncurrent assets	**7,956,224**	317,781	3,916,829
	2,197,650,686	2,240,507,654	1,454,285,173
Less allowance for probable losses	**157,940,279**	151,270,980	123,708,281
	₱2,039,710,407	₱2,089,236,674	₱1,330,576,892

Prepaid rent pertains to PPC's advance payment for future rental of the land where its power plant in Nabas, Aklan is located. Additional provision for impairment of input VAT was recorded in 2011, 2010 and 2009 amounting to ₱6.67 million, ₱27.56 million and nil, respectively.

13. **Accounts Payable and Accrued Expenses**

	2011	2010	2009
Trade payables (see Note 23h and 23i)	**₱293,054,692**	₱354,947,520	₱453,716,737
Payable to contractors and suppliers (see Note 11)	**1,044,370,045**	3,757,282,064	2,521,364,459
Output VAT	**1,114,871,564**	858,555,006	970,346,740
Accrued importation costs	**174,720,365**	174,720,365	174,720,365
Accrued regulatory fees (see Note 23e)	**88,006,011**	71,312,000	54,146,975
Accrued interest (see Notes 14 and 15)	**299,859,276**	268,909,647	37,778,829
Accrued expenses and other payables	**774,733,004**	609,511,615	307,221,681
	₱3,789,614,957	₱6,095,238,217	₱4,519,295,786

Output VAT includes TPC's, PPC's, GPRI's, CEDC's and PEDC's deferred output VAT amounting to ₱942.21 million, ₱826.81 million and ₱481.42 million as of December 31, 2011, 2010 and 2009, respectively. Deferred output VAT pertains to output VAT on amounts billed to the customers, who in turn have not yet collected from their ultimate customers.

Accrued importation costs are taxes and duties amounting to ₱174.72 million arising from PPC's importation of property, plant and equipment that have not yet been paid as of December 31, 2011. The unpaid taxes and duties are due and demandable only upon the lapse of the covering ordinary re-export bonds. The covering re-export bonds are renewable every six months until the taxes and duties are paid.

Accrued expenses and other payables are consist of accruals for payroll, professional services, fuel, oil and lubricants.

14. **Short-term Loans**

	2011	2010	2009
Notes payable and short-term loans	**₱–**	₱25,000,000	₱1,400,000,000
Liabilities under trust receipts	–	29,350,915	62,121,540
	₱–	₱54,350,915	₱1,462,121,540

Notes Payable to Metropolitan Bank & Trust Company (MBTC)
As of December 31, 2011, 2010 and 2009, the Company's short term notes payable to MBTC, a related party, amounted to nil, ₱25.00 million and ₱1.10 billion, respectively. The original maturity date of the notes is on February 11, 2010 and it has an interest rate of 5.54% per annum. The maturity date was extended and, as of December 31, 2010, the Group has paid ₱1.08 billion. The remaining ₱25.00 million was fully paid as of February 14, 2011 (see Note 17).

PEDC has short-term loans payable to MBTC amounting to ₱300.00 million. The short-term loans payable amounting to ₱200.00 million and ₱100.00 million earn interests of 6% and 5.5% per annum, respectively, which matured on January 29, 2010. Interest expense incurred in 2009 amounting to ₱2.54 million was capitalized to "Power plant construction in-progress" (see Note 11).

Liabilities Under Trust Receipts
In 2010, TPC entered into various Trust Receipts Agreement (TRA) with MBTC in relation to TPC's importation of inventories. Under the TRA, TPC shall hold the goods in trust, receive and turn over the proceeds in trust, insure the goods for their total value against loss or damage, return the goods in the event of non-sale or upon demand by MBTC and pay related interests on liabilities under trust receipts.

As of December 31, 2011, 2010 and 2009, total liabilities under trust receipt amounted to nil, ₱29.35 million and ₱62.12 million, respectively. Interest charged to operations in relation to the TRA amounted to ₱0.52 million, ₱2.83 million and ₱1.41 million in 2011, 2010 and 2009, respectively (see Note 20).

15. **Long-term Debt**

	2011	2010	2009
CEDC			
Tranche A-1 Lenders			
Loans payable to local banks with interest equal to the 5 year PDEX treasury securities benchmark yield plus 200 basis points	**₱4,314,705,884**	₱3,999,097,969	₱2,722,245,469
Tranche A-2 Lenders			
Loans payable to local banks with interest equal to the 7 year PDEX treasury securities benchmark yield plus 200 basis points	**2,876,470,588**	2,666,065,312	1,814,830,312
Tranche B Lenders			
Loans payable to local banks with interest equal to the 10 year PDEX treasury securities benchmark yield plus 200 basis points	**958,823,530**	888,688,438	604,943,438
Tranche C Lenders			
Loans payable to local banks with interest equal to the 12 year PDEX treasury securities benchmark yield plus 200 basis points	**7,191,176,469**	6,665,163,281	4,537,075,781
PEDC			
Tranche A Lenders			
Loans payable to local banks with interest equal to the 7 year PDEX treasury securities benchmark yield plus 200 basis points	**5,613,428,571**	3,939,008,570	–
Tranche B Lenders			
Loans payable to local banks with interest equal to the 10 year PDEX treasury securities benchmark yield plus 200 basis points	**2,759,142,857**	1,936,122,858	–
Tranche C Lenders			
Loans payable to local banks with interest equal to the 12 year PDEX treasury securities benchmark yield plus 200 basis points	**4,947,428,572**	3,471,668,572	–

(Forward)

	2011	2010	2010
PPC			
Loans payable to a local bank with interest at the 3-month T-Bill rate published in PDST-F plus 2% spread, payable in quarterly installment starting August 2008 until August 2016	**₱730,792,735**	₱884,643,838	₱1,038,494,941
Loan which bears interest at prevailing market rates, payable semi-annually until September 2013	**220,911,765**	273,411,760	308,411,760
Loan which bears interest at prevailing market rates, payable quarterly until August 2016	**214,285,710**	257,142,857	300,000,000
Loan which bears interest at prevailing market rates, payable semi-annually until August 2014	**214,200,000**	249,200,000	270,200,000
Loan which bears interest at prevailing market rates, payable semi-annually until January 2014	**179,775,000**	209,150,000	226,775,000
Loan which bears interest at prevailing market rates, payable on March 2012	**80,000,000**	90,000,000	–
TPC			
Note payable to Solidbank Corporation Properties, Inc. (SBCPI) with interest at the 3-month PDST-F rate published in MART1 plus 4% spread payable in December 2012, interest is paid quarterly	**100,000,000**	100,000,000	100,000,000
Loans payable (₱129 million loan) to First Metro Investment Corporation (FMIC) with interest at the 3-month T-Bill rate published in MART1 plus 4% spread, payable in quarterly installments until February 2014	**58,050,000**	83,850,000	109,650,000
Loans payable (₱110 million loan) to FMIC with interest at the 3-month T-Bill rate published in MART1 plus 4% spread, payable in quarterly installments until May 2013	**33,000,000**	55,000,000	77,000,000
PPHC			
Notes payable to FMIC with interest at prevailing market rates, payable in equal semi-annual installments starting 2005, after a two-year grace period	**–**	–	96,929,412
	30,492,191,681	25,768,213,455	12,206,556,113
Less unamortized deferred financing cost	**351,148,361**	376,342,611	194,873,229
	30,141,043,320	25,391,870,844	12,011,682,884
Less current portion	**964,633,246**	361,383,246	329,133,246
	₱29,176,410,074	₱25,030,487,598	₱11,682,549,638

CEDC and PEDC

On June 18, 2009, CEDC entered into an Omnibus Agreement with various lenders in the aggregate principal amount of up to ₱16.00 billion to partially finance the construction of its power plant. The agreement includes Project Loan Facility Agreement, Project Accounts Agreement, Mortgage Agreement, Pledge Agreement and Assignment Agreement. Loan availed as of December 31, 2011, 2010 and 2009 amounted to ₱15.34 billion, ₱14.22 billion and ₱9.68 billion, respectively.

On February 26, 2010, PEDC entered into an Omnibus Agreement with various lenders in the aggregate principal amount of up to ₱14.00 billion to partially finance the on-going construction of the Panay Expansion Project. The agreement includes a Project Loan Facility Agreement, a Project Accounts Agreement, a Mortgage Agreement, a Pledge Agreement and an Assignment Agreement. Loan availed as of December 31, 2011, 2010 and 2009 amounted to ₱13.32 billion, ₱9.35 billion and nil, respectively.

In 2011, CEDC and PEDC availed of the remaining amount of their loans of ₱1.78 billion and ₱4.65 billion, respectively. Also, during the year, principal repayments were made by CEDC and PEDC amounting to ₱658.82 million and ₱680.00 million, respectively.

According to the agreements entered by CEDC and PEDC in 2009 and 2010, respectively, CEDC and PEDC are required to meet certain financial ratios. CEDC and PEDC shall maintain a debt-to-equity ratio of at least 70:30 at all times until full payment of the obligation. Also, CEDC and PEDC shall ensure that the core equity must be at least 30% of the total project cost at project completion date and shall at all times be equivalent to at least 30% of the sum of total outstanding loan under facility and the core equity. Debt-to-equity ratio is the ratio of the total aggregate indebtedness for borrowed money of the borrower and the sum of its equity as of any date of determination. Core equity includes the equity, paid in equity of third parties provided that if the same is in the form of preferred redeemable shares, redemption must be at the option of the borrower and at terms no more favorable than subordinated loans, outstanding subordinated loans and outstanding shareholder advances of the sponsor to the borrower.

As of December 31, 2011, CEDC and PEDC have complied with all the required financial ratios.

The loans of CEDC and PEDC shall be paid within 12 years from initial advance. The schedule of repayment follows:

	Percentage
Semi-annual principal amortization	70
Balloon payment	30
Total	100

The balloon payment shall be paid on the final maturity date. The semi-annual principal amortization shall be an equal amortization starting on the 42nd month from the date of the initial advance until the principal amortization date occurring prior to the final maturity date (exactly 12 years from initial advance). If the project completion date occurs earlier than the 36th month from the date of initial advance, the first principal amortization date shall be on the next succeeding interest payment date that is at least six months from the project completion date. If the period between the date falling on the sixth month from project completion date and the succeeding interest payment date is less than six months, the first principal amortization date shall commence and coincide with the next succeeding interest payment date.

Interest expense incurred in connection with the loans amounted to ₱1.58 billion, ₱1.49 billion and ₱0.35 billion in 2011, 2010 and 2009, respectively, for CEDC and ₱1.31 billion, ₱0.58 billion and nil in 2011, 2010 and 2009, respectively, for PEDC. Interest expense capitalized as part of construction cost in 2011 amounted to ₱163.68 million and ₱260.23 million for CEDC and PEDC, respectively. Total interest expense in 2010 was capitalized.

CEDC and PEDC's loans are secured by (i) a real estate mortgage on all present and future assets, including the parcels of land where their power plants are located (with a total land area of 152,677 square meters and 277,681 square meters for CEDC and PEDC, respectively) owned by THC, a related party with common stockholders, (ii) chattel mortgage on all present and future movable properties, (iii) pledge agreement on the shares of Global Formosa and Abovant in CEDC and shares of PPHC in PEDC, and shareholder advances and subordinated loans, if any, and (iv) assignment agreement on CEDC's and PEDC's future revenues. Future revenues include, among others, revenues to be received by way of operation, all proceeds of and monies payable to CEDC and PEDC, including those paid as damages for breach, default cancellation, nullification or invalidity (under the Construction Contract, Supervisory Contract, Contract for Supply of Equipment, Coordination Agreement, Land Lease Agreement, Material Lease Contracts, and Insurance Contracts, collectively, the "Assigned Documents"), and, to the extent not covered by the foregoing, all value (whether in the form of money, securities, assets or otherwise) paid or payable by any Governmental Authority to CEDC and PEDC in whole or partial settlement of claims, whether or not resulting from judicial or administrative proceedings and whether paid or payable within or outside the Philippines, as compensation for or in respect of any compulsory transfer or taking of all or any part of the project, or any assets of CEDC and PEDC, by any Governmental agency or in respect of any invalidity of any Assigned Documents.

The chattel mortgage above shall cover to the extent of principal amount of ₱100 million, for each of CEDC and PEDC.

All monies received by the Trustee shall be applied in accordance with the Project Accounts Agreement.

As of December 31, 2011, 2010 and 2009, the unamortized deferred financing cost incurred in connection with the availment of the loans amounted to ₱173.15 million, ₱184.73 million and ₱194.87 million, respectively, for CEDC and ₱178.00 million, ₱191.62 million and nil, respectively, for PEDC, which were presented as net to the outstanding balance of the related debt.

The movement of the deferred financing cost is as follows:

CEDC

	2011	2010	2009
Balances at beginning of year	**₱184,725,193**	₱194,873,229	₱–
Additions	**1,653,137**	2,219,068	207,947,410
Amortization	**(13,228,669)**	(12,367,104)	(13,074,181)
Balances at end of year	**₱173,149,661**	₱184,725,193	₱194,873,229

PEDC

	2011	2010	2009
Balances at beginning of period	**₱191,617,418**	₱199,390,972	₱–
Additions	**2,230,149**	–	–
Amortization	**(15,848,867)**	(7,773,554)	–
Balances at end of period	**₱177,998,700**	₱191,617,418	₱–

Among others, the agreements prohibit CEDC and PEDC to amend or modify its charter documents if any such amendment or modification would have a material adverse effect; assign or otherwise transfer, terminate, amend, or grant any waiver or forbearance or exercise any election under any material provision of the agreements or project document; make any prepayment, whether voluntary or involuntary, or repurchase of any long-term debt or make any repayment of any such long-term debt other than those allowed in the agreements unless, in any such case, it shall at the option of any lender contemporaneously make a proportionate prepayment or repayment of the principal amount then outstanding of the Lender's outstanding participation in the loan. The agreements also prohibit CEDC and PEDC to acquire by lease any property or equipment, or to acquire rights-of-way to any property, which may have a material adverse effect; enter into contract of indebtedness except those permitted under the agreement such as indebtedness incurred in the ordinary course of business; and form or have any subsidiaries, advances or investments and issue preferred shares, unless certain conditions are complied with. Moreover, CEDC and PEDC are prohibited from entering into contract of merger or consolidation (unless CEDC and PEDC are the surviving entities and after giving effect to such event, no event of default will result), selling, leasing or disposing all or any of its property (unless in the ordinary course of the business) where such conveyance, sale or lease would have a material adverse effect to CEDC and PEDC.

CEDC and PEDC are also required to meet certain financial ratios. Both CEDC and PEDC complied with relevant financial ratios.

Events of default include, among others, failure to pay when due the principal or interest due and any other amount payable under the Agreement; revocation, withdrawal, or modification of any government approval required to be obtained by CEDC and PEDC in a manner which would have a material adverse effect; Global Formosa and Abovant, and PPHC cease to maintain 51% of CEDC and PEDC, respectively, or cease to maintain management control over CEDC and PEDC, respectively; and failure to comply with the required financial ratios.

If any of the events of default occurs and is continuing, the trustee or the facility agent, as the case maybe, shall immediately give CEDC and PEDC written notice of such fact and inform the lenders. Without prejudice to the cure periods allowed under the Agreement and upon written request by the majority lenders, the Facility Agent shall take one or more of the following actions:

i. declare the principal of, and all accrued interest on, payable with respect to the loan under the Facility to be, and the same shall thereupon become, immediately due and payable without any further notice and without any presentment, demand or protest; and/or

ii. declare any undrawn portion of the Facility to be terminated, whereupon such portion of the Facility shall be forthwith terminated.

In February and March 2011, PPHC infused capital with aggregate amount of ₱708.14 million.

PPC
MBTC Loans
On September 30, 2010, PPC entered into a ₱90.00 million loan with MBTC, a related party, for its working capital requirements. The principal shall be paid via lump sum payment on March 12, 2012 and interest of the loan shall be paid quarterly.

Interest charged to operations related to this loan amounted to ₱28.27 million, ₱2.01 million and nil in 2011, 2010 and 2009 (see Note 20).

On November 6, 2009, PPC entered into a ₱300.00 million, 7-Year Term Loan Agreement with MBTC. Proceeds from the loan were used to settle the BDO loan in 2009. This loan bears interest at the 3-month T-bill rate published in PDST-F plus 2% spread and is covered by a Mortgage Trust Indenture. PPC's power plant is mortgaged for the aforementioned obligations (see Note 11).

As of December 31, 2011, 2010 and 2009, portion of the long-term loan amounting to ₱42.86 million which will mature within one year from the reporting date, is presented as current liability.

Interest charged to operations related to this loan amounted to ₱10.52 million, ₱16.90 million and ₱2.58 million in 2011, 2010 and 2009, respectively (see Note 20).

On August 24, 2006, PPC entered into a ₱1.20 billion, 10-Year Term Loan Agreement with MBTC, for its general corporate requirements. This loan is covered by a Mortgage Trust Indenture. In March 2007, Section 1.01 of the ₱1.20 billion, 10-Year Term Loan Agreement was amended increasing loan facility from ₱1.20 billion to ₱1.36 billion and changing the reference rate from MART1 rate to PDST-F rate.

As of December 31, 2011, 2010 and 2009, portion of the long-term loan amounting to ₱153.85 million which will mature within one year from the reporting date, is presented as current liability.

Interest charged to operations related to this loan amounted to ₱31.47 million, ₱57.86 million and ₱75.01 million in 2011, 2010 and 2009, respectively (see Note 20).

In accordance with the loan agreements with MBTC, PPC is restricted from performing certain corporate acts without the prior consent or approval of MBTC, the more significant of which relate to entering into merger or consolidation (where PPC is not the surviving entity), declaring dividends to stockholders, acting as guarantor or surety of obligation and acquiring treasury stock. PPC is also required to maintain certain financial ratios.

As of December 31, 2011, 2010 and 2009, PPC has complied with the required financial ratios.

FMIC Loans
The FMIC loan agreements consist of ten-year promissory notes. The proceeds from these peso-denominated loans were used to fund the construction of the power plant. PPC's power plant is mortgaged for the aforementioned obligations (see Note 11).

The loan agreements provide events that constitute an event of default. The terms indicated that if any other obligations of PPC are not paid when due or a default in the performance or observance of any instrument or agreement, FMIC may consequently declare the commitment to be terminated and declare all unpaid amounts to be due and payable without presentment, demand, protest or further notice of any kind. PPC is also required to maintain certain financial ratios.

As of December 31, 2011, 2010 and 2009, PPC met the required debt-to-equity and current ratio requirements of the loan agreements.

Current portion of the loans as of December 31, 2011, 2010 and 2009, presented as current liability, amounted ₱160.13 million, ₱116.88 million and ₱73.63 million, respectively. Total interest charged to operations related to these loans amounted to ₱40.39 million, ₱59.30 million and ₱72.39 million in 2011, 2010 and 2009, respectively (see Note 20).

BDO Loan
In 2009, PPC has pre-terminated the ₱350.00 million loan using the ₱300.00 million loan obtained from MBTC. PPC's power plant was mortgaged for the aforementioned obligations (see Note 11).

Total interest charged to operations related to this loan amounted to ₱20.59 million in 2009 (see Note 20).

Settlement Agreement with Shell
The settlement agreement with Shell pertains to the outstanding obligation of PPC for the purchase of petroleum products which amounted to ₱616.22 million as of August 2006.
The obligation is payable in 36 monthly payments up to July 2009 and bears interest at 150 basis points above the prevailing MART1 rate at the commencement of the month to which the installment pertains. In accordance with the settlement agreement, PPC is restricted from participating into merger or consolidation and in selling, mortgaging or disposing all or substantially all of its assets.

Interest charged to operations related to this obligation amounted to ₱0.83 million in 2009 (see Note 20).

In 2009, PPC has fully settled its note payable with Shell.

TPC
Notes Payable from SBCPI
Notes payable amounting to ₱100.00 million was obtained from SBCPI, a related party, to support TPC's working capital requirements. This loan is covered by a promissory note, bearing interest based on a three - month MART1 rate plus 4% spread. The original loan agreement stated that the principal is payable on or before December 4, 2009. In 2009, the Company and SBCPI amended the term of the notes payable extending its maturity to December 4, 2012. Total interest charged to operations amounted to ₱5.64 million, ₱8.22 million and ₱10.31 million in 2011, 2010 and 2009, respectively (see Note 20).

₱129 Million FMIC Loan
In August 2007, TPC obtained a ₱129.00 million, 7-year loan from FMIC. The loan bears interest based on a three month MART1 rate plus 4% spread. The principal is payable in 20 equal quarterly installments, commencing on May 13, 2009. Total interest charged to operations amounted ₱4.85 million, ₱8.37 million and ₱11.20 million in 2011, 2010 and 2009, respectively (see Note 20). TPC's power plant is mortgaged as collateral to at least 200% of the fair market value of the loan (see Note 11).

₱110 Million FMIC Loan
This represents bank loan granted in June 2006, obtained to finance TPC's special employee program. The loan bears interest based on a three month MART1 rate plus 4% spread. The principal is payable in 20 equal quarterly installments, commencing on August 28, 2008. Total interest charged to operations amounted to ₱2.66 million, ₱5.80 million and ₱8.28 million in 2011, 2010 and 2009, respectively (see Note 20).

TPC is required to maintain certain financial ratios for both loans from FMIC. As of December 31, 2011, 2010 and 2009, TPC complied with the current and debt-to-equity ratio requirement of 1:1 and 3:1, respectively. The loan agreements prohibit TPC from performing certain corporate acts, the more significant of which relate to entering into consolidation or merger, material change in ownership and control of equity or in the composition of its top level management and acting as guarantor for the obligations of other companies.

PPHC
PPHC's long-term debt consists of a ten-year promissory note obtained from FMIC. This loan was used to partly finance the acquisition cost of the investment in PPC. It is secured by the PPHC's shareholdings in PPC.

In 2010, PPHC settled in full all outstanding principal and related interest. Total interest charged to operations related to this loan amounted to ₱5.46 million and ₱8.69 million in 2010 and 2009, respectively (see Note 20).

In 2009, PPHC and FMIC approved the amendment of its loan agreement, excluding intercompany accounts in the current assets and current liabilities for the computation of the current ratio requirement.

16. **Other Noncurrent Liabilities**

	2011	2010	2009
Due to holders of non-controlling interest	**₱577,782,858**	₱378,463,322	₱378,463,322
Decommissioning liability	**61,656,006**	28,845,825	25,777,617
	₱639,438,864	₱407,309,147	₱404,240,939

Amount due to holders of non-controlling interest pertains to advances from Abovant Holdings, Inc., which owns 44% of CEDC.

PPC, PEDC, CEDC, TPC and GPRI have legal obligations to decommission or dismantle their power plant assets at the end of their useful lives. In this regard, PPC, PEDC, CEDC, TPC and GPRI established their respective provisions to recognize estimated decommissioning liability.

Changes in the decommissioning liability are as follows:

	2011	2010	2009
Balances at beginning of year	**₱28,845,825**	₱25,777,617	₱23,036,242
Provisions during the year	**26,660,466**	–	–
Accretion expense for the year (see Note 20)	**6,149,715**	3,068,208	2,741,375
Balances at end of year	**₱61,656,006**	₱28,845,825	₱25,777,617

17. **Related Party Transactions**

In addition to those mentioned in Notes 14 and 15, the Group has significant transactions with related parties on terms agreed between the parties as follow:

a. The following is the breakdown of the due from related parties:

	2011	2010	2009
THC	**₱386,143,491**	₱361,944,201	₱502,820,993
TCITRC	**28,162,248**	30,201,295	126,644,222
Cellini Holdings, Inc.	**–**	4,000,000,000	–
	₱414,305,739	₱4,392,145,496	₱629,465,215

Due from Cellini Holdings, Inc. represents short-term advances. The aggregate balance of the Group's due from THC and TCITRC as of December 31, 2011, 2010 and 2009 amounted to ₱414.31 million, ₱392.15 million and ₱629.47 million, respectively. Significant transactions entered by the Group with THC and TCITRC are as follows:

- TPC leases various parcels of land from THC for a period of one year, renewable every year and under such terms and conditions as may be agreed upon by both parties (see Note 1). Rent charged to operations amounted to ₱6.68 million, ₱3.58 million and ₱3.83 million in 2011, 2010 and 2009, respectively. In addition, TPC extended noninterest-bearing advances payable in lump sum at a certain period of time to a third party. In 2002, the third party assigned its rights over certain foreshore leases and sold several parcels of land to THC in settlement of its long-term advances from TPC. Accordingly, THC became indebted to TPC for the value of these foreshore leases and parcels of land determined using the NRV of the third party's advances from TPC.

- PPC's receivable from THC which is due and demandable anytime amounting to ₱121.2 million, ₱135.50 million and ₱135.50 million as of December 31, 2011, 2010 and 2009, respectively, pertains to the sale of PPC's land to THC where its power station is located. Interest earned from the sale of land to THC amounted to ₱9.44 million, ₱10.22 million and ₱10.30 million in 2011, 2010 and 2009, respectively (see Note 20). In addition, PPC leases back parcels of land from THC for a period of one year commencing on January 1, 2004, renewable every year and under such terms and conditions as may be agreed upon by both parties (see Note 1). Related rent expense charged to operations amounted to ₱8.03 million in 2011, 2010 and 2009.

- CEDC has a lease agreement with THC for the latter's parcels of land where CEDC's power plant is currently under construction. CEDC and THC agreed that the former will purchase the parcels of land in the near future. Rental in 2011, 2010 and 2009 amounted to ₱3.89 million, ₱3.89 million and ₱6.15 million. This amount will be deducted against the selling price of the land once sale is finalized by both CEDC and THC.

- The Group advanced ₱30.00 million to THC which was used by the latter to purchase various land. Real property taxes and various expenses related on the land purchased were paid by Group in the account of THC.

b. To hedge CEDC's exposure to movements in foreign exchange rates relative to its US $ denominated EPC Contract obligation, CEDC entered into forward currency contracts with MBTC in April 2009. The weighted average forward rate under the forward currency contracts is ₱49.04/US $. The forward currency contracts have various maturities from April 2009 until December 2010. Payments are made via letters of credit on marginal deposits.

   The forward currency contracts were designated by the management as effective hedges under cash flow hedge. The forward contracts exactly mirror the underlying liability under the EPC Contract and it effectively transformed the US $ denominated EPC Contract obligation to a fixed rate peso denominated obligation. The hedge is assessed to be highly effective and is expected to be highly effective until the end of the contracts in December 2010. As such, no ineffectiveness was recognized in either the consolidated statements of changes in equity or the profit or loss.

As of December 31, 2009, the notional amount of the forward currency contracts is US $72.88 million, or a peso equivalent of ₱3.57 billion. The fair value of the forward currency contracts is not material to the financial statements taken as a whole. As of December 31, 2011, 2010 and 2009, CEDC's marginal deposits amounted to ₱334.20 million, ₱597.03 million and ₱773.81 million, respectively, and is presented as part of "Prepayments and other current assets" in the consolidated statements of financial position. There are no outstanding forward currency contracts as of December 31, 2010.

c. The Group has cash and cash equivalents with MBTC amounting to ₱4.86 billion, ₱6.08 billion and ₱4.02 million as of December 31, 2011, 2010 and 2009, respectively. Interest earned on these cash and cash equivalents amounted to ₱103.90 million, ₱32.96 million and ₱23.59 million in 2011, 2010 and 2009, respectively (see Note 20).

d. Due from related parties are current in nature and will be settled in cash.

18. **Power Plant Operations and Maintenance Costs**

	2011	2010	2009
Power plant operations	**₱8,046,743,495**	₱2,199,209,847	₱1,987,386,810
Purchased power	**540,411,369**	283,145,044	10,186,617
Repairs and maintenance and others	**166,435,909**	241,094,264	233,872,416
	₱8,753,590,773	₱2,723,449,155	₱2,231,445,843

Power plant operations mainly represent costs of coal and start-up fuel costs and purchased power from the NPC. Repairs and maintenance and others mainly represent cost of materials and supplies consumed and the cost of restoration and maintenance of the power plants.

19. **Personnel Costs**

	2011	2010	2009
Salaries, wages and others	**₱298,960,515**	₱288,736,999	₱219,987,391
Employee benefits	**178,300,136**	95,577,009	58,577,154
Retirement benefit expense	**45,948,147**	15,687,799	5,967,202
	₱523,208,798	₱400,001,807	₱284,531,747

The retirement benefits of the Group are dependent on the years of service and the respective employee's compensation. The defined benefit obligation is determined using the projected unit credit method.

The Company, PPC, PEDC, CEDC and GPRI have unfunded and TPC has funded defined retirement benefit plan covering substantially all of their regular employees.

Retirement benefit costs are recognized in the consolidated profit or loss as follows:

	2011	2010	2009
Current service cost	**₱11,601,500**	₱9,854,516	₱6,948,300
Interest cost	**8,447,237**	8,052,927	8,161,988
Amortization of amounts for:			
Actuarial loss (gain)	**(115,647)**	956,756	(1,420,188)
Past service cost	**29,810,608**	–	–
Increase in liability	**–**	240,200	35,300
Expected return on plan assets	**(3,795,551)**	(3,416,600)	(3,095,200)
Retirement benefit expense	**45,948,147**	15,687,799	10,630,200
Decrease in retirement benefit obligation due to merger of PPC and ARPHC	**–**	–	(4,662,998)
Retirement benefit expense	**₱45,948,147**	₱15,687,799	₱5,967,202

Following is a reconciliation of the present value of defined benefit obligation, based on the latest actuarial valuation as of December 31, 2011, to the retirement benefit obligation in the consolidated statements of financial position:

	2011	2010	2009
Present value of defined benefit obligation	**₱421,329,704**	₱103,857,303	₱76,967,260
Fair value of plan assets	**(67,770,372)**	(63,259,183)	(56,943,911)
Unfunded obligations	**353,559,332**	40,598,120	20,023,349
Unrecognized past service cost	**(161,024,392)**	–	–
Unrecognized actuarial gain (loss)	**(127,923,302)**	(7,940,672)	21,914,026
Retirement benefit obligation	**₱64,611,638**	₱32,657,448	₱41,937,375

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

	2011	2010	2009
Balances at beginning of year	**₱103,857,303**	₱76,967,260	₱56,079,260
Current service cost	**11,601,500**	9,854,516	6,948,300
Interest cost	**8,447,237**	8,052,927	8,161,988
Past service cost	**172,208,400**	–	–
Actuarial losses resulting from:			
Change in assumptions	**87,464,612**	19,092,300	5,454,512
Experience adjustments on plan obligation	**51,744,609**	14,858,026	(3,247,802)
Benefits paid	**(13,993,957)**	(24,967,726)	(1,164,198)
Changes due to merger of PPC and ARPHC	**–**	–	4,735,200
Balances at end of year	**₱421,329,704**	₱103,857,303	₱76,967,260

Changes in the fair value of plan assets are as follows:

	2011	2010	2009
Balances at beginning of year	**₱63,259,183**	₱56,943,911	₱51,586,320
Expected return on plan assets	**3,795,551**	3,416,600	3,095,200
Actuarial gain	**715,638**	2,898,672	2,262,391
Balances at end of year	**₱67,770,372**	₱63,259,183	₱56,943,911
Actual return on plan assets	**₱4,511,189**	₱6,315,272	₱5,357,591

The Group does not expect to contribute to the retirement plan in 2012.

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

	2011	2010	2009
Investment in government securities	**79.02%**	69.28%	80.91%
Cash and cash equivalents	**6.90%**	17.95%	10.29%
Shares of stock	**6.84%**	6.76%	7.62%
Loans	**5.79%**	4.90%	0.03%
Other receivables	**1.45%**	1.11%	1.15%
	100.00%	100.00%	100.00%

Principal actuarial assumptions used to determine retirement benefit obligations were as follows:

	2011	2010	2009
Wage and salary increases	**10%**	7%	7%
Expected return on plan assets	**6%**	6%	6%
Discount rates	**6%**	8%	10%
Average employee turnover	**Ranging from 8% at age of 20 and decreasing to 0% at age of 60**	Ranging from 3% at age of 20 and decreasing to 0% at age of 60	Ranging from 8% at age 20 and decreasing to 0% at age 60

The discount rate represents the average rate applicable to the Group.

The overall expected rate of return on plan assets is determined based on the market prices prevailing on that date, applicable to the period over which the asset may be realized.

Amounts for the current and previous four years are as follows:

	2011	2010	2009	2008	2007
Present value defined benefit obligation	**₱421,329,704**	₱103,857,303	₱76,967,260	₱56,079,260	₱86,359,959
Fair value of plan assets	**67,770,372**	63,259,183	56,943,911	51,586,320	51,637,652
Experience adjustments	**51,744,609**	14,828,026	(3,247,802)	4,298,000	(14,699,711)

20. **Finance Costs and Other Income** - net

	2011	2010	2009
Finance Costs - Net:			
Interest expense (see Notes 14, 15 and 17)	**₱2,585,007,154**	₱174,979,228	₱211,689,895
Interest income (see Notes 4, 8 and 17)	**(191,414,489)**	(32,962,914)	(23,592,807)
Discount on (accretion of) accounts receivable (see Note 8)	**48,640,545**	(17,904,676)	120,112,690
Accretion of decommissioning liability (see Note 16)	**6,149,715**	3,068,208	2,741,375
Other financing charges	**2,944,959**	–	–
	₱2,451,327,884	₱127,179,846	₱310,951,153

Other Income - Net:	**2011**	2010	2009
Recovery from insurance (see Notes 5 and 23j)	**₱76,836,858**	₱135,151,686	₱61,516,888
Dividend (see Note 9)	**20,700,266**	13,637,000	11,274,419
Sale of scrap and sludge oil	**13,886,326**	6,348,943	–
Foreign exchange gain - net	**10,863,022**	120,469,534	17,374,584
Equity in net earnings of an associate (see Note 10)	**4,376,357**	(1,428,938)	3,706,148
Others - net	**8,522,098**	6,774,297	35,204,780
	₱135,184,927	₱280,952,522	₱129,076,819

Other income pertains to water consumption of contractor's and guesthouse rentals during the year.

21. **Income Taxes**

In 2011, the current provision for income tax pertains to PPC's, TPC's, GPRI's and CEDC's regular corporate income tax (RCIT) and the Company's minimum corporate income tax (MCIT). APVI, GCLDC, GESC, GFPH, PEDC and PPHC did not have current provision for income tax because of their gross loss and net taxable loss positions.

In 2010, the current provision for income tax pertains to PPC's, TPC's, GPRI's and CEDC's regular corporate income tax (RCIT) and the Company's and PPHC's minimum corporate income tax (MCIT). APVI, GCLDC, GESC, GFPH and PEDC did not have current provision for income tax because of their gross loss and net taxable loss positions.

In 2009, the current provision for income tax pertains to the PPC's, TPC's, and GPRI's RCIT and the Company's and PPHC's MCIT. APVI, GCLDC, GESC, CEDC, GFPHI and PEDC did not have current provision for income tax because of their gross loss and net taxable loss positions.

The components of the Group's deferred tax assets and liabilities are as follows:

	2011	2010	2009
Deferred tax assets:			
Capitalized net income	**₱117,484,925**	₱117,484,925	₱–
Unamortized deferred financing cost	**(83,292,019)**	(63,837,181)	(62,384,223)
NOLCO	**73,127,002**	–	110,880,425
Allowance for probable losses	**27,865,818**	26,287,145	29,361,073
Net capitalized cost of generation	**(23,472,507)**	–	–
Decommissioning liability	**11,545,689**	2,262,471	2,035,929
Unrealized foreign exchange losses	**11,331,937**	11,388,113	9,738
Unamortized discount on receivables	**8,157,092**	12,993,555	14,518,202
Retirement benefit obligation	**7,976,400**	1,317,274	12,267,772
Dismantling costs	**(7,956,012)**	(75,860)	–
Unrealized foreign exchange gains	**(742,525)**	–	–
Unamortized past service costs	**425,583**	851,166	1,369,220
Allowance for nonrefundable input VAT	**–**	1,213,850	–
Retirement benefit asset	**–**	(109,988)	–
MCIT	**–**	–	8,992,578
Others	**4,756,907**	4,556,037	7,193,890
	147,208,290	114,331,507	124,244,604
Deferred tax liabilities:			
Fair value adjustment on acquisition	**(265,742,709)**	(285,427,355)	(305,111,999)
Foreign exchange losses capitalized during construction	**(67,751,161)**	(72,769,765)	(77,788,369)
Allowance for probable losses	**30,233,188**	29,599,937	21,091,217
Unamortized discount on receivables	**10,957,080**	17,782,192	21,628,948
Retirement benefit obligation	**10,352,633**	8,589,947	–
Decommissioning liability	**7,169,723**	6,391,277	5,697,356
Dismantling costs	**(2,886,725)**	(3,089,589)	(4,254,568)
Unrealized foreign exchange gains	**(165,524)**	(14,824,742)	–
Capitalized net income	**–**	7,374,655	–
NOLCO	**–**	38,929,750	–
Unamortized deferred financing cost	**–**	(59,817,292)	–
Unrealized foreign exchange losses	**–**	209,814	20,311
Others	**3,136,233**	4,448,434	–
	(274,697,262)	(322,602,737)	(338,717,104)
	(₱127,488,972)	(₱208,271,230)	(₱214,472,500)

Other deferred tax assets consists of deductible temporary differences on performance bonus, accrued expenses and others.

Deferred tax assets on certain deductible temporary differences, unused tax credits and unused tax losses have not been recognized as management believes that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. These deductible temporary differences and unused tax credits are as follows:

	2011	2010	2009
NOLCO	**₱28,842,595**	₱26,816,209	₱80,211,990
MCIT	**1,363,824**	2,802,194	2,590,121
Allowance for probable losses	**5,306**	–	1,075,225
Unamortized pre-operating expenses	–	4,310,415	4,310,415
Unrealized foreign exchange loss	–	3,430,190	6,364,282
Retirement benefit obligation	–	–	49,400
	₱30,211,725	₱37,359,008	₱94,601,433

The reconciliation of statutory income tax rates to effective income tax rates follows:

	2011	2010	2009
Statutory income tax	**₱733,555,938**	₱253,376,378	₱115,756,161
Additions to (reductions) income tax rate resulting from:			
Equity in net losses (earnings) of an associate	**(1,312,907)**	428,681	(1,111,844)
Effect of nonrecognition of deferred tax assets	**1,100,533**	(9,315,291)	(2,085,252)
Interest income already subjected to final tax at a lower rate, nondeductible expenses and others	**(596,844,896)**	(66,148,413)	(2,937,469)
Effective income tax	**₱136,498,668**	₱178,341,355	₱109,621,596

As of December 31, 2011, the Company, APVI, GCLDC, GESC, PEDC, GFPHI and PPHC have NOLCO as follows:

Year incurred	Year of Expiration	Amount
2009	2012	₱13,999,852
2010	2013	133,903,450
2011	2014	124,957,689
		₱272,860,991

Movements in NOLCO are as follows:

	2011	2010	2009
Balances at beginning of year	**₱156,582,042**	₱449,813,408	₱496,661,367
Additions	**124,957,689**	138,213,865	266,557,433
Applications	–	(424,017,726)	(299,698,715)
Expirations	**(8,678,740)**	(7,427,505)	(13,706,677)
Balances at end of year	**₱272,860,991**	₱156,582,042	₱449,813,408

As of December 31, 2011, the Company, and PPHC have MCIT that can be claimed as deduction from future income tax due as follows:

Year Incurred	Year of Expiration	Amount
2009	2012	₱917,024
2010	2013	386,294
2011	2014	60,506
		₱1,363,824

Movements in MCIT are as follows:

	2011	2010	2009
Balances at beginning of year	**₱2,802,194**	₱11,582,699	₱8,838,564
Additions	**60,506**	386,294	7,822,422
Applications	**–**	(8,992,578)	–
Expirations	**(1,498,876)**	(174,221)	(5,078,287)
Balances at end of year	**₱1,363,824**	₱2,802,194	₱11,582,699

Republic Act (RA) No. 9337

RA No. 9337, which became effective on November 1, 2005, amended various provisions in the 1997 National Internal Revenue Code. The reforms introduced by RA No. 9337 included the increase in the RCIT rate from 32% to 35% beginning November 1, 2005, with a reduction thereof to 30% beginning January 1, 2009. RA No. 9337 also provided for the increase in unallowable interest rate from 38% to 42% beginning November 1, 2005, with a reduction thereof to 33% beginning January 1, 2009.

22. Financial Instruments

Financial Risk Management Objectives and Policies

The main purpose of the Group's financial instruments is to finance its operations. The Group has various financial assets and liabilities such as cash and cash equivalents, receivables, due from related parties, marginal deposits, security deposit, long-term receivables, AFS investments, short-term loans, accounts payable and accrued expenses, current and long-term debt and due to holders of non-controlling interest, which arise directly from its operations.

The BOD has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and manage the Group's exposure to financial risks, to set appropriate transaction limits and controls, and to monitor and assess risks and compliance to internal control policies. Risk management policies and structure are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group has exposure to equity price risk, credit risk, liquidity risk, interest rate risk and foreign currency risk from the use of its financial instruments. The BOD reviews and approves the policies for managing each of these risks and they are summarized below.

Equity Price Risk
Equity price risk is such risk where the fair values of investments in quoted equity securities could decrease as a result of changes in the levels of equity indices and the value of individual stocks. The Group is exposed to equity securities price risk because of AFS investments held by the Company.

The table below shows the sensitivity to a reasonably possible change in the Philippine Stock Exchange index (PSEi), with all other variables held constant, of the Group's equity (through other comprehensive income) due to changes in the carrying value of the Group's AFS investments. The analysis links PSEi changes, which proxies for general market movements, to individual stock prices through their betas. Betas are coefficients depicting the sensitivity of individual prices to market movements.

The sensitivity range is based on the historical volatility of the PSEi for the past year. The analysis is based on the assumption that last year's PSEi volatility will be more or less the same in the following year.

	Percentage change in PSEi	Increase (decrease) in total comprehensive income
2011	**Increase by 18.57%**	**₱77,604,953**
	Decrease by 18.57%	**(77,604,953)**
2010	Increase by 21%	₱114,550,797
	Decrease by 21%	(114,550,797)
2009	Increase by 20%	₱137,535,553
	Decrease by 20%	(137,535,553)

Credit Risk
Credit risk represents the loss that the Group would incur if counterparties failed to perform under its contractual obligations. The Group established controls and procedures on its credit policy to determine and monitor the credit worthiness of customers and counterparties. Moreover, the PPAs, EPPA and PSAs with customers include inherent protection clauses, i.e., provisions for interests on unpaid billings, and change in laws/circumstances, among others. The Group's maximum credit risk is equal to the Group's financial assets such as cash and cash equivalents, receivables, due from related parties, marginal deposits, security deposit and long-term receivable. The significant concentration of credit risk relates to receivables from the customers of the Operating Subsidiaries (see Note 1).

The credit quality of financial assets is being managed by the Group using internal credit ratings. The table below shows the credit quality by class of financial assets based on the Group's rating system as of December 31, 2011, 2010 and 2009.

2011

	Neither Past Due Nor Impaired				
	High Grade	**Standard Grade**	**Past Due but not Impaired**	**Impaired**	**Total**
Cash and cash equivalents	**₱8,598,227,940**	**₱–**	**₱–**	**₱–**	**₱8,598,227,940**
Receivables					
Trade					
Short-term	**1,848,745,837**	**293,150,603**	**1,719,827,389**	**27,985,263**	**3,889,709,092**
Long-term	**934,458,013**	**–**	**–**	**–**	**934,458,013**
Non-trade	**23,813,038**	**138,741,789**	**1,116,297**	**2,315,201**	**165,986,325**
Due from related parties	**414,305,739**	**–**	**–**	**–**	**414,305,739**
Marginal deposits and other current assets	**1,742,740**	**–**	**–**	**–**	**1,742,740**
Other long-term receivable	**149,102,540**	**–**	**–**	**–**	**149,102,540**
	₱11,970,395,847	**₱431,892,392**	**₱1,720,943,686**	**₱30,300,464**	**₱14,153,532,389**

2010

	Neither Past Due Nor Impaired				
	High Grade	Standard Grade	Past Due but not Impaired	Impaired	Total
Cash and cash equivalents	₱6,131,817,377	₱–	₱–	₱–	₱6,131,817,377
Receivables					
Trade					
Short-term	1,702,769,332	115,404,712	571,346,014	27,985,263	2,417,505,321
Long-term	663,499,209	–	–	–	663,499,209
Non-trade	184,574,190	15,128,946	7,914,845	2,315,201	209,933,182
Due from related parties	4,299,135,711	93,009,785	–	–	4,392,145,496
Marginal deposits and other current assets	597,031,354	–	–	–	597,031,354
Other long-term receivable	138,887,040	–	–	–	138,887,040
	₱13,717,714,213	₱223,543,443	₱579,260,859	₱30,300,464	₱14,550,818,979

2009

	Neither Past Due Nor Impaired				
	High Grade	Standard Grade	Past Due but not Impaired	Impaired	Total
Cash and cash equivalents	₱4,076,356,416	₱–	₱–	₱–	₱4,076,356,416
Receivables					
Trade					
Short-term	576,247,513	210,783,489	767,079,282	27,985,263	1,582,095,547
Long-term	714,956,274	–	–	–	714,956,274
Pass-on fuel cost	391,012,351	–	46,757,774	–	437,770,125
Non-trade	30,573,361	25,704,055	23,854,729	2,315,201	82,447,346
Due from related parties	–	629,465,215	–	–	629,465,215
Marginal deposits and other current assets	773,807,266	4,218,659	–	–	778,025,925
Other long-term receivable	58,800,000	12,712,911	–	–	71,512,911
	₱6,621,753,181	₱882,884,329	₱837,691,785	₱30,300,464	₱8,372,629,759

High grade financial assets are those in which the creditor has a high financial capacity to pay its accounts and the account is supported by a collateral or guarantee, such as government guarantee. Standard grade financial assets pertain to accounts of creditors who have a good history of paying their account on time and who have the financial capacity to pay.

The table below shows the aging analysis of past due but not impaired financial assets per class that the Group held as of December 31, 2011, 2010 and 2009. A financial asset is past due when a counterparty has failed to make a payment when contractually due.

2011

	Neither past due nor impaired	Past due but not impaired: Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Impaired	Total
Cash and cash equivalents	**₱8,598,227,940**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱8,598,227,940**
Receivables							
Trade							
Short-term	**2,141,896,440**	**946,654,046**	**174,282,199**	**136,715,675**	**462,175,469**	**27,985,263**	**3,889,709,092**
Long-term	**934,458,013**	**–**	**–**	**–**	**–**	**–**	**934,458,013**
Non-trade	**162,554,827**	**–**	**–**	**–**	**1,116,297**	**2,315,201**	**165,986,325**
Due from related parties	**414,305,739**	**–**	**–**	**–**	**–**	**–**	**414,305,739**
Marginal deposits and other current assets	**1,742,740**	**–**	**–**	**–**	**–**	**–**	**1,742,740**
Other long-term receivable	**149,102,540**	**–**	**–**	**–**	**–**	**–**	**149,102,540**
	₱12,402,288,239	**₱946,654,046**	**₱174,282,199**	**₱136,715,675**	**₱463,291,766**	**₱30,300,464**	**₱14,153,532,389**

2010

	Neither past due nor impaired	Past due but not impaired: Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Impaired	Total
Cash and cash equivalents	₱6,131,817,377	₱–	₱–	₱–	₱–	₱–	₱6,131,817,377
Receivables							
Trade							
Short-term	1,818,174,044	170,961,621	42,355,261	28,078,884	329,950,248	27,985,263	2,417,505,321
Long-term	663,499,209	–	–	–	–	–	663,499,209
Non-trade	199,703,136	–	–	–	7,914,845	2,315,201	209,933,182
Due from related parties	4,392,145,496	–	–	–	–	–	4,392,145,496
Marginal deposits and other current assets	597,031,354	–	–	–	–	–	597,031,354
Other long-term receivable	138,887,040	–	–	–	–	–	138,887,040
	₱13,941,257,656	₱170,961,621	₱42,355,261	₱28,078,884	₱337,865,093	₱30,300,464	₱14,550,818,979

2009

	Neither past due nor impaired	Past due but not impaired: Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Impaired	Total
Cash and cash equivalents	₱4,076,356,416	₱–	₱–	₱–	₱–	₱–	₱4,076,356,416
Receivables							
Trade							
Short-term	787,031,002	46,770,896	29,964,214	10,067,778	680,276,394	27,985,263	1,582,095,547
Long-term	714,956,274	–	–	–	–	–	714,956,274
Pass-on fuel cost	391,012,351	–	–	46,757,774	–	–	437,770,125
Non-trade	56,277,416	7,706,790	2,121,165	2,166,095	11,860,679	2,315,201	82,447,346
Due from related parties	629,465,215	–	–	–	–	–	629,465,215
Marginal deposits and other current assets	778,025,925	–	–	–	–	–	778,025,925
Other long-term receivable	71,512,911	–	–	–	–	–	71,512,911
	₱7,504,637,510	₱54,477,686	₱32,085,379	₱58,991,647	₱692,137,073	₱30,300,464	₱8,372,629,759

Liquidity Risk
The Group manages liquidity risk by maintaining a balance between continuity of funding and flexibility. Treasury controls and procedures are in place to ensure that sufficient cash is maintained to cover daily operational and working capital requirements. Management closely monitors the Group's future and contingent obligations and sets up required cash reserves as necessary in accordance with internal policies.

The table below summarizes the maturity profile of the Group's financial liabilities as of December 31, 2011, 2010 and 2009 based on contractual undiscounted payments.

2011

	On demand	**Within 1 year**	**1 to 5 years**	**More than 5 years**	**Total**
Accounts payable and accrued expenses	**₱–**	**₱2,209,379,919**	**₱–**	**₱–**	**₱2,209,379,919**
Short-term loans	**–**	**1,553,463,775**	**–**	**–**	**1,553,463,775**
Due to holders of non-controlling interest	**577,782,857**	**–**	**–**	**–**	**577,782,857**
Dividends payable	**29,425,000**	**–**	**–**	**–**	**29,425,000**
Long-term debt:					
Principal	**–**	**–**	**10,526,977,198**	**18,411,743,706**	**28,938,720,904**
Future interest	**–**	**2,123,846,373**	**9,557,683,713**	**6,220,230,988**	**17,901,761,074**
	₱607,207,857	**₱5,886,690,067**	**₱20,084,660,911**	**₱24,631,974,694**	**₱51,210,533,529**

2010

	On demand	Within 1 year	1 to 5 years	More than 5 years	Total
Accounts payable and accrued expenses	₱1,158,887,363	₱3,843,657,075	₱–	₱–	₱5,002,544,438
Short-term loans	–	54,350,915	–	–	54,350,915
Due to holders of non-controlling interest	–	–	378,463,322	–	378,463,322
Long-term debt:					
Principal	–	361,383,246	6,913,494,949	18,116,992,649	25,391,870,844
Future interest	–	2,466,316,318	9,031,385,080	7,465,087,623	18,962,789,021
	₱1,158,887,363	₱6,725,707,554	₱16,323,343,351	₱25,582,080,272	₱49,790,018,540

2009

	On demand	Within 1 year	1 to 5 years	More than 5 years	Total
Accounts payable and accrued expenses	₱–	₱3,435,102,291	₱–	₱–	₱3,435,102,291
Short-term loans	–	1,462,121,540	–	–	1,462,121,540
Due to holders of non-controlling interest	–	–	378,463,322	–	378,463,322
Long-term debt					
Principal	–	329,133,246	4,220,744,406	7,461,805,232	12,011,682,884
Future interest	–	1,827,950,227	4,087,781,731	3,451,528,476	9,367,260,434
	₱–	₱7,054,307,304	₱8,686,989,459	₱10,913,333,708	₱26,654,630,471

As of December 31, 2011, cash and cash equivalents and marginal deposits of ₱8.61 billion and receivables and due from related parties of ₱5.60 billion may be used to meet the Company's liquidity needs.

Interest Rate Risk
PPC, TPC and the Company's exposures to the risk for changes in market interest rate relates primarily to their long-term debt obligations with variable interest rates. CEDC's and PEDC's loan bears fixed interest rates subject to repricing after a minimum of 5 years.

The following tables demonstrate management's best estimates of the sensitivity to reasonable possible change in interest rates, with all variables held constant, of the profit or loss before income tax (through the impact on variable-rate borrowings):

2011

	Change in ₱ MART1	
	51 basis points appreciation	**51 basis points depreciation**
Increase (decrease) in income before income tax	**(₱7,876,634)**	**₱7,876,634**

2010

	Change in ₱ MART1	
	20 basis points appreciation	20 basis points depreciation
Increase (decrease) in income before income tax	(₱4,732,624)	₱4,732,624

2009

	Change in ₱ MART1	
	22 basis points appreciation	22 basis points depreciation
Increase (decrease) in income before income tax	(₱5,567,211)	₱5,567,211

There is no other impact on the Group's equity other than those already affecting the consolidated profit or loss.

Foreign Currency Risk
Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rate.

The Group uses the Philippine peso as its functional currency and is therefore exposed to foreign exchange movements, primarily in US Dollar ($) currency. The Group follows a policy to manage its currency risk by closely monitoring its cash flow position and by providing forecast on all other exposures in non-Philippine peso currencies. The foreign exchange rate as of December 31, 2011, 2010 and 2009 are ₱43.93, ₱43.88 and ₱46.36, respectively.

The balances of the Group's financial assets and financial liabilities denominated in $ are as follows:

2011

	Original Currency in $	**Translated in ₱**
Financial assets:		
Cash and cash equivalents	**$12,313,562**	**₱540,910,136**
Marginal deposits	**39,673**	**1,742,740**
	12,353,235	**542,652,876**
Financial liability:		
Construction-related payables	**$10,943,441**	**₱473,667,787**
Net financial assets	**$1,409,794**	**₱68,985,089**

2010

	Original Currency in $	Translated in ₱
Financial assets:		
Cash and cash equivalents	$66,735,835	₱2,928,698,244
Marginal deposits	13,604,452	597,031,354
	80,340,287	3,525,729,598
Financial liability:		
Construction-related payables	$87,222,956	₱3,827,779,424
Net financial liabilities	($6,882,669)	(₱302,049,826)

2009

	Original Currency in $	Translated in ₱
Financial asset:		
Cash and cash equivalents	$10,278,724	₱476,480,518
Financial liability:		
Construction-related payables	$–	₱–
Net financial assets	$10,278,724	₱476,480,518

The following table demonstrates the sensitivity to a reasonable possible change in exchange rates, with all other variables held constant, of the Group's profit before income tax due to changes in fair values of financial assets and liabilities:

2011

	Change in ₱/$ exchange rate	
	$ strengthens by 5.11%	**$ weakens by 5.11%**
Increase (decrease) in income before income tax	**₱3,525,138**	**(₱3,525,138)**

2010

	Change in ₱/$ exchange rate	
	$ strengthens by 5.11%	$ weakens by 5.11%
Increase (decrease) in income before income tax	(₱15,434,746)	₱15,434,746

2009

	Change in ₱/$ exchange rate	
	$ strengthens by 3.2%	$ weakens by 3.2%
Increase (decrease) in income before income tax	(₱15,247,377)	₱15,247,377

There is no other impact on the Group's equity other than those already affecting the consolidated statements of comprehensive income.

Fair Value and Categories of Financial Instruments
Set out below is a comparison by category and class of carrying amounts and fair values of all of the Group's financial instruments, that are carried in the consolidated financial statements.

	Carrying Amount		
	2011	2010	2009
Financial Assets:			
Loans and receivables:			
Cash and cash equivalents	**₱8,606,665,944**	₱6,132,670,613	₱4,076,356,416
Receivables	**3,861,723,829**	2,597,138,039	2,102,313,018
Due from related parties	**414,305,739**	4,392,145,497	629,465,215
Marginal deposits	**1,742,740**	597,031,354	778,025,925
Long-term receivables	**1,083,560,553**	802,386,249	786,469,185
	13,967,998,805	14,521,371,752	8,372,629,759
AFS investments	**444,076,657**	545,479,988	687,677,763
	₱14,412,075,462	₱15,066,851,740	₱9,060,307,522

(Forward)

	Carrying Amount		
	2011	2010	2009
Financial Liabilities:			
Other financial liabilities:			
Accounts payable and accrued expenses	**₱2,209,379,919**	₱5,002,544,438	₱3,435,102,291
Notes payable and short-term loans	**–**	54,350,915	1,462,121,540
Dividends payable	**29,425,000**	–	–
Long-term debt	**30,492,191,681**	25,768,213,455	12,011,682,884
Due to holders of non-controlling interest	**577,782,857**	378,463,322	378,287,322
	₱33,308,779,457	₱31,203,572,130	₱17,287,194,037

	Fair Value		
	2011	2010	2009
Financial Assets:			
Loans and receivables:			
Cash and cash equivalents	**₱8,606,665,944**	₱6,132,670,613	₱4,076,356,416
Receivables	**3,874,168,585**	2,597,138,039	2,102,313,018
Due from related parties	**414,305,739**	4,392,145,497	629,465,215
Marginal deposits	**1,742,740**	597,031,354	778,025,925
Long-term receivables	**1,083,560,553**	802,386,249	786,469,185
	13,980,443,561	14,521,371,752	8,372,629,759
AFS investments	**444,076,657**	545,479,988	687,677,763
	₱14,424,520,218	₱15,066,851,740	₱9,060,307,522
Financial Liabilities:			
Other financial liabilities:			
Accounts payable and accrued expenses	**₱2,209,379,919**	₱5,002,544,438	₱3,435,102,291
Notes payable and short-term loans	**–**	54,350,915	1,462,121,540
Dividends payable	**29,425,000**	–	–
Long-term debt	**30,141,043,320**	25,768,213,455	12,011,682,884
Due to holders of non-controlling interest	**577,782,857**	378,463,322	378,287,322
	₱32,957,631,096	₱31,203,572,130	₱17,287,194,037

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

Cash and cash equivalents, Receivables, Due from related parties and Marginal deposits
The carrying amounts of cash and cash equivalents, receivables, due from related parties and marginal deposits approximate their fair values due to the short-term maturity of these financial instruments.

AFS investments
Fair value of AFS investments is based on the quoted market bid prices at the close of business on the reporting date.

Long-term receivables
The fair value of long-term receivables approximate its carrying amount because it was discounted using a market rate.

Accounts payable and accrued expenses and Due to holders of non-controlling interest
The carrying amounts accounts payable and accrued expenses, advances from venture partners and due to holders of non-controlling interest, which are all subject to normal trade terms, approximate their fair values.

Short-term loans and Current and long-term portion of long-term debt (bearing variable interest)
The carrying amount of short-term loans and current and long-term portion of long-term debt approximates their fair values because of recent and quarterly re-pricing based on current market rates.

Long-term debt (bearing fixed interest)
The estimated fair value is based on the discounted value of future cash flows using the prevailing interest rate ranging from 4.27% to 9.15% in 2011, 2010 and 209, respectively.

Fair Value Hierarchy
The following table shows the Group's financial instruments carried at fair value, analyzed between those whose fair value is based on:

- Quoted 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).

As of December 31, 2011, 2010 and 2009, the Group has quoted AFS investments amounting to ₱444.08 million, ₱545.47 million and ₱687.68 million, respectively, which is categorized under Level 1 in the fair value hierarchy.

Capital Management
The primary objective of the Group's capital management is to ensure that it maintains a strong credit standing and stable capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended December 31, 2011, 2010 and 2009.

The following table pertains to the account balances the Group considers as its core economic capital.

	2011	2010	2009
Capital stock	**₱240,000,000**	₱236,699,600	₱236,699,600
Additional paid-in capital	**4,630,646,513**	4,546,846,800	4,546,846,800
Deposits for future subscription	**8,907,956,855**	13,622,805,348	7,115,590,227
Retained earnings	**3,467,824,030**	1,887,834,467	1,365,648,010
	17,246,427,398	20,294,186,215	13,264,784,637
Non-controlling interests	**4,306,690,762**	2,615,148,569	2,777,341,974
	₱21,553,118,160	₱22,909,334,784	₱16,042,126,611

23. **Other Matters**

a. Business Risks

The risks associated with the Group are the business risks associated with PPC, TPC, GPRI, PEDC and CEDC which include construction risks, operating risks, environmental matters, permits, political and economic factors and fluctuations in currency exchange rate that affect fuel and oil prices.

Construction risks include shortages of materials and labor, work stoppage and other labor disputes, whether interference, catastrophic events (such as floods, earthquakes and fires), engineering, archaeological, environmental and geological problems, any of which could give rise to delays or cost overruns.

The risks associated with operating the Group include the breakdown or failure of equipment or processes and the performance of the Group below expected levels of output or efficiency.

The Group is subject to regulation by the ERC created under the Electric Power Industry Reform Act (EPIRA).

b. EPIRA

Republic Act No. 9136, the EPIRA, which became effective in 2002, and the covering Implementing Rules and Regulations (IRR) provide for significant changes in the power sector, which include, among others:

i. The unbundling of the generation, transmission, distribution and supply and other disposable assets of Electric Power Industry Participant, including its contracts with independent power producers and electricity rates;

ii. Creation of a Wholesale Electricity Spot Market (WESM) within one year; and

iii. Open and nondiscriminatory access to transmission and distribution systems.

The law also requires public listing of not less than 15% of common shares of existing generation and distribution companies within five (5) years from the effectivity of the EPIRA. New generation and distribution companies that started after the effectivity of the EPIRA shall implement their respective public offerings not later than five (5) years from the issuance of their certificate of compliance. It provides cross ownership restrictions between transmission and generation companies and between transmission and distribution companies, and a cap of 50% of its demand that a distribution utility is allowed to source from an associated company engaged in generation except for contracts entered into prior to the effectivity of the EPIRA.

There are also certain sections of the EPIRA, specifically relating to generation companies, which provide for a cap on concentration of ownership to only 30% of the installed capacity of the grid and/or 25% of the national installed generating capacity.

Based on the assessment of PPC, TPC, GPRI, PEDC and CEDC, they have complied with the applicable provisions of the EPIRA and its IRR.

c. WESM

In 2011, PPC, PEDC, CEDC and TPC and the Philippine Electricity Market Corporation entered into a Market Participation Agreement setting forth the terms and conditions for the eligibility of the Company to participate in the WESM which allows electricity to be injected into or withdrawn from the Grid.

As of December 31, 2011, the Group has sales from WESM transactions amounted ₱1.82 billion. Also, purchased power from the WESM amounted to ₱321.79 million in 2011.

d. Clean Air Act

The Clean Air Act and the related IRR contain provisions that have an impact on the industry as a whole and to the Operating Subsidiaries in particular, that needs to be complied with within 44 months from the effectivity date or by July 2004. Based on the assessment made on the Operating Subsidiaries' existing facilities, the Operating Subsidiaries believe that they comply with the provisions of the Clean Air Act and the related IRR.

e. Energy Regulation (ER) 1-94

Based on the ER 1-94 and the IRR of the EPIRA, generation companies are mandated to provide benefits to its host communities, equivalent to ₱0.01 per kWh of energy sales.

On July 13, 2004, a Memorandum of Agreement between PPC, the Department of Energy (DOE) and the local government of La Paz, Iloilo to allow prospective application of ER 1-94 has been finalized. PPC, TPC, GPRI, PEDC and CEDC accrue the required benefits to its host community (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position prospectively from the date of effectivity of ER 1-94. Total accrued benefits amounted to ₱88.01 million, ₱71.31 million and ₱54.15 million as of December 31, 2011, 2010 and 2009, respectively (see Note 13).

f. Petition against PPC

On October 4, 2002, a petition was filed by consumer protection groups from Iloilo City against PPC, NPC and PECO for the refund of ₱12.10 million representing ₱0.30/kWh discount due to PECO consumers. The petitioners alleged that the power purchased by PPC from NPC, which it sold to PECO (and eventually charged to Iloilo consumers) from June 2001 to July 2002 were subject to the discount. The case remains pending with the ERC as of March 12, 2011. Management believes that it is not probable that there will be an outflow of resources with regards to the petition and that the amount of obligation, if any, cannot be measured reliably. Hence, no provision was recorded.

g. Contingencies

In the ordinary course of business, certain subsidiaries have pending tax assessments/claims which are in various stages of protest/appeal with the tax authorities, the amounts of which cannot be reasonably estimated. Management believes that the bases of the subsidiaries' protest/appeal are legally valid such that the ultimate resolution of these assessments/claims would not have material effects on the consolidated financial position and results of operations.

h. Supply and Equipment Loan Agreement

PPC has a Supply and Equipment Loan Agreement with Shell, whereby Shell will supply PPC's total requirements of petroleum products at prices based on the formula indicated in the agreement. The agreement also provides that Shell will install at PPC's premises the equipment and facilities for the storage and servicing of products purchased at no cost to PPC. The agreement is effective for 15 years until 2015, subject to pricing review every five years.

i. Long-term Coal Supply Agreements (CSA)

Semirara Mining Corporation
In order to ensure that there is an adequate supply of coal to operate the power plants, TPC and CEDC entered into a CSA with Semirara Mining Corporation (Semirara). TPC guarantees to purchase from Semirara 200,000 Metric Tons (+/-) 10% of coal per year for a period of two (2) years and renewable upon mutual consent of both parties. The existing contract expired in January 2010. On May 31, 2010, TPC renewed its CSA with Semirara for another three (3) years ending at December 31, 2013. CEDC guarantees to purchase from Semirara 300,000 metric tons per year at a base price of ₱2,300 per metric ton, subject to adjustments provided in the agreement.

j. Claims Receivable and Related Recovery from Insurance

Operating Subsidiaries' insurance coverage for its power plant complex includes indemnity for material damages and lost revenue. Recovery from insurance related to power plants recognized in profit or loss in 2011, 2010 and 2009 amounted to ₱76.84 million, ₱135.15 million and ₱61.52 million, respectively, which represents the value of the lost revenue and material damage (see Notes 5 and 20). TPC collected ₱6.12 million and ₱32.99 million in 2011 and 2010, respectively, for the full settlement of the claim from material damages. On the other hand, the claims for business interruption were fully collected on February 4, 2011.

k. Deposits for Future Stock Subscription and Subscription Agreements

The stockholders and the Board of Directors of the Company, at several of their respective meetings held beginning March 26, 2004, approved the increase in the authorized capital stock of the Company from Two Hundred Forty Million Pesos (₱240,000,000) to One Billion Pesos (₱1,000,000,000) and the decrease in the par value of the Company's shares from One Hundred Pesos (₱100) per share to One Peso (₱1) per share.

Accordingly, through various agreements and correspondences between the Company, the shareholders and a new investor, the Company received deposits for future stock subscriptions in cash which amounted to ₱13.62 billion and ₱7.12 billion, as of December 31, 2010 and 2009, respectively, for approximately 4.40 million shares, and 2.26 million shares, respectively.

In 2011, the Company received additional deposits for future stock subscriptions amounting to ₱432.55 million for approximately 0.15 million shares.

In November and December 2011, in accordance with the change in the investment strategy of a shareholder and the new investor, total deposits for future stock subscriptions amounting to ₱3.96 billion have been refunded.

On December 9, 2011, the two stockholders entered into separate Subscription Agreements with the Company to subscribe to additional 31, 281 and 1,723 shares of stock, to be paid through the conversion of their respective deposits for future stock subscriptions in the amounts of ₱82.10 million and ₱5.00 million, respectively. Accordingly, deposits for future stock subscriptions amounting to ₱87.10 million have been transferred to capital stock and additional paid-in capital amounting to ₱3.30 million and ₱83.80 million, respectively.

On the same date, the Company entered into various Subscription Agreements with each shareholder and the new investor for 316.30 million shares of stock at a par value of ₱1 per share out of the net increase of the Company's authorized capital stock of ₱760.00 million, to be paid out of deposits for future stock subscriptions totaling ₱8.91 billion. In December 2011, the Company filed the application for increase in authorized capital stock with the SEC.
On January 16, 2012, the SEC approved the increase in authorized capital stock to ₱1.00 billion and the reduction of the par value of the Company's shares of stock from ₱100 per share to ₱1 per share. Accordingly, deposits for future stock subscriptions amounting to ₱8.91 billion have been transferred to capital stock and additional paid-in capital amounting to ₱0.32 billion and ₱8.59 billion, respectively.

l. Increase in Authorized Capital Stock

On December 2011, the BOD approved the increase in authorized capital stock of PEDC from ₱554,400,000.00 divided into 5,544,000 shares with par value of ₱100 to ₱1,500,000,000 divided into 15,000,000 shares with par value of ₱100.

m. Memorandum of Agreement (MOA) with PECO

PEDC has entered into a MOA with PECO to provide financing for the construction of the Baldoza Substation subject to the terms and conditions set forth in the MOA.

Under the MOA, PECO shall construct, install, operate, and maintain a 62.5 MVA substation at Baldoza and a 2.5 km, 69kV sub-transmission line (the Facilities) to connect to the grid of the National Grid Corporation of the Philippines through the Company's connection point to the grid at the power plant. PECO is the one obliged to file a capital expenditure and rate recovery application and obtain the approval of the ERC for the construction and installation of the Facilities and the recovery of the amount thereof. On January 21, 2010, PECO filed an Application for Approval of the Construction of 50/62.5 MVA Sub-Station and 2.5KM 69KV Sub-Transmission line with prayer for provisional authority with the ERC.

As contained in the agreement signed by PECO, PPC and the Company on June 2, 2009 for the impending electricity supply arrangement between the parties, the Company shall supply and deliver to PECO a capacity of 72MW of electric power in the long term contract.

The Company shall provide PECO funds of up to ₱140.00 million (Loan Amount) to be utilized solely for the construction and installation of the Facilities. The total amount of loan will be disbursed in three (3) tranches as follows:

i. 30% of the Loan Amount (₱42.00 million) is to be released on November 15, 2009,
ii. 60% of the Loan Amount (₱84.00 million)to be released equally every month thereafter or ₱16.80 million every 15th day of the month until April 2010 when the construction and installation of the Facilities are completed, and

iii. 10% of the Loan Amount or ₱14.00 million to be released when the Facilities are commissioned or after the PEDC and PECO are satisfied that the Facilities have passed all applicable tests.

For a period of five years after the date of the last release of the Loan Amount to PECO, PECO shall pay PEDC the Loan Amount in 60 equal monthly installments (₱2.33 million), with interest at the rate of 9% per annum, subject to ERC's decision on the recovery of interest on the loan. If any amount payable by PECO under this Agreement is not paid when due, PECO shall pay interest thereon, calculated at 2% per month.

As of December 31, 2011, 2010 and 2009, the outstanding long-term notes receivable from PECO amounted to ₱143.71 million, ₱129.71 million and ₱58.80 million, respectively.

Toyota Motor Philippines Corporation and Subsidiaries

Consolidated Financial Statements
December 31, 2011 and 2010

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

TOYOTA

TOYOTA MOTOR PHILIPPINES CORPORATION

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Santa Rosa-Tagaytay Highway, Santa Rosa City, Laguna 4026
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STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of TOYOTA MOTOR PHILIPPINES CORPORATION is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2011 and 2010, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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

MICHINOBU SUGATA President	DAVID GO Senior Executive Vice President & Treasurer	MASAKI OTSUKA Senior Vice President Comptrollership Division

Signed this 17th day of February 2012.

SGV&Co
Ernst & Young

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SEC Accreditation No. 0012-FR-2

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Toyota Motor Philippines Corporation

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Toyota Motor Philippines Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011 and 2010, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

SGV & Co
Ernst & Young

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 financial statements present fairly, in all material respects, the financial position of Toyota Motor Philippines Corporation and its subsidiaries as at December 31, 2011 and 2010, and their financial performance and their cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Michael C. Sabado
Partner
CPA Certificate No. 89336
SEC Accreditation No. 0664-A
Tax Identification No. 160-302-865
BIR Accreditation No. 08-001998-73-2009,
June 1, 2009, Valid until May 31, 2012
PTR No. 3174824, January 2, 2012, Makati City

February 17, 2012

TOYOTA MOTOR PHILIPPINES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2011	2010
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6, 28 and 29)	**₱5,304,297,746**	₱6,587,730,629
Short-term investments (Notes 7 and 29)	**1,072,255,740**	734,286,580
Receivables (Notes 8, 28 and 29)	**3,982,701,358**	3,326,121,042
Inventories (Notes 9 and 28)	**4,529,563,919**	5,845,536,414
Prepayments and other current assets (Note 10)	**310,620,033**	484,052,610
Total Current Assets	**15,199,438,796**	16,977,727,275
Noncurrent Assets		
Available-for-sale financial assets (Notes 11 and 29)	**114,403,500**	113,443,500
Property, plant and equipment (Note 12)	**1,412,395,364**	1,103,493,612
Investment properties (Notes 13, 28 and 30)	**328,803,155**	342,144,049
Intangible assets (Note 14)	**886,863**	1,647,031
Deferred tax assets (Note 27)	**390,615,775**	370,641,164
Other noncurrent assets (Notes 15, 29 and 30)	**574,773,546**	655,876,819
Total Noncurrent Assets	**2,821,878,203**	2,587,246,175
	₱18,021,316,999	₱19,564,973,450
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and others (Notes 16, 28 and 29)	**₱7,245,594,058**	₱7,503,092,387
Accrued expenses (Notes 17, 28, 29 and 32)	**1,767,802,282**	1,911,134,828
Income taxes payable (Note 27)	**12,641,740**	76,604,169
Loans payable (Notes 18, 28 and 29)	–	110,000,000
Total Current Liabilities	**9,026,038,080**	9,600,831,384
Noncurrent Liabilities		
Long-term debt (Notes 18, 28 and 29)	**245,826,700**	245,826,700
Provisions (Notes 19, 22 and 31)	**650,878,599**	674,017,872
Retirement liability (Note 25)	**460,685,822**	377,839,835
Total Noncurrent Liabilities	**1,357,391,121**	1,297,684,407
Total Liabilities	**10,383,429,201**	10,898,515,791

(Forward)

	December 31	
	2011	2010
Equity		
Equity Attributable to Equity Holders of the Parent Company		
Capital stock (Note 20)	**₱1,549,411,800**	₱1,549,411,800
Additional paid-in capital	**873,868,368**	873,868,368
Retained earnings (Note 20)		
Appropriated	**304,941,180**	304,941,180
Unappropriated	**4,714,785,745**	5,761,793,240
Other comprehensive income (Note 11)	**36,049,479**	34,814,479
	₱7,479,056,572	8,524,829,067
Non-controlling Interest	**158,831,226**	141,628,592
Total Equity	**7,637,887,798**	8,666,457,659
	₱18,021,316,999	₱19,564,973,450

See accompanying Notes to Consolidated Financial Statements.

TOYOTA MOTOR PHILIPPINES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31	
	2011	2010
REVENUE (Note 28)		
Manufacturing activities	**₱17,243,559,031**	₱18,507,030,862
Trading and services	**36,856,170,568**	41,255,207,429
	₱54,099,729,599	59,762,238,291
COST OF GOODS SOLD (Notes 9, 21, 23, 24 and 28)		
Manufacturing activities	**15,990,495,057**	16,853,511,955
Trading and services	**32,074,536,465**	35,478,152,265
	48,065,031,522	52,331,664,220
GROSS PROFIT		
Manufacturing activities	**1,253,063,975**	1,653,518,907
Trading and services	**4,781,634,102**	5,777,055,164
	6,034,698,077	7,430,574,071
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 22, 23, 24, 28 and 30)		
Selling	**(1,734,123,927)**	(1,970,337,310)
General and administrative	**(1,531,106,798)**	(1,514,477,346)
	(3,265,230,725)	(3,484,814,656)
INTEREST INCOME (Notes 6 and 7)	**343,284,372**	293,910,965
INTEREST EXPENSE (Notes 18 and 28)	**(13,799,796)**	(18,395,100)
NET FOREIGN EXCHANGE GAIN (LOSS)	**(98,541,263)**	79,510,358
OTHER INCOME - Net (Notes 26, 28 and 30)	**41,097,761**	40,601,512
INCOME BEFORE INCOME TAX	**3,041,508,426**	4,341,387,150
PROVISION FOR INCOME TAX (Note 27)	**825,084,276**	851,950,550
NET INCOME	**₱2,216,424,150**	₱3,489,436,600
Attributable to:		
Equity holders of the Parent Company	**₱2,199,221,515**	₱3,476,641,909
Non-controlling interest	**17,202,635**	12,794,691
	₱2,216,424,150	₱3,489,436,600

See accompanying Notes to Consolidated Financial Statements.

TOYOTA MOTOR PHILIPPINES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2011	2010
NET INCOME	**₱2,216,424,150**	₱3,489,436,600
OTHER COMPREHENSIVE INCOME		
Unrealized gain on available-for-sale financial assets (Note 11)	**1,235,000**	9,139,929
TOTAL COMPREHENSIVE INCOME	**₱2,217,659,150**	₱3,498,576,529
Attributable to:		
Parent Company	**₱2,200,456,515**	₱3,485,781,838
Non-controlling interest	**17,202,635**	12,794,691
	₱2,216,599,150	₱3,498,576,529

See accompanying Notes to Consolidated Financial Statements.

TOYOTA MOTOR PHILIPPINES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to Equity Holders of the Parent Company							
	Capital Stock (Note 20)	Additional Paid-In Capital	Retained Earnings Appropriated (Note 20)	Retained Earnings Unappropriated (Note 20)	Unrealized Gain on Available-for-Sale Financial Assets (Note 11)	Total	Non-controlling Interest	Total Equity
At January 1, 2011	**₱1,549,411,800**	**₱873,868,368**	**₱304,941,180**	**₱5,761,793,240**	**₱34,814,479**	**₱8,524,829,067**	**₱141,628,592**	**₱8,666,457,659**
Net income	–	–	–	**2,199,221,515**	–	**2,199,221,515**	**17,202,635**	**2,216,424,150**
Other comprehensive income (Note 11)	–	–	–	–	**1,235,000**	**1,235,000**	–	**1,235,000**
Total comprehensive income	–	–	–	**2,199,221,515**	–	**2,200,456,515**	**17,202,635**	**2,217,659,150**
Cash dividends (Note 20)	–	–	–	**(3,246,229,010)**	–	**(3,246,229,010)**	–	**(3,246,229,010)**
At December 31, 2011	**₱1,549,411,800**	**₱873,868,368**	**₱304,941,180**	**₱4,714,785,745**	**₱36,049,479**	**₱7,479,056,572**	**₱158,831,227**	**₱7,637,887,799**
At January 1, 2010	₱1,549,411,800	₱873,868,368	₱204,941,180	₱3,973,631,274	₱25,674,550	₱6,627,527,172	₱128,833,901	₱6,756,361,073
Appropriations during the year (Note 20)	–	–	100,000,000	(100,000,000)	–	–	–	–
Net income	–	–	–	3,476,641,909	–	3,476,641,909	12,794,691	3,489,436,600
Other comprehensive income (Note 11)	–	–	–	–	9,139,929	9,139,929	–	9,139,929
Total comprehensive income	–	–	–	3,476,641,909	9,139,929	3,485,781,838	12,794,691	3,498,576,529
Cash dividends (Note 20)	–	–	–	(1,588,479,943)	–	(1,588,479,943)	–	(1,588,479,943)
At December 31, 2010	₱1,549,411,800	₱873,868,368	₱304,941,180	₱5,761,793,240	₱34,814,479	₱8,524,829,067	₱141,628,592	₱8,666,457,659

See accompanying Notes to Consolidated Financial Statements.

TOYOTA MOTOR PHILIPPINES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱3,041,508,426**	₱4,341,387,150
Adjustments for:		
Interest income (Notes 6 and 7)	**(343,284,372)**	(293,910,965)
Depreciation and amortization (Notes 12, 13, 14 and 24)	**221,675,514**	228,265,141
Accruals (reversals or payments) of claims and assessments and product warranty (Note 19)	**(23,139,273)**	237,324,120
Dividend income (Note 26)	**(16,585,690)**	(6,923,206)
Interest expense and other charges (Notes 18 and 26)	**14,080,375**	18,754,560
Unrealized foreign exchange loss	**(12,177,332)**	4,908,223
Gain on sale of property and equipment (Note 26)	**(7,840,732)**	(9,064,808)
Provision for inventory write-down (Notes 9, 21 and 22)	**1,141,279**	21,012,001
Loss on sale of AFS investments	**175,000**	–
Provision for impairment losses (Notes 8, 15 and 22)	**42,100**	45,032,726
Net cash flows generated from operations before changes in working capital	**2,875,595,295**	4,586,784,942
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables	**(657,937,328)**	(1,423,036,145)
Inventories	**1,314,831,216**	(2,430,105,174)
Prepayments and other current assets	**173,432,577**	(162,453,851)
Increase (decrease) in:		
Accounts payable and others	**(257,498,329)**	1,785,553,681
Accrued expenses	**(143,332,546)**	493,231,675
Retirement liability	**82,845,987**	(2,132,192)
Net cash flows generated from operations	**3,387,936,872**	2,847,842,936
Income taxes paid	**(909,021,316)**	(862,331,132)
Net cash flows provided by operating activities	**2,478,915,556**	1,985,511,804
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Intangible assets (Note 14)	**–**	(2,280,505)
Available-for-sale investments (Note 11)	**–**	(6,705,071)
Property, plant and equipment (Note 12)	**(538,562,693)**	(146,335,008)
Short-term investments	**(1,072,255,740)**	(734,286,580)
Proceeds from:		
Short-term investments	**734,286,580**	601,717,932
Borrowings (Note 18)	**–**	510,000,000
Disposals of:		
Property, plant and equipment	**29,927,222**	18,885,249
Available-for-sale financial assets (Note 11)	**100,000**	–
Interest received	**344,599,282**	297,649,333
Cash dividends received (Note 26)	**16,585,690**	6,923,206
Decrease (increase) in other noncurrent assets	**81,103,273**	(60,398,220)
Net cash flows provided by investing activities	**(404,216,386)**	485,170,336

(Forward)

	Years Ended December 31	
	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments for:		
Interest expense and other charges (Notes 18 and 26)	**(₱14,080,375)**	(₱18,754,560)
Borrowings (Note 18)	**(110,000,000)**	(530,000,000)
Dividends (Note 20)	**(3,246,229,010)**	(1,588,479,943)
Cash flows used in financing activities	**(₱3,370,309,385)**	(2,137,234,503)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**12,177,332**	(4,908,223)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,283,432,883)**	328,539,414
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**6,587,730,629**	6,259,191,215
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱5,304,297,746**	₱6,587,730,629

See accompanying Notes to Consolidated Financial Statements.

TOYOTA MOTOR PHILIPPINES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Toyota Motor Philippines Corporation ("TMPC" or "the Parent Company") and its subsidiaries (collectively referred to as "the Group") were incorporated in the Philippines primarily to engage in the assembly, manufacture, importation, sale and distribution of all kinds of motor vehicles including vehicle parts, accessories and instruments.

The Parent Company's major stockholders are Toyota Motor Corporation, Japan (TMC) and Metropolitan Bank and Trust Company (Metrobank).

The registered office address of the Parent Company is Toyota Special Economic Zone, Santa Rosa-Tagaytay Highway, Santa Rosa City, Laguna.

2. Basis of Preparation

The accompanying consolidated financial statements have been prepared under the historical cost basis, except for available-for-sale (AFS) financial assets that have been measured at fair value, and are presented in Philippine Peso (₱), the Parent Company's functional currency. Amounts are rounded to the nearest peso unless otherwise indicated.

Statement of Compliance
The accompanying consolidated financial statements are presented in compliance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as of and for the years ended December 31, 2011 and 2010. All subsidiaries are incorporated in the Philippines. Additional details of the subsidiaries follow:

Name of Subsidiary	Percentage of Ownership
Toyota Makati, Inc. (TMI)	100%
Lexus Manila, Inc. (LMI)	75%
Toyota San Fernando Pampanga, Inc. (TSFI)	55%

The financial statements of TMI, LMI and TSFI are prepared for the same reporting year as the Parent Company, using consistent accounting policies.

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

A subsidiary is fully consolidated from the date of acquisition, being the date on which the Parent Company obtains control, and continues to be consolidated until the date such control ceases.

Non-controlling interest represents the portion of profit and loss and net assets not held by the Parent Company and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from equity attributable to equity holders of the Parent Company.

3. **Changes in Accounting Policies**

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new and amended PFRS and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) that are discussed below. The adoption of the new and amended PFRS and Philippine Interpretations did not have any effect on the Group's financial statements.

- Amendment to PAS 24, *Related Party Disclosures* (effective for annual periods beginning on or after January 1, 2011)
  This amended Standard clarified the definition of a related party to simplify the identification of such relationships, particularly in relation to significant influence and joint control, and to eliminate inconsistencies in its application. The revised Standard introduces a partial exemption of disclosure requirements for government-related entities. The Group will need to consider the revised definition of related parties to ensure all the relevant information is still being captured, although, they do not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

- Amendment to PAS 32, *Financial Instruments: Presentation - Classification of Rights Issues* (effective for annual periods beginning on or after February 1, 2010)
  This Amendment clarified 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.

- Amendment to Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement* (effective for annual periods beginning on or after January 1, 2011)
  This Philippine Interpretation provides guidance on assessing the recoverable amount of net pension asset and permits an entity to treat the prepayment of a minimum funding requirement as an asset. This Philippine Interpretation will be applied retrospectively.

Improvements to PFRS 2010
Improvements to PFRS 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 Group, however, does not expect the adoption of the amendments to have a significant impact on its financial position or performance.

- PFRS 1, *First-time adoption of Philippine Financial Reporting Standards*
- PFRS 3, *Business Combinations*
- PFRS 7, *Financial Instruments Disclosures*
- PAS 1, *Presentation of Financial Statements*
- PAS 27, *Consolidated and Separate Financial Statements*
- PAS 34, *Interim Financial Reporting*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*

Future Changes in Accounting Policies

The Group will adopt the following new and amended PFRS and Philippine Interpretations enumerated below when these become effective. The following new and amended PFRS and Philippine Interpretations will not have significant impact to the consolidated financial statements:

Effective in 2012

- PFRS 7, *Financial Instruments: Disclosures - Transfers of Financial Assets* (effective for annual periods beginning on or after July 1, 2012)
  The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Parent Company financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

- PAS 1, *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income (OCI)* (effective for annual periods beginning on or after July 1, 2012)
  The amendments to PAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has therefore no impact on the Group's financial position or performance.

- Amendment to PAS 12, *Income Taxes - Deferred Taxes: Recovery of Underlying Assets* (effective for annual periods beginning on or after January 1, 2012)
  The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16 always be measured on a sale basis of the asset.

Effective in 2013

- Amendment to PAS 19*, Employee Benefits* (effective for annual periods beginning on or after January 1, 2013)
  Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group is currently assessing the impact of the amendment to PAS 19.

- PAS 27 (Revised), *Separate Financial Statements* (effective for annual periods beginning on or after January 1, 2013)
  As a consequence of the new PFRS 10, *Consolidated Financial Statement*s and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements.

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

- PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after January 1, 2013)
  These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32.

  The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

  a) The gross amounts of those recognized financial assets and recognized financial liabilities;
  b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
  c) The net amounts presented in the statement of financial position;
  d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
     i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
     ii. Amounts related to financial collateral (including cash collateral); and
  e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

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

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

- PFRS 11, *Joint Arrangements* (effective for annual periods beginning on or after January 1, 2013)
  This standard replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. It removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will have no impact the financial position of the Group.

- PFRS 12, *Disclosures of Interests in Other Entities* (effective for annual periods beginning on or after January 1, 2013)
  The standard includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.

- PFRS 13, *Fair Value Measurement* (effective for annual periods beginning on or after January 1, 2013)
  This standard establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance.

Effective in 2014

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after January 1, 2014)
  This standard establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance.

Effective in 2015

- *PFRS 9*, *Financial Instruments - Classification and Measurement* (effective for annual periods beginning on or after January 1, 2015)
  PFRS 9 as issued reflects the first phase on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. The adoption of this new standard will have no impact on the Group's financial position.

- Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate* (effective for annual periods beginning on or after January 1, 2015)
  The implementation of the Philippine Interpretation is deferred until the final Review Standard is issued by IASB and after an evaluation on the requirements and guidance in the standard vis-à-vis the practices and regulations in the Philippine real estate industry is completed. This Philippine Interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This

Philippine 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. The application of this new standard will have no impact on the financial position of the Group.

4. **Summary of Significant Accounting Policies**

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and other sales 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:

Sale of goods
Revenue from sale of goods arises from sale of manufactured vehicles and trading of completely built-up vehicles and local and imported parts. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer (including certain "bill and hold" sales, wherein the buyer takes title and accepts billing), usually on dispatch of goods.

Rendering of services
Service fees from installation of parts and repairs and maintenance of vehicles are recognized as revenue when the related services have been rendered.

Interest income
Interest income is recognized as interest accrues using the effective interest rate (EIR) method, that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

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

Rental income
Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease term.

Selling, General and Administrative Expenses
Selling expenses constitute costs of advertisements, promotions and other selling expenses. General and administrative expenses constitute costs of administering the business. These are recognized as expenses when incurred.

Cost of Goods Sold
Cost of goods sold includes the purchase price of the products sold, as well as costs that are directly attributable in bringing the merchandise to its intended condition and location. These costs include the costs of storing and transporting the products. Vendor returns and allowances are generally deducted from cost of goods sold and services.

Financial Instruments

Date of recognition

The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the settlement date.

Initial recognition of financial instruments

Financial instruments within the scope of PAS 39 are classified as either financial assets and liabilities at FVPL, loans and receivables, held-to-maturity (HTM) investments and AFS financial assets and other liabilities, as appropriate. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial reporting date.

Financial instruments are recognized initially at fair value of the consideration given. The fair values of the consideration given are determined by reference to the transaction price or other market prices. If such market prices are not reliably determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rates of interest for similar instruments with similar maturities. The initial measurement of financial instruments, except for those designated at FVPL, includes transaction costs.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity net of any related income tax benefits.

As of December 31, 2011 and 2010, the Group's financial instruments are classified as loans and receivables, AFS financial assets and other liabilities.

Determination of fair value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price 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 ask 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. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other relevant valuation models.

Day 1 difference

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

Loans and receivables
Loans and receivables are 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 designated as AFS financial assets or financial assets at FVPL.

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the EIR method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in the consolidated statement of income. The losses arising from impairment of such loans and receivables are also recognized in the consolidated statement of income.

This accounting policy relates to the consolidated statement of financial position captions "Cash and cash equivalents", "Receivables" and "Other noncurrent assets".

AFS financial assets
AFS financial assets are those non-derivative financial assets that are designated as such or do not qualify as 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 government securities, equity investments and other debt instruments.

After initial measurement, AFS financial assets are measured at fair value with unrealized gains or losses being recognized directly in equity in the 'Unrealized gain on AFS financial assets'. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognized in the consolidated statement of income. Interest earned or paid on the investments is reported as interest income or expense using the EIR. Dividends earned on investments are recognized in the consolidated statement of income when the right to receive has been established.

This accounting policy relates to the consolidated statement of financial position caption "Available-for-sale financial assets".

Other financial liabilities
All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the consolidated statement of income when liabilities are derecognized as well as through amortization process.

This accounting policy applies primarily to consolidated statement of financial position captions "Accounts payable and others", "Accrued expenses", "Loans payable" and "Long-term debt".

There are no financial liabilities recognized at fair value.

Classification of Financial Instruments Between Debt and Equity

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

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

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

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount, after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Derecognition of Financial Assets and Financial Liabilities

Financial asset

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

- the rights to receive cash flows from the asset have expired;
- 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 substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Financial liability

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired.

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

Offsetting financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated 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.

Impairment of Financial Assets
The Group assesses at each reporting date whether a financial asset or a group of financial assets is impaired.

Loans and receivables
If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial assets' original EIR (i.e., the EIR computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognized in the consolidated statement of income during the period in which it arises.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. 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 of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

In relation to loans and receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through the use of an allowance account. Impaired loans and receivables are derecognized when they are assessed as uncollectible.

AFS financial assets
If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated statement of income, is transferred from the consolidated statement of changes in equity to the consolidated statement of income. Reversals in respect of equity instruments classified as AFS financial assets are not recognized in the consolidated statement of income. Reversals of impairment losses on the debt instruments are reversed through the consolidated statement of income, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income.

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash in banks earn interest at the prevailing bank deposit rates. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from dates of placements and that are subject to insignificant risk of change in value.

Inventories
Inventories are valued at the lower of cost or net realizable value (NRV). NRV is the estimated selling price in the ordinary course of business, less the estimated costs of completion, marketing and distribution. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials and spare parts	-	Purchase cost on a weighted average cost
Finished goods and work-in-process	-	Cost of direct material and labor and proportion of fixed and overhead manufacturing costs allocated based on normal operating capacity
Raw materials and spare parts in-transit	-	Cost is determined using the specific identification method

Property, Plant and Equipment
Property, plant and equipment, except for land, are carried at cost less accumulated depreciation, amortization and any impairment in value. Land is stated at cost less any impairment in value.

The initial cost of property, plant and equipment consists of its purchase price, construction costs, including nonrefundable import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operations, such as repairs and maintenance and overhaul costs, are normally charged against income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property, plant and equipment. All other repair and maintenance expenses are charged to current operations as incurred.

Cost of trial tools, sample dies and jigs, and testing materials that do not benefit future periods are expensed outright. The Group capitalizes to property, plant and equipment the costs of these assets when the Group can demonstrate that the assets to which these items are utilized are technically feasible for commercial production.

Depreciation and amortization of property, plant and equipment commences once the assets are put into operational use.

Depreciation and amortization are computed on the straight-line method over the estimated useful lives (EUL) of the respective assets. Leasehold improvements are amortized over the useful lives of the improvements or the remaining term of the related lease, whichever is shorter. The EUL of the property, plant and equipment follow:

	Years
Land improvements	10
Building and improvements	10
Leasehold improvements	5
Machinery and equipment	5
Small tools, dies, jigs and patterns	2-3
Transportation equipment	3
Furniture, fixtures and equipment	5
Training equipment	5

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

Construction-in-progress represents cost of buildings under construction and initial installation and renovation of machinery and equipment. Construction-in-progress for machinery and equipment includes cost of new machinery and equipment acquired, salaries of engineers and employees and other incidental expenses that are directly attributable to the project.

Construction-in-progress is not depreciated until such time as the relevant assets are completed and put into operational use.

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

Investment Properties

Investment properties consist of properties that are held to earn rentals or for capital appreciation or both. Initially, investment properties are measured at cost including transaction costs. Subsequent to initial recognition, investment properties except land, are stated at cost less accumulated depreciation, amortization and impairment in value, if any. Land is carried at cost less any impairment in value.

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 gain or loss on the retirement or disposal of an investment property is recognized in the consolidated statement of income in the year the asset is derecognized.

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

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end 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, as evidenced by commencement or owner occupation or commencement of development with a view to sale.

For a transfer from investment property to owner-occupied property, the deemed cost of properties for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognized in the consolidated statement of income.

Depreciation and amortization is calculated on a straight-line basis using the EUL from the time of acquisition of the investment properties. The EUL of the investment properties follow:

	Years
Land improvements	10
Building and improvements	10

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and any accumulated impairment loss. Internally-generated intangible assets, if any, excluding capitalized developments costs, are not capitalized and expenditure is reflected in the consolidated statement of income in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and amortization method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

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

As of December 31, 2011 and 2010, the Group has no intangible assets with indefinite useful lives.

Research and development costs
Research costs are expensed as incurred.

An intangible asset arising from development expenditure on an individual project is recognized only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during the development.

During the period of development, the asset is tested for impairment annually. Following initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses.

Amortization of the asset begins when the development is complete and the asset is available for use. It is amortized over the period of expected future sales. During the period of which the asset is not yet in use, it is tested for impairment annually.

As of December 31, 2011 and 2010, there are no research and development costs that qualified as an intangible asset.

Impairment of Nonfinancial Assets
This accounting policy applies to the Group's property, plant and equipment, investment properties and intangible assets.

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less cost 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 of those from other assets or group of assets. 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 assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the CGU level, as appropriate.

Borrowing Costs
Borrowing costs are generally expensed as incurred. Interest on borrowed funds used to finance the construction of qualifying asset to the extent incurred during the period of construction is capitalized as part of the cost of the qualifying asset. The capitalization of these borrowing costs as part of the cost of the qualifying asset: (a) commences when the expenditures and borrowing costs are being incurred during the construction and related activities necessary to prepare the qualifying asset for its intended use are in progress; and (b) ceases when substantially all the activities necessary to prepare the qualifying for its intended use are complete. The capitalized borrowing costs are amortized using the straight-line method over the EUL of the building.

Equity
Capital stock is measured at par value for all shares issued. When the Parent Company issues shares in excess of par, the excess is recognized as additional paid-in capital (APIC). Incremental costs incurred directly attributable to the issuance of new shares are treated as deduction from APIC.

Retained earnings represent accumulated earnings of the Group less dividends declared.

Income Tax
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 at the reporting date.

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

Deferred tax liabilities are recognized for all taxable temporary differences, 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 profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, 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 and taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- 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 profit will be available against which the temporary differences can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rate and tax laws that have been enacted or substantively enacted at the reporting date.

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

Foreign Currency Transactions and Translation

The consolidated financial statements are presented in Philippine Peso (₱), which is the Parent Company's functional and presentation currency. The functional currency of the subsidiaries is also the Philippine Peso (₱). Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. However, monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange prevailing at the reporting date. Exchange gains or losses arising from foreign currency translations are charged against or credited to the consolidated statement of income.

Retirement Costs

The Group has a noncontributory defined benefit retirement plan.

The retirement cost of the Group is determined using the projected unit credit (PUC) 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 period. The liability recognized in the consolidated statement of financial position in respect of defined benefit pension plan is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs.

The defined benefit obligation is calculated annually by an independent actuary using the PUC method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using prevailing interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability or applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged against income when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Past service costs, if any, are recognized immediately in the consolidated statement of 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 retirement benefits of officers and employees are determined and provided for by the Group and are charged against current income.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs not yet recognized, if any, and less the fair value of the plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service costs not yet recognized, if any, 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.

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.

Group as a lessee
Lease of assets under which the lessor effectively retains all the risks and rewards of ownership is classified as operating lease. Operating lease payments are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term.

Group as a lessor
Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income.

Provisions
Provisions are recognized only when the Group has: (a) a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. 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 an interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of the resources

embodying economic benefits will be required to settle the obligation, the provision is reversed.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic resources is remote. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Events After the Reporting Date
Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

5. **Significant Accounting Judgments, Estimates and Assumptions**

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which has the most significant effect on the amounts recognized in the consolidated financial statements:

Operating leases - Group as lessor
The Group has entered into commercial property leases on its investment properties portfolio (Notes 28 and 30). 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.

Operating leases - Group as lessee
The Group has entered into property leases for its operations (Notes 28 and 30). The Group has determined that the lessor retains all significant risks and rewards of ownership of these properties which are leased out on operating leases.

Allocation of costs and expenses
Costs and expenses are classified as exclusive and common. Exclusive costs such as raw materials and direct labor are charged directly to the product line. Common costs and expenses are allocated using sales value.

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of receivables
The Group reviews its receivable portfolio to assess impairment annually based on the factors that affect the collectibility of the account. The Group reviews the age and status of receivables and identifies accounts that are to be provided with allowance on a continuous basis. The amount and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase the recorded operating expenses and decrease current assets.

The related balances follow (Note 8):

	2011	2010
Receivables	**₱4,038,238,466**	₱3,382,318,308
Allowance for impairment losses	**55,535,108**	56,197,266

Estimating NRV of inventory
The Group reviews its inventory to assess NRV at least on a semi-annual basis. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. An increase in reserves for inventory write-down would increase recorded operating expenses and decrease current assets.

The related balances follow (Note 9):

	2011	2010
Inventories		
At cost	**₱3,189,812,086**	₱3,846,254,874
At NRV	**1,339,751,833**	1,999,281,540

Provision for inventory write-down amounted to ₱6.1 million and ₱21.0 million in 2011 and 2010, respectively. Inventories, net of allowance for inventory write-down, amounted to ₱4,233.3 million and ₱5,845.5 million as of December 31, 2011 and 2010, respectively (Note 9).

Impairment of AFS financial assets
The Group determines that AFS financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. 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.

A net increase on market value of AFS financial assets amounting ₱1.2 million and ₱9.1 million was recognized in 2011 and 2010, respectively. AFS financial assets amounted to ₱114.4 million and ₱113.4 million as of December 31, 2011 and 2010, respectively (Note 11).

EUL of property, plant and equipment, investment properties and intangible assets
The Group estimates the useful lives of its property, plant and equipment, investment properties and intangible assets based on the period over which the assets are expected to be available for use. The Group reviews annually the EUL of property, plant and equipment, investment properties and intangible assets based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the EUL of property, plant and equipment, investment properties and intangible assets would increase the recorded depreciation and amortization expense and decrease the carrying value of property, plant and equipment, investment properties and intangible assets.

The related balances follow:

	2011	2010
Property, plant and equipment (inclusive of construction-in-progress) (Note 12)	**₱4,804,111,581**	₱4,306,926,294
Accumulated depreciation (Note 12)	**3,391,716,217**	3,203,432,682
Investment properties (Note 13)	**475,231,630**	475,231,630
Accumulated depreciation (Note 13)	**146,428,475**	133,087,581
Intangible assets (Note 14)	**2,280,505**	2,280,505
Accumulated amortization (Note 14)	**1,393,642**	633,474
Aggregate depreciation and amortization (Notes 12, 13, 14 and 24)	**221,675,514**	228,265,141

Estimating impairment of property, plant and equipment, investment properties and intangible assets
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.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the CGU to which the asset belongs. For impairment loss on specific assets, the recoverable amount represents the net selling price.

In determining the present value of the estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the accompanying consolidated financial statements.

The related balances follow:

	2011	2010
Property, plant and equipment (inclusive of construction-in-progress) (Note 12)	**₱4,804,111,581**	₱4,306,926,294
Accumulated depreciation (Note 12)	**3,391,716,217**	3,203,432,682
Investment properties (Note 13)	**475,231,630**	475,231,630
Accumulated depreciation (Note 13)	**146,428,475**	133,087,581
Intangible assets (Note 14)	**2,280,505**	2,280,505
Accumulated amortization (Note 14)	**1,393,642**	633,474
Aggregate depreciation and amortization (Notes 12, 13, 14 and 24)	**221,675,514**	228,265,141

Estimating provision for product warranty
Estimated warranty costs are provided at the time of sale. The provision is based on the estimated costs of future servicing the products sold, the costs of which are not recoverable from customers. A provision is recognized for expected warranty claims on products sold during the last two (2) years, based on past experience of the level of returns and repairs. It is expected that most of these costs will be incurred in the next financial year and all will have been incurred within three (3) years as of the reporting date.

As of December 31, 2011 and 2010, provision for product warranty amounted to ₱504.0 million and ₱504.3 million, respectively (Note 19).

Estimating pension and other retirement benefits
The determination of the obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, expected returns on plan assets and salary rate increases. In compliance with PFRS, actual results that differ from the Group's assumptions, subject to the 10% corridor test, are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Group believes that the assumptions are reasonable and appropriate, significant differences between actual experiences and assumptions may materially affect the cost of employee benefits and related obligations.

The related balances follow (Note 25):

	2011	2010
Retirement liability	**₱460,685,822**	₱377,839,835
Pension benefit obligation	**1,413,167,418**	1,081,462,018
Unrecognized net actuarial losses	**(234,077,126)**	(32,278,997)

Deferred tax assets
Deferred tax assets are recognized only to the extent that the taxable income will be available against which the deferred tax assets can be used. The Group assesses the unrecognized deferred tax assets and will recognize a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

The Group has recognized deferred tax assets on the temporary differences amounting ₱411.0million and ₱405.2 million as of December 31, 2011 and 2010, respectively (Note 27).

The Group has unrecognized deferred tax assets on the temporary differences amounting ₱4.14 million as of December 31, 2011 and 2010.

Financial assets and liabilities
The Group carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgments. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates and volatility rates), amount of changes in fair value would differ if the Group utilized a different valuation methodology. Any changes in fair value of these financial assets and liabilities would affect profit and loss and equity.

The related balances follow (Note 29):

	2011	2010
Financial assets	**₱10,699,399,544**	₱10,926,726,922
Financial liabilities	**9,034,120,008**	9,610,952,816

Contingencies
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with the legal counsels and based upon the analysis of potential results. The Group currently does not believe these proceedings will have a material adverse effect on the Group's financial position.

6. Cash and Cash Equivalents

This account consists of:

	2011	2010
Cash on hand and in banks	**₱271,051,715**	₱304,261,194
Time deposits	**5,033,246,031**	6,283,469,435
	₱5,304,297,746	₱6,587,730,629

Cash in banks earns interest at the respective bank deposit rates. Time deposits are made for varying periods of up to three (3) months depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. Interest income earned from savings account and time deposits follow:

	2011	2010
Savings accounts	**₱7,841,957**	₱1,801,647
Time deposits	**291,353,259**	281,325,072
	₱299,195,216	₱283,126,719

7. Short-term Investments

These represent the Group's foreign currency and peso-denominated time deposits with original maturities of more than three (3) months to twelve (12) months and earn interest at the respective time deposit rates ranging from 0.2% to 4.75% and from 0.2% to 1.9% in 2011 and 2010, respectively. Interest income earned on these short-term investments amounted to ₱44.1 million and ₱10.8 million in 2011 and 2010, respectively.

8. **Receivables**

This account consists of:

	2011	2010
Trade	**₱3,703,282,735**	₱3,055,362,177
Receivable from employees	**127,813,162**	125,867,845
Warranty	**25,508,922**	21,096,997
Dealer advances	**8,143,416**	11,137,316
Others	**173,490,231**	168,853,973
	₱4,038,238,466	3,382,318,308
Less allowance for impairment losses	**55,535,108**	56,197,266
	₱3,982,703,358	₱3,326,121,042

Trade receivables are noninterest-bearing and are generally on one (1) to thirty (30) days' terms. Trade receivables from related parties as of December 31, 2011 and 2010 amounted to ₱552.4 million and ₱805.0 million, respectively (Note 28).

Receivable from employees account relates to advances to officers and employees which are collectible within one (1) year.

Warranty receivables represent claims from suppliers for reimbursement of the related cost of delivered materials found to be defective or damaged.

Dealer advances pertain to receivables arising from nontrade transactions with dealers.

Other receivables consist of interest receivable, rent and shipping charges collectible from dealers.

The allowance for impairment losses was provided for warranty receivables and other receivables collectively determined as impaired.

The rollforward analysis of the allowance for impairment losses as of December 31 follows:

	2011	2010
At January 1	**₱56,197,266**	₱55,253,696
Provision for (reversal of) impairment losses (Note 22)	**(662,158)**	943,570
At December 31	**₱55,535,108**	₱56,197,266

The Group has written-off receivables amounting ₱0.7 million in 2011.

As of December 31, the aging analysis of receivables follows:

		Neither past due	Past due but not impaired			Past due
	Total	nor impaired	30 - 60 days	61 - 90 days	> 90 days	and impaired
2011	**₱4,542,771,603**	**4,363,482,177**	**41,294,894**	**17,697,773**	**64,761,651**	**55,535,108**
2010	3,382,318,308	2,623,020,733	240,180,157	29,833,159	433,086,993	56,197,266

For the terms and conditions on related party transactions, refer to Note 28.

9. **Inventories**

This account consists of:

	2011	2010
At cost:		
Finished goods	**₱802,257,210**	₱2,270,473,159
Work-in-process	**85,267,265**	77,422,063
Raw materials in-transit	**2,302,287,611**	1,498,359,652
	3,189,812,086	3,846,254,874
At NRV:		
Raw materials	**1,017,393,610**	1,598,552,959
Spare parts	**322,358,223**	400,728,581
	1,339,751,833	1,999,281,540
	₱4,233,329,925	₱5,845,536,414

The total cost of goods sold recognized in the consolidated statements of income amounted to ₱48,065.0 million and ₱52,331.7 million in 2011 and 2010, respectively (Note 21).

Allowance for inventory write-down follows:

	2011	2010
Beginning balance	**₱99,004,386**	₱88,483,538
Provision for inventory write-down (Notes 21 and 22)	**6,119,873**	21,012,001
Inventory scrap	**–**	(10,491,153)
	₱105,124,259	₱99,004,386

The amount of provision for inventory write-down recognized in general and administrative expenses and cost of goods sold follows:

	2011	2010
Cost of goods sold (Note 21)	**₱4,978,594**	₱8,498,331
General and administrative expenses (Note 22)	**1,141,279**	12,513,670
	₱6,119,873	₱21,012,001

The Group has written-off inventories amounting ₱10.5 million in 2010.

10. **Prepayments and Other Current Assets**

This account consists of:

	2011	2010
Creditable withholding tax	**₱88,334,489**	₱53,127,606
Ad-valorem tax	**85,030,499**	323,852,057
Prepayments (Note 29)	**70,302,694**	52,583,383
Input value-added tax (VAT) - net	**66,952,351**	54,489,564
	₱310,620,033	₱484,052,610

The ad-valorem tax represents advance payments to the Bureau of Internal Revenue (BIR). This is applied against taxes on the manufacture and importation of vehicles which generally occurs within one (1) year from the date the ad-valorem taxes are paid.

11. **Available-for-sale Financial Assets**

This account consists of:

	2011	2010
Unquoted equity securities (at cost):		
Investment in Toyota Autoparts Philippines, Inc. (TAPI)	**₱50,000,000**	₱50,000,000
Investment in preferred and other shares of stock	**4,073,500**	4,073,500
Quoted equity securities (at market):		
Investments in golf shares	**60,330,000**	59,370,000
	₱114,403,500	₱113,443,500

TAPI is a 95% subsidiary of TMC. The other 5% is owned by the Parent Company which is 34% owned by TMC.

The movement in this account follows:

	2011	2010
At January 1	**₱113,443,500**	₱97,598,500
Acquisitions during the year	**–**	6,705,071
Unrealized gain during the year	**1,235,000**	9,139,929
Disposals	**(275,000)**	–
At December 31	**₱114,403,500**	₱113,443,500

As of December 31, 2011 and 2010, the unrealized gain in quoted equity securities amounted to ₱36.0 million and₱34.8 million. This is presented as "Other comprehensive income" in the equity section of the consolidated statement of financial position.

12. **Property, Plant and Equipment**

The rollforward analysis of this account follows:

2011

	At January 1	Additions/ Reclassifications	Disposals/ Write-off	At December 31
Cost				
Land	**₱417,973,879**	**₱–**	**₱–**	**₱417,973,879**
Land improvements	**98,813,121**	**290,243**	**–**	**99,103,364**
Building and improvements	**1,253,064,494**	**55,131,822**	**–**	**1,308,196,316**
Leasehold improvements	**9,443,262**	**677,712**	**–**	**10,120,974**
Machinery and equipment	**446,508,871**	**116,213,237**	**–**	**562,722,108**
Small tools, dies, jigs and patterns	**1,356,319,467**	**55,836,987**	**(19,047,597)**	**1,393,108,857**
Transportation equipment	**288,874,626**	**108,314,290**	**(22,329,809)**	**374,859,107**
Furniture, fixtures and equipment	**268,326,298**	**21,050,394**	**–**	**289,376,692**
Training equipment	**28,310,292**	**441,113**	**–**	**28,751,405**
Total	**4,167,634,310**	**357,955,798**	**(41,377,406)**	**4,484,212,702**
Accumulated Depreciation and Amortization (Notes 21, 22 and 24)				
Land improvements	**₱89,650,487**	**2,856,097**	**–**	**92,506,584**
Building and improvements	**916,987,422**	**70,668,044**	**–**	**987,655,466**
Leasehold improvements	**9,443,262**	**–**	**–**	**9,443,262**
Machinery and equipment	**441,088,433**	**17,312,845**	**–**	**458,401,278**
Small tools, dies, jigs and patterns	**1,288,180,984**	**42,642,992**	**(15,241,462)**	**1,315,582,514**
Transportation equipment	**201,861,778**	**54,401,052**	**(4,049,455)**	**252,213,375**
Furniture, fixtures and equipment	**239,817,251**	**19,427,395**	**–**	**259,244,646**
Training equipment	**16,403,065**	**266,027**	**–**	**16,669,092**
Total	**3,203,432,682**	**207,574,452**	**(19,290,917)**	**3,391,716,217**
Construction-in-progress	**139,291,984**	**471,673,263**	**(291,066,368)**	**319,898,879**
Net Book Value	**₱1,103,493,612**			**₱1,412,395,364**

2010

	At January 1	Additions/ Reclassifications	Disposals/ Write-off	At December 31
Cost				
Land	₱417,973,879	₱–	₱–	₱417,973,879
Land improvements	98,813,121	–	–	98,813,121
Building and improvements	1,240,967,031	12,097,463	–	1,253,064,494
Leasehold improvements	9,443,262	–	–	9,443,262
Machinery and equipment	444,347,308	2,161,563	–	446,508,871
Small tools, dies, jigs and patterns	1,287,370,713	68,948,754	–	1,356,319,467
Transportation equipment	254,246,387	72,368,851	(37,740,612)	288,874,626
Furniture, fixtures and equipment	255,026,050	14,560,070	(1,259,822)	268,326,298
Training equipment	27,589,310	720,982	–	28,310,292
Total	4,035,777,061	170,857,683	(39,000,434)	4,167,634,310
Accumulated Depreciation and Amortization (Notes 21, 22 and 24)				
Land improvements	₱84,640,713	₱5,009,774	₱–	₱89,650,487
Building and improvements	849,883,511	67,103,911	–	916,987,422
Leasehold improvements	9,443,262	–	–	9,443,262
Machinery and equipment	432,556,614	8,531,819	–	441,088,433
Small tools, dies, jigs and patterns	1,214,465,631	73,715,353	–	1,288,180,984
Transportation equipment	188,208,500	41,573,449	(27,920,171)	201,861,778
Furniture, fixtures and equipment	223,136,505	17,940,568	(1,259,822)	239,817,251
Training equipment	15,987,166	415,899	–	16,403,065
Total	3,018,321,902	214,290,773	(29,179,993)	3,203,432,682
Construction-in-progress	163,814,659	280,729,821	(305,252,496)	139,291,984
Net Book Value	₱1,181,269,818			₱1,103,493,612

Depreciation charged to cost of goods sold amounted to ₱84.7 million and ₱89.5 million in 2011 and 2010, respectively. Depreciation charged to general and administrative expenses amounted to ₱122.9 million and ₱124.8 million in 2011 and 2010, respectively (Notes 21, 22 and 24).

Fully depreciated property and equipment items amounting ₱2,736.3 million and ₱2,569.8 million as of December 31, 2011 and 2010, respectively, are still in active use.

13. Investment Properties

The rollforward analysis of this account follows:

2011

	At January 1	**Additions**	**At December 31**
At Cost			
Land	**₱303,994,640**	**₱–**	**₱303,994,640**
Land improvements	**61,713,968**	**–**	**61,713,968**
Building and improvements	**109,523,022**	**–**	**109,523,022**
Total	**475,231,630**	**–**	**475,231,630**
Accumulated Depreciation (Notes 22 and 24)			
Land improvements	**61,713,968**	**–**	**61,713,968**
Building and improvements	**71,373,613**	**13,340,894**	**84,714,507**
Total	**133,087,581**	**13,340,894**	**146,428,475**
Net Book Value	**₱342,144,049**		**₱328,803,155**

2010

	At January 1	Additions	At December 31
At Cost			
Land	₱303,994,640	₱–	₱303,994,640
Land improvements	61,713,968	–	61,713,968
Building and improvements	109,523,022	–	109,523,022
Total	475,231,630	–	475,231,630
Accumulated Depreciation (Notes 22 and 24)			
Land improvements	61,713,968	–	61,713,968
Building and improvements	58,032,719	13,340,894	71,373,613
Total	119,746,687	13,340,894	133,087,581
Net Book Value	₱355,484,943		₱342,144,049

The fair value of investment properties, which has been determined based on the latest valuation report as of September 17, 2009, exceeds its carrying cost. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. The aggregate fair value of the investment properties of the Group is ₱2,300.0 million as of December 31, 2011 and 2010.

The value of the investment properties was arrived at using the *Market Data Approach*. In this approach, the value of the investment properties is based on sales and listings of comparable property registered in the vicinity. The technique of this approach requires the establishment of comparable property by reducing reasonable comparative sales and listings to a common denominator. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparable. The properties used as basis of comparison are situated within the immediate vicinity of the subject property.

Land, land improvements and building and improvements include properties, which the Group acquired from the Asset Privatization Trust (APT) in 1988 for an aggregate cost of about ₱134.0 million. These properties are the subject of an existing litigation initiated by the former owner to recover the said properties. In the event that the case shall be finally decided in favor of the former owner, the APT will return to the Group the purchase price in full without interest. Management and their legal counsel, however, believe that the claim of the former owner has no legal basis.

Depreciation charged to general and administrative expenses amounted to ₱13.3 million in 2011 and 2010, respectively (Note 22).

14. **Intangible Assets**

Intangible assets pertain to computer software. Details of this account as of December 31, 2011 and 2010 follow:

Cost	**₱2,280,505**	₱2,280,505
Accumulated amortization (Note 22)	**1,393,642**	633,474
Net book value	**₱886,863**	₱1,647,031

Amortization charged to general and administrative expenses amounted to ₱0.7 million and ₱0.6 million in 2011 and 2010, respectively (Note 22).

15. **Other Noncurrent Assets**

This account consists of:

	2011	2010
Deposits and advances (Note 29)	**₱568,109,146**	₱697,097,095
Import charges	**6,664,400**	2,868,880
	574,773,546	699,965,975
Less allowance for impairment losses (Note 22)	**–**	44,089,156
	₱574,773,546	₱655,876,819

The deposits and advances account include deposit to an affiliated real estate entity amounting ₱300.0 and ₱550.0 as of December 31, 2011 and 2010, respectively, for the acquisition of a piece of land valued at ₱750.0 million. The Group recognized impairment on the advances amounting ₱44.1 million in 2010 (Note 22).

16. **Accounts Payable and Others**

This account consists of:

	2011	2010
Trade		
Local	**₱3,143,068,688**	₱4,001,011,725
Import (Note 28)	**3,681,432,484**	3,345,285,635
Taxes payable	**113,035,452**	75,844,465
Customers' deposits	**61,836,721**	60,622,379
Other payables	**246,220,713**	20,328,183
	₱7,245,594,058	₱7,503,092,387

Trade payables are noninterest-bearing and are normally settled on one (1) to thirty (30) days' terms.

Taxes payable includes expanded withholding tax which is expected to be settled in one (1) year.

The customers' deposits account represents advance payments received from dealers which are subsequently applied against deliveries of goods which occur within one (1) year from the dates the deposits were made.

Others include government payables, advances from PEZA, payable to employees and contracts payable

17. **Accrued Expenses**

This account consists of accruals for the following items:

	2011	2010
Dealers' incentives, supports and promotions	**₱565,218,263**	₱922,961,926
Construction-in-progress	**418,641,657**	262,180,438
Royalty and technical assistance fees (Notes 28 and 32)	**245,834,622**	292,757,551
Payroll and other employee benefits	**215,287,630**	153,085,397
Utilities and services	**160,487,110**	165,008,698
Freight, handling and transportation	**50,833,269**	38,372,672
Professional and consultancy fees	**6,455,296**	8,525,411
Others	**105,044,435**	68,242,735
	₱1,767,802,282	₱1,911,134,828

Dealers' incentives, supports and promotions
The Parent Company has existing dealership agreements wherein the Parent Company provides incentives, marketing support and technical assistance. These incentives, supports and promotions which are generally known as rewards are in the form of fleet subsidies, promotional items, car accessories and kits (Notes 22 and 32). Others are in the form of advertising subsidies such as ad placements in print and broadcast media.

Royalty and technical assistance fees
The royalty and technical assistance fees to TMC represent the cost of license for the use of technical know-how, information and data (Notes 28 and 32).

The fees are calculated at 6% of the local value-added (LVA) of vehicles under production. The LVA represents the selling price less all costs for the knock-down parts, related taxes such as excise and sales tax and a certain percentage of administrative and selling costs (Note 28). The Group paid royalty and technical assistance fees amounting ₱823.9 million and ₱814.6 million in 2011 and 2010, respectively.

The fees also include charges from affiliates and third party suppliers representing initial costs of testing materials and trial parts and tools, sample moulds and jigs that were utilized to test the Group's present technical feasibility for the commercial production of newer car models.

Construction-in-progress
This account includes charges incurred for the construction of buildings in the Parent Company's premises and for the donation made by the Parent Company to a donee institution.

Utilities and services
This account includes charges for the utilities, repairs and maintenance works at existing storage warehouse and stockyards.

Payroll and other employee benefits
This account includes accruals for employees' salaries and wages, leave credits and other benefits.

18. **Borrowings**

Loans Payable
These are unsecured short-term loans obtained from Bank of the Philippine Islands and Metrobank, an affiliated local commercial bank, for working capital requirements in 2010, respectively. The loans, with terms of one (1) year or less, bear annual interest rates ranging from 3.8% to 4.5% in 2011 and 2010, respectively. Interest expense on the loans amounted to ₱6.0 million and ₱10.6 million in 2011 and 2010, respectively (Note 28).

The movements in the loans payable balance follow:

	2011	2010
At January 1	**₱110,000,000**	₱130,000,000
Availments	**–**	510,000,000
Payments	**(110,000,000)**	(530,000,000)
At December 31	**₱–**	₱110,000,000

Long-term Debt
This account consists of unsecured long-term debt to the following:

	2011	2010
TAPI (Note 28)	**₱78,626,700**	₱78,626,700
Others	**167,200,000**	167,200,000
	₱245,826,700	₱245,826,700

The loan from TAPI bears fixed interest rate of 4.2% per annum. This loan is for a period of five (5) years which is automatically renewed upon maturity for another five (5) to ten (10) years (Note 28).

The other long-term unsecured interest-bearing loans consists of a 2.7% interest-bearing ten (10) year term loan which will mature on September 28, 2015 and a 2.7% interest-bearing ten (10) year term loan which will mature on October 23, 2016. These loans are automatically renewed upon maturity for another ten (10) years.

The loan covenants restrict the Group from encumbering or disposing properties leased by the lenders during the respective terms of various loan agreements. As of December 31, 2011 and 2010, the Group has complied with loan covenants.

Total interest expense on these loans amounted to ₱7.8 million for the years ended December 31, 2011 and 2010.

19. **Provisions**

This account consists of:

	2011	2010
Provisions for claims and assessments (Note 31)	**₱146,915,483**	₱169,678,412
Provisions for product warranty	**503,963,116**	504,339,460
	₱650,878,599	₱674,017,872

The rollforward analysis of provisions for claims and assessments follows:

	2011	2010
At January 1	**₱169,678,412**	₱129,083,183
Provisions during the year (Note 22)	**–**	50,000,000
Payments during the year	**(22,762,930)**	(9,404,771)
At December 31	**₱146,915,482**	₱169,678,412

The Parent Company made payments for claims and assessments amounting ₱22.8 million and ₱9.4 million in 2011 and 2010, respectively.

The rollforward analysis of provision for product warranty follows:

	2011	2010
At January 1	**₱504,339,460**	₱307,610,569
Provisions during the year (Note 22)	**66,612,664**	296,513,679
Reversals during the year	**(66,989,008)**	(99,784,788)
At December 31	**₱503,963,116**	₱504,339,460

20. **Equity**

Capital Stock
The details of the Parent Company's capital stock follow:

Common stock - ₱100 par value	
Authorized - 20,000,000 shares	₱2,000,000,000
Issued and outstanding - 15,494,118 shares	1,549,411,800

Appropriated Retained Earnings
The Parent Company's by-laws require yearly appropriation of retained earnings equivalent to 5% of Parent Company's net income for the year. The appropriation will continue until the appropriated retained earnings are equivalent to 10% of the issued capital stock or a higher amount as may be determined by the stockholders. The Group appropriated retained earnings for future expansion amounting ₱100.0 million in 2010.

Unappropriated Retained Earnings
Dividends declared
The Parent Company's Board of Directors (BOD) declared cash dividends in favor of all its stockholders as follows:

	2011	2010
Date of declaration	**April 12, 2011**	May 20, 2010
Dividend per share	**₱209.51**	₱102.52
Total dividends	**₱3,246.2 million**	₱1,588.5 million
Date of record	**December 31, 2011**	December 31, 2009

Policy on dividends
The Parent Company intends to maintain an annual cash dividend payment ratio of 100% of the net income of the Parent Company from the previous calendar year, subject to availability of retained earnings and operational requirements. The dividend shall be paid out in one lump sum. The BOD may, at any time, modify such dividend ratio.

Capital Management
The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating in order to support its business and maximize shareholder value.

The capital comes mainly from contributions from shareholders and no changes were made in the objectives, policies or processes in 2011 and 2010.

21. **Cost of Goods Sold**

This account consists of:

	2011	2010
Manufacturing		
Raw materials used (Note 28)	**₱14,080,112,009**	₱14,949,031,724
Indirect labor and benefits (Notes 23, 25 and 28)	**670,003,792**	637,573,554
Royalty and technical assistance fees (Notes 28 and 32)	**322,985,741**	364,649,980
Repairs and maintenance	**220,954,057**	385,041,758
Utilities and services	**137,253,155**	146,338,584
Direct labor (Notes 23, 25 and 28)	**117,556,372**	125,197,776
Manufacturing supplies	**109,263,496**	115,117,355
Depreciation (Notes 12 and 24)	**77,976,502**	72,586,498
Stockyard operational cost	**16,299,397**	16,666,296
Taxes and licenses	**9,128,565**	3,266,501
Provision for inventory write-down (Note 9)	**4,978,594**	8,498,331
Miscellaneous	**58,833,696**	66,740,767
	15,825,345,376	16,890,709,124
Decrease (increase) between beginning and ending finished goods and work-in-process inventories	**165,149,681**	(37,197,169)
	15,990,495,057	16,853,511,955
Trading and services		
Materials and other incidental costs	**31,407,449,203**	35,986,945,174
Decrease (increase) between beginning and ending finished goods and parts inventories	**667,087,262**	(508,792,909)
	32,074,536,465	35,478,152,265
	₱48,065,031,522	₱52,331,664,220

22. **Selling, General and Administrative Expenses**

This account consists of:

	2011	2010
Selling		
Advertising and sales promotion	**₱1,483,720,611**	₱1,552,168,539
Warranty (Note 19)	**66,612,664**	296,513,679
Dealers' incentives, supports and promotions (Note 17)	**85,535,307**	98,154,362
Miscellaneous	**98,255,345**	23,500,730
	₱1,734,123,927	₱1,970,337,310
General and administrative		
Salaries, wages and benefits (Notes 23 and 25)	**602,762,637**	550,021,468
Taxes and licenses	**277,797,107**	222,003,990
Depreciation and amortization (Notes 12, 13, 14 and 24)	**136,955,894**	138,763,838
Utilities and services	**119,769,694**	104,604,772
Transportation and travel	**55,229,482**	55,172,926
Office supplies	**53,497,123**	38,779,688
Donations and contributions	**52,500,000**	30,000,000
Repairs and maintenance	**50,225,470**	96,076,832
Rent (Note 30)	**23,607,308**	29,799,083
Communication	**23,060,072**	23,415,849
Entertainment, amusement and recreation (EAR)	**15,343,791**	18,384,404
Professional fees	**15,036,465**	22,957,746
Insurance	**7,032,143**	6,719,880
Provision for inventory write-down (Note 9)	**1,141,279**	12,513,670
Provision for impairment losses (Notes 8 and 15)	–	45,032,726
Provision for claims and assessments (Note 19)	–	50,000,000
Miscellaneous	**97,148,333**	70,230,474
	1,531,106,798	1,514,477,346
	₱3,265,230,725	₱3,484,814,656

Donations and contributions include donation to Toyota Motor Philippines Foundation and Philippine National Red Cross in 2011.

Miscellaneous expenses significantly relate to contracted services and membership dues and subscription incurred by the Company.

23. **Personnel Expenses**

This account consists of:

	2011	2010
Cost of goods manufactured (Notes 21, 25 and 28):		
Indirect labor and benefits	**₱670,003,792**	₱637,573,554
Direct labor	**117,556,372**	125,197,776
General and administrative expenses (Notes 22, 25 and 28):		
Salaries, wages and benefits	**602,762,637**	550,021,468
	₱1,390,322,801	₱1,312,792,798

24. **Depreciation and Amortization**

The allocation of depreciation and amortization to various expense accounts follows:

	2011	2010
Cost of goods sold (Note 21):		
Main assembly	**₱77,976,502**	₱72,586,498
Export	**6,743,118**	16,914,805
	84,719,620	89,501,303
General and administrative expenses (Note 22)	**136,955,894**	138,763,838
	₱221,675,514	₱228,265,141

25. **Retirement Plan**

The Group has a funded noncontributory defined benefit retirement plan covering all of its regular and permanent employees. The plan is administered by trustees. The benefits are based on the years of service and percentage of final basic salary. The latest actuarial valuation study of the retirement plan as of December 31, 2011 was made on January 20, 2012.

The principal actuarial assumptions used in determining the retirement liability for the Group's retirement plan are shown below:

	2011	2010
Average remaining working life	**17 years**	17 years
Discount rate	**6.24%**	8.18%
Expected rate of return on assets	**9%**	9.00%
Future salary increases	**7.5%**	7.00%

Net retirement benefit expense included under cost of goods sold and general and administrative expenses follows:

	2011	2010
Current service cost	**₱70,746,600**	₱53,960,500
Interest cost	**88,463,592**	77,698,715
Expected return on plan assets	**(60,420,887)**	(49,261,632)
Benefits paid	**(15,943,318)**	(27,013,593)
Net actuarial gains recognized during the year	**–**	(3,170,182)
	₱82,845,987	₱52,213,808

The amounts of retirement liability recognized in the consolidated statements of financial position follow:

	2011	2010
Present value of funded obligation	**₱1,413,167,418**	₱1,081,462,018
Fair value of plan assets	**718,404,470**	671,343,186
Present value of unfunded obligation	**694,762,948**	410,118,832
Unrecognized actuarial losses	**(234,077,126)**	(32,278,997)
Retirement liability	**₱460,685,822**	₱377,839,835

The movements in the retirement liability recognized in the consolidated statements of financial position follow:

	2011	2010
At January 1	**₱377,839,835**	₱379,972,027
Retirement expense	**82,845,987**	52,213,808
Actual contribution	**–**	(54,346,000)
At December 31	**₱460,685,822**	₱377,839,835

The movements in the present value of obligation follow:

	2011	2010
At January 1	**₱1,081,462,018**	₱796,909,918
Current service cost	**70,746,600**	53,960,500
Interest cost	**88,463,592**	77,698,715
Actuarial losses on obligation	**189,840,005**	198,478,286
Benefits paid	**(17,344,797)**	(45,585,401)
At December 31	**₱1,413,167,418**	₱1,081,462,018

The movements in the fair value of plan assets recognized follow:

	2011	2010
At January 1	**₱671,343,186**	₱547,351,472
Expected return	**60,420,887**	49,261,632
Actuarial gains	**(11,958,124)**	38,955,890
Actual contribution	**–**	54,346,000
Benefits paid	**(1,401,479)**	(18,571,808)
At December 31	**₱718,404,470**	₱671,343,186

Changes in unrecognized net actuarial gains (losses) follow:

	2011	2010
At January 1	(₱32,278,997)	₱130,413,581
Actuarial losses on obligation	(189,840,005)	(198,478,286)
Actuarial gains on plan assets	(11,958,124)	38,955,890
Actuarial gain recognized	–	(3,170,182)
At December 31	(₱234,077,126)	(₱32,278,997)

The overall expected rate of return on plan assets is determined based on the expected performance of the fund.

The actual return on plan assets amounted to ₱48.4 million and ₱88.2 million in 2011 and 2010, respectively.

The Group expects to contribute ₱59.7 million to its defined benefit pension plan in 2012.

The net plan assets consist of the following:

	2011	2010
Cash	₱57,395,347	₱46,689,604
Loans and receivables	61,531,098	54,486,940
Short-term equity investments	11,137,333	18,483,305
Corporate bonds	162,323,616	48,885,468
Government securities	308,022,976	376,982,401
Investment in mutual fund	10,249,167	10,395,081
Investment in stocks	93,939,018	112,121,487
Liabilities	(1,506,158)	(4,147,393)
Expected withdrawal	–	(7,012,174)
Expected return	15,312,073	14,458,467
	₱718,404,470	₱671,343,186

Amounts of the current and the previous periods follow:

	2011	2010	2009	2008
Defined benefit obligation	(₱1,413,167,418)	(₱1,081,462,018)	(₱796,909,918)	(₱472,224,219)
Plan assets	718,404,470	671,343,186	547,351,472	475,773,673
Surplus (deficit)	(694,762,948)	(410,118,832)	(249,558,446)	3,549,454
Experience adjustments on plan obligation	(55,844,595)	14,636,886	(45,201,494)	(23,702,086)
Expected return on plan assets	60,420,887	49,261,632	38,061,900	45,351,100

26. **Other Income** - Net

This account consists of:

	2011	2010
Dividend income	**₱16,585,690**	6,923,206
Commission	**11,496,710**	₱9,705,752
Gain on sale of property and equipment	**7,840,732**	9,064,808
Rent	**1,802,488**	8,804,711
Bank charges	**(280,579)**	(359,460)
Membership fees	**–**	1,965,692
Others	**3,652,720**	4,496,803
	₱41,097,761	₱40,601,512

27. **Income Tax**

Income tax includes the regular corporate income tax (RCIT) and final taxes paid at the rate of 20% for peso deposits and 7.5% for foreign currency deposits which are final withholding taxes on gross interest income from deposit substitutes. These income taxes as well as the deferred tax provisions are presented as provision for income tax in the consolidated statements of comprehensive income.

	2011	2010
Current		
RCIT	**₱788,448,206**	₱874,452,064
Final	**56,610,681**	57,432,116
	845,058,887	931,884,180
Deferred	**(19,974,611)**	(79,933,630)
	₱825,084,276	₱851,950,550

The reconciliation of the statutory income tax rate to the effective income tax rate shown in the consolidated statements of comprehensive income follows:

	2011	2010
Statutory income tax rate	**30.00%**	30.00%
Tax effects of:		
Interest income subjected to final tax at a lower rate	**(3.06)**	(2.02)
Income exempt from tax	**(2.83)**	(8.13)
Others	**0.18**	(0.23)
Effective income tax rate	**24.29%**	19.62%

The components of the deferred tax assets and deferred tax liabilities represent the deferred tax effects of the following:

	2011	2010
Deferred tax assets on:		
Warranty payable	**₱151,188,934**	₱151,301,838
Accrued retirement benefits	**141,670,305**	116,816,508
Accrued royalties	**17,322,795**	17,322,795
Provision for claims and assessments	**44,074,644**	50,903,524
Allowance for impairment losses	**43,797,327**	30,085,927
Unrealized gross profit on inventory	**9,523,216**	6,853,268
Provision for inventory write-down	**2,729,873**	29,695,681
Accrued commissions	**721,162**	721,162
Unrealized foreign exchange loss	**–**	1,472,467
	411,028,256	405,173,170
Deferred tax liabilities on:		
Capitalized custom duties on:		
Inventories	**(11,707,831)**	(30,405,702)
Property and equipment	**(5,051,452)**	(4,126,304)
Unrealized foreign exchange gain	**(3,653,198)**	–
	(20,412,481)	(34,532,006)
	₱390,615,775	₱370,641,164

The Group has unrecognized deferred tax assets on the temporary differences amounting ₱4.14 million as of December 31, 2011 and 2010.

Current tax regulations define expenses to be classified as EAR expenses and set a limit for the amount that is deductible for tax purposes. EAR expenses are limited to 0.5% of net sales for sellers of goods or properties or 1% of net revenue for sellers of services. For sellers of both goods or properties and services, an apportionment formula is used in determining the ceiling on such expenses.

28. **Related Party Transactions**

Parties are 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; and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Affiliates are related entities of the companies by virtue of common ownership and representation to management where significant influence is apparent.

In the ordinary course of business, the Group has transactions with related parties. Its major transactions include purchases of raw materials and spare parts for sale; regular banking, importation and loan transactions; payment of technical assistance and royalty fees; and sales to franchised dealers.

a. The purchases of raw materials, spare parts and vehicles for sale were made in accordance with the Distributor Agreement entered into by the Parent Company with TMC and Mitsui & Co., Ltd. (a non-controlling stockholder of the Parent Company), for five (5) years which commenced on December 1, 1988 and was renewed since then. Total purchases of raw materials, spare parts and vehicles amounted to ₱21,587.9 million and ₱36,601.4 million in 2011 and 2010, respectively.

   Accounts payable arising from these purchases amounted to ₱3,681.4 million and ₱3,345.3 million as of December 31, 2011 and 2010, respectively (Note 16).

b. The Parent Company has an existing Technical Assistance Agreement with TMC. Royalty and technical assistance fees incurred by the Parent Company under the agreement and charged to operations amounted to ₱323.0 million and ₱364.0 million in 2011 and 2010, respectively (Notes 21 and 32).

   Outstanding royalty and technical assistance fees payable as of December 31, 2011 and 2010 amounted to ₱245.8 million and ₱292.8 million, respectively (Note 17).

c. The Parent Company exports car parts to Toyota Motor Asia Pacific Pte. Ltd. (TMAP) which amounted to ₱9,571.5 million and ₱10,211.9 million in 2011 and 2010, respectively. Trade receivable from TMAP amounted to ₱552.4 million and ₱895.6 million as of December 31, 2011 and 2010, respectively (Note 8).

d. The Parent Company maintains lines of credit with several banks including Metrobank. However, there were no availments in 2011 and 2010.

e. The Parent Company obtained a long-term interest-bearing loan from TAPI, an affiliate (Note 18). The outstanding balance of such loan as of December 31, 2011 and 2010 amounted to ₱78.6 million. Total interest paid on this loan amounted to ₱3.3 million for the years ended December 31, 2011 and 2010.

f. The Parent Company entered into an agreement with Toyota Financial Services Philippines Corporation (TFSPC). In 2011 and 2010, the Parent Company offered extended credit term of thirty (30) days to its dealers at zero interest as part of its sales promotions. TFSPC was appointed to facilitate the sale to the dealers and perform activities necessary to collect the purchase price from the dealers upon maturity.

g. TSFI leases land from Toyota Cubao, Inc. (TCI), an affiliate, where TSFI's building and related facilities are currently located. The lease term is for a period of twenty (20) years and renewable at the option of the parties. Total rent expense paid to TCI amounted to ₱1.6 million and ₱1.5 million for the years ended December 31, 2011 and 2010, respectively.

h. The Parent Company leases its investment property situated in Sta. Rosa, Laguna to TAPI, an affiliate. Annual rental income received from TAPI amounted to ₱7.8 million in 2011 and 2010.

i. The Group maintains savings and current accounts and time deposits with affiliated local commercial banks, Metrobank and Philippine Savings Bank. The related balances follow:

	2011	2010
Savings and current accounts	**₱181,508,144**	₱146,974,613
Time deposits	**4,606,259,50**	6,788,307,561
	₱186,114,453	₱6,935,282,174

j. The Group has unsecured short-term loans obtained from an affiliated local commercial bank for working capital requirements. The loans, with terms of one (1) year or less, bear annual interest at rates ranging from 6.0% to 8.3% for the years 2011 and 2010. Interest expense on the loans amounted to ₱6.0 million and ₱10.4 million in 2011 and 2010, respectively (Note 18).

k. Compensation of key management personnel of the Group follows (Note 22):

	2011	2010
Short-term benefits	**₱81,135,471**	₱70,549,668
Retirement benefits	**17,865,278**	18,029,324
Other employee benefits	**13,557,141**	12,541,607
	₱112,559,901	₱101,120,599

29. Financial Risk Management Objectives and Policies

Financial Instruments

The Group's principal financial instruments are composed of cash and cash equivalents, short-term investments, AFS financial assets, loans payable and long-term debt. The Group has various other financial assets and liabilities such as receivables and accounts payable and others and accrued expenses, which arise directly from its operations.

The following tables set forth the carrying values and estimated fair values of the Group's financial assets and liabilities recognized as of December 31:

	2011		2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Loans and receivables				
Cash and cash equivalents	**₱5,304,297,746**	**₱5,304,297,746**	₱6,587,730,629	₱6,587,730,629
Short-term investments	**1,072,255,740**	**1,072,255,740**	734,286,580	734,286,580
Receivables				
Trade	**3,703,282,735**	**3,703,282,735**	3,055,362,177	3,055,362,177
Receivable from employees	**127,813,162**	**127,813,162**	125,867,845	125,867,845
Warranty	**25,508,922**	**25,508,922**	21,096,997	21,096,997
Dealer advances	**8,143,416**	**8,143,416**	11,137,316	11,137,316
Others	**117,953,123**	**117,953,123**	112,656,707	112,656,707
	10,359,254,844	**10,359,254,844**	3,326,121,042	3,326,121,042
Prepayments	**70,302,694**	**70,302,694**	52,583,383	52,583,383
Refundable deposits and advances				
Refundable deposits	**22,676,909**	**22,676,909**	22,087,598	22,087,598
Advances	**132,761,597**	**132,761,597**	90,474,190	90,474,190
	155,438,506	**155,438,506**	112,561,788	112,561,788

(Forward)

	2011		2010	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
AFS financial assets				
Unquoted equity securities	**₱54,073,500**	**₱54,073,500**	₱54,073,500	₱54,073,500
Quoted equity securities	**60,330,000**	**60,330,000**	59,370,000	59,370,000
	₱114,403,500	**₱114,403,500**	113,443,500	113,443,500
	₱10,699,399,544	**₱10,699,399,544**	₱10,926,726,922	₱10,926,726,922
Financial Liabilities				
Trade payables				
Local	**₱3,143,068,688**	**₱3,143,068,688**	₱4,001,011,725	₱4,001,011,725
Import	**3,681,432,484**	**3,681,432,484**	3,345,285,635	3,345,285,635
	6,824,501,172	**6,824,501,172**	7,346,297,360	7,346,297,360
Customers' deposits	**61,836,721**	**61,836,721**	60,622,379	60,622,379
Accrued expenses	**1,767,802,281**	**1,767,802,281**	1,911,134,828	1,911,134,828
Loans payable	**–**	**–**	110,000,000	110,000,000
Long-term debt	**245,826,700**	**133,759,121**	245,826,700	162,570,066
Other payables	**246,220,713**	**246,220,713**	20,328,183	20,328,183
	₱9,146,187,587	**₱9,034,120,008**	₱9,694,209,450	₱9,610,952,816

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Financial assets
Due to the short-term nature of the transactions, the fair value of cash and cash equivalents, short-term investments, receivables, prepayments and refundable deposits and advances approximate the amount of consideration at the time of initial recognition. The fair value of the AFS financial assets has been determined based on prevailing market quotes. The value of refundable deposits and advances approximate fair value since fair value of certain refundable deposits and advances cannot be reasonably and reliably estimated.

Financial liabilities
Due to the short-term nature of trade payables, customers' deposits, accrued expenses, loans payable and other payables, the carrying value approximates the fair value. For fixed rate loan, the estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar type of loans.

Fair Value Hierarchy
The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As of December 31, 2011 and 2010, the fair value of AFS financial assets under Level 1 hierarchy amounted to ₱60.3 million and ₱59.4 million, respectively (Note 11).

The fair value of unquoted AFS financial assets is not reasonably determinable due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at the reliable fair value. Accordingly, these unquoted shares are presented at cost.

During the reporting period ended December 31, 2011, there were no transfer between Level 1 and 2 fair value movements and no transfers into and out of level 3 fair value measurement.

The most significant risk arising from the Group's financial instruments are interest rate risk, liquidity risk, credit risk, market risk and foreign currency risk.

The Group's risk management policies are summarized below:

a) *Interest rate risk*
Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash in banks and short-term investments. The Group's policy is to manage its interest income using a mix of fixed and variable rate debts.

The following table shows the information relating to the financial assets that are exposed to interest rate risk and presented by maturity profile:

2011

	Range of Interest Rates	**Up to a year**	**1-3 years**	**3-5 years**	**Over 5 Years**	**Total**
Cash and cash equivalents						
Cash in banks	**1% - 2%**	**₱271,051,715**	**₱–**	**₱–**	**₱–**	**₱271,051,715**
Time deposits	**1.75% to 4.8%**	**5,033,246,031**	**–**	**–**	**–**	**5,033,246,031**
Short-term investments	**0.2% - 2.5%**	**1,072,255,740**	**–**	**–**	**–**	**1,072,255,740**

2010

	Range of Interest Rates	Up to a year	1-3 years	3-5 years	Over 5 Years	Total
Cash and cash equivalents						
Cash in banks	1.0% - 2.0%	₱304,261,194	₱–	₱–	₱–	₱304,261,194
Time deposits	1.0% - 4.3%	6,283,469,435	–	–	–	6,283,469,435
Short-term investments	0.2% - 1.9%	734,286,580	–	–	–	734,286,580

b) *Liquidity risk*
The Group actively manages its liquidity position so as to ensure that all operating, investing, and financing needs are met. In mitigating liquidity risk, management measures and forecasts its cash commitments, matches debt maturities with the assets being financed, maintains a diversity of funding sources with its unhampered access to bank financing and the capital markets, develops viable funding alternatives through its sale of receivables, non-core assets and adoption of joint development agreements for property acquisitions and developments, and holds a sufficient level of cash reserves and marketable securities.

Through scenario analysis and contingency planning, the Group also assesses its ability to withstand both temporary and longer-term disruptions relative to its capacity to finance its activities and commitments in a timely manner and at reasonable cost, and ensures the availability of ample unused credit facilities as back-up liquidity.

The table below summarizes the maturity profile of the Group's financial instruments based on remaining contractual undiscounted payments:

2011

	Up to a year*	1-3 years	3-5 years	Over 5 Years	Total
Financial Assets					
Loans and receivables					
Cash and cash equivalents	₱5,304,297,746	₱–	₱–	₱–	₱5,304,297,746
Short-term investments	1,072,255,740	–	–	–	1,072,255,740
Receivables					
Trade	3,703,282,735	–	–	–	3,703,282,735
Warranty	25,508,922	–	–	–	25,508,922
Dealer advances	8,143,416	–	–	–	8,143,416
Receivable from employees	127,813,162	–	–	–	127,813,162
Others	173,490,231	–	–	–	173,490,231
	10,414,791,952	–	–	–	10,414,791,952
Prepayments	70,302,694	–	–	–	70,302,694
Refundable deposits and advances					
Refundable deposits	22,676,909	–	–	–	22,676,909
Advances	132,761,597	–	–	–	132,761,597
	155,438,506	–	–	–	155,438,506
AFS financial assets					
Unquoted equity securities	54,073,500	–	–	–	54,073,500
Quoted equity securities	60,330,000	–	–	–	60,330,000
	114,403,500	–	–		114,403,500
	₱10,754,936,652	–	–	–	₱10,754,936,652
Financial Liabilities					
Trade payables					
Local	₱3,143,068,688	–	–	–	3,143,068,688
Import	3,681,432,484	–	–	–	3,681,432,484
	6,824,501,172	–	–	–	6,824,501,172
Customers' deposits	61,836,721	–	–	–	61,836,721
Accrued expenses	1,767,802,281	–	–	–	1,767,802,281
Loans payable	–	–	–	–	–
Long-term debt	7,816,721	91,508,208	9,028,800	137,472,971	245,826,700
Other payables	246,220,711	–	–	–	246,220,711
	₱8,908,177,606	₱91,508,208	₱9,028,800	₱137,472,971	₱9,146,187,585

**All commitments up to a year are either due within the time frame or are payable on demand.*

2010

	Up to a year*	1-3 years	3-5 years	Over 5 Years	Total
Financial Assets					
Loans and receivables					
Cash and cash equivalents	₱6,587,730,629	₱–	₱–	₱–	₱6,587,730,629
Short-term investments	734,286,580	–	–	–	734,286,580
Receivables					
Trade	3,055,362,177	–	–	–	3,055,362,177
Warranty	21,096,997	–	–	–	21,096,997
Dealer advances	11,137,316	–	–	–	11,137,316
Others	238,524,552	–	–	–	238,524,552
	3,326,121,042	–	–	–	3,326,121,042
Prepayments	52,583,383	–	–	–	52,583,383
Refundable deposits and advances					
Refundable deposits	22,087,598	–	–	–	22,087,598
Advances	90,474,190	–	–	–	90,474,190
	112,561,788	–	–	–	112,561,788
AFS financial assets					
Unquoted equity securities	54,073,500	–	–	–	54,073,500
Quoted equity securities	59,370,000	–	–	–	59,370,000
	113,443,500	–	–	–	113,443,500
	₱10,926,726,922	₱–	₱–	₱–	₱10,926,726,922

	Up to a year*	1-3 years	3-5 years	Over 5 Years	Total
Financial Liabilities					
Trade payables					
Local	₱4,001,011,725	₱–	₱–	₱–	₱4,001,011,725
Import	3,345,285,635	–	–	–	3,345,285,635
	7,346,297,360	–	–	–	7,346,297,360
Customers' deposits	60,622,379	–	–	–	60,622,379
Accrued expenses	1,911,134,828	–	–	–	1,911,134,828
Loans payable	110,000,000	–	–	–	110,000,000
Long-term debt	7,816,721	91,508,208	9,028,800	177,329,050	285,682,779
Other payables	20,328,183	–	–	–	20,328,183
	₱9,456,199,471	₱91,508,208	₱9,028,800	₱177,329,050	₱9,734,065,529

**All commitments up to a year are either due within the time frame or are payable on demand.*

c) *Credit risk*
Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group trades only with its dealers and with recognized creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from other financial assets of the Group, which comprises cash and cash equivalents, short-term investments, receivables, prepayments and other current assets, AFS financial assets, and refundable deposits and advances, the Group's exposure to credit risks arises from default of the counterparty, with a maximum exposure equal to carrying amount of the instruments.

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position:

	2011	2010
Loans and receivables		
Cash and cash equivalents (excluding cash on hand)	**₱5,298,801,636**	₱6,585,081,821
Short-term investments	**1,072,255,740**	734,286,580
Receivables		
Trade	**3,703,282,735**	3,055,362,177
Receivable from employees	**127,813,162**	127,813,162
Warranty	**25,508,922**	21,096,997
Dealer advances	**8,143,416**	11,137,316
Others	**117,953,123**	112,656,707
Prepayments	**70,302,694**	52,583,383
Refundable deposits	**22,676,909**	22,087,598
Advances	**132,761,597**	90,474,190
	10,579,499,934	10,812,579,931
AFS financial assets	**114,403,500**	113,443,500
	₱10,693,903,434	₱10,926,023,431

The credit risk is concentrated to the following:

Type of customer	**2011**	2010
Non affiliates	**72.31%**	73.08%
Affiliate (TMAP)	**27.69%**	26.92
	100.00%	100.00%

The following table provides information regarding credit risk exposure of the Group by classifying financial assets according to credit quality:

2011

	Neither Past Due nor Impaired			Past Due but		
	Minimal Risk	Average Risk	High Risk	not Impaired	Impaired	Total
Loans and receivables						
Cash and cash equivalents	₱5,298,801,636	₱–	₱–	₱–	₱–	₱5,298,801,636
Short-term investments	1,072,255,740	–	–	–	–	1,072,255,740
Receivables						
Trade	3,703,282,735	–	–	–	–	3,703,282,735
Receivable from employees	127,813,162	–	–	–	–	127,813,162
Warranty	25,508,922	–	–	–	–	25,508,922
Dealer advances	8,143,416	–	–	–	–	8,143,416
Others	117,953,123	–	–	–	55,535,108	173,488,231
Prepayments	–	70,302,694	–	–	–	70,302,694
Refundable deposits	–	22,676,909	–	–	–	70,302,694
Advances	–	132,761,597	–	–	–	22,676,909
AFS financial assets	–	114,403,500	–	–	–	114,403,500
	₱10,353,758,734	₱340,144,700	₱–	₱–	₱55,535,108	₱10,686,979,639

2010

	Neither Past Due nor Impaired			Past Due but		
	Minimal Risk	Average Risk	High Risk	not Impaired	Impaired	Total
Loans and receivables						
Cash and cash equivalents	₱6,585,081,821	₱–	₱–	₱–	₱–	₱6,585,081,821
Short-term investments	734,286,580	–	–	–	–	734,286,580
Receivables						
Trade	3,055,362,177	–	–	–	–	3,055,362,177
Warranty	21,096,997	–	–	–	–	21,096,997
Dealer advances	11,137,316	–	–	–	–	11,137,316
Others	238,524,552	–	–	–	56,197,266	294,721,818
Prepayments	–	52,583,383	–	–	–	52,583,383
Refundable deposits	–	22,087,598	–	–	–	22,087,598
Advances	–	90,474,190	–	–	–	90,474,190
AFS financial assets	–	113,443,500	–	–	–	113,443,500
	₱10,645,489,443	₱278,588,671	₱–	₱–	₱56,197,266	₱10,980,275,380

The financial assets that are classified to have high credit rating are the following: (a) cash and cash equivalents, composed of cash on hand and in banks and time deposits with maturities ranging from thirty (30) to sixty (60) days; (b) short-term investments with maturities ranging from three (3) months to one (1) year; (c) trade receivables for accounts with age of thirty (30) days or less; and (d) warranty, dealer advances and others.

d) *Market risk*
Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The Group's market risk (the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument) originates from its holdings of securities and equities. The BOD approves significant investments which should provide a relatively stable rate of return. AFS financial assets exposed to market risk amounted to ₱60.3 million and ₱59.4 million as of December 31, 2011 and 2010, respectively (Note 11).

e) *Foreign currency risk*
Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group has foreign currency exchange risk exposures. Such exposure arises from purchases in currencies other than the unit's functional currency. The Group believes that its profile of foreign currency exposure on its assets and liabilities is within conservative limits in the type of business in which the Group is engaged.

The following table shows the foreign currency-denominated monetary assets and liabilities (in US Dollar and Japanese Yen) and their Philippine Peso (Php) equivalents as of December 31, 2011 and 2010.

	2011			2010		
	U.S. Dollar[1]	**Japanese Yen[2]**	**Php Equivalent**	U.S. Dollar[3]	Japanese Yen[4]	Php Equivalent
Financial Assets						
Cash and cash equivalents	**$435,468**	**¥11,957,496**	**₱25,819,238**	$459,040	¥37,796,981	₱40,416,174
Short-term investments	**21,540,000**	**70,000,000**	**983,701,648**	16,140,000	41,094,166	729,639,605
Receivables	**12,579,232**	**–**	**551,473,531**	20,436,034	–	895,915,723
	$34,554,700	**¥81,957,496**	**₱1,560,994,417**	$37,035,074	¥78,891,147	₱1,665,971,502
Financial Liabilities						
Accounts and other payables	**$82,692,482**	**¥87,001,571**	**₱3,674,193,012**	$74,761,596	¥47,812,380	₱3,303,217,143
Net financial assets (liabilities)	**($48,137,782)**	**(¥5,044,075)**	**(₱2,113,198,595)**	($37,726,522)	¥31,078,767	(₱1,637,245,641)

[1] The exchange rate used is ₱43.84 to $1
[2]The exchange rate used is ¥ 0.012835 to $1.
[3]The exchange rate used is ₱46.20 to $1.
[4]The exchange rate used is ¥0.010913to $1.

Sensitivity analysis
The following table demonstrates sensitivity to a reasonably possible change in the U.S. dollar exchange rate, with all other variables held constant, of the Group's income before income tax (due to changes in the fair value of monetary assets and liabilities) as of December 31, 2011 and 2010. There is no other impact on the Group's equity other than those already affecting the income.

	Currency	Increase (decrease) in US dollar rate	Effect on income before tax
2011	**USD**	+5.1%	**(₱107,628,379)**
		-5.1%	**107,628,379**
	JPY	12.2%	**1,934,040**
		-12.2%	**(1,934,040)**
2010	USD	+5.1%	(₱1,927,156)
		-5.1%	1,927,156
	JPY	12.2%	2,035,581
		-12.2%	(2,035,581)

30. **Lease Commitments**

Operating lease - Group as lessee
The Group leases a liaison office space for a period of four (4) to five (5) years subject to renewal at certain agreed terms and conditions. Noninterest-bearing security deposits amounting ₱1.7 million (included as part of 'Other noncurrent assets' account in the consolidated statements of financial position) as of December 31, 2011 and 2010 are deposited with the lessors in accordance with the lease contracts (Note 15). The deposits will be returned to the Group upon termination of the contract.

TSFI has entered into a non-cancellable lease agreement with TCI, for the land where TSFI's building and related facilities are currently located. The non-cancellable lease agreement has a lease term of twenty (20) years. The lease agreement includes a clause to enable upward revision of the rental charge on an annual basis based on prevailing market rates and economic conditions.

Annual rentals charged to operations amounted to ₱23.6 million and ₱29.8 million in 2011 and 2010, respectively (Note 22).

Future minimum rental payables under these non-cancellable operating leases follow:

	2011	2010
Within one year	**₱8,710,893**	₱11,199,741
After one year but not more than five years	–	8,710,893
	₱8,710,893	₱19,910,634

Operating lease - Group as lessor
The Group has entered into operating leases (Note 13) on its land located in Sta. Rosa, Laguna. These non-cancellable leases have remaining non-cancellable terms of between ten (10) and fifty (50) years. Income from these leases is included in the "Other income - net" account in the consolidated statements of income.

There are no contingent rental income and expense under these operating leases both as lessee and lessor.

31. **Provisions and Contingencies**

The Group has contingent liabilities arising in the ordinary conduct of business which are either pending decision by the courts or are being contested, the outcome of which are not presently determinable. In the opinion of management and its legal counsel, the eventual liability under these labor-related claims, if any, will not have a material or adverse effect on the Group's financial position and results of operations. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice the outcome of pending litigations.

These contingencies relate to (Note 19):

a) Claims filed by former employees for employee related issues;
b) Claims for quieting of title;
c) Disturbance compensation;
d) Recovery of land;
e) Warranty claims; and
f) Assessments

32. **Agreements**

Dealership Agreements
The Parent Company has several Dealership Agreements (Agreements) with its dealers. These Agreements are renewable annually and can be terminated in the event the dealer fails to comply with any of the provision as stipulated. These agreements stipulate among others, exclusivity of dealership, non-competition, incentives, requirements and warranty provisions.

Technical Assistance Agreement
The Parent Company entered into a Technical Assistance Agreement with TMC effective May 2004. It includes new provisions with respect to: (a) technical assistance fees; and (b) royalties, items covered, computation of royalties and manner of payment (Notes 17, 21 and 28).

33. **Registrations with the Board of Investments (BOI), Export Processing Zone Authority (EPZA) and Philippine Economic Zone Authority (PEZA)**

The Parent Company is registered with the BOI as a:

- Participant in the Car Development Program and Commercial Vehicle Development Program. Under the terms of the registration, the Parent Company is required, among others, to maintain a certain percentage of local content for each passenger car and commercial vehicle manufactured.

- Preferred nonpioneer export trader of automotive parts entitled to certain tax and nontax incentives.

- Domestic producer of pressed or stamped parts for motor vehicle on a preferred pioneer status.

On June 5, 1995, the Parent Company was granted a Certificate of Registration as a Zone Service Enterprise by the EPZA and designated the Toyota Sta. Rosa (Laguna) Industrial Complex as a Special Export Processing Zone under Presidential Decree No. 66. Under this registration, the

Parent Company is entitled to establish, develop, construct, administer, manage and operate a special export-processing zone in accordance with the project study.

Upon effectivity of R.A. No. 7916 (otherwise known as the "Special Economic Zone Act of 1995") dated February 24, 1995 and Executive Order No. 282 dated October 30, 1995, all rights, obligations and interest of the Parent Company under EPZA were transferred to and assumed by PEZA. Under the R.A. No. 7916, in lieu of payment of national and local taxes, the entities governed by PEZA are liable for payment of a five percent (5%) final tax on gross income earned after certain allowable deductions provided by the same law.

34. Approval of the Consolidated Financial Statements

The accompanying consolidated financial statements were authorized for issue by the Executive Committee on February 17, 2012.

Toyota Motor Philippines Corporation and Subsidiaries

Consolidated Financial Statements
December 31, 2010 and 2009

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

SGV&Co
Ernst & Young

TOYOTA

TOYOTA MOTOR PHILIPPINES CORPORATION

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May 13, 2011

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of TOYOTA MOTOR PHILIPPINES CORPORATION is responsible for all information and representation contained in the financial statements as of December 31, 2010 and 2009 and for each of the two years for the year ended December 31, 2010 and 2009. The financial statements have been prepared in conformity with accounting principles generally accepted in the Philippines and reflect amounts that are based on the best estimates and informed judgement 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 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 Directors reviews the financial statements before such statements are approved and submitted to stockholders of TOYOTA MOTOR PHILIPPINES CORPORATION.

SyCip, Gorres, Velayo & Co, the independent auditors appointed by the stockholders, has examined the financial statements of TOYOTA MOTOR PHILIPPINES CORPORATION in accordance with auditing standards generally accepted in the Philippines and have expressed their opinion on the fairness of presentation upon completion of such audit in the attached report to the stockholders.

MICHINOBU SUGATA	DAVID GO	KYOJI INUZUKA
President	Senior Executive	Senior Vice President
	Vice President & Treasurer	Comptrollership Division

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BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Toyota Motor Philippines Corporation

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Toyota Motor Philippines Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2010 and 2009, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

SGV & Co
Ernst & Young

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 financial statements present fairly, in all material respects, the financial position of Toyota Motor Philippines Corporation and its subsidiaries as at December 31, 2010 and 2009, and their financial performance and their cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

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June 1, 2009, Valid until May 31, 2012
PTR No. 2641561, January 3, 2011, Makati City

February 15, 2011

TOYOTA MOTOR PHILIPPINES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2010	2009
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6, 28 and 29)	**₱6,587,730,629**	₱6,259,191,215
Short-term investments (Notes 7 and 29)	**734,286,580**	601,717,932
Receivables (Notes 8, 28 and 29)	**3,326,121,042**	1,907,766,835
Inventories (Notes 9 and 28)	**5,845,536,414**	3,436,443,241
Prepayments and other current assets (Note 10)	**484,052,610**	321,598,759
Total Current Assets	**16,977,727,275**	12,526,717,982
Noncurrent Assets		
Available-for-sale financial assets (Notes 11 and 29)	**113,443,500**	97,598,500
Property, plant and equipment (Note 12)	**1,103,493,612**	1,181,269,818
Investment properties (Notes 13, 28 and 30)	**342,144,049**	355,484,943
Intangible assets (Note 14)	**1,647,031**	–
Deferred tax assets (Note 27)	**370,641,164**	290,707,534
Other noncurrent assets (Notes 15, 29 and 30)	**655,876,819**	639,567,755
Total Noncurrent Assets	**2,587,246,175**	2,564,628,550
	₱19,564,973,450	₱15,091,346,532
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and others (Notes 16, 28 and 29)	**₱7,503,092,387**	₱5,717,538,706
Accrued expenses (Notes 17, 28, 29 and 32)	**1,911,134,828**	1,417,903,153
Income taxes payable (Note 27)	**76,604,169**	7,051,121
Loans payable (Notes 18, 28 and 29)	**110,000,000**	130,000,000
Total Current Liabilities	**9,600,831,384**	7,272,492,980
Noncurrent Liabilities		
Long-term debt (Notes 18, 28 and 29)	**245,826,700**	245,826,700
Provisions (Notes 19, 22 and 31)	**674,017,872**	436,693,752
Retirement liability (Note 25)	**377,839,835**	379,972,027
Total Noncurrent Liabilities	**1,297,684,407**	1,062,492,479
Total Liabilities	**10,898,515,791**	8,334,985,459

(Forward)

	December 31	
	2010	2009
Equity		
Equity Attributable to Equity Holders of the Parent Company		
Capital stock (Note 20)	**₱1,549,411,800**	₱1,549,411,800
Additional paid-in capital	**873,868,368**	873,868,368
Retained earnings (Note 20)		
Appropriated	**304,941,180**	204,941,180
Unappropriated	**5,761,793,240**	3,973,631,274
Other comprehensive income (Note 11)	**34,814,479**	25,674,550
	8,524,829,067	6,627,527,172
Non-controlling Interest	**141,628,592**	128,833,901
Total Equity	**8,666,457,659**	6,756,361,073
	₱19,564,973,450	₱15,091,346,532

See accompanying Notes to Consolidated Financial Statements.

TOYOTA MOTOR PHILIPPINES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31	
	2010	2009
REVENUE (Note 28)		
Manufacturing activities	**₱18,507,030,862**	₱14,357,943,070
Trading and services	**41,255,207,429**	32,220,315,319
	59,762,238,291	46,578,258,389
COST OF GOODS SOLD (Notes 9, 21, 23, 24 and 28)		
Manufacturing activities	**16,853,511,955**	13,871,041,257
Trading and services	**35,478,152,265**	28,577,409,649
	52,331,664,220	42,448,450,906
GROSS PROFIT		
Manufacturing activities	**1,653,518,907**	486,901,813
Trading and services	**5,777,055,164**	3,642,905,670
	7,430,574,071	4,129,807,483
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 22, 23, 24, 28 and 30)		
Selling	**(1,970,337,310)**	(887,611,679)
General and administrative	**(1,514,477,346)**	(1,298,947,450)
	(3,484,814,656)	(2,186,559,129)
INTEREST INCOME (Notes 6 and 7)	**293,910,965**	220,952,463
INTEREST EXPENSE (Notes 18 and 28)	**(18,395,100)**	(15,324,779)
NET FOREIGN EXCHANGE GAIN	**79,510,358**	68,497,181
OTHER INCOME - Net (Notes 26, 28 and 30)	**40,601,512**	53,730,737
INCOME BEFORE INCOME TAX	**4,341,387,150**	2,271,103,956
PROVISION FOR INCOME TAX (Note 27)	**851,950,550**	498,991,105
NET INCOME	**₱3,489,436,600**	₱1,772,112,851
Attributable to:		
Equity holders of the Parent Company	**₱3,476,641,909**	₱1,762,210,562
Non-controlling interest	**12,794,691**	9,902,289
	₱3,489,436,600	₱1,772,112,851

See accompanying Notes to Consolidated Financial Statements.

TOYOTA MOTOR PHILIPPINES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2010	2009
NET INCOME	**₱3,489,436,600**	₱1,772,112,851
OTHER COMPREHENSIVE INCOME		
Unrealized gain on available-for-sale financial assets (Note 11)	**9,139,929**	1,135,000
TOTAL COMPREHENSIVE INCOME	**₱3,498,576,529**	₱1,773,247,851
Attributable to:		
Parent Company	**₱3,485,781,838**	1,763,345,562
Non-controlling interest	**12,794,691**	9,902,289
	₱3,498,576,529	₱1,773,247,851

See accompanying Notes to Consolidated Financial Statements.

TOYOTA MOTOR PHILIPPINES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to Equity Holders of the Parent Company							
	Capital Stock (Note 20)	Additional Paid-In Capital	Retained Earnings Appropriated (Note 20)	Retained Earnings Unappropriated (Note 20)	Unrealized Gain on Available for-Sale Financial Assets (Note 11)	Total	Non-controlling Interest	Total Equity
At January 1, 2010	**₱1,549,411,800**	**₱873,868,368**	**₱204,941,180**	**₱3,973,631,274**	**₱25,674,550**	**₱6,627,527,172**	**₱128,833,901**	**₱6,756,361,073**
Appropriations during the year (Note 20)	–	–	**100,000,000**	**(100,000,000)**	–	–	–	–
Net income	–	–	–	**3,476,641,909**	–	**3,476,641,909**	**12,794,691**	**3,489,436,600**
Other comprehensive income (Note 11)	–	–	–	–	**9,139,929**	**9,139,929**	–	**9,139,929**
Total comprehensive income	–	–	–	**3,476,641,909**	**9,139,929**	**3,485,781,838**	**12,794,691**	**3,498,576,529**
Cash dividends (Note 20)	–	–	–	**(1,588,479,943)**	–	**(1,588,479,943)**	–	**(1,588,479,943)**
At December 31, 2010	**₱1,549,411,800**	**₱873,868,368**	**₱304,941,180**	**₱5,761,793,240**	**₱34,814,479**	**₱8,524,829,067**	**₱141,628,592**	**₱8,666,457,659**
At January 1, 2009	₱1,549,411,800	₱873,868,368	₱154,941,180	₱4,905,841,363	₱24,539,550	₱7,508,602,261	₱118,931,612	₱7,627,533,873
Appropriations during the year (Note 20)	–	–	50,000,000	(50,000,000)	–	–	–	–
Net income	–	–	–	1,762,210,562	–	1,762,210,562	9,902,289	1,772,112,851
Other comprehensive income (Note 11)	–	–	–	–	1,135,000	1,135,000	–	1,135,000
Total comprehensive income	–	–	–	1,762,210,562	1,135,000	1,763,345,562	9,902,289	1,773,247,851
Cash dividends (Note 20)	–	–	–	(2,644,420,651)	–	(2,644,420,651)	–	(2,644,420,651)
At December 31, 2009	₱1,549,411,800	₱873,868,368	₱204,941,180	₱3,973,631,274	₱25,674,550	₱6,627,527,172	₱128,833,901	₱6,756,361,073

See accompanying Notes to Consolidated Financial Statements.

TOYOTA MOTOR PHILIPPINES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱4,341,387,150**	₱2,271,103,956
Adjustments for:		
Accruals (reversals or payments) of claims and assessments and product warranty (Note 19)	**237,324,120**	(3,158,243)
Depreciation and amortization (Notes 12, 13, 14 and 24)	**228,265,141**	261,920,301
Provision for impairment losses (Notes 8, 15 and 22)	**45,032,726**	811,401
Provision for inventory write-down (Notes 9, 21 and 22)	**21,012,001**	216,886
Interest expense and other charges (Notes 18 and 26)	**18,754,560**	15,675,758
Unrealized foreign exchange loss	**4,908,223**	12,943,128
Loss on sale of available-for-sale financial assets (Note 11)	**–**	67,250
Dividend income (Note 26)	**(6,923,206)**	(14,382,750)
Gain on sale of property and equipment (Note 26)	**(9,064,808)**	(8,761,151)
Interest income (Notes 6 and 7)	**(293,910,965)**	(220,952,463)
Net cash flows generated from operations before changes in working capital	**4,586,784,942**	2,315,484,073
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables	**(1,423,036,145)**	298,173,463
Inventories	**(2,430,105,174)**	2,816,640,747
Prepayments and other current assets	**(162,453,851)**	673,716,958
Increase (decrease) in:		
Accounts payable and others	**1,785,553,681**	982,430,181
Accrued expenses	**493,231,675**	77,866,376
Retirement liability	**(2,132,192)**	850,465
Net cash flows generated from operations	**2,847,842,936**	7,165,162,263
Income taxes paid	**(862,331,132)**	(295,894,708)
Net cash flows provided by operating activities	**1,985,511,804**	6,869,267,555
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Intangible assets (Note 14)	**(2,280,505)**	–
Available-for-sale investments (Note 11)	**(6,705,071)**	–
Property, plant and equipment (Note 12)	**(146,335,008)**	(209,996,496)
Short-term investments	**(734,286,580)**	(601,717,932)

(Forward)

	Years Ended December 31	
	2010	2009
Proceeds from:		
Short-term investments	**₱601,717,932**	₱21,918,456
Borrowings (Note 18)	**510,000,000**	540,000,000
Disposals of:		
Property, plant and equipment	**18,885,249**	10,197,264
Available-for-sale financial assets (Note 11)	**–**	162,750
Interest received	**297,649,333**	211,196,576
Cash dividends received (Note 26)	**6,923,206**	14,382,750
Decrease (increase) in other noncurrent assets	**(60,398,220)**	105,901,867
Net cash flows provided by investing activities	**485,170,336**	92,045,235
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments for:		
Interest expense and other charges (Notes 18 and 26)	**(18,754,560)**	(15,675,758)
Borrowings (Note 18)	**(530,000,000)**	(440,000,000)
Dividends (Note 20)	**(1,588,479,943)**	(2,644,420,651)
Cash flows used in financing activities	**(2,137,234,503)**	(3,100,096,409)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(4,908,223)**	(12,943,128)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**328,539,414**	3,848,273,253
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**6,259,191,215**	2,410,917,962
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱6,587,730,629**	₱6,259,191,215

See accompanying Notes to Consolidated Financial Statements.

TOYOTA MOTOR PHILIPPINES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Toyota Motor Philippines Corporation ("TMPC" or "the Parent Company") and its subsidiaries (collectively referred to as "the Group") were incorporated in the Philippines primarily to engage in the assembly, manufacture, importation, sale and distribution of all kinds of motor vehicles including vehicle parts, accessories and instruments.

The Parent Company's major stockholders are Toyota Motor Corporation, Japan (TMC) and Metropolitan Bank and Trust Company (Metrobank).

The registered office address of the Parent Company is Toyota Special Economic Zone, Santa Rosa-Tagaytay Highway, Santa Rosa City, Laguna.

2. Basis of Preparation

The accompanying consolidated financial statements have been prepared under the historical cost basis, except for available-for-sale (AFS) financial assets that have been measured at fair value, and are presented in Philippine Peso (₱), the Parent Company's functional currency. Amounts are rounded to the nearest peso unless otherwise indicated.

Statement of Compliance
The accompanying consolidated financial statements are presented in compliance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as of and for the years ended December 31, 2010 and 2009. All subsidiaries are incorporated in the Philippines. Additional details of the subsidiaries follow:

Name of Subsidiary	Percentage of Ownership
Toyota Makati, Inc. (TMI)	100%
Lexus Manila, Inc. (LMI)	75%
Toyota San Fernando Pampanga, Inc. (TSFI)	55%

The financial statements of TMI, LMI and TSFI are prepared for the same reporting year as the Parent Company, using consistent accounting policies.

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

A subsidiary is fully consolidated from the date of acquisition, being the date on which the Parent Company obtains control, and continues to be consolidated until the date such control ceases.

Non-controlling interest represents the portion of profit and loss and net assets not held by the Parent Company and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from equity attributable to equity holders of the Parent Company.

3. **Changes in Accounting Policies**

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new and amended PFRS and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) that are discussed below. The adoption of the new and amended PFRS and Philippine Interpretations did not have any effect on the Group's financial statements.

- PFRS 2 (Revised), *Share-based Payment: Group Cash-settled Share-based Payment Transactions*
The International Accounting Standards Board (IASB) issued an amendment to PFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions.

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

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

- Amendment to PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*
This Amendment addresses only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The Amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

- Philippine Interpretation of IFRIC 17, *Distributions of Non-cash Assets to Owners*
This Philippine 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.

Improvements to PFRS
Improvements to PFRS, an omnibus of amendments to standards, deal primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments did not have any impact on the financial position or performance of the Group.

Improvements to PFRS 2008
PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
- Clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and has no impact on the financial position or the financial performance of the Group.

Improvements to PFRS 2009
PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
- Clarifies that the disclosures required in respect of noncurrent assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRS only apply if specifically required for such non-current assets or discontinued operations.

PFRS 8, *Operating Segment*
- Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

PAS 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. This Amendment will impact amongst others the presentation in the consolidated statement of cash flows of the consideration on the business combination completed in 2010 upon cash settlement.

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

Other amendments resulting from the 2009 Improvements to PFRS to the following standards did not have any impact on the accounting policies, financial position or performance of the Group.

PFRS 2, *Share-based Payment*
- Clarifies that the contribution of a business on formation of a joint venture and combinations under common control are within the scope of PFRS 2 even though they are out of scope of PFRS 3 (Revised).

PAS 1, *Presentation of Financial Statements*
- Clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

PAS 17, *Leases*

- Removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The Amendment now requires that leases of land are classified as either 'finance' of 'operating' in accordance with the general principles of PAS 17. The Amendment is applied retrospectively.

PAS 38, *Intangible Assets*

- Clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. It also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

PAS 39, *Financial Instruments: Recognition and Measurement*

- Improvements to PAS 39 are: (a) changes in circumstances relating to derivatives - specifically derivatives designated or de-designated as hedging instruments after initial recognition - are not reclassifications; (b) when financial assets are reclassified as a result of an insurance company changing its accounting policy in accordance with paragraph 45 of PFRS 4, this is a change in circumstance, not a reclassification; (c) also removes the reference to a 'segment' when determining whether an instrument qualifies as a hedge; and (d) requires use of the revised effective interest rate (EIR) (rather than the original EIR) when re-measuring a debt instrument on the cessation of fair value hedge accounting.

Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*

- It clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.

Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*

- It states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

<u>Future Changes in Accounting Policies</u>

The Group will adopt the following new and amended PFRS and Philippine Interpretations enumerated below when these become effective. The following new and amended PFRS and Philippine Interpretations will not have significant impact to the consolidated financial statements:

Effective in 2011

- Amendment to PAS 24, *Related Party Disclosures* (effective for annual periods beginning on or after January 1, 2011)
  This amended Standard clarified the definition of a related party to simplify the identification of such relationships, particularly in relation to significant influence and joint control, and to eliminate inconsistencies in its application. The revised Standard introduces a partial exemption of disclosure requirements for government-related entities. The Group will need to consider the revised definition of related parties to ensure all the relevant information is still

being captured, although, they do not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

- Amendment to PAS 32, *Financial Instruments: Presentation - Classification of Rights Issues* (effective for annual periods beginning on or after February 1, 2010)
  This Amendment clarified 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.

- Amendment to PFRS 7, *Financial Instruments: 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.

- Amendment to Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement* (effective for annual periods beginning on or after January 1, 2011)
  This Philippine Interpretation provides guidance on assessing the recoverable amount of net pension asset and permits an entity to treat the prepayment of a minimum funding requirement as an asset. This Philippine Interpretation will be applied retrospectively.

- Amendment to Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities and Equity Instruments* (effective for annual periods beginning on or after July 1, 2010)
  This Philippine 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.

Improvements to PFRS 2010
Improvements to PFRS 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 Group, however, does not expect the adoption of the amendments to have a significant impact on its financial position or performance.

- PFRS 3, *Business Combinations*
- PFRS 7, *Financial Instruments Disclosures*
- PAS 1, *Presentation of Financial Statements*
- PAS 27, *Consolidated and Separate Financial Statements*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*

Effective in 2012

- Amendment to PAS 12, *Income Taxes - 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* (effective for annual periods beginning on or after January 1, 2012)
  This Philippine Interpretation, which may be early applied, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This Philippine 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 in 2013

- PFRS 9, *Financial Instruments: Classification and Measurement* (effective for annual periods beginning on or after January 1, 2013)
  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. In subsequent phases, hedge accounting and derecognition will be addressed. The completion of this project is expected in early 2011.

4. **Summary of Significant Accounting Policies**

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and other sales 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:

Sale of goods
Revenue from sale of goods arises from sale of manufactured vehicles and trading of completely built-up vehicles and local and imported parts. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer (including certain "bill and hold" sales, wherein the buyer takes title and accepts billing), usually on dispatch of goods.

Rendering of services
Service fees from installation of parts and repairs and maintenance of vehicles are recognized as revenue when the related services have been rendered.

Interest income
Interest income is recognized as interest accrues using the EIR method, that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

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

Rental income
Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease term.

Selling, General and Administrative Expenses
Selling expenses constitute costs of advertisements, promotions and other selling expenses. General and administrative expenses constitute costs of administering the business. These are recognized as expenses when incurred.

Cost of Goods Sold
Cost of goods sold includes the purchase price of the products sold, as well as costs that are directly attributable in bringing the merchandise to its intended condition and location. These costs include the costs of storing and transporting the products. Vendor returns and allowances are generally deducted from cost of goods sold and services.

Financial Instruments
Date of recognition
The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the settlement date.

Initial recognition of financial instruments
Financial instruments within the scope of PAS 39 are classified as either financial assets and liabilities at FVPL, loans and receivables, held-to-maturity (HTM) investments and AFS financial assets and other liabilities, as appropriate. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial reporting date.

Financial instruments are recognized initially at fair value of the consideration given. The fair values of the consideration given are determined by reference to the transaction price or other market prices. If such market prices are not reliably determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rates of interest for similar instruments with similar maturities. The initial measurement of financial instruments, except for those designated at FVPL, includes transaction costs.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity net of any related income tax benefits.

As of December 31, 2010 and 2009, the Group's financial instruments are classified as loans and receivables, AFS financial assets and other liabilities.

Determination of fair value
The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price 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 ask 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. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other relevant valuation models.

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

Loans and receivables
Loans and receivables are 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 designated as AFS financial assets or financial assets at FVPL.

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the EIR method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in the consolidated statement of income. The losses arising from impairment of such loans and receivables are also recognized in the consolidated statement of income.

This accounting policy relates to the consolidated statement of financial position captions "Cash and cash equivalents", "Receivables" and "Other noncurrent assets".

AFS financial assets
AFS financial assets are those non-derivative financial assets that are designated as such or do not qualify as 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 government securities, equity investments and other debt instruments.

After initial measurement, AFS financial assets are measured at fair value with unrealized gains or losses being recognized directly in equity in the 'Unrealized gain on AFS financial assets'. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognized in the consolidated statement of income. Interest earned or paid on the investments is reported as interest income or expense using the EIR. Dividends earned on investments are recognized in the consolidated statement of income when the right to receive has been established.

This accounting policy relates to the consolidated statement of financial position caption "Available-for-sale financial assets".

Other financial liabilities
All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the consolidated statement of income when liabilities are derecognized as well as through amortization process.

This accounting policy applies primarily to consolidated statement of financial position captions "Accounts payable and others", "Accrued expenses", "Loans payable" and "Long-term debt".

There are no financial liabilities recognized at fair value.

<u>Classification of Financial Instruments Between Debt and Equity</u>
A financial instrument is classified as debt, if it provides for a contractual obligation to:

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

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

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount, after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

<u>Derecognition of Financial Assets and Financial Liabilities</u>
Financial asset
A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- 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 substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Financial liability
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired.

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

Offsetting financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated 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.

Impairment of Financial Assets
The Group assesses at each reporting date whether a financial asset or a group of financial assets is impaired.

Loans and receivables
If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial assets' original EIR (i.e., the EIR computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognized in the consolidated statement of income during the period in which it arises.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. 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 of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

In relation to loans and receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through the use of an allowance account. Impaired loans and receivables are derecognized when they are assessed as uncollectible.

AFS financial assets
If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated statement of income, is transferred from the consolidated statement of changes in equity to the consolidated statement of income. Reversals in respect of equity instruments classified as AFS financial assets are not recognized in the consolidated statement of income. Reversals of impairment losses on the debt instruments are reversed through the consolidated statement of income, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income.

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash in banks earn interest at the prevailing bank deposit rates. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from dates of placements and that are subject to insignificant risk of change in value.

Inventories
Inventories are valued at the lower of cost or net realizable value (NRV). NRV is the estimated selling price in the ordinary course of business, less the estimated costs of completion, marketing and distribution. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials and spare parts	-	Purchase cost on a weighted average cost
Finished goods and work-in-process	-	Cost of direct material and labor and proportion of fixed and overhead manufacturing costs allocated based on normal operating capacity
Raw materials and spare parts in-transit	-	Cost is determined using the specific identification method

Property, Plant and Equipment
Property, plant and equipment, except for land, are carried at cost less accumulated depreciation, amortization and any impairment in value. Land is stated at cost less any impairment in value.

The initial cost of property, plant and equipment consists of its purchase price, construction costs, including nonrefundable import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operations, such as repairs and maintenance and overhaul costs, are normally charged against income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property, plant and equipment. All other repair and maintenance expenses are charged to current operations as incurred.

Cost of trial tools, sample dies and jigs, and testing materials that do not benefit future periods are expensed outright. The Group capitalizes to property, plant and equipment the costs of these assets when the Group can demonstrate that the assets to which these items are utilized are technically feasible for commercial production.

Depreciation and amortization of property, plant and equipment commences once the assets are put into operational use.

Depreciation and amortization are computed on the straight-line method over the estimated useful lives (EUL) of the respective assets. Leasehold improvements are amortized over the useful lives of the improvements or the remaining term of the related lease, whichever is shorter. The EUL of the property, plant and equipment follow:

	Years
Land improvements	10
Building and improvements	10
Leasehold improvements	5
Machinery and equipment	5
Small tools, dies, jigs and patterns	2-3
Transportation equipment	3
Furniture, fixtures and equipment	5
Training equipment	5

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

Construction-in-progress represents cost of buildings under construction and initial installation and renovation of machinery and equipment. Construction-in-progress for machinery and equipment includes cost of new machinery and equipment acquired, salaries of engineers and employees and other incidental expenses that are directly attributable to the project.

Construction-in-progress is not depreciated until such time as the relevant assets are completed and put into operational use.

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

Investment Properties

Investment properties consist of properties that are held to earn rentals or for capital appreciation or both. Initially, investment properties are measured at cost including transaction costs. Subsequent to initial recognition, investment properties except land, are stated at cost less accumulated depreciation, amortization and impairment in value, if any. Land is carried at cost less any impairment in value.

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 gain or loss on the retirement or disposal of an investment property is recognized in the consolidated statement of income in the year the asset is derecognized.

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

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end 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, as evidenced by commencement or owner occupation or commencement of development with a view to sale.

For a transfer from investment property to owner-occupied property, the deemed cost of properties for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognized in the consolidated statement of income.

Depreciation and amortization is calculated on a straight-line basis using the EUL from the time of acquisition of the investment properties. The EUL of the investment properties follow:

	Years
Land improvements	10
Building and improvements	10

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and any accumulated impairment loss. Internally-generated intangible assets, if any, excluding capitalized developments costs, are not capitalized and expenditure is reflected in the consolidated statement of income in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and amortization method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

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

As of December 31, 2010 and 2009, the Group has no intangible assets with indefinite useful lives.

Research and development costs
Research costs are expensed as incurred.

An intangible asset arising from development expenditure on an individual project is recognized only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during the development.

During the period of development, the asset is tested for impairment annually. Following initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses.

Amortization of the asset begins when the development is complete and the asset is available for use. It is amortized over the period of expected future sales. During the period of which the asset is not yet in use, it is tested for impairment annually.

As of December 31, 2010 and 2009, there are no research and development costs that qualified as an intangible asset.

Impairment of Nonfinancial Assets
This accounting policy applies to the Group's property, plant and equipment, investment properties and intangible assets.

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less cost 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 of those from other assets or group of assets. 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 assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the CGU level, as appropriate.

Borrowing Costs
Borrowing costs are generally expensed as incurred. Interest on borrowed funds used to finance the construction of qualifying asset to the extent incurred during the period of construction is capitalized as part of the cost of the qualifying asset. The capitalization of these borrowing costs as part of the cost of the qualifying asset: (a) commences when the expenditures and borrowing costs are being incurred during the construction and related activities necessary to prepare the qualifying asset for its intended use are in progress; and (b) ceases when substantially all the activities necessary to prepare the qualifying for its intended use are complete. The capitalized borrowing costs are amortized using the straight-line method over the EUL of the building.

Equity
Capital stock is measured at par value for all shares issued. When the Parent Company issues shares in excess of par, the excess is recognized as additional paid-in capital (APIC). Incremental costs incurred directly attributable to the issuance of new shares are treated as deduction from APIC.

Retained earnings represent accumulated earnings of the Group less dividends declared.

Income Tax
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 at the reporting date.

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

Deferred tax liabilities are recognized for all taxable temporary differences, 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 profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, 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 and taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- 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 profit will be available against which the temporary differences can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rate and tax laws that have been enacted or substantively enacted at the reporting date.

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

Foreign Currency Transactions and Translation
The consolidated financial statements are presented in Philippine Peso (₱), which is the Parent Company's functional and presentation currency. The functional currency of the subsidiaries is also the Philippine Peso (₱). Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. However, monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange prevailing at the reporting date. Exchange gains or losses arising from foreign currency translations are charged against or credited to the consolidated statement of income.

Retirement Costs
The Group has a noncontributory defined benefit retirement plan.

The retirement cost of the Group is determined using the projected unit credit (PUC) 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 period. The liability recognized in the consolidated statement of financial position in respect of defined benefit pension plan is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs.

The defined benefit obligation is calculated annually by an independent actuary using the PUC method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using prevailing interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability or applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged against income when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Past service costs, if any, are recognized immediately in the consolidated statement of 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 retirement benefits of officers and employees are determined and provided for by the Group and are charged against current income.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs not yet recognized, if any, and less the fair value of the plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service costs not yet recognized, if any, 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.

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.

Group as a lessee
Lease of assets under which the lessor effectively retains all the risks and rewards of ownership is classified as operating lease. Operating lease payments are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term.

Group as a lessor
Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income.

Provisions
Provisions are recognized only when the Group has: (a) a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. 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 an interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of the resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic resources is remote. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Events After the Reporting Date
Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

5. **Significant Accounting Judgments, Estimates and Assumptions**

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which has the most significant effect on the amounts recognized in the consolidated financial statements:

Operating leases - Group as lessor
The Group has entered into commercial property leases on its investment properties portfolio (Notes 28 and 30). 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.

Operating leases - Group as lessee
The Group has entered into property leases for its operations (Notes 28 and 30). The Group has determined that the lessor retains all significant risks and rewards of ownership of these properties which are leased out on operating leases.

Allocation of costs and expenses
Costs and expenses are classified as exclusive and common. Exclusive costs such as raw materials and direct labor are charged directly to the product line. Common costs and expenses are allocated using sales value.

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of receivables
The Group reviews its receivable portfolio to assess impairment annually based on the factors that affect the collectibility of the account. The Group reviews the age and status of receivables and identifies accounts that are to be provided with allowance on a continuous basis. The amount and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase the recorded operating expenses and decrease current assets.

The related balances follow (Note 8):

	2010	2009
Receivables	**₱3,382,318,308**	₱1,963,020,531
Allowance for impairment losses	**56,197,266**	55,253,696

Estimating NRV of inventory
The Group reviews its inventory to assess NRV at least on a semi-annual basis. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. An increase in reserves for inventory write-down would increase recorded operating expenses and decrease current assets.

The related balances follow (Note 9):

	2010	2009
Inventories		
At cost	**₱3,846,254,874**	₱2,265,910,628
At NRV	**1,999,281,540**	1,170,532,613

Provision for inventory write-down amounted to ₱21.0 million and ₱0.2 million in 2010 and 2009, respectively. Inventories, net of allowance for inventory write-down, amounted to ₱5,845.5 million and ₱3,436.4 million as of December 31, 2010 and 2009, respectively (Note 9).

Impairment of AFS financial assets
The Group determines that AFS financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. 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.

A net increase on market value of AFS financial assets amounting ₱9.1million and ₱1.1 million was recognized in 2010 and 2009, respectively. AFS financial assets amounted to ₱113.4 million and ₱97.6 million as of December 31, 2010 and 2009, respectively (Note 11).

EUL of property, plant and equipment, investment properties and intangible assets
The Group estimates the useful lives of its property, plant and equipment, investment properties and intangible assets based on the period over which the assets are expected to be available for use. The Group reviews annually the EUL of property, plant and equipment, investment properties and intangible assets based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the EUL of property, plant and equipment, investment properties and intangible assets would increase the recorded depreciation and amortization expense and decrease the carrying value of property, plant and equipment, investment properties and intangible assets.

The related balances follow:

	2010	2009
Property, plant and equipment (inclusive of construction-in-progress) (Note 12)	**₱4,306,926,294**	₱4,199,591,720
Accumulated depreciation (Note 12)	**3,203,432,682**	3,018,321,902
Investment properties (Note 13)	**475,231,630**	475,231,630
Accumulated depreciation (Note 13)	**133,087,581**	119,746,687
Intangible assets (Note 14)	**2,280,505**	–
Accumulated amortization (Note 14)	**633,474**	–
Aggregate depreciation and amortization (Notes 12, 13, 14 and 24)	**228,265,141**	261,920,301

Estimating impairment of property, plant and equipment, investment properties and intangible assets
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.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the CGU to which the asset belongs. For impairment loss on specific assets, the recoverable amount represents the net selling price.

In determining the present value of the estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the accompanying consolidated financial statements.

The related balances follow:

	2010	2009
Property, plant and equipment (inclusive of construction-in-progress) (Note 12)	**₱4,306,926,294**	₱4,199,591,720
Accumulated depreciation (Note 12)	**3,203,432,682**	3,018,321,902
Investment properties (Note 13)	**475,231,630**	475,231,630
Accumulated depreciation (Note 13)	**133,087,581**	119,746,687
Intangible assets (Note 14)	**2,280,505**	–
Accumulated amortization (Note 14)	**633,474**	–
Aggregate depreciation and amortization (Notes 12, 13, 14 and 24)	**228,265,141**	261,920,301

Estimating provision for product warranty
Estimated warranty costs are provided at the time of sale. The provision is based on the estimated costs of future servicing the products sold, the costs of which are not recoverable from customers. A provision is recognized for expected warranty claims on products sold during the last two (2) years, based on past experience of the level of returns and repairs. It is expected that most of these costs will be incurred in the next financial year and all will have been incurred within three (3) years as of the reporting date.

As of December 31, 2010 and 2009, provision for product warranty amounted to ₱504.3 million and ₱307.6 million, respectively (Note 19).

Estimating pension and other retirement benefits
The determination of the obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, expected returns on plan assets and salary rate increases. In compliance with PFRS, actual results that differ from the Group's assumptions, subject to the 10% corridor test, are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.
While the Group believes that the assumptions are reasonable and appropriate, significant differences between actual experiences and assumptions may materially affect the cost of employee benefits and related obligations.

The related balances follow (Note 25):

	2010	2009
Retirement liability	**₱377,839,835**	₱379,972,027
Pension benefit obligation	**1,081,462,018**	796,909,918
Unrecognized net actuarial gains (losses)	**(32,278,997)**	130,413,581

Deferred tax assets
Deferred tax assets are recognized only to the extent that the taxable income will be available against which the deferred tax assets can be used. The Group assesses the unrecognized deferred tax assets and will recognize a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

The Group recognized deferred tax assets on the temporary differences amounting ₱405.2 million and ₱324.5 million as of December 31, 2010 and 2009, respectively (Note 27).

The Group unrecognized deferred tax assets on the temporary differences amounting ₱4.14 million and ₱3.36 million as of December 31, 2010 and 2009, respectively.

Financial assets and liabilities
The Group carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgments. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates and volatility rates), amount of changes in fair value would differ if the Group utilized a different valuation methodology. Any changes in fair value of these financial assets and liabilities would affect profit and loss and equity.

The related balances follow (Note 29):

	2010	2009
Financial assets	**₱10,926,726,922**	₱9,005,706,066
Financial liabilities	**9,610,952,816**	7,308,622,733

Contingencies
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with the legal counsels and based upon the analysis of potential results. The Group currently does not believe these proceedings will have a material adverse effect on the Group's financial position.

6. **Cash and Cash Equivalents**

This account consists of:

	2010	2009
Cash on hand and in banks	**₱304,261,194**	₱266,908,103
Time deposits	**6,283,469,435**	5,992,283,112
	₱6,587,730,629	₱6,259,191,215

Cash in banks earns interest at the respective bank deposit rates. Time deposits are made for varying periods of up to three (3) months depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. Interest income earned from savings account and time deposits follow:

	2010	2009
Savings accounts	**₱1,801,647**	₱8,931,572
Time deposits	**281,325,072**	200,454,705
	₱283,126,719	₱209,386,277

7. **Short-term Investments**

These represent the Group's foreign currency and peso-denominated time deposits with original maturities of more than three (3) months to twelve (12) months and earn interest at the respective time deposit rates ranging from 0.2% to 1.9% and from 0.2% to 4.3% in 2010 and 2009, respectively. Interest income earned on these short-term investments amounted to ₱10.8 million and ₱11.5 million in 2010 and 2009, respectively.

8. **Receivables**

This account consists of:

	2010	2009
Trade	**₱3,055,362,177**	₱1,732,103,131
Warranty	**21,096,997**	61,842,030
Dealer advances	**11,137,316**	9,223,005
Others	**294,721,818**	159,852,365
	3,382,318,308	1,963,020,531
Less allowance for impairment losses	**56,197,266**	55,253,696
	₱3,326,121,042	₱1,907,766,835

Trade receivables are noninterest-bearing and are generally on one (1) to thirty (30) days' terms. Total receivables from related parties included in trade receivables as of December 31, 2010 and 2009 amounted to ₱895.6 million and ₱805.0 million, respectively (Note 28).

Warranty receivables represent claims from suppliers for reimbursement of the related cost of delivered materials found to be defective or damaged.

Dealer advances pertain to receivables arising from nontrade transactions with dealers.

Other receivables consist of receivable from employees, interest receivable, rent and shipping charges collectible from dealers.

The allowance for impairment losses was provided for warranty receivables and other receivables collectively determined as impaired.

The rollforward analysis of the allowance for impairment losses as of December 31 follows:

	2010	2009
At January 1	**₱55,253,696**	₱54,442,295
Provision for impairment losses (Note 22)	**943,570**	811,401
At December 31	**₱56,197,266**	₱55,253,696

As of December 31, the aging analysis of receivables follows:

		Neither past due	Past due but not impaired			Past due
	Total	nor impaired	30 - 60 days	61 - 90 days	> 90 days	and impaired
2010	**₱3,382,318,308**	**₱2,623,020,733**	**₱240,180,157**	**₱29,833,159**	**₱433,086,993**	**₱56,197,266**
2009	1,963,020,531	1,511,756,909	262,003,205	29,796,777	104,209,944	55,253,696

For the terms and conditions on related party transactions, refer to Note 28.

9. **Inventories**

This account consists of:

	2010	2009
At cost:		
Finished goods	**₱2,270,473,159**	₱1,062,929,814
Work-in-process	**77,422,063**	91,596,104
Raw materials in-transit	**1,498,359,652**	1,111,384,710
	3,846,254,874	2,265,910,628
At NRV:		
Raw materials	**1,598,552,959**	840,054,320
Spare parts	**400,728,581**	330,478,293
	1,999,281,540	1,170,532,613
	₱5,845,536,414	₱3,436,443,241

The total cost of goods sold recognized in the consolidated statements of income amounted to ₱52,331.7 million and ₱42,448.5 million in 2010 and 2009, respectively (Note 21).

Allowance for inventory write-down follows:

	2010	2009
Beginning balance	**₱88,483,538**	₱98,489,158
Provision for inventory write-down (Notes 21 and 22)	**21,012,001**	216,886
Inventory scrap	**(10,491,153)**	(10,222,506)
	₱99,004,386	₱88,483,538

The amount of provision for inventory write-down recognized in general and administrative expenses and cost of goods sold follows:

	2010	2009
General and administrative expenses (Note 22)	**₱12,513,670**	₱216,886
Cost of goods sold (Note 21)	**8,498,331**	–
	₱21,012,001	₱216,886

The Group has written-off inventories amounting ₱10.5 million and ₱10.2 million in 2010 and 2009, respectively.

10. Prepayments and Other Current Assets

This account consists of:

	2010	2009
Ad-valorem tax	**₱323,852,057**	₱150,625,482
Input value-added tax (VAT) - net	**54,489,564**	2,365,595
Creditable withholding tax	**53,127,606**	101,741,647
Prepayments (Note 29)	**52,583,383**	66,866,035
	₱484,052,610	₱321,598,759

The ad-valorem tax represents advance payments to the Bureau of Internal Revenue (BIR). This is applied against taxes on the manufacture and importation of vehicles which generally occurs within one (1) year from the date the ad-valorem taxes are paid.

The input VAT is net of output VAT amounting ₱536.0 million as of December 31, 2010. The balance is recoverable in future periods.

11. **Available-for-sale Financial Assets**

This account consists of:

	2010	2009
Unquoted equity securities (at cost):		
Investment in Toyota Autoparts Philippines, Inc. (TAPI)	**₱50,000,000**	₱50,000,000
Investment in preferred and other shares of stock	**4,073,500**	4,073,500
Quoted equity securities (at market):		
Investments in golf shares	**59,370,000**	43,525,000
	₱113,443,500	₱97,598,500

TAPI is a 95% subsidiary of TMC. The other 5% is owned by the Parent Company which is 34% owned by TMC.

The movement in this account follows:

	2010	2009
At January 1	**₱97,598,500**	₱96,693,500
Acquisitions during the year	**6,705,071**	–
Unrealized gain during the year	**9,139,929**	1,135,000
Disposals	**–**	(230,000)
At December 31	**₱113,443,500**	₱97,598,500

As of December 31, 2010 and 2009, the unrealized gain in quoted equity securities amounted to ₱34.8 million and ₱25.7 million, respectively. This is presented as "Other comprehensive income" in the equity section of the consolidated statement of financial position.

In 2009, the Group disposed investments in quoted equity securities amounting ₱0.2 million, which resulted to a loss of ₱0.1 million.

12. **Property, Plant and Equipment**

The rollforward analysis of this account follows:

2010

	At January 1	Additions/ Reclassifications	Disposals/ Write-off	At December 31
Cost				
Land	**₱417,973,879**	**₱–**	**₱–**	**₱417,973,879**
Land improvements	**98,813,121**	**–**	**–**	**98,813,121**
Building and improvements	**1,240,967,031**	**12,097,463**	**–**	**1,253,064,494**
Leasehold improvements	**9,443,262**	**–**	**–**	**9,443,262**
Machinery and equipment	**444,347,308**	**2,161,563**	**–**	**446,508,871**
Small tools, dies, jigs and patterns	**1,287,370,713**	**68,948,754**	**–**	**1,356,319,467**
Transportation equipment	**254,246,387**	**72,368,851**	**(37,740,612)**	**288,874,626**
Furniture, fixtures and equipment	**255,026,050**	**14,560,070**	**(1,259,822)**	**268,326,298**
Training equipment	**27,589,310**	**720,982**	**–**	**28,310,292**
Total	**4,035,777,061**	**170,857,683**	**(39,000,434)**	**4,167,634,310**

(Forward)

	At January 1	Additions/ Reclassifications	Disposals/ Write-off	At December 31
Accumulated Depreciation and Amortization (Notes 21, 22 and 24)				
Land improvements	**₱84,640,713**	**₱5,009,774**	**₱–**	**₱89,650,487**
Building and improvements	**849,883,511**	**67,103,911**	**–**	**916,987,422**
Leasehold improvements	**9,443,262**	**–**	**–**	**9,443,262**
Machinery and equipment	**432,556,614**	**8,531,819**	**–**	**441,088,433**
Small tools, dies, jigs and patterns	**1,214,465,631**	**73,715,353**	**–**	**1,288,180,984**
Transportation equipment	**188,208,500**	**41,573,449**	**(27,920,171)**	**201,861,778**
Furniture, fixtures and equipment	**223,136,505**	**17,940,568**	**(1,259,822)**	**239,817,251**
Training equipment	**15,987,166**	**415,899**	**–**	**16,403,065**
Total	**3,018,321,902**	**214,290,773**	**(29,179,993)**	**3,203,432,682**
Construction-in-progress	**163,814,659**	**280,729,821**	**(305,252,496)**	**139,291,984**
Net Book Value	**₱1,181,269,818**			**₱1,103,493,612**

2009

	At January 1	Additions/ Reclassifications	Disposals/ Write-off	At December 31
Cost				
Land	₱417,973,879	₱–	₱–	₱417,973,879
Land improvements	98,813,121	–	–	98,813,121
Building and improvements	1,238,464,892	2,502,139	–	1,240,967,031
Leasehold improvements	9,443,262	–	–	9,443,262
Machinery and equipment	441,596,437	2,756,748	(5,877)	444,347,308
Small tools, dies, jigs and patterns	1,272,704,962	14,665,751	–	1,287,370,713
Transportation equipment	232,403,810	48,612,425	(26,769,848)	254,246,387
Furniture, fixtures and equipment	236,807,141	18,282,303	(63,394)	255,026,050
Training equipment	27,589,310	–	–	27,589,310
Total	3,975,796,814	86,819,366	(26,839,119)	4,035,777,061
Accumulated Depreciation and Amortization (Notes 21, 22 and 24)				
Land improvements	80,434,176	4,206,537	–	84,640,713
Building and improvements	783,476,505	66,407,006	–	849,883,511
Leasehold improvements	9,443,262	–	–	9,443,262
Machinery and equipment	419,432,006	13,130,485	(5,877)	432,556,614
Small tools, dies, jigs and patterns	1,116,328,361	98,137,270	–	1,214,465,631
Transportation equipment	175,196,089	38,346,146	(25,333,735)	188,208,500
Furniture, fixtures and equipment	196,452,109	26,747,790	(63,394)	223,136,505
Training equipment	14,382,991	1,604,175	–	15,987,166
Total	2,795,145,499	248,579,409	(25,403,006)	3,018,321,902
Construction-in-progress	40,637,529	303,578,789	(180,401,659)	163,814,659
Net Book Value	₱1,221,288,844			₱1,181,269,818

Depreciation charged to cost of goods sold amounted to ₱89.5 million and ₱124.4 million in 2010 and 2009, respectively. Depreciation and amortization charged to general and administrative expenses amounted to ₱124.8 million and ₱124.2 million in 2010 and 2009, respectively (Notes 21, 22 and 24).

Fully depreciated property and equipment items amounting ₱2,569.8 million and ₱2,291.4 million as of December 31, 2010 and 2009, respectively, are still in active use.

13. **Investment Properties**

The rollforward analysis of this account follows:

2010

	At January 1	Additions	At December 31
At Cost			
Land	**₱303,994,640**	**₱–**	**₱303,994,640**
Land improvements	**61,713,968**	**–**	**61,713,968**
Building and improvements	**109,523,022**	**–**	**109,523,022**
Total	**475,231,630**	**–**	**475,231,630**
Accumulated Depreciation (Notes 22 and 24)			
Land improvements	**61,713,968**	**–**	**61,713,968**
Building and improvements	**58,032,719**	**13,340,894**	**71,373,613**
Total	**119,746,687**	**13,340,894**	**133,087,581**
Net Book Value	**₱355,484,943**		**₱342,144,049**

2009

	At January 1	Additions	At December 31
At Cost			
Land	₱303,994,640	₱–	₱303,994,640
Land improvements	61,713,968	–	61,713,968
Building and improvements	109,523,022	–	109,523,022
Total	475,231,630	–	475,231,630
Accumulated Depreciation (Notes 22 and 24)			
Land improvements	61,713,968	–	61,713,968
Building and improvements	44,691,827	13,340,892	58,032,719
Total	106,405,795	13,340,892	119,746,687
Net Book Value	₱368,825,835		₱355,484,943

The fair value of investment properties, which has been determined based on the latest valuation report as of September 17, 2009, exceeds its carrying cost. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. The aggregate fair value of the investment properties of the Group is ₱2,300.0 million as of December 31, 2010 and 2009.

The value of the investment properties was arrived at using the *Market Data Approach*. In this approach, the value of the investment properties is based on sales and listings of comparable property registered in the vicinity. The technique of this approach requires the establishment of comparable property by reducing reasonable comparative sales and listings to a common denominator. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparable. The properties used as basis of comparison are situated within the immediate vicinity of the subject property.

Land, land improvements and building and improvements include properties, which the Group acquired from the Asset Privatization Trust (APT) in 1988 for an aggregate cost of about ₱134.0 million. These properties are the subject of an existing litigation initiated by the former owner to recover the said properties. In the event that the case shall be finally decided in favor of the former owner, the APT will return to the Group the purchase price in full without interest. Management and their legal counsel, however, believe that the claim of the former owner has no legal basis.

Depreciation charged to general and administrative expenses amounted to ₱13.3 million in 2010 and 2009, respectively (Note 22).

14. **Intangible Assets**

Details of this account as of December 31, 2010 follow:

Cost	₱2,280,505
Accumulated amortization (Note 22)	633,474
Net book value	₱1,647,031

Amortization charged to general and administrative expenses amounted to ₱0.6 million in 2010 (Note 22).

15. **Other Noncurrent Assets**

This account consists of:

	2010	2009
Deposits and advances (Note 29)	**₱697,097,095**	₱625,709,552
Import charges	**2,868,880**	13,858,203
	699,965,975	639,567,755
Less allowance for impairment losses (Note 22)	**44,089,156**	–
	₱655,876,819	₱639,567,755

The deposits and advances account include deposit to an affiliated real estate entity amounting ₱550.0 as of December 31, 2010 and 2009 for the acquisition of a piece of land valued at ₱750.0 million. The Group recognized impairment on the advances amounting ₱44.1 million in 2010 (Note 22).

16. **Accounts Payable and Others**

This account consists of:

	2010	2009
Trade		
Local	**₱4,001,011,725**	₱3,182,766,618
Import (Note 28)	**3,345,285,635**	2,364,964,943
Taxes payable	**75,844,465**	58,700,241
Customers' deposits	**60,622,379**	41,679,550
Other payables	**20,328,183**	69,427,354
	₱7,503,092,387	₱5,717,538,706

Trade payables are noninterest-bearing and are normally settled on one (1) to thirty (30) days' terms.

Taxes payable include withholding taxes and output VAT net of input VAT which amounted to ₱480.1 million in 2009.

The customers' deposits account represents advance payments received from dealers which are subsequently applied against deliveries of goods which occur within one (1) year from the dates the deposits were made.

17. **Accrued Expenses**

This account consists of accruals for the following items:

	2010	2009
Dealers' incentives, supports and promotions	**₱922,961,926**	₱484,680,387
Royalty and technical assistance fees (Notes 28 and 32)	**292,757,551**	276,919,229
Construction-in-progress	**262,180,438**	135,086,515
Utilities and services	**165,008,698**	154,386,563
Payroll and other employee benefits	**153,085,397**	291,218,111
Freight, handling and transportation	**38,372,672**	34,251,643
Professional and consultancy fees	**8,525,411**	5,809,310
Others	**68,242,735**	35,551,395
	₱1,911,134,828	₱1,417,903,153

Dealers' incentives, supports and promotions
The Parent Company has existing dealership agreements wherein the Parent Company provides incentives, marketing support and technical assistance. These incentives, supports and promotions which are generally known as rewards are in the form of fleet subsidies, promotional items, car accessories and kits (Notes 22 and 32). Others are in the form of advertising subsidies such as ad placements in print and broadcast media.

Royalty and technical assistance fees
The royalty and technical assistance fees to TMC represent the cost of license for the use of technical know-how, information and data (Notes 28 and 32).

The fees are calculated at 6% of the local value-added (LVA) of vehicles under production. The LVA represents the selling price less all costs for the knock-down parts, related taxes such as excise and sales tax and a certain percentage of administrative and selling costs (Note 28). The Group paid royalty and technical assistance fees amounting ₱814.6 million and ₱531.2 million in 2010 and 2009, respectively.

The fees also include charges from affiliates and third party suppliers representing initial costs of testing materials and trial parts and tools, sample moulds and jigs that were utilized to test the Group's present technical feasibility for the commercial production of newer car models.

Construction-in-progress
This account includes charges incurred for the construction of buildings in the Parent Company's premises and for the donation made by the Parent Company to a donee institution. It also includes charges incurred for the construction of LMI showroom and operating costs in 2009.

Utilities and services
This account includes charges for the utilities, repairs and maintenance works at existing storage warehouse and stockyards.

Payroll and other employee benefits
This account includes accruals for employees' salaries and wages, leave credits and other benefits.

18. **Borrowings**

Loans Payable
These are unsecured short-term loans obtained from Bank of the Philippine Islands and Metrobank, an affiliated local commercial bank, for working capital requirements in 2010 and 2009, respectively. The loans, with terms of one (1) year or less, bear annual interest rates ranging from 3.8% to 4.5% and 5.5% to 8.3% in 2010 and 2009, respectively. Interest expense on the loans amounted to ₱10.6 million and ₱7.5 million in 2010 and 2009, respectively (Note 28).

The movements in the loans payable balance follow:

	2010	2009
At January 1	**₱130,000,000**	₱30,000,000
Availments	**510,000,000**	540,000,000
Payments	**(530,000,000)**	(440,000,000)
At December 31	**₱110,000,000**	₱130,000,000

Long-term Debt
This account consists of unsecured long-term debt to the following:

TAPI (Note 28)	₱78,626,700
Others	167,200,000
	₱245,826,700

The loan from TAPI bears fixed interest rate of 4.2% per annum. This loan is for a period of five (5) years up to February 26, 2011 which is automatically renewed upon maturity for another five (5) to ten (10) years (Note 28).

The other long-term unsecured interest-bearing loans consists of a 2.7% interest-bearing ten (10) year term loan which will mature on September 28, 2015 and a 2.7% interest-bearing ten (10) year term loan which will mature on October 23, 2016. These loans are automatically renewed upon maturity for another ten (10) years.

The loan covenants restrict the Group from encumbering or disposing properties leased by the lenders during the respective terms of various loan agreements. As of December 31, 2010 and 2009, the Group has complied with loan covenants.

Total interest expense on these loans amounted to ₱7.8 million for the years ended December 31, 2010 and 2009.

19. **Provisions**

This account consists of:

	2010	2009
Provisions for claims and assessments (Note 31)	**₱169,678,412**	₱129,083,183
Provisions for product warranty	**504,339,460**	307,610,569
	₱674,017,872	₱436,693,752

The rollforward analysis of provisions for claims and assessments follows:

	2010	2009
At January 1	**₱129,083,183**	₱144,000,000
Provisions during the year (Note 22)	**50,000,000**	–
Payments during the year	**(9,404,771)**	(14,916,817)
At December 31	**₱169,678,412**	₱129,083,183

The Parent Company made payments for claims and assessments amounting ₱9.4 million and ₱14.9 million in 2010 and 2009, respectively.

The rollforward analysis of provision for product warranty follows:

	2010	2009
At January 1	**₱307,610,569**	₱295,851,995
Provisions during the year (Note 22)	**296,513,679**	156,218,865
Reversals during the year	**(99,784,788)**	(144,460,291)
At December 31	**₱504,339,460**	₱307,610,569

20. **Equity**

Capital Stock
The details of the Parent Company's capital stock follow:

Common stock - ₱100 par value	
Authorized - 20,000,000 shares	₱2,000,000,000
Issued and outstanding - 15,494,118 shares	1,549,411,800

Appropriated Retained Earnings
The Parent Company's by-laws require yearly appropriation of retained earnings equivalent to 5% of Parent Company's net income for the year. The appropriation will continue until the appropriated retained earnings are equivalent to 10% of the issued capital stock or a higher amount as may be determined by the stockholders. The Group appropriated retained earnings for future expansion amounting ₱100.0 million and ₱50.0 million in 2010 and 2009, respectively.

Unappropriated Retained Earnings

Dividends declared

The Parent Company's Board of Directors (BOD) declared cash dividends in favor of all its stockholders as follows:

	2010	2009
Date of declaration	**May 20, 2010**	May 21, 2009
Dividend per share	**₱102.52**	₱170.67
Total dividends	**₱1,588.5 million**	₱2,644.4 million
Date of record	**December 31, 2009**	December 31, 2008

Policy on dividends

The Parent Company intends to maintain an annual cash dividend payment ratio of 100% of the net income of the Parent Company from the previous calendar year, subject to availability of retained earnings and operational requirements. The dividend shall be paid out in one lump sum. The BOD may, at any time, modify such dividend ratio.

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating in order to support its business and maximize shareholder value.

The capital comes mainly from contributions from shareholders and no changes were made in the objectives, policies or processes in 2010 and 2009.

21. **Cost of Goods Sold**

This account consists of:

	2010	2009
Manufacturing		
Raw materials used (Note 28)	**₱14,949,031,724**	₱11,680,786,449
Indirect labor and benefits (Notes 23, 25 and 28)	**637,573,554**	551,664,996
Repairs and maintenance	**385,041,758**	88,342,543
Royalty and technical assistance fees (Notes 28 and 32)	**364,649,980**	224,958,045
Utilities and services	**146,338,584**	113,664,865
Direct labor (Notes 23, 25 and 28)	**125,197,776**	103,684,604
Manufacturing supplies	**115,117,355**	170,162,993
Depreciation (Notes 12 and 24)	**72,586,498**	110,673,150
Stockyard operational cost	**16,666,296**	12,876,635
Provision for inventory write-down (Note 9)	**8,498,331**	–
Taxes and licenses	**3,266,501**	12,438,073
Miscellaneous	**66,740,767**	63,180,730
	16,890,709,124	13,132,433,083
Decrease (increase) between beginning and ending finished goods and work-in-process inventories	**(37,197,169)**	738,608,174
	16,853,511,955	13,871,041,257

(Forward)

	2010	2009
Trading and services		
Materials and other incidental costs	**₱35,986,945,174**	₱26,395,650,626
Decrease (increase) between beginning and ending finished goods and parts inventories	**(508,792,909)**	2,181,759,023
	35,478,152,265	28,577,409,649
	₱52,331,664,220	₱42,448,450,906

22. **Selling, General and Administrative Expenses**

This account consists of:

	2010	2009
Selling		
Advertising and sales promotion	**₱1,552,168,539**	₱637,930,934
Warranty (Note 19)	**296,513,679**	156,218,865
Dealers' incentives, supports and promotions (Note 17)	**98,154,362**	76,924,190
Miscellaneous	**23,500,730**	16,537,690
	1,970,337,310	887,611,679
General and administrative		
Salaries, wages and benefits (Notes 23 and 25)	**550,021,468**	531,720,225
Taxes and licenses	**222,003,990**	188,399,802
Depreciation and amortization (Notes 12, 13, 14 and 24)	**138,763,838**	137,505,672
Utilities and services	**104,604,772**	92,159,248
Repairs and maintenance	**96,076,832**	22,361,772
Transportation and travel	**55,172,926**	47,695,967
Provision for claims and assessments (Note 19)	**50,000,000**	–
Provision for impairment losses (Notes 8 and 15)	**45,032,726**	811,401
Office supplies	**38,779,688**	21,303,829
Donations and contributions	**30,000,000**	99,596,214
Rent (Note 30)	**29,799,083**	28,647,012
Communication	**23,415,849**	24,046,162
Professional fees	**22,957,746**	15,022,727
Entertainment, amusement and recreation (EAR)	**18,384,404**	17,703,459
Provision for inventory write-down (Note 9)	**12,513,670**	216,886
Insurance	**6,719,880**	5,793,535
Miscellaneous	**70,230,474**	65,963,539
	1,514,477,346	1,298,947,450
	₱3,484,814,656	₱2,186,559,129

Donations and contributions include donation to Toyota Motor Philippines Foundation and donation of building to University of the Philippines in 2010 and 2009, respectively.

23. Personnel Expenses

This account consists of:

	2010	2009
Cost of goods manufactured (Notes 21, 25 and 28):		
Indirect labor and benefits	**₱637,573,554**	₱551,664,996
Direct labor	**125,197,776**	103,684,604
General and administrative expenses (Notes 22, 25 and 28):		
Salaries, wages and benefits	**550,021,468**	531,720,225
	₱1,312,792,798	₱1,187,069,825

24. Depreciation and Amortization

The allocation of depreciation and amortization to various expense accounts follows:

	2010	2009
Cost of goods sold (Note 21):		
Main assembly	**₱72,586,498**	₱110,673,150
Export	**16,914,805**	13,741,479
	89,501,303	124,414,629
General and administrative expenses (Note 22)	**138,763,838**	137,505,672
	₱228,265,141	₱261,920,301

25. Retirement Plan

The Group has a funded noncontributory defined benefit retirement plan covering all of its regular and permanent employees. The plan is administered by trustees. The benefits are based on the years of service and percentage of final basic salary. The latest actuarial valuation study of the retirement plan as of December 31, 2010 was made on January 10, 2011.

The principal actuarial assumptions used in determining the retirement liability for the Group's retirement plan are shown below:

	2010	2009
Average remaining working life	**17 years**	16 years
Discount rate	**8.18%**	9.75%
Expected rate of return on assets	**9.00%**	9.00%
Future salary increases	**7.00%**	7.00%

Net retirement benefit expense included under cost of goods sold and general and administrative expenses follows:

	2010	2009
Current service cost	**₱53,960,500**	₱33,544,700
Interest cost	**77,698,715**	68,472,500
Expected return on plan assets	**(49,261,632)**	(38,061,900)
Benefits paid	**(27,013,593)**	(43,393,437)
Net actuarial gains recognized during the year	**(3,170,182)**	(19,711,398)
	₱52,213,808	₱850,465

The amounts of retirement liability recognized in the consolidated statements of financial position follow:

	2010	2009
Present value of funded obligation	**₱1,081,462,018**	₱796,909,918
Fair value of plan assets	**671,343,186**	547,351,472
Present value of unfunded obligation	**410,118,832**	249,558,446
Unrecognized actuarial gains (losses)	**(32,278,997)**	130,413,581
Retirement liability	**₱377,839,835**	₱379,972,027

The movements in the retirement liability recognized in the consolidated statements of financial position follow:

	2010	2009
At January 1	**₱379,972,027**	₱379,121,562
Retirement expense	**52,213,808**	850,465
Actual contribution	**(54,346,000)**	–
At December 31	**₱377,839,835**	₱379,972,027

The movements in the present value of obligation follow:

	2010	2009
At January 1	**₱796,909,918**	₱472,224,219
Current service cost	**53,960,500**	33,544,700
Interest cost	**77,698,715**	68,472,500
Actuarial losses on obligation	**198,478,286**	269,704,406
Benefits paid	**(45,585,401)**	(47,035,907)
At December 31	**₱1,081,462,018**	₱796,909,918

The movements in the fair value of plan assets recognized follow:

	2010	2009
At January 1	**₱547,351,472**	₱475,773,673
Expected return	**49,261,632**	38,061,900
Actuarial gains	**38,955,890**	37,158,369
Actual contribution	**54,346,000**	–
Benefits paid	**(18,571,808)**	(3,642,470)
At December 31	**₱671,343,186**	₱547,351,472

Changes in unrecognized net actuarial gains (losses) follow:

	2010	2009
At January 1	**₱130,413,581**	₱382,671,016
Actuarial losses on obligation	**(198,478,286)**	(269,704,406)
Actuarial gains on plan assets	**38,955,890**	37,158,369
Actuarial gain recognized	**(3,170,182)**	(19,711,398)
At December 31	**(₱32,278,997)**	₱130,413,581

The overall expected rate of return on plan assets is determined based on the expected performance of the fund.

The actual return on plan assets amounted to ₱88.2 million and ₱75.2 million in 2010 and 2009, respectively.

The Group expects to contribute ₱58.5 million to its defined benefit pension plan in 2011.

The net plan assets consist of the following:

	2010	2009
Cash	**₱46,689,604**	₱21,509,382
Loans and receivables	**54,486,940**	51,665,141
Short-term equity investments	**18,483,305**	12,679,848
Corporate bonds	**48,885,468**	39,737,861
Government securities	**376,982,401**	323,698,314
Investment in mutual fund	**10,395,081**	7,180,805
Investment in stocks	**112,121,487**	73,704,747
Liabilities	**(4,147,393)**	(2,192,058)
Expected withdrawal	**(7,012,174)**	–
Expected return	**14,458,467**	19,367,432
	₱671,343,186	₱547,351,472

Amounts of the current and the previous periods follow:

	2010	2009	2008	2007
Defined benefit obligation	**(₱1,081,462,018)**	(₱796,909,918)	(₱472,224,219)	(₱876,173,919)
Plan assets	**671,343,186**	547,351,472	475,773,673	503,901,503
Surplus (deficit)	**(410,118,832)**	(249,558,446)	3,549,454	(372,272,416)
Experience adjustments on plan obligation	**14,636,886**	(45,201,494)	(23,702,086)	(32,999,476)
Expected return on plan assets	**49,261,632**	38,061,900	45,351,100	40,492,600

26. **Other Income** - Net

This account consists of:

	2010	2009
Commission	**₱9,705,752**	₱6,605,535
Gain on sale of property and equipment	**9,064,808**	8,761,151
Rent	**8,804,711**	10,911,706
Dividend income	**6,923,206**	14,382,750
Membership fees	**1,965,692**	3,474,050
Scrap sales	–	6,313,882
Bank charges	**(359,460)**	(350,979)
Others	**4,496,803**	3,632,642
	₱40,601,512	₱53,730,737

27. **Income Tax**

Income tax includes the regular corporate income tax (RCIT) and final taxes paid at the rate of 20% for peso deposits and 7.5% for foreign currency deposits which are final withholding taxes on gross interest income from deposit substitutes. These income taxes as well as the deferred tax provisions are presented as provision for income tax in the consolidated statements of income.

	2010	2009
Current		
RCIT	**₱874,452,064**	₱501,212,204
Final	**57,432,116**	41,960,642
	931,884,180	543,172,846
Deferred	**(79,933,630)**	(44,181,741)
	₱851,950,550	₱498,991,105

The reconciliation of the statutory income tax rate to the effective income tax rate shown in the consolidated statements of income follows:

	2010	2009
Statutory income tax rate	**30.00%**	30.00%
Tax effects of:		
Change in unrecognized deferred assets	–	0.02
Applied NOLCO	–	(0.06)
Interest income subjected to final tax at a lower rate	**(2.02)**	(1.20)
Income exempt from tax	**(8.13)**	(7.46)
Others	**(0.23)**	0.67
Effective income tax rate	**19.62%**	21.97%

The components of the deferred tax assets and deferred tax liabilities represent the deferred tax effects of the following:

	2010	2009
Deferred tax assets on:		
Warranty payable	**₱151,301,838**	₱92,283,170
Accrued retirement benefits	**116,816,508**	116,321,938
Provision for claims and assessments	**50,903,524**	38,724,955
Allowance for impairment losses	**30,085,927**	16,576,109
Provision for inventory write-down	**29,695,681**	26,539,426
Accrued royalties	**17,322,795**	17,322,795
Unrealized gross profit on inventory	**6,853,268**	9,859,230
Unrealized foreign exchange loss	**1,472,467**	3,882,939
Accrued commissions	**721,162**	–
Available NOLCO	**–**	2,129,809
Unamortized past service cost	–	847,233
	405,173,170	324,487,604
Deferred tax liabilities on:		
Capitalized custom duties on:		
Inventories	**30,405,702**	30,616,294
Property and equipment	**4,126,304**	3,163,776
	34,532,006	33,780,070
	₱370,641,164	₱290,707,534

The Group unrecognized deferred tax assets on the temporary differences amounting ₱4.14 million and ₱3.36 million as of December 31, 2010 and 2009, respectively.

The Republic Act (R.A.) No. 9337 that was enacted into law in 2005 amended various provisions in the existing 1997 National Internal Revenue Code. Among the reforms introduced by the said R.A. was the reduction of the income tax rate from 35% to 30% beginning January 1, 2009. It further provides that nondeductible interest expense shall be reduced from 42% to 33% of interest income subjected to final tax beginning January 1, 2009.

Current tax regulations define expenses to be classified as EAR expenses and set a limit for the amount that is deductible for tax purposes. EAR expenses are limited to 0.5% of net sales for sellers of goods or properties or 1% of net revenue for sellers of services. For sellers of both goods or properties and services, an apportionment formula is used in determining the ceiling on such expenses.

28. Related Party Transactions

Parties are 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; and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Affiliates are related entities of the companies by virtue of common ownership and representation to management where significant influence is apparent.

In the ordinary course of business, the Group has transactions with related parties. Its major transactions include purchases of raw materials and spare parts for sale; regular banking, importation and loan transactions; payment of technical assistance and royalty fees; and sales to franchised dealers.

a. The purchases of raw materials, spare parts and vehicles for sale were made in accordance with the Distributor Agreement entered into by the Parent Company with TMC and Mitsui & Co., Ltd. (a non-controlling stockholder of the Parent Company), for five (5) years which commenced on December 1, 1988 and was renewed since then. Total purchases of raw materials, spare parts and vehicles amounted to ₱36,601.4 million and ₱26,350.0 million in 2010 and 2009, respectively.

   Accounts payable arising from these purchases amounted to ₱3,345.3 million and ₱2,365.0 million as of December 31, 2010 and 2009, respectively (Note 16).

b. The Parent Company has an existing Technical Assistance Agreement with TMC. Royalty and technical assistance fees incurred by the Parent Company under the agreement and charged to operations amounted to ₱364.6 million and ₱225.0 million in 2010 and 2009, respectively (Notes 21 and 32).

   Outstanding royalty and technical assistance fees payable as of December 31, 2010 and 2009 amounted to ₱292.8 million and ₱277.0 million, respectively (Note 17).

c. The Parent Company exports car parts to Toyota Motor Asia Pacific Pte. Ltd. (TMAP) which amounted to ₱10,211.9 million and ₱7,858.7 million in 2010 and 2009, respectively. Trade receivable from TMAP amounted to ₱895.6 million and ₱805.0 million as of December 31, 2010 and 2009, respectively (Note 8).

d. The Parent Company maintains lines of credit with several banks including Metrobank. However, there were no availments in 2010 and 2009.

e. The Parent Company obtained a long-term interest-bearing loan from TAPI, an affiliate (Note 18). The outstanding balance of such loan as of December 31, 2010 and 2009 amounted to ₱78.6 million. Total interest paid on this loan amounted to ₱3.3 million for the years ended December 31, 2010 and 2009.

f. The Parent Company entered into an agreement with Toyota Financial Services Philippines Corporation (TFSPC). In 2010 and 2009, the Parent Company offered extended credit term of thirty (30) days to its dealers at zero interest as part of its sales promotions. TFSPC was appointed to facilitate the sale to the dealers and perform activities necessary to collect the purchase price from the dealers upon maturity.

g. TSFI leases land from Toyota Cubao, Inc. (TCI), an affiliate, where TSFI's building and related facilities are currently located. The lease term is for a period of twenty (20) years and renewable at the option of the parties. Total rent expense paid to TCI amounted to ₱1.5 million and ₱1.6 million for the years ended December 31, 2010 and 2009, respectively.

h. The Parent Company leases its investment property situated in Sta. Rosa, Laguna to TAPI, an affiliate. Annual rental income received from TAPI amounted to ₱7.8 million in 2010 and 2009.

i. The Group maintains savings and current accounts and time deposits with affiliated local commercial banks, Metrobank and Philippine Savings Bank. The related balances follow:

	2010	2009
Savings and current accounts	**₱146,974,613**	₱106,394,854
Time deposits	**6,788,307,561**	5,861,129,432
	₱6,935,282,174	₱5,967,524,286

j. The Group has unsecured short-term loans obtained from an affiliated local commercial bank for working capital requirements. The loans, with terms of one (1) year or less, bear annual interest at rates ranging from 6.0% to 8.3% for the years 2010 and 2009. Interest expense on the loans amounted to ₱10.4 million and ₱7.3 million in 2010 and 2009, respectively (Note 18).

k. Compensation of key management personnel of the Group follows (Note 22):

	2010	2009
Short-term benefits	**₱70,549,668**	₱61,289,032
Retirement benefits	**18,029,324**	14,137,292
Other employee benefits	**12,541,607**	8,910,482
	₱101,120,599	₱84,336,806

29. **Financial Risk Management Objectives and Policies**

Financial Instruments
The Group's principal financial instruments are composed of cash and cash equivalents, short-term investments, AFS financial assets, loans payable and long-term debt. The Group has various other financial assets and liabilities such as receivables and accounts payable and others and accrued expenses, which arise directly from its operations.

The following tables set forth the carrying values and estimated fair values of the Group's financial assets and liabilities recognized as of December 31:

	2010		2009	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Loans and receivables				
Cash and cash equivalents	**₱6,587,730,629**	**₱6,587,730,629**	₱6,259,191,215	₱6,259,191,215
Short-term investments	**734,286,580**	**734,286,580**	601,717,932	601,717,932
Receivables				
Trade	**3,055,362,177**	**3,055,362,177**	1,732,103,131	1,732,103,131
Warranty	**21,096,997**	**21,096,997**	10,143,497	10,143,497
Dealer advances	**11,137,316**	**11,137,316**	9,223,005	9,223,005
Others	**238,524,552**	**238,524,552**	156,297,202	156,297,202
	3,326,121,042	**3,326,121,042**	1,907,766,835	1,907,766,835
Prepayments	**52,583,383**	**52,583,383**	66,866,035	66,866,035
Refundable deposits and advances				
Refundable deposits	**22,087,598**	**22,087,598**	23,676,919	23,676,919
Advances	**90,474,190**	**90,474,190**	48,888,630	48,888,630
	112,561,788	**112,561,788**	72,565,549	72,565,549
AFS financial assets				
Unquoted equity securities	**54,073,500**	**54,073,500**	54,073,500	54,073,500
Quoted equity securities	**59,370,000**	**59,370,000**	43,525,000	43,525,000
	113,443,500	**113,443,500**	97,598,500	97,598,500
	₱10,926,726,922	**₱10,926,726,922**	₱9,005,706,066	₱9,005,706,066

(Forward)

	2010		2009	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Liabilities				
Trade payables				
Local	**₱4,001,011,725**	**₱4,001,011,725**	₱3,182,766,618	₱3,182,766,618
Import	**3,345,285,635**	**3,345,285,635**	2,364,964,943	2,364,964,943
	7,346,297,360	**7,346,297,360**	5,547,731,561	5,547,731,561
Customers' deposits	**60,622,379**	**60,622,379**	41,679,550	41,679,550
Accrued expenses	**1,911,134,828**	**1,911,134,828**	1,417,903,153	1,417,903,153
Loans payable	**110,000,000**	**110,000,000**	130,000,000	130,000,000
Long-term debt	**245,826,700**	**162,570,066**	245,826,700	162,570,066
Other payables	**20,328,183**	**20,328,183**	8,738,403	8,738,403
	₱9,694,209,450	**₱9,610,952,816**	₱7,391,879,367	₱7,308,622,733

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Financial assets
Due to the short-term nature of the transactions, the fair value of cash and cash equivalents, short-term investments, receivables, prepayments and refundable deposits and advances approximate the amount of consideration at the time of initial recognition. The fair value of the AFS financial assets has been determined based on prevailing market quotes. The value of refundable deposits and advances approximate fair value since fair value of certain refundable deposits and advances cannot be reasonably and reliably estimated.

Financial liabilities
Due to the short-term nature of trade payables, customers' deposits, accrued expenses, loans payable and other payables, the carrying value approximates the fair value. For fixed rate loan, the estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar type of loans.

Fair Value Hierarchy
The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As of December 31, 2010 and 2009, the fair value of AFS financial assets under level 1 hierarchy amounted to ₱59.4 million and ₱43.5 million, respectively (Note 11).

The fair value of unquoted AFS financial assets is not reasonably determinable due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at the reliable fair value. Accordingly, these unquoted shares are presented at cost.

During the reporting period ended December 31, 2010, there were no transfer between level 1 and 2 fair value movements and no transfers into and out of level 3 fair value measurement.

The most significant risk arising from the Group's financial instruments are interest rate risk, liquidity risk, credit risk, market risk and foreign currency risk.

The Group's risk management policies are summarized below:

a) *Interest rate risk*
Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash in banks and short-term investments. The Group's policy is to manage its interest income using a mix of fixed and variable rate debts.

The following table shows the information relating to the financial assets that are exposed to interest rate risk and presented by maturity profile:

2010

	Range of Interest Rates	**Up to a year**	**1-3 years**	**3-5 years**	**Over 5 Years**	**Total**
Cash and cash equivalents						
Cash in banks	**1.0% - 2.0%**	**₱304,261,194**	**₱–**	**₱–**	**₱–**	**₱304,261,194**
Time deposits	**1.0% - 4.3%**	**6,283,469,435**	**–**	**–**	**–**	**6,283,469,435**
Short-term investments	**0.2% - 1.9%**	**734,286,580**	**–**	**–**	**–**	**734,286,580**

2009

	Range of Interest Rates	Up to a year	1-3 years	3-5 years	Over 5 Years	Total
Cash and cash equivalents						
Cash in banks	1.0% - 2.0%	₱259,240,075	₱–	₱–	₱–	₱259,240,075
Time deposits	1.5% - 4.3%	5,992,283,112	–	–	–	5,992,283,112
Short-term investments	0.2% - 2.4%	601,717,932	–	–	–	601,717,932

b) *Liquidity risk*
The Group actively manages its liquidity position so as to ensure that all operating, investing, and financing needs are met. In mitigating liquidity risk, management measures and forecasts its cash commitments, matches debt maturities with the assets being financed, maintains a diversity of funding sources with its unhampered access to bank financing and the capital markets, develops viable funding alternatives through its sale of receivables, non-core assets and adoption of joint development agreements for property acquisitions and developments, and holds a sufficient level of cash reserves and marketable securities.

Through scenario analysis and contingency planning, the Group also assesses its ability to withstand both temporary and longer-term disruptions relative to its capacity to finance its activities and commitments in a timely manner and at reasonable cost, and ensures the availability of ample unused credit facilities as back-up liquidity.

The table below summarizes the maturity profile of the Group's financial instruments based on remaining contractual undiscounted payments:

2010

	Up to a year*	**1-3 years**	**3-5 years**	**Over 5 Years**	**Total**
Financial Assets					
Loans and receivables					
Cash and cash equivalents	**₱6,587,730,629**	**₱–**	**₱–**	**₱–**	**₱6,587,730,629**
Short-term investments	**734,286,580**	**–**	**–**	**–**	**734,286,580**
Receivables					
Trade	**3,055,362,177**	**–**	**–**	**–**	**3,055,362,177**
Warranty	**21,096,997**	**–**	**–**	**–**	**21,096,997**

(Forward)

	Up to a year*	1-3 years	3-5 years	Over 5 Years	Total
Dealer advances	**₱11,137,316**	**₱–**	**₱–**	**₱–**	**₱11,137,316**
Others	**238,524,552**	–	–	–	**238,524,552**
	3,326,121,042	–	–	–	**3,326,121,042**
Prepayments	**52,583,383**	–	–	–	**52,583,383**
Refundable deposits and advances					
Refundable deposits	**22,087,598**	–	–	–	**22,087,598**
Advances	**90,474,190**	–	–	–	**90,474,190**
	112,561,788	–	–	–	**112,561,788**
AFS financial assets					
Unquoted equity securities	**54,073,500**	–	–	–	**54,073,500**
Quoted equity securities	**59,370,000**	–	–	–	**59,370,000**
	113,443,500	–	–	–	**113,443,500**
	₱10,926,726,922	**₱–**	**₱–**	**₱–**	**₱10,926,726,922**
Financial Liabilities					
Trade payables					
Local	**₱4,001,011,725**	**₱–**	**₱–**	**₱–**	**₱4,001,011,725**
Import	**3,345,285,635**	–	–	–	**3,345,285,635**
	7,346,297,360	–	–	–	**7,346,297,360**
Customers' deposits	**60,622,379**	–	–	–	**60,622,379**
Accrued expenses	**1,911,134,828**	–	–	–	**1,911,134,828**
Loans payable	**110,000,000**	–	–	–	**110,000,000**
Long-term debt	**7,816,721**	**91,508,208**	**9,028,800**	**177,329,050**	**285,682,779**
Other payables	**20,328,183**	–	–	–	**20,328,183**
	₱9,456,199,471	**₱91,508,208**	**₱9,028,800**	**₱177,329,050**	**₱9,734,065,529**

**All commitments up to a year are either due within the time frame or are payable on demand.*

2009

	Up to a year*	1-3 years	3-5 years	Over 5 Years	Total
Financial Assets					
Loans and receivables					
Cash and cash equivalents	₱6,259,191,215	₱–	₱–	₱–	₱6,259,191,215
Short-term investments	601,717,932	–	–	–	601,717,932
Receivables					
Trade	1,732,103,131	–	–	–	1,732,103,131
Warranty	10,143,497	–	–	–	10,143,497
Dealer advances	9,223,005	–	–	–	9,223,005
Others	156,297,202	–	–	–	156,297,202
	1,907,766,835	–	–	–	1,907,766,835
Prepayments	66,866,035	–	–	–	66,866,035
Refundable deposits and advances					
Refundable deposits	23,676,919	–	–	–	23,676,919
Advances	48,888,630	–	–	–	48,888,630
	72,565,549	–	–	–	72,565,549
AFS financial assets					
Unquoted equity securities	54,073,500	–	–	–	54,073,500
Quoted equity securities	43,525,000	–	–	–	43,525,000
	97,598,500	–	–	–	97,598,500
	₱9,005,706,066	₱–	₱–	₱–	₱9,005,706,066
Financial Liabilities					
Trade payables					
Local	₱3,182,766,618	₱–	₱–	₱–	₱3,182,766,618
Import	2,364,964,943	–	–	–	2,364,964,943
	5,547,731,561	–	–	–	5,547,731,561
Customers' deposits	41,679,550	–	–	–	41,679,550
Accrued expenses	1,417,903,153	–	–	–	1,417,903,153
Loans payable	130,000,000	–	–	–	130,000,000
Long-term debt	7,816,721	91,508,208	9,028,800	177,329,050	285,682,779
Other payables	8,378,403	–	–	–	8,378,403
	₱7,153,509,388	₱91,508,208	₱9,028,800	₱177,329,050	₱7,431,375,446

**All commitments up to a year are either due within the time frame or are payable on demand.*

c) *Credit risk*
Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group trades only with its dealers and with recognized creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from other financial assets of the Group, which comprises cash and cash equivalents, short-term investments, receivables, prepayments and other current assets, AFS financial assets, and refundable deposits and advances, the Group's exposure to credit risks arises from default of the counterparty, with a maximum exposure equal to carrying amount of the instruments.

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position:

	2010	2009
Loans and receivables		
Cash and cash equivalents (excluding cash on hand)	**₱6,585,081,821**	₱6,256,967,310
Short-term investments	**734,286,580**	601,717,932
Receivables		
Trade	**3,055,362,177**	1,732,103,131
Warranty	**21,096,997**	10,143,497
Dealer advances	**11,137,316**	9,223,005
Others	**238,524,552**	156,297,202
Prepayments	**52,583,383**	66,866,035
Refundable deposits	**22,087,598**	23,676,919
Advances	**90,474,190**	48,888,630
	10,810,634,614	8,905,883,661
AFS financial assets	**113,443,500**	97,598,500
	₱10,924,078,114	₱9,003,482,161

The credit risk is concentrated to the following:

Type of customer	**2010**	2009
Non affiliates	**73.08%**	89.63%
Affiliate (TMAP)	**26.92**	10.37
	100.00%	100.00%

The following table provides information regarding credit risk exposure of the Group by classifying financial assets according to credit quality:

2010

	Neither Past Due nor Impaired					
	Minimal Risk	**Average Risk**	**High Risk**	**Past Due but not Impaired**	**Impaired**	**Total**
Loans and receivables						
Cash and cash equivalents	**₱6,585,081,821**	**₱–**	**₱–**	**₱–**	**₱–**	**₱6,585,081,821**
Short-term investments	**734,286,580**	–	–	–	–	**734,286,580**
Receivables						
Trade	**3,055,362,177**	–	–	–	–	**3,055,362,177**
Warranty	**21,096,997**	–	–	–	–	**21,096,997**
Dealer advances	**11,137,316**	–	–	–	–	**11,137,316**
Others	**238,524,552**	–	–	–	**56,197,266**	**294,721,818**
Prepayments	–	**52,583,383**	–	–	–	**52,583,383**
Refundable deposits	–	**22,087,598**	–	–	–	**22,087,598**
Advances	–	**90,474,190**	–	–	–	**90,474,190**
AFS financial assets	–	**113,443,500**	–	–	–	**113,443,500**
	₱10,645,489,443	**₱278,588,671**	**₱–**	**₱–**	**₱56,197,266**	**₱10,980,275,380**

2009

	Neither Past Due nor Impaired					
	Minimal Risk	Average Risk	High Risk	Past Due but not Impaired	Impaired	Total
Loans and receivables						
Cash and cash equivalents	₱6,256,967,310	₱–	₱–	₱–	₱–	₱6,256,967,310
Short-term investments	601,717,932	–	–	–	–	601,717,932
Receivables						
Trade	1,732,103,131	–	–	–	–	1,732,103,131
Warranty	10,143,497	–	–	–	51,698,533	61,842,030
Dealer advances	9,223,005	–	–	–	–	9,223,005
Others	156,297,202	–	–	–	3,555,163	159,852,365
Prepayments	–	66,866,035	–	–	–	66,866,035
Refundable deposits	–	23,676,919	–	–	–	23,676,919
Advances	–	48,888,630	–	–	–	48,888,630
AFS financial assets	–	97,598,500	–	–	–	97,598,500
	₱8,766,452,077	₱237,030,084	₱–	₱–	₱55,253,696	₱9,058,735,857

The financial assets that are classified to have high credit rating are the following: (a) cash and cash equivalents, composed of cash on hand and in banks and time deposits with maturities ranging from thirty (30) to sixty (60) days; (b) short-term investments with maturities ranging from three (3) months to one (1) year; (c) trade receivables for accounts with age of thirty (30) days or less; and (d) warranty, dealer advances and others.

d) *Market risk*
Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The Group's market risk (the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument) originates from its holdings of securities and equities. The BOD approves significant investments which should provide a relatively stable rate of return. AFS financial assets exposed to market risk amounted to ₱59.4 million and ₱43.5 million as of December 31, 2010 and 2009, respectively (Note 11).

e) *Foreign currency risk*
Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group has foreign currency exchange risk exposures. Such exposure arises from purchases in currencies other than the unit's functional currency. The Group believes that its profile of foreign currency exposure on its assets and liabilities is within conservative limits in the type of business in which the Group is engaged.

The following table shows the foreign currency-denominated monetary assets and liabilities (in US Dollar and Japanese Yen) and their Philippine Peso (Php) equivalents as of December 31, 2010 and 2009.

	2010			2009		
	U.S. Dollar[1]	**Japanese Yen[2]**	**Php Equivalent**	U.S. Dollar[3]	Japanese Yen[4]	Php Equivalent
Financial Assets						
Cash and cash equivalents	**$459,040**	**¥37,796,981**	**₱40,416,174**	$305,064	¥36,413,458	₱32,452,916
Short-term investments	**16,140,000**	**41,094,166**	**729,639,605**	12,520,000	41,018,703	599,104,834
Receivables	**20,436,034**	**–**	**895,915,723**	17,339,109	–	801,066,836
	$37,035,074	**¥78,891,147**	**₱1,665,971,502**	$30,164,173	¥77,432,161	₱1,432,624,586
Financial Liabilities						
Accounts and other payables	**$74,761,596**	**¥47,812,380**	**₱3,303,217,143**	$50,858,480	¥7,390,333	₱2,353,387,839
Net financial assets (liabilities)	**($37,726,522)**	**¥31,078,767**	**(₱1,637,245,641)**	($20,694,307)	¥70,041,828	(₱920,763,253)

[1] The exchange rate used is ₱43.84 to $1
[2]The exchange rate used is ¥ 0.012246 to $1.
[3]The exchange rate used is ₱46.20 to $1.
[4]The exchange rate used is ¥0.019130 to $1.

Sensitivity analysis
The following table demonstrates sensitivity to a reasonably possible change in the U.S. dollar exchange rate, with all other variables held constant, of the Group's income before income tax (due to changes in the fair value of monetary assets and liabilities) as of December 31, 2010 and 2009. There is no other impact on the Group's equity other than those already affecting the income.

	Currency	Increase (decrease) in US dollar rate	Effect on income before tax
2010	**USD**	**+5.1%**	**(₱1,927,156)**
		-5.1%	**1,927,156**
	JPY	**12.2%**	**2,035,581**
		-12.2%	**(2,035,581)**
2009	USD	+2.0%	(₱19,121,540)
		-2.0%	19,121,540
	JPY	+2.0%	706,275
		-2.0%	(706,275)

30. Lease Commitments

Operating lease - Group as lessee
The Group leases a liaison office space for a period of four (4) to five (5) years subject to renewal at certain agreed terms and conditions. Noninterest-bearing security deposits amounting ₱1.7 million (included as part of 'Other noncurrent assets' account in the consolidated statements of financial position) as of December 31, 2010 and 2009 are deposited with the lessors in accordance with the lease contracts (Note 15). The deposits will be returned to the Group upon termination of the contract.

TSFI has entered into a non-cancellable lease agreement with TCI, for the land where TSFI's building and related facilities are currently located. The non-cancellable lease agreement has a lease term of twenty (20) years. The lease agreement includes a clause to enable upward revision of the rental charge on an annual basis based on prevailing market rates and economic conditions.

Annual rentals charged to operations amounted to ₱29.8 million and ₱28.6 million in 2010 and 2009, respectively (Note 22).

Future minimum rental payables under these non-cancellable operating leases follow:

	2010	2009
Within one year	**₱11,199,741**	₱10,666,390
After one year but not more than five years	**8,710,893**	19,910,635
	₱19,910,634	₱30,577,025

Operating lease - Group as lessor
The Group has entered into operating leases (Note 13) on its land located in Sta. Rosa, Laguna. These non-cancellable leases have remaining non-cancellable terms of between ten (10) and fifty (50) years. Income from these leases is included in the "Other income - net" account in the consolidated statements of income.

There are no contingent rental income and expense under these operating leases both as lessee and lessor.

31. **Provisions and Contingencies**

The Group has contingent liabilities arising in the ordinary conduct of business which are either pending decision by the courts or are being contested, the outcome of which are not presently determinable. In the opinion of management and its legal counsel, the eventual liability under these labor-related claims, if any, will not have a material or adverse effect on the Group's financial position and results of operations. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice the outcome of pending litigations.

These contingencies relate to (Note 19):

a) Claims filed by former employees for employee related issues;
b) Claims for quieting of title;
c) Disturbance compensation;
d) Recovery of land;
e) Warranty claims; and
f) Assessments

Recall
In November 2009, TMC announced a safety recall involving some model of its vehicles sold in the United States. In January 2010, several recall announcements followed and extended the affected regions to include Europe and China. The Group, however, believes that models involved in the recall sold locally are not affected due to the following reasons:

a. Affected models sold locally are manufactured and imported from Thailand and Japan.
b. Toyota vehicles manufactured by Toyota plants in United States and other affected regions have different suppliers.
c. Weather and road conditions in the affected regions is different from the Philippines.

Accordingly, the Group made no provision for liability that may arise from the said event.

32. **Agreements**

Dealership Agreements
The Parent Company has several Dealership Agreements (Agreements) with its dealers. These Agreements are renewable annually and can be terminated in the event the dealer fails to comply with any of the provision as stipulated. These agreements stipulate among others, exclusivity of dealership, non-competition, incentives, requirements and warranty provisions.

Technical Assistance Agreement
The Parent Company entered into a Technical Assistance Agreement with TMC effective May 2004. It includes new provisions with respect to: (a) technical assistance fees; and (b) royalties, items covered, computation of royalties and manner of payment (Notes 17, 21 and 28).

33. **Registrations with the Board of Investments (BOI), Export Processing Zone Authority (EPZA) and Philippine Economic Zone Authority (PEZA)**

The Parent Company is registered with the BOI as a:

- Participant in the Car Development Program and Commercial Vehicle Development Program. Under the terms of the registration, the Parent Company is required, among others, to maintain a certain percentage of local content for each passenger car and commercial vehicle manufactured.

- Preferred nonpioneer export trader of automotive parts entitled to certain tax and nontax incentives.

- Domestic producer of pressed or stamped parts for motor vehicle on a preferred pioneer status.

On June 5, 1995, the Parent Company was granted a Certificate of Registration as a Zone Service Enterprise by the EPZA and designated the Toyota Sta. Rosa (Laguna) Industrial Complex as a Special Export Processing Zone under Presidential Decree No. 66. Under this registration, the Parent Company is entitled to establish, develop, construct, administer, manage and operate a special export-processing zone in accordance with the project study.

Upon effectivity of R.A. No. 7916 (otherwise known as the "Special Economic Zone Act of 1995") dated February 24, 1995 and Executive Order No. 282 dated October 30, 1995, all rights, obligations and interest of the Parent Company under EPZA were transferred to and assumed by PEZA. Under the R.A. No. 7916, in lieu of payment of national and local taxes, the entities governed by PEZA are liable for payment of a five percent (5%) final tax on gross income earned after certain allowable deductions provided by the same law.

34. **Approval of the Consolidated Financial Statements**

The accompanying consolidated financial statements were authorized for issue by the Executive Committee on February 15, 2011.

Philippine AXA Life Insurance Corporation

Financial Statements
December 31, 2011 and 2010

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

SGV & Co
Ernst & Young

redefining / standards

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Philippine AXA Life Insurance Corporation** is responsible for the preparation and fair presentation of the company financial statements for the years ended December 31, 2011 and 2010, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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

SOLOMON S. CUA
Por Chairman of the Board of Directors

SEVERINUS PETRUS PAULUS HERMANS
Chief Executive Officer

RONALDO C. SAN JOSE
Chief Finance Officer

February 22, 2012

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BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Philippine AXA Life Insurance Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Philippine AXA Life Insurance Corporation, which comprise the statements of financial position as at December 31, 2011 and 2010, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended 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.

SGV & Co
Ernst & Young

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Philippine AXA Life Insurance Corporation as at December 31, 2011 and 2010, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 19-2011 and 15-2010 in Notes 28 and 29 to the financial statements, respectively, 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 Philippine AXA Life Insurance 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.

Lucy L. Chan

Lucy L. Chan
Partner
CPA Certificate No. 88118
SEC Accreditation No. 0114-AR-2 (Group A),
February 11, 2010, valid until February 10, 2013
Tax Identification No. 152-884-511
BIR Accreditation No. 08-001998-46-2009,
June 1, 2009, valid until May 31, 2012
PTR No. 3174587, January 2, 2012, Makati City

February 22, 2012

PHILIPPINE AXA LIFE INSURANCE CORPORATION
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2011	2010 (As restated)
ASSETS		
Cash and Cash Equivalents (Notes 4, 23 and 24)	**₱2,602,493,852**	₱1,712,391,421
Insurance Receivables - net (Notes 5, 23 and 24)	**115,693,277**	125,196,775
Financial Assets (Notes 6, 23 and 24)		
Financial assets at fair value through profit or loss	**1,204,959,451**	2,792,463,518
Available-for-sale financial assets	**7,950,380,967**	7,139,585,725
Loans and receivables – net	**698,517,414**	496,163,305
Accrued Income (Notes 7, 23 and 24)	**164,294,155**	215,955,262
Investment Properties - net (Notes 8 and 25)	**15,634,485**	19,502,514
Property and Equipment - net (Note 9)	**138,097,882**	126,819,999
Intangible Assets - net (Note 10)	**12,867,808**	3,962,092
Other Assets	**49,267,864**	42,287,859
	12,952,207,155	12,674,328,470
Assets Held to Cover Unit-Linked Liabilities (Notes 11 and 24)	**25,990,649,177**	22,879,842,490
	₱38,942,856,332	₱35,554,170,960
LIABILITIES AND EQUITY		
Liabilities		
Insurance contract liabilities (Notes 12, 13, 23 and 24)	**₱7,568,620,859**	₱8,042,366,700
Premium deposit fund (Note 23)	**188,886,299**	223,788,594
Life insurance deposits (Note 23)	**110,232,516**	191,384,223
Pension liability - net (Note 21)	**1,224,234**	9,957,620
Income tax payable (Note 22)	**3,718,734**	1,006,963
Insurance payables (Notes 14 and 23)	**85,169,118**	64,164,266
Trade and other liabilities (Notes 15, 23, 24 and 25)	**705,580,348**	575,723,137
Dividends payable (Note 16)	**621,000,000**	–
	9,284,432,108	9,108,391,503
Unit-Linked Liabilities (Note 11)	**25,990,649,177**	22,879,842,490
	35,275,081,285	31,988,233,993
Equity		
Capital stock (Note 16)	**350,024,000**	350,002,223
Deposits for future stock subscriptions (Note 16)	**309,431,676**	60,376
Contributed surplus	**50,000,000**	50,000,000
Contingency surplus (Note 16)	**9,343,183**	313,633,083
Revaluation reserves for available-for-sale financial assets (Note 17)	**1,090,012,481**	838,588,059
Retained earnings (Note 16)	**1,859,127,085**	2,013,655,226
Treasury stock (Note 16)	**(163,378)**	(2,000)
	3,667,775,047	3,565,936,967
	₱38,942,856,332	₱35,554,170,960

See accompanying Notes to Financial Statements.

PHILIPPINE AXA LIFE INSURANCE CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2011	2010
Gross premiums on contracts issued	**₱10,006,622,914**	₱8,354,301,317
Premiums ceded to reinsurers	**(31,274,005)**	(23,367,242)
Net insurance premiums (Notes 18 and 24)	**9,975,348,909**	8,330,934,075
Subscriptions allocated to investment in unit-linked funds	**(7,179,596,188)**	(6,323,969,836)
	2,795,752,721	2,006,964,239
Income on assets held to cover unit-linked liabilities (Notes 19 and 24)	**1,201,115,724**	3,309,497,989
Change in unit-linked liabilities	**(1,201,115,724)**	(3,309,497,989)
Investment income (Notes 18 and 24)	**772,714,866**	786,036,749
Gain on sale of available-for-sale financial assets (Note 17)	**277,661,028**	43,180,388
Fair value gain from financial assets at fair value through profit or loss (Notes 6 and 24)	**67,850,555**	241,361,180
Foreign exchange gains	**19,073,359**	40,510,208
Gain on sale of property and equipment	**376,718**	–
Other income (Notes 18 and 24)	**372,819,569**	364,819,765
	4,306,248,816	3,482,872,529
BENEFITS, CLAIMS AND OPERATING EXPENSES		
Gross benefits and claims	**7,038,576,132**	8,569,204,407
Policyholders' dividends and interest (Note 12)	**82,660,914**	71,200,275
Decrease in unit-linked liabilities due to surrenders	**(5,283,795,548)**	(8,138,053,054)
Reinsurers' share of gross benefits and claims (Note 18)	**(989,073)**	(8,586,989)
Net benefits and claims incurred (Notes 18 and 24)	**1,836,452,425**	493,764,639
Net change in legal policy reserves (Note 12)	**(490,516,205)**	524,567,987
Increase (decrease) in reserves for policyholders' dividends (Note 12)	**(8,181,414)**	2,518,608
Net insurance benefits and claims	**1,337,754,806**	1,020,851,234
Operating and administrative expenses (Notes 20 and 24)	**1,365,312,293**	1,121,577,013
Commission expense (Note 24)	**422,479,677**	340,566,249
Premium and documentary stamp taxes	**44,979,943**	51,468,673
Agency development expenses	**12,236,682**	9,396,747
Experience refunds (Note 24)	**9,668,343**	14,921,477
Interest on premium deposit fund	**4,150,792**	5,809,723
Medical and inspection fees	**1,586,426**	2,616,762
	3,198,168,962	2,567,207,878
INCOME BEFORE INCOME TAX	**1,108,079,854**	915,664,651
PROVISION FOR INCOME TAX (Note 22)	**140,607,995**	119,372,413
NET INCOME	**967,471,859**	796,292,238
OTHER COMPREHENSIVE INCOME		
Net change in fair value of available-for-sale financial assets (Note 17)	**251,424,422**	248,837,862
TOTAL COMPREHENSIVE INCOME	**₱1,218,896,281**	₱1,045,130,100

See accompanying Notes to Financial Statements.

PHILIPPINE AXA LIFE INSURANCE CORPORATION
STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 16)	Deposits for Future Stock Subscriptions (Note 16)	Contributed Surplus	Contingency Surplus (Note 16)	Revaluation Reserves for Available-for-sale Financial Assets (Note 17)	Retained Earnings (As restated - Notes 2 and 16)	Treasury Stock (Note 16)	Total
As of January 1, 2011	**₱350,002,223**	**₱60,376**	**₱50,000,000**	**₱313,633,083**	**₱838,588,059**	**₱2,013,655,226**	**(₱2,000)**	**₱3,565,936,967**
Net income	–	–	–	–	–	**967,471,859**	–	**967,471,859**
Other comprehensive income	–	–	–	–	**251,424,422**	–	–	**251,424,422**
Total comprehensive income	–	–	–	–	**251,424,422**	**967,471,859**	–	**1,218,896,281**
Cash dividend declaration	–	–	–	–	–	**(1,122,000,000)**	–	**(1,122,000,000)**
Conversion of contingency surplus	–	**304,289,900**	–	**(304,289,900)**	–	–	–	–
Deposit for future subscription	–	**5,081,400**	–	–	–	–	–	**5,081,400**
Collection of subscription receivable	**21,777**	–	–	–	–	–	–	**21,777**
Acquisition of treasury stock	–	–	–	–	–	–	**(161,378)**	**(161,378)**
As of December 31, 2011	**₱350,024,000**	**₱309,431,676**	**₱50,000,000**	**₱9,343,183**	**₱1,090,012,481**	**₱1,859,127,085**	**(163,378)**	**₱3,667,775,047**
As of January 1, 2010	₱250,002,223	₱60,376	₱50,000,000	₱412,229,083	₱589,750,197	₱1,217,362,988	(₱2,000)	₱2,519,402,867
Net income	–	–	–	–	–	796,292,238	–	796,292,238
Other comprehensive income	–	–	–	–	248,837,862	–	–	248,837,862
Total comprehensive income	–	–	–	–	248,837,862	796,292,238	–	1,045,130,100
Conversion of contingency surplus	98,596,000	–	–	(98,596,000)	–	–	–	–
Issuance of stock	1,404,000	–	–	–	–	–	–	1,404,000
As of December 31, 2010	₱350,002,223	₱60,376	₱50,000,000	₱313,633,083	₱838,588,059	₱2,013,655,226	(₱2,000)	₱3,565,936,967

See accompanying Notes to Financial Statements.

PHILIPPINE AXA LIFE INSURANCE CORPORATION
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱1,108,079,854**	₱915,664,651
Adjustments for:		
Subscriptions allocated to investment in unit-linked funds	**7,179,596,188**	6,323,969,836
Transfers from unit-linked funds to cover surrenders	**5,283,795,548**	8,138,053,054
Foreign exchange losses	**158,203,573**	69,406,588
Depreciation on property and equipment (Note 9)	**47,252,101**	39,081,737
Depreciation on investment properties (Note 8)	**943,692**	1,362,426
Amortization on intangible assets (Note 10)	**833,450**	205,158
Gain on sale of property and equipment	**(376,718)**	–
Dividend income (Note 18)	**(26,375,608)**	(26,451,819)
Fair value gain on financial assets at fair value through profit or loss (Note 6)	**(67,850,555)**	(241,361,180)
Gain on sale of available-for-sale financial assets (Note 17)	**(277,661,028)**	(43,180,388)
Interest income (Note 18)	**(745,331,017)**	(758,484,830)
Payments for surrenders of unit-linked liabilities	**(5,283,795,548)**	(8,138,053,054)
Transfers to unit-linked funds	**(7,179,596,188)**	(6,323,969,836)
Operating income before changes in working capital	**197,717,744**	(43,757,657)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Insurance receivables	**9,503,498**	(40,824,050)
Loans and receivables	**(202,354,109)**	(55,106,216)
Other assets	**(6,980,005)**	(27,440,996)
Increase (decrease) in:		
Legal policy reserves	**(490,516,205)**	524,567,987
Claims and benefits payable	**29,151,487**	32,852,523
Policyholders' dividends	**7,409,838**	55,562,618
Reserves for policyholders' dividends	**(8,181,414)**	2,518,608
Premium deposit fund	**(34,902,295)**	(37,067,794)
Life insurance deposits	**(81,151,707)**	133,342,018
Pension liability - net	**(8,733,386)**	1,359,394
Insurance payables	**21,004,852**	13,073,987
Trade and other liabilities	**129,857,211**	131,856,835
Net cash generated from operations	**(438,174,491)**	690,937,257
Proceeds from disposal/maturities of:		
Available-for-sale financial assets (Note 6)	**2,815,638,935**	739,251,875
Financial assets at fair value through profit or loss (Note 6)	**1,655,354,622**	218,064,954
Acquisition of available-for-sale financial assets (Note 6)	**(3,292,411,079)**	(1,505,126,370)
Interest received	**815,371,295**	848,238,371
Dividend received	**25,475,090**	26,451,819
Income taxes paid	**(137,896,224)**	(125,511,975)
Net cash provided by operating activities	**1,443,358,148**	892,305,931
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposals of:		
Property and equipment (Note 9)	**686,729**	365,878
Acquisitions of:		
Investment properties (Note 8)	**–**	(6,754,000)
Intangible assets (Note 10)	**(9,739,166)**	(4,167,250)
Property and equipment (Note 9)	**(55,915,658)**	(42,117,657)
Net cash used in investing activities	**(64,968,095)**	(52,673,029)

(Forward)

	Years Ended December 31	
	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES		
Deposit for future subscriptions	**5,081,400**	–
Collection of subscription receivable	**21,777**	–
Issuance of stock	–	1,404,000
Acquisition of treasury stock	**(161,378)**	–
Cash dividends paid (Note 16)	**(501,000,000)**	–
Net cash provided by (used in) financing activities	**(496,058,201)**	1,404,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	**882,331,852**	841,036,902
EFFECTS OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS	**7,770,579**	(1,324,536)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,712,391,421**	872,679,055
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱2,602,493,852**	₱1,712,391,421

See accompanying Notes to Financial Statements.

PHILIPPINE AXA LIFE INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS

1. **Corporate Information**

Philippine AXA Life Insurance Corporation (the Company) was incorporated in the Philippines on November 30, 1962 to engage in selling personal and group insurance, including life insurance, accident and other insurance products that are permitted to be sold by a life insurance company in the Philippines. On December 19, 2011, the Securities and Exchange Commission (SEC) approved the Company's application for extension of its corporate life. On May 22, 2003, the Insurance Commission (IC) approved the Company's license to sell variable or unit-linked insurance, a life insurance product which is linked to investment funds.

The registered office address of the Company is Ground Floor, Philippine AXA Life Centre, Sen. Gil Puyat Avenue corner Tindalo Street, Makati City.

The Company is 45% owned by the AXA Group of Companies through AXA S.A., a company based in France, 28% owned by First Metro Investment Corporation (FMIC), a domestic corporation and 25% owned by GT Capital Holdings, Inc. (GT Capital), a domestic corporation.

The accompanying financial statements were authorized for issue by the Board of Directors (BOD) through the Board Risk Management, Audit and Compliance Committee (BRMACC) on February 22, 2012.

2. **Summary of Significant Accounting Policies**

Basis of Preparation
The financial statements of the Company have been prepared on a historical cost basis, except for available-for-sale (AFS) financial assets and financial assets at fair value through profit or loss (FVPL), which have been measured at fair value. The financial statements are presented in Philippine Peso (₱), which is the Company's functional currency and recorded to the nearest peso.

Statement of Compliance
The financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies and Disclosures
The accounting policies adopted in the preparation of the Company's financial statements are consistent with those of the previous financial year except for the adoption of the following new and amended PFRS and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) interpretations, which became effective January 1, 2011. The adoption of these new and amended standards and interpretations did not have any impact on the Company's financial position or performance.

- Philippine Accounting Standard (PAS) 24, *Related Party Transactions (Amendment)*
  The amendment clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity.

- PAS 32, *Financial Instruments: Presentation (Amendment)*
  The amendment alters the definition of a financial liability in PAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's nonderivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

- Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement (Amendment)*
  The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognized as a pension asset.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*
  This Interpretation 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.

Improvements to PFRS (issued 2010)
Improvements to PFRS, an omnibus of amendments to standards, deal primarily with a view to 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 impact on the financial position or performance of the Company.

- PFRS 7*, Financial Instruments: Disclosures*
  The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

- PAS 1, *Presentation of Financial Statements*
  This amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

Other amendments resulting from the 2010 Improvements to PFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Company.

- PFRS 3, *Business Combinations*
- PAS 27, *Consolidated and Separate Financial Statements*
- PAS 34, *Interim Financial Statements*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* (determining the fair value of award credits)

Reclassification of Accounts
For its December 31, 2011 financial statements, the Company early adopted the PIC Q&A No. 2011-05, *PFRS 1, D1-D8 - Fair Value on Revaluation as Deemed Cost*, which became effective January 25, 2012. In accordance with the general requirement under PFRS 1, the Company closed out the Revaluation Increment on Investment Properties and Revaluation Increment on Property and Equipment accounts with balance of ₱6,620,189 and ₱3,981,957, respectively, as of January 1, 2011 and ₱7,074,632 and ₱4,937,627, respectively, as of January 1, 2010, to retained earnings. The Revaluation Increment accounts pertain to the remaining balance of the deemed cost adjustment on investment properties and certain property and equipment accounts which arose when the Company transitioned to PFRS in 2005. This increased retained earnings by ₱10,602,146 and ₱12,012,259 as of January 1, 2011 and 2010, respectively. This adjustment to retained earnings has no effect on profit or loss for the years ended December 31, 2011 and 2010.

The closing out of the Revaluation Increment accounts to retained earnings does not affect any other item within the 2009 statement of financial position and thus is not considered material to the 2009 financial statements. Accordingly, the Company did not present a third statement of financial position in its 2011 financial statements.

Foreign Currency Translation
Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated using the functional currency rate of exchange ruling at the reporting date. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. All foreign exchange differences are taken to profit or loss, except where it relates to equity securities where gains or losses are recognized directly in other comprehensive income, the gain or loss is then recognized net of the exchange component in other comprehensive income.

Product Classification
Insurance contracts are defined as those contracts under which the Company (the insurer) accepts significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholder. As a general guideline, the Company defines significant insurance risk by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index, or other variable. Investment contracts mainly transfer significant financial risk but can also transfer insignificant insurance risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or have expired. Investment contracts can, however, be reclassified as insurance contracts after inception if the insurance risk becomes significant.

Insurance and investment contracts are further classified as being with or without discretionary participation features (DPF). DPF is a contractual right to receive, as a supplement to guaranteed contracts, additional benefits that are likely to be a significant portion of the total contractual benefits, whose amount or timing is contractually at the discretion of the issuer, and that are contractually based on the performance of a specified pool of contracts or a specified type of contract, realized and or unrealized investment returns on a specified pool of assets held by the issuer, or the profit or loss of the company, fund or other entity that issues the contract.

For financial options and guarantees which are not closely related to the host insurance contract and/or investment contract with DPF, bifurcation is required to measure these embedded financial derivatives separately at FVPL. Bifurcation is not required if the embedded derivative is itself an insurance contract and/or investment contract with DPF or when the host insurance contract and/or investment contract with DPF itself is measured at FVPL. The options and guarantees within the insurance contracts issued by the Company are treated as derivative financial instruments which are clearly and closely related to the host insurance and therefore not bifurcated subsequently. As such, the Company does not separately measure options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate). Likewise, the embedded derivative in unit-linked insurance contracts linking the payments on the contract to units of internal investment funds meets the definition of an insurance contract and is therefore not accounted for separately from the host insurance contract.

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash equivalents (including those under "Assets held to cover unit-linked liabilities") are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of placement and that are subject to an insignificant risk of changes in value and are free of any encumbrances.

Insurance Receivables
Insurance receivables are recognized when due and measured on initial recognition at the fair value of the consideration received. Subsequent to initial recognition, insurance receivables are measured at amortized cost, using effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in profit or loss. Insurance receivables are derecognized following the derecognition criteria of financial assets.

Financial Instruments
Date of recognition
Financial instruments are recognized in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. 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 trade date.

Initial recognition
Financial instruments are recognized initially at fair value. Except for financial instruments at FVPL, the initial measurement of financial assets includes transaction costs. The Company classifies its financial assets in the following categories: financial assets at FVPL, AFS financial assets and loans and receivables. The Company classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Determination of fair value
The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price 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 ask 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. Valuation techniques include net present value techniques, comparison to similar instruments for which observable current market prices exist, option pricing models, and other relevant valuation models. Any difference noted between the fair value and the transaction price is recognized in profit or loss, unless it qualifies for recognition as some type of asset or liability.

Fair value hierarchy
The Company uses the following hierarchy for determining and disclosing the fair value of financial assets by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

Financial instruments at FVPL
This category consists of financial assets or financial liabilities that are held-for-trading or designated by management as at FVPL on initial recognition.

Financial assets or financial liabilities are classified as held-for-trading if they are entered into for the purpose of short-term profit taking.

Financial assets or financial liabilities classified in this category are designated by management as at FVPL on initial recognition when any of the following criteria are met:

- 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 investments (debt and equity securities) of the unit-linked funds set up by the Company underlying the unit-linked insurance contracts (included under "Assets held to cover unit-linked liabilities") are designated as at FVPL since these are managed and their performance are evaluated on a fair value basis, in accordance with the investment strategy. Also, the Company designates the assets of the life insurance business that are managed under the Company's Risk Management Statement on a fair value basis, and are reported to the Board on this basis. These assets have been valued on a fair value basis with movements taken through the profit or loss.

Financial assets at FVPL are recorded in the statement of financial position at fair value, with changes in the fair value recorded in profit or loss, included under the "Fair value gains or losses from financial assets at FVPL" account.

As of December 31, 2011 and 2010, the Company has no financial liabilities classified as FVPL.

Derivative financial instruments
Derivative financial instruments (including those under "Assets held to cover unit-linked liabilities") are classified as held-for-trading unless they are designated as effective hedging instruments. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative. Derivative financial instruments held-for-trading are initially recorded at fair value and are typically entered into with the intention to settle in the near future. Subsequent to initial recognition, these instruments are remeasured at fair value. Changes in fair value of derivative instruments not accounted as hedges are recognized immediately in profit or loss.

In 2009, the Company's unit-linked funds entered into a derivative transaction pertaining to a foreign exchange forward contract and bond swap classified under financial assets at FVPL (see Note 11).

Embedded derivatives
An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid or combined instrument is not recognized at FVPL. Bifurcated embedded derivatives are accounted for at FVPL.

The Company assesses whether embedded derivatives are required to be separated from the host contracts when the Company becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows. The Company determines whether modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract, or both have changed and whether the change is significant relative to the previously expected cash flows on the contract.

Loans and receivables
Loans and receivables are nonderivative 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, nor designated as AFS or at FVPL. This accounting policy relates to the statement of financial position captions: (a) Insurance receivables, (b) Loans and receivables (including those under "Assets held to cover unit-linked liabilities"), and (c) Accrued income (including those under "Assets held to cover unit-linked liabilities").

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included under "Investment income" account in profit or loss. The losses arising from impairment of such loans and receivables are recognized as "Provision for impairment losses" under the "Operating and administrative expenses" caption in profit or loss.

AFS financial assets
AFS financial assets are those which are designated as such or do not qualify to be classified as financial assets 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 government securities, equity investments, and other debt instruments.

After initial measurement, AFS financial assets 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 profit or loss. Interest earned on holding AFS financial assets is reported as interest income using the effective interest rate. Dividends earned on holding AFS financial assets are recognized in profit or loss when the right to receive payment has been established. Interests and dividends are recognized under "Investment income" account in profit or loss. The unrealized gains and losses arising from the fair valuation of AFS financial assets are reported in equity as "Revaluation reserve for AFS financial assets." The losses arising from impairment of such financial assets are recognized as "Provision for impairment losses" under the "Operating and administrative expenses" caption in profit or loss. When a security is disposed of, the cumulative gain or loss previously recognized as other comprehensive income is reported as "Gain or loss on sale of AFS financial assets" in profit or loss.

When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost, less any allowance for impairment loss.

Other financial liabilities
Issued financial liabilities or their components, which are not designated as financial liabilities at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. This includes investment contracts which mainly transfer financial risk and has no or insignificant insurance risk.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate 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 effective interest rate. Interest expense are charged to profit or loss as incurred.

Any effects of restatement of foreign currency-denominated liabilities are recognized in profit or loss.

This accounting policy relates to the statement of financial position captions: (a) Premium deposit fund, (b) Insurance payables, (c) Life insurance deposits, (d) Trade and other liabilities and (e) Dividends payable that meet the above definition (other than liabilities covered by other accounting standards, such as pension liability and income tax payable). This accounting policy relates also to the payables included under the "Assets held to cover unit-linked liabilities" account.

Classification of Financial Instruments Between Debt and Equity
A financial instrument is classified as debt if it has a contractual obligation to:

- deliver cash or another financial asset to another entity, or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Company.

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

Financial instruments are classified as liability or equity in accordance with the substance of the contractual agreement. Interests, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instrument classified as equity are charged directly to liabilities and equity, net of any related income tax benefits.

Offsetting
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.

Impairment of Financial Assets
The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired.

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

Loans and receivables
For loans and receivables carried at amortized cost, the Company 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. If the Company determines that no objective evidence of impairment exists for an 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. 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.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Company. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is recognized in profit or loss. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. Time value is generally not considered when the effect of discounting is not material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, 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.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as type of borrower, collateral type, past-due status and term.

AFS financial assets carried at fair value
For equity investments classified as AFS financial assets, impairment indicators would include a significant or prolonged decline in the fair value of an investment below its cost or where other objective evidence of impairment exists. 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 profit or loss) is removed from equity and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as AFS, 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 using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss and is recorded as part of "Investment income" account in profit or loss. If, in a subsequent period, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

AFS financial assets carried at cost
If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Derecognition of Financial Assets and Liabilities

Financial asset

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

- the rights to receive cash flows from the asset have expired;
- the Company 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 Company has transferred its right 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 substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its right to receive cash flows from an asset or has entered into a 'pass-through' arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company'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 the consideration that the Company could be required to repay.

Financial liability

A financial liability is derecognized when the obligation under the liability is discharged, 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 profit or loss.

Reinsurance

The Company cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is charged to profit or loss.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

Premiums are presented on gross basis for ceded reinsurance.

Reinsurance assets or liabilities are derecognized when the contractual right are extinguished, has expired, or when the contract is transferred to another party.

Investment Properties
Property held for long-term rental yields or for capital appreciation, or for both, is classified as investment property. These properties are initially measured at cost, which includes transaction cost, but excludes day-to-day servicing cost. Subsequently, at each end of the reporting period, such properties are carried at cost less accumulated depreciation and impairment in value.

Depreciation of investment property is computed using the straight-line method over its useful life, regardless of utilization. The estimated useful life and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of investment properties. The estimated useful life of the investment properties is 20 years.

Transfers are made to and from investment property when, and only when, there is a change in use, evidenced by ending of owner occupation, commencement of an operating lease to another party. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property and equipment up to the date of the change in use.

Investment property is derecognized when it has been disposed of or when permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss on the retirement or disposal of investment properties is recognized in profit or loss in the year of derecognition.

Property and Equipment
Property and equipment, including owner occupied properties, are carried at cost less accumulated depreciation and amortization and accumulated impairment in value. Such cost includes initial transaction costs, but excludes day-to-day servicing cost. Replacement or major inspection cost is capitalized if it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be reliably measured.

Depreciation and amortization is computed using the straight-line method over the estimated useful life of the assets. Leasehold improvements are amortized over the estimated useful life of the improvements or the term of the related lease, whichever is shorter. The estimated useful lives of the different categories of property and equipment follow:

	Years
Building	20
Leasehold improvements	5
Transportation equipment	5
Computer equipment	3
Furniture and equipment	3

The assets' residual values, useful lives and depreciation and amortization method are reviewed at each reporting date and adjusted if appropriate to ensure that the period, residual value and the method of depreciation and amortization are consistent with the expected pattern of consumption of future economic benefits embodied in the asset.

An item of property and equipment is derecognized upon disposal or when no further 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 value of the asset) is included in profit or loss in the year the asset is derecognized. This is not applicable to items that still have useful lives but are currently classified as idle. Depreciation continues for those items until fully depreciated or disposed.

Intangible Assets

Intangible assets are carried at cost less accumulated amortization and impairment in value, if any. Intangible assets, consisting mainly of software (not an integral part of its related hardware), are capitalized at cost. These costs are amortized on a straight-line basis over their estimated useful lives ranging from 3 to 5 years. Periods and method of amortization for intangible assets with finite useful lives are reviewed annually or earlier when an indicator of impairment exists.

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

Impairment of Nonfinancial Assets

At each reporting date, the Company assesses whether there is any indication that nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Company makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's or cash generating unit'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 of those from other assets or groups of assets, in which case the recoverable amount is assessed for the cash generating unit to which the asset belongs. Where the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the asset (or cash generating unit) 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 (or cash generating unit).

An impairment loss is charged to operations in the year in which it arises, unless the asset is carried at revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset.

For nonfinancial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior periods. Such reversal is recognized in profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase in other comprehensive income. After such reversal, the depreciation and amortization expense is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Insurance Contract Liabilities

Legal policy reserves
Life insurance contract liabilities are recognized when the contracts are entered into and the premiums are recognized. The reserve for life insurance contracts is calculated on the basis of a prudent prospective actuarial valuation method where the assumptions used depend on the circumstances prevailing in each life operation. Assumptions and actuarial valuation methods are also subject to provisions of the Insurance Code (the Code) and guidelines set by IC.

Insurance contracts with fixed and guaranteed terms
The liability is determined as the expected discounted value of the benefit payments less the expected discounted value of the theoretical premiums that would be required to meet the benefits based on the valuation assumptions used. The liability is based on mortality, morbidity and investment income assumptions that are established at the time the contract is issued.

The Company has different assumptions for different products. However, liabilities for contractual benefits are computed to comply with statutory requirements, which require discount rates to be not more than 6% compound interest and mortality and morbidity rates to be in accordance with the standard table of mortality and morbidity. Reserves are computed per thousand of sum insured and depend on the issue age and policy duration. The net change in legal policy reserves during the year is taken to profit or loss.

Claims and benefits payable
Claims and benefits payable consist of unpaid claims and benefits which are payable to policyholders.

Policyholders' Dividends
DPF is a contractual right that gives policyholders the right to receive supplementary discretionary returns through participation in the surplus arising from participating business. These returns are subject to the discretion of the Company and are within the constraints of the terms and conditions of the contract. Dividends earned by the policyholders in prior policy years and left to accumulate and earn interest are presented under insurance contracts liabilities as Policyholders' Dividends. Reserves for discretionary benefits, such as dividends, are currently set at the minimum allowed by regulation, which is the earned portion of dividends for the next policy year. These are presented under Reserves for policyholders' dividends.

Liability adequacy test
Liability adequacy tests are performed annually to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and policy administration expenses are used. Any deficiency is immediately charged against profit or loss initially by establishing a provision for losses arising from the liability adequacy tests.

Unit-linked insurance contracts

The Company issues unit-linked insurance contracts. In addition to providing life insurance coverage, a unit-linked contract links payments to units of internal investment funds (unit-linked funds) set up by the Company with the consideration received from the policyholders. As allowed by PFRS 4, the Company chose not to unbundle the investment portion of its unit-linked products. Premiums received from the issuance of unit-linked insurance contracts are recognized as premiums revenue. Consideration received from the policyholders that are transferred to the unit-linked funds is recognized as "Subscriptions allocated to investment in unit-linked funds" in the statement of comprehensive income. These are separated to fund assets from which the Company withdraws administrative and cost of insurance charges in accordance with the policy provisions of the unit-linked insurance contracts. After deduction of these charges, the remaining amounts in the fund assets are equal to the surrender value of the unit-linked policies, and are withdrawable anytime. The assets and liabilities of the unit-linked funds have been segregated and reflected in "Assets held to cover unit-linked liabilities" in the Company's statement of financial position. Income or loss arising from the unit linked funds are classified under "Income on assets held to cover unit-linked liabilities" in the statement of comprehensive income. Withdrawals or surrenders of unit-linked funds are presented as "Decrease in unit-linked liabilities due to surrenders" in the statement of comprehensive income.

Investments under assets held to cover unit-linked liabilities are valued at market price. Changes in the assets held to cover unit-linked liabilities due to investment earnings or market value fluctuations result to the same corresponding change in the unit-linked liabilities. Such changes in fund value have no effect on the Company's statement of comprehensive income. As of end of the reporting period, unit-linked liabilities are computed on the basis of the number of units allocated to the policyholders multiplied by the unit price of the underlying funds.

The equity of each unit-linked policyholder in the fund is monitored through the designation of outstanding units for each policy. Hence, the equity of each unit-linked insurance contract in the fund is equal to its total number of outstanding units multiplied by the net assets value per unit (NAVPU). The NAVPU is the market value of the fund divided by its total number of outstanding units.

Pension Benefit Obligation

Pension cost is actuarially determined using the projected unit credit method. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur. Pension cost includes current service cost, interest cost, expected return on any plan assets, recognized actuarial gains and losses, the effect of any past service cost and curtailment or settlement.

The net pension liability recognized by the Company in respect of its defined benefit pension plan is the present value of the defined benefit obligation at the reporting date less the fair value of the plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs that shall be recognized in later periods. The present value of the defined benefit obligation, as computed by an independent actuary, is determined using a single weighted average discount rate that reflects the estimated timing and amount of benefit payments. Cumulative actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged against profit or loss when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Past service cost, if any, is recognized immediately in profit or loss, 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 cost is amortized on a straight-line basis over the vesting period.

Equity

Capital Stock

Capital stock is recognized as issued when the stock is paid for or subscribed under a binding subscription agreement and is measured at par value.

Deposits for Future Stock Subscriptions
Deposits for future stock subscriptions represents the additional capital invested by the stockholders that will be credited to capital stock upon approval by the SEC of the Company's application for increase in authorized capital stock.

Contributed Surplus
Contributed surplus represents the original contribution of the stockholders of the Company, in addition to the paid-up capital stock, in order to comply with the pre-licensing requirements as provided under the Insurance Code.

Contingency Surplus
Contingency surplus represents contributions of the stockholders to cover any unexpected deficiency in the Margin of Solvency (MOS) as required under the Insurance Code and can be withdrawn upon the approval of the IC.

Retained Earnings
Retained Earnings represent accumulated net income of the Company less dividends declared.

Treasury Stock
Own equity instruments which are acquired (treasury stocks) are deducted from equity and accounted for at cost. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of the Company's own equity instruments. Voting rights related to treasury stocks are nullified for the Company and no dividends are allocated to them.

Revenue Recognition
Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. The Company assesses its revenue arrangements against specific criteria in order to determine if it acting as principal or agent. The Company has concluded that it is acting as principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Premium income
Gross recurring premiums from life insurance contracts are recognized as revenue when payable by the policyholder. For single premium business, revenue is recognized on the date from which the policy becomes effective. For regular premium contracts, receivables are recorded at the date when payments are due.

Interest income
For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as AFS financial assets, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The change in carrying amount is recorded as interest income.

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss.

For interest-bearing financial assets at FVPL, loans and receivables and cash and cash equivalents, interest income is recognized as it accrues.

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

Rental income
Rental income from investment properties is recognized on a straight-line basis over the lease term.

Asset management fees
Unit-linked funds are charged for fund management and administration. These fees are recognized as revenue in the period in which the related services are rendered.

Benefits, Claims and Expenses Recognition
Benefits and claims
Benefits and claims consist of cost of all claims and benefits incurred during the period, which includes excess benefit claims for unit-linked contracts, as well as changes in the valuation of legal policy reserves and reserves for policyholders' dividends. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. Ceded reinsurance recoveries are accounted for in the same period as the underlying claim.

Interest expense
Interest expense on accumulated policyholders' dividends and premium deposit fund is recognized through profit or loss as it accrues and is calculated by using the effective interest rate method. Accrued interest is credited to the liability account every month.

Commission expense
Commission expense is recognized as incurred. Commissions are paid to agents and financial executives from selling individual and group policies. Rates applied on collected premiums vary depending on the type of product and payment terms of the contract. Referral fees are also paid in relation to the referrals made through the bancassurance business (see Note 24).

Taxes, operating and administrative and other expenses
Taxes, operating and administrative and other expenses are recognized in the statement of comprehensive income as incurred.

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

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

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

Company as a lessor
Leases where the lessor 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.

Income Tax
Income tax for the year consists of current and deferred tax. Income tax is determined in accordance with Philippine tax laws. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity or other comprehensive income. Tax on these items is recognized in equity or other comprehensive income.

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 this amount are those that are enacted or substantively enacted as of the reporting date.

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

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess of minimum corporate income tax (MCIT) over the regular corporate 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 excess MCIT and NOLCO can be utilized.

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

Current tax and deferred tax relating to items recognized directly in other comprehensive income are likewise recognized in other comprehensive income.

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply 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 as of end of the reporting period. Movements in the deferred tax assets and liabilities arising from changes in the rates are charged or credited to profit or loss for the period.

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

Provisions
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, and when 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 discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

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

Events After the Reporting Date
Post year-end events that provide additional information about the Company's financial position at end of the reporting date (adjusting event) are reflected in the financial statements. Post year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

Future Changes in Accounting Policies
The Company will adopt the following new and amended Standards and Philippine Interpretations when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended Standards and Philippine Interpretations to have significant impact on its financial statements.

Effective 2012

- PAS 12, *Income Taxes - Recovery of Underlying Assets*
  The amendments clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16 always be measured on a sale basis of the asset.

- PFRS 7, *Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements*
  The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the entity's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets.

Effective 2013

- PAS 1, *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income (OCI)*
  The amendments to PAS 1 changes the grouping of items presented in OCI. Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has therefore no impact on the Company's financial position or performance.

- PAS 19, *Employee Benefits (Amendment)*
  The amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Company is currently assessing the impact of the amendments to PAS 19.

- PAS 27, *Separate Financial Statements (as revised in 2011)*
  As a consequence of the new PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements.

- PAS 28, *Investments in Associates and Joint Ventures (as revised in 2011)*
  As a consequence of the new PFRS 11 and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

- PFRS 7, *Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements*
  The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Company's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011. The amendment affects disclosures only and has no impact on the Company's financial position or performance.

- PFRS 7*, Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*
  These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or "similar agreement", irrespective of whether they are set-off in accordance with PAS 32. The amendments also prescribed certain minimal qualitative information that are required to be disclosed. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

  a) The gross amounts of those recognized financial assets and recognized financial liabilities;
  b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;

c) The net amounts presented in the statement of financial position;
d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
   i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
   ii. Amounts related to financial collateral (including cash collateral); and
e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments to PFRS 7 are to be retrospectively applied. The amendment affects disclosures only and has no impact on the Company's financial position or performance.

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

- PFRS 11, *Joint Arrangements*
  PFRS 11 replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

- PFRS 12, *Disclosure of Interests with Other Entities*
  PFRS 12 includes all of the disclosures that were previously in PAS 27 related to the consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.

- PFRS 13, *Fair Value Measurement*
  PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. The Company is currently assessing the impact that this standard will have on its financial position and performance.

Effective 2014

- PAS 32*, Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities*
  The amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendment is expected not to have any impact on the net assets of the Company.

Effective 2015

- PFRS 9, *Financial Instruments: Classification and Measurement*
  PFRS 9 as issued in 2010 reflects the first phase on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

3. Significant Accounting Judgments, Estimates and Assumptions

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

Estimates and judgments 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.

Judgments
Product classification
The Company has determined that the traditional insurance policies and the unit-linked insurance policies have significant insurance risks and therefore meet the definition of insurance contracts and should be accounted for as such.

Operating leases - Company as a lessor
The Company has entered into property leases on its investment property portfolio. The Company has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Operating leases - Company as a lessee
The Company has entered into contracts of lease for the office spaces of its branches. The Company has determined that all significant risks and rewards of ownership on these properties are retained by the respective lessors.

Estimates
Legal policy reserves
In determining the legal policy reserves, estimates are made as to the expected number of deaths, illness or injury for each of the years in which the Company is exposed to risk. These estimates are based on standard mortality and morbidity tables as required by the Code. The estimated number of deaths, illness or injury determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves, which in return is monitored against current and future premiums. Estimates are also made as to future investment income

arising from the assets backing life insurance contracts. These estimates are based on current market returns, as well as expectations about future economic and financial developments. In accordance with the provisions of the Code, estimates for future deaths, illness or injury and investment returns are determined at the inception of the contract and are used to calculate the liability over the term of the contract. The interest rate used to discount future liabilities does not exceed 6% as required by the Code. Likewise, no lapse, surrender and expense assumptions are factored in the computation of the liability.

The carrying values of legal policy reserves, shown as part of insurance contract liabilities, amounted to ₱6,882,318,892 and ₱7,384,444,644 as of December 31, 2011 and 2010 respectively (see Note 12).

Fair value of financial instruments
Fair value determinations for financial instruments are based generally on listed or quoted market prices. Where the fair values of financial assets and financial liabilities recorded in the statement of financial position or disclosed in the notes to the financial statements cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation. Certain financial assets and liabilities were initially recorded at fair values by using the discounted cash flow method.

As of December 31, 2011 and 2010, the carrying value of the financial assets at FVPL amounted to ₱1,204,959,451 and ₱2,792,463,518, respectively (see Note 6). As of December 31, 2011 and 2010, the carrying value of AFS financial assets recognized at fair value amounted to ₱7,950,380,967 and ₱7,139,585,725, respectively (see Note 6).

Impairment of loans and receivables
The Company reviews its loans and receivables at each reporting date to assess whether an allowance for impairment should be recognized. In particular, judgment by 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.

The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, age of balances, financial status of counterparties, payment behavior and known market factors. The Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowance on a regular basis.

In addition to specific allowance against individually significant loans and receivables, the Company 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 amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase recorded expenses and decrease net income.

Insurance receivables amounted to ₱115,693,277 and ₱125,196,775 as of December 31, 2011 and 2010, respectively. The related allowance for impairment losses amounted to nil as of December 31, 2011 and 2010, respectively (see Note 5).

As of December 31, 2011 and 2010, loans and receivables, net of allowance for impairment losses, amounted to ₱698,517,414 and ₱496,163,305, respectively. The related allowance for impairment losses amounted to ₱3,864,365 and ₱4,615,970 as of December 31, 2011 and 2010, respectively (see Note 6).

Impairment of AFS financial assets
The Company treats AFS equity investments as 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. The determination of what is 'significant' or 'prolonged' requires judgment. The Company treats 'significant' generally as 20% or more and 'prolonged' as greater than 12 months for quoted equity investments. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. Impairment may be appropriate also when there is evidence of deterioration in the financial health of the investee, the industry and sector performance, changes in technology and operational and financing cash flows.

The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase recorded expenses and decrease net income.

As of December 31, 2011 and 2010, the carrying value of AFS equity investments amounted to ₱305,114,119 and ₱316,406,944, respectively (see Note 6).

Estimated useful lives of property and equipment, investment properties and intangible assets
The Company reviews annually the estimated useful lives of property and equipment, investment properties and intangible assets based on the period over which the assets are expected to be available for use. It is possible that future results of operations could be materially affected by changes in these estimates. A reduction in the estimated useful lives of property and equipment, investment properties and intangible assets would increase recorded depreciation and amortization expense and decrease the related asset accounts.

As of December 31, 2011, the carrying values of the property and equipment, investment properties and intangible assets amounted to ₱138,097,882, ₱15,634,485 and ₱12,867,808, respectively. As of December 31, 2010, the carrying values of property and equipment, investment properties and intangible assets amounted to ₱126,819,999 and ₱19,502,514 and ₱3,962,092, respectively (see Notes 8, 9 and 10).

Impairment of nonfinancial assets
The Company assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amounts of assets may not be recoverable. The factors that the Company 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 Company recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. Recoverable amount is computed using the value in use approach. Recoverable amounts are estimated for individual assets or, if not possible, for the cash-generating unit to which the asset belongs.

As of December 31, 2011, the carrying values of the property and equipment, investment properties and intangible assets amounted to ₱138,097,882, ₱15,634,485 and ₱12,867,808, respectively. As of December 31, 2010, the carrying values of property and equipment, investment properties and intangible assets amounted to ₱126,819,999 and ₱19,502,514 and ₱3,962,092, respectively (see Notes 8, 9 and 10).

Recognition of deferred tax assets
Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which these can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized. These assets are periodically reviewed for realization. Periodic reviews cover the nature and amount of deferred income and expense items, expected timing when assets will be used or liabilities will be required to be reported, reliability of historical profitability of businesses expected to provide future earnings and tax planning strategies which can be utilized to increase the likelihood that tax assets will be realized.

As of December 31, 2011 and 2010, certain deferred tax assets have not been recognized since there is insufficient certainty as to the availability of future taxable income (see Note 22).

Pension and other employee benefits
The determination of pension obligation and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rate, expected return on plan assets and salary increase rate. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

The assumed discount rates were determined using a single weighted average discount rate with terms consistent with the expected employee benefit payouts as of reporting dates. Refer to Note 21 for the details of assumptions used in the calculation. In accordance with PAS 19, actual results that differ from the Company's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension obligation.

As of December 31, 2011 and 2010, the Company has unrecognized net actuarial gains of ₱21,797,705 and ₱45,984,143, respectively (see Note 21). The carrying values of net pension liabilities as of December 31, 2011 and 2010 amounted to ₱1,224,234 and ₱9,957,620, respectively (see Note 21).

The Company also estimates other employee benefit obligations and expenses, including costs of paid leaves based on historical leave availments of employees and subject to the Company's policy. These estimates may vary depending on the future changes in salaries and actual experiences during the year.

The accrued balance of other employee benefits included in accrued incentives and bonuses as of December 31, 2011 and 2010 amounted to ₱10,991,570 and ₱18,484,698, respectively.

Contingencies
The Company is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with legal counsels and based upon an analysis of potential results. The Company currently does not believe these proceedings will have a material adverse effect on the Company's financial position.

4. Cash and Cash Equivalents

This account consists of:

	2011	2010
Petty cash fund	**₱645,192**	₱625,943
Cash in commercial banks (Notes 23 and 24)	**16,467,658**	266,070,330
Short-term deposits in commercial banks (Note 24)	**2,585,381,002**	1,445,695,148
	₱2,602,493,852	₱1,712,391,421

Cash in banks earns interest at the prevailing bank deposit rates. Short-term deposits are made for varying periods not exceeding three months depending on the immediate cash requirements of the Company, and earn interest at the prevailing short-term deposit rates.

5. Insurance Receivables

This account consists of:

	2011	2010
Premiums due and uncollected (Note 24)	**₱76,112,737**	₱85,544,422
Due from reinsurer	**39,580,540**	39,652,353
	₱115,693,277	₱125,196,775

Amounts due from reinsurer pertain to amounts recoverable from the reinsurer in respect of claims already incurred by the Company.

The following table shows aging information of insurance receivables:

December 31, 2011

	< 30 days	**30 - 60 days**	**61 - 120 days**	**121 - 180 days**	**> 180 days**	**Total**
Premiums due and uncollected	**₱46,160,808**	**₱17,677,801**	**₱10,988,122**	**₱1,286,006**	**₱–**	**₱76,112,737**
Due from reinsurer	**77,830**	**–**	**–**	**–**	**39,502,710**	**39,580,540**
	₱46,238,638	**₱17,677,801**	**₱10,988,122**	**₱1,286,006**	**₱39,502,710**	**₱115,693,277**

December 31, 2010

	< 30 days	30 - 60 days	61 - 120 days	121 - 180 days	> 180 days	Total
Premiums due and uncollected	₱48,657,060	₱17,616,240	₱14,670,459	₱4,600,663	₱–	₱85,544,422
Due from reinsurer	–	1,750,000	–	–	37,902,353	39,652,353
	₱48,657,060	₱19,366,240	₱14,670,459	₱4,600,663	₱37,902,353	₱125,196,775

The following is a reconciliation of the changes in the allowance for impairment losses on due from reinsurer:

	2011	2010
At January 1	₱–	₱6,043,055
Recoveries (Note 18)	–	(6,043,055)
At December 31	₱–	₱–

6. **Financial Assets**

The Company's financial assets are summarized by measurement categories as follows:

	2011	2010
Financial assets at FVPL	**₱1,204,959,451**	₱2,792,463,518
AFS financial assets	**7,950,380,967**	7,139,585,725
Loans and receivables - net	**698,517,414**	496,163,305
	₱9,853,857,832	₱10,428,212,548

As of December 31, 2011 and 2010, the financial assets at FVPL are designated by management as at FVPL on initial recognition.

The assets included in each of the categories above are detailed below:

Financial assets at FVPL and AFS financial assets

	Financial assets at FVPL		AFS financial assets	
	December 31		December 31	
	2011	2010	2011	2010
Government debt securities				
Local currency	**₱780,208,833**	₱1,992,490,729	**₱6,501,419,470**	₱4,228,298,173
Foreign currency	–	176,841,724	**912,737,591**	2,552,944,554
Listed equity securities	**389,861,818**	588,709,464	**295,710,019**	307,342,844
Golf club shares	–	–	**9,404,100**	9,064,100
Private debt securities				
Local currency	–	–	**49,276,050**	41,936,054
Foreign currency	–	–	**181,833,737**	–
Investment in unit-linked funds (Note 11)	**34,888,800**	34,421,601	–	–
	₱1,204,959,451	₱2,792,463,518	**₱7,950,380,967**	₱7,139,585,725

The carrying values of financial assets at FVPL and AFS financial assets have been determined as follows:

	Financial assets at FVPL	AFS financial assets	Total
At January 1, 2010	₱2,778,371,647	₱6,270,305,066	₱9,048,676,713
Additions	–	1,505,126,370	1,505,126,370
Disposals/maturities	(218,064,954)	(739,251,875)	(957,316,829)
Net fair value gains (Note 17)	241,361,180	292,018,250	533,379,430
Amortization of premium	–	(80,645,122)	(80,645,122)
Foreign exchange adjustments	(9,204,355)	(107,966,964)	(117,171,319)
At December 31, 2010	**2,792,463,518**	**7,139,585,725**	**9,932,049,243**
Additions (Note 24)	**–**	**3,292,411,079**	**3,292,411,079**
Disposals/maturities	**(1,655,354,622)**	**(2,815,638,935)**	**(4,470,993,557)**
Net fair value gains (Note 17)	**67,850,555**	**529,085,450**	**596,936,005**
Amortization of premium	**–**	**(17,478,653)**	**(17,478,653)**
Foreign exchange adjustments	**–**	**(177,583,699)**	**(177,583,699)**
At December 31, 2011	**₱1,204,959,451**	**₱7,950,380,967**	**₱9,155,340,418**

As of December 31, 2011, government securities totaling ₱106,000,000 are deposited with the IC in accordance with the provisions of the Code as security for the benefit of policyholders and creditors of the Company.

Investments in bonds and government securities bear interest ranging from 5.25% to 18.25% per annum for peso bonds and from 8.25% to 11.38% per annum for dollar bonds.

Loans and receivables

	2011	2010
Intercompany receivables (Note 24)	**₱301,393,454**	₱88,457,494
Due from officers and employees	**22,029,331**	27,216,298
Due from agents	**11,391,779**	5,312,724
Other receivables	**4,583,680**	4,717,641
	339,398,244	125,704,157
Less allowance for impairment losses	**3,864,365**	4,615,970
	335,533,879	121,088,187
Policy loans	**362,983,535**	375,075,118
	₱698,517,414	₱496,163,305

Amounts due from officers and employees include secured interest-bearing loans pertaining to car plan and salary loans, and other unsecured noninterest-bearing loans and advances granted to the Company's officers and employees. Interest rates on interest bearing loans range from 6% to 12% in 2011 and 2010.

Policy loans pertain to loans granted to policyholders. The loan is granted with the cash surrender value of the policyholder's insurance policy as collateral. Interest rates on peso and dollar policy loans are pegged at 10% and 8%, respectively.

The following is a reconciliation of the changes in the allowance for impairment losses on loans and receivables:

	Due from officers and employees	Due from agents	Other receivables	Total
At January 1, 2010	₱819,653	₱1,606,155	₱1,408,675	₱3,834,483
Charges (Note 18)	–	–	781,487	781,487
At December 31, 2010	**819,653**	**1,606,155**	**2,190,162**	**4,615,970**
Write-off	**–**	**–**	**(751,605)**	**(751,605)**
At December 31, 2011	**₱819,653**	**₱1,606,155**	**₱1,438,557**	**₱3,864,365**

7. **Accrued Income**

This account consists of:

	2011	2010
Interest receivable on:		
AFS financial assets	**₱126,802,565**	₱153,065,509
Financial assets at FVPL	**16,491,387**	46,186,389
Loans and receivables	**15,761,465**	15,826,973
Cash and cash equivalents (Note 24)	**4,338,220**	876,391
Dividend receivable	**900,518**	–
	₱164,294,155	₱215,955,262

8. **Investment Properties**

The rollforward analysis of this account follows:

	2011	2010
Cost		
At January 1	**₱40,653,097**	₱33,899,097
Additions	**–**	6,754,000
Transfers (Note 9)	**(14,778,860)**	–
At December 31	**25,874,237**	40,653,097
Accumulated Depreciation		
At January 1	**21,150,583**	19,788,157
Depreciation (Note 20)	**943,692**	1,362,426
Transfers (Note 9)	**(11,854,523)**	–
At December 31	**10,239,752**	21,150,583
Net Book Value	**₱15,634,485**	₱19,502,514

Depreciation expense charged to operations in 2011 and 2010 amounted to ₱943,692 and ₱1,362,426. Based on the appraisal conducted on November 28, 2011, the investment properties have a total fair value of ₱23,443,500. The values were arrived at using the Sales Comparison Approach. This approach involves the analysis of rental and capital values of comparable properties in the vicinity. Adjustments are made to reflect the differences in use, location, tenure, size, amenities, efficiency, age and condition of the subject property. Upon confirmation with the Company's independent appraiser, management believes that there is no significant change in the fair value of the condominium units from the appraisal conducted on November 28, 2011 compared to its value on December 31, 2011.

Rental income on investment properties amounted to ₱1,008,241 and ₱1,100,100 in 2011 and 2010, respectively (see Notes 18 and 25). Direct operating expenses related to these investment properties in 2011 and 2010 amounted to ₱943,692 and ₱1,440,816, respectively.

During 2011, several investment properties with cost of ₱14,778,860 and accumulated depreciation of ₱11,854,523 were transferred to property and equipment.

9. Property and Equipment

The rollforward analysis of this account follows:

	Building	Leasehold Improvements	Transportation Equipment	Computer Equipment	Furniture and Equipment (Note 25)	Total
Cost						
At January 1, 2010	₱124,204,877	₱67,300,354	₱19,645,082	₱127,521,387	₱57,653,497	₱396,325,197
Additions	–	7,195,162	4,099,847	28,263,010	2,559,638	42,117,657
Disposals	–	–	(2,176,474)	(1,097,110)	–	(3,273,584)
At December 31, 2010	**124,204,877**	**74,495,516**	**21,568,455**	**154,687,287**	**60,213,135**	**435,169,270**
Additions	**–**	**21,044,934**	**538,773**	**30,684,088**	**3,647,863**	**55,915,658**
Disposals	**–**	**–**	**(3,458,918)**	**–**	**–**	**(3,458,918)**
Transfers (Note 8)	**14,778,860**	**–**	**–**	**–**	**–**	**14,778,860**
At December 31, 2011	**₱138,983,737**	**₱95,540,450**	**₱18,648,310**	**₱185,371,375**	**₱63,860,998**	**₱502,404,870**
Accumulated Depreciation and Amortization						
At January 1, 2010	₱68,144,869	₱32,467,694	₱12,724,463	₱107,132,804	₱51,705,410	₱272,175,240
Depreciation and amortization (Note 20)	5,926,740	10,578,317	3,431,816	16,514,049	2,630,815	39,081,737
Disposals	–	–	(1,835,417)	(1,072,289)	–	(2,907,706)
At December 31, 2010	**74,071,609**	**43,046,011**	**14,320,862**	**122,574,564**	**54,336,225**	**308,349,271**
Depreciation and amortization (Note 20)	**6,701,741**	**12,783,600**	**3,012,230**	**21,330,983**	**3,423,547**	**47,252,101**
Disposals	**–**	**–**	**(3,148,907)**	**–**	**–**	**(3,148,907)**
Transfers (Note 8)	**11,854,523**	**–**	**–**	**–**	**–**	**11,854,523**
At December 31, 2011	**₱92,627,873**	**₱55,829,611**	**₱14,184,185**	**₱143,905,547**	**₱57,759,772**	**₱364,306,988**
Net Book Value						
At December 31, 2011	**₱46,355,864**	**₱39,710,839**	**₱4,464,125**	**₱41,465,828**	**₱6,101,226**	**₱138,097,882**
At December 31, 2010	₱50,133,268	₱31,449,505	₱7,247,593	₱32,112,723	₱5,876,910	₱126,819,999

Depreciation and amortization expense charged to operations amounted to ₱47,252,101 and ₱39,081,737 in 2011 and 2010, respectively.

Cost of fully depreciated property and equipment still being used amounted to ₱165,452,460 and ₱128,841,485 as of December 31, 2011 and 2010, respectively.

10. **Intangible Assets**

The rollforward analysis of this account follows:

	2011	2010
Cost		
At January 1	**₱77,229,682**	₱73,062,432
Additions	**9,739,166**	4,167,250
At December 31	**86,968,848**	77,229,682
Accumulated Amortization		
At January 1	**73,267,590**	73,062,432
Amortization (Note 20)	**833,450**	205,158
At December 31	**74,101,040**	73,267,590
Net Book Value	**₱12,867,808**	₱3,962,092

Amortization expense charged to operations amounted to ₱833,450 and ₱205,158 in 2011 and 2010, respectively.

11. **Assets Held to Cover Unit-Linked Liabilities/ Unit-Linked Liabilities**

Assets held to cover unit-linked liabilities consists of:

	2011	2010
Net asset values of the unit-linked funds (Note 24)	**25,973,599,601**	₱22,705,473,750
Subscriptions to be transferred to unit-linked funds	**51,938,376**	208,790,341
Investment in unit-linked funds under financial assets at FVPL (Note 6)	**(34,888,800)**	(34,421,601)
	₱25,990,649,177	₱22,879,842,490

The unit-linked funds' net assets consists of:

	2011	2010
Assets		
Cash and cash equivalents:		
Cash in bank	**₱19,668,293**	₱58,126,949
Short-term deposits	**1,523,752,375**	911,898,885
Financial assets at fair value through profit or loss		
Government debt securities:		
Local currency	**10,312,491,071**	8,958,514,151
Foreign currency	**9,769,759,498**	8,454,285,542
Listed equity securities	**4,185,788,873**	4,144,524,805
Derivative asset	**20,580,298**	26,688,442
(Forward)		

	2011	2010
Accrued income:		
Interest receivable	**323,463,720**	308,869,369
Dividend receivable	**4,212,545**	1,274,807
Accounts receivable	**51,331,954**	87,531,465
	26,211,048,627	22,951,714,415
Liabilities		
Accounts payable:	**145,137,413**	166,227,981
Asset management fees payable (Note 24)	**63,762,058**	52,841,898
Administration and custody fees payable (Note 24)	**17,452,735**	20,540,501
Service fees payable (Note 24)	**11,096,820**	6,630,285
	237,449,026	246,240,665
	₱25,973,599,601	₱22,705,473,750

Cash in banks earns interest at the prevailing bank deposit rates. Short-term deposits are made for varying periods not exceeding three months depending on the immediate cash requirements of the funds, and earn interest at the prevailing short-term deposit rates.

As of December 31, 2011 and 2010, the unit-linked funds' financial assets at FVPL are designated by management as at FVPL on initial recognition.

Government securities bear interest ranging from 5.38% to 14.38% per annum for peso bonds and from 4.00% to 12.13% per annum for dollar bonds.

Derivative asset
The Company, through AXA Philippine Armor Fund, entered into a derivative transaction with Metropolitan Bank and Trust Company (MBTC), an affiliate. The derivative asset pertains to bond swap classified under financial assets at FVPL. The Company exchanged ₱223,572,719 to buy US$4,650,982 at US$1 to ₱48.07 spot rate. Under this agreement, the Company used the US dollars to purchase US$4,130,000 par value Republic of the Philippines (ROP) bonds maturing on January 14, 2014. At each coupon date, the Company uses the coupon payment to buy additional ROP bond. At maturity date, the aggregate face value of the ROP bonds plus the last coupon payment, both in US dollars, will be exchanged for Philippine peso using the pre-agreed forward rate of ₱51.62. The market value of the bonds and the unrealized gain on the currency forward derivative asset amounted to ₱136,219,219 and ₱20,580,298 as of December 31, 2011, and ₱200,015,704 and ₱26,688,442 as of December 31, 2010. The notional amount as of December 31, 2011 and 2010 amounted to US$3,208,634 and US$3,618,000, respectively.

Accounts receivable pertains to due from brokers and subscriptions from unitholders.

Accounts payable pertains to due to brokers and redemptions payable to unitholders.

The net asset values of the various unit-linked funds follow:

	2011	2010
AXA Philippine Premium Bond Fund	**₱8,129,289,330**	₱7,904,202,227
AXA Philippine Wealth Balanced Fund	**5,811,460,517**	5,667,510,838
AXA Philippine 3Gxceed $B19	**1,912,837,814**	630,985,538
AXA Philippine 3Gxceed B16 Series 2	**1,762,704,452**	1,542,965,508
AXA Philippine Wealth Bond Fund	**1,626,672,819**	1,893,950,572
AXA Philippine Wealth Equity Fund	**1,567,727,567**	1,493,732,131
AXA Philippine 3Gxceed B16	**1,135,704,716**	1,200,975,540
AXA Philippine 3Gxceed B17	**987,381,247**	417,161,780
AXA Philippine 3Gxceed B17 Series 2	**731,086,365**	–
AXA Philippine Locked and Loaded	**611,012,205**	826,064,628
AXA Philippine Opportunity Fund	**487,904,698**	315,801,495
AXA Philippine Capital Investment Fund	**366,333,212**	414,046,481
AXA Philippine 3Gxceed B19	**307,798,439**	155,651,715
AXA Philippine Armor Fund	**151,182,289**	226,527,020
AXA Philippine 3Gxceed B20	**140,012,454**	–
AXA Philippine 3Gxceed B18	**118,380,384**	–
AXA Philippine Peso Liquidity Fund	**59,420,025**	15,898,277
AXA Philippine Chinese Tycoon Fund	**37,190,226**	–
AXA Philippine Spanish American Legacy Fund	**29,500,842**	–
	₱25,973,599,601	₱22,705,473,750

The movements in unit-linked liabilities during the year follow (in thousands):

	2011	2010
At January 1	**₱22,879,842**	₱21,984,529
Tabular net premiums or considerations	**7,423,210**	6,116,902
Tabular interest	**1,186,758**	2,850,966
	31,489,810	30,952,397
Reserves released by death	**(30,972)**	(11,775)
Reserves released by other terminations	**(5,482,079)**	(8,511,340)
	(5,513,051)	(8,523,115)
Foreign exchange adjustments	**13,890**	450,560
At December 31	**₱25,990,649**	₱22,879,842

12. Insurance Contract Liabilities

This account consists of:

	2011	2010
Legal policy reserves	**₱6,882,318,892**	₱7,384,444,644
Claims and benefits payable (Note 24)	**415,474,106**	386,322,619
Policyholders' dividends	**259,278,219**	251,868,381
Reserve for policyholders' dividends	**11,549,642**	19,731,056
	₱7,568,620,859	₱8,042,366,700

Insurance contract liabilities may be analyzed as follows (in thousands):

December 31, 2011

	Insurance contract liabilities	Reinsurers' share of liabilities	Net
Aggregate reserves for ordinary life policies	**₱6,787,239**	**₱2,670**	**₱6,784,569**
Policy and contract claims	**415,474**	**–**	**415,474**
Aggregate reserves for group life policies	**67,812**	**5,779**	**62,033**
Cost of insurance related reserves	**35,072**	**2**	**35,070**
Aggregate reserves for accident and health policies	**647**	**–**	**647**
Policyholders' dividends	**259,278**	**–**	**259,278**
Reserve for policyholders' dividends	**11,550**	**–**	**11,550**
	₱7,577,072	**₱8,451**	**₱7,568,621**

December 31, 2010

	Insurance contract liabilities	Reinsurers' share of liabilities	Net
Aggregate reserves for ordinary life policies	₱7,311,317	₱2,657	₱7,308,660
Policy and contract claims	386,323	–	386,323
Aggregate reserves for group life policies	53,774	1,887	51,887
Cost of insurance related reserves	23,095	2	23,093
Aggregate reserves for accident and health policies	805	–	805
Policyholders' dividends	251,868	–	251,868
Reserve for policyholders' dividends	19,731	–	19,731
	₱8,046,913	₱4,546	₱8,042,367

Legal policy reserves may be analyzed as follows:

	2011	2010
Gross		
With fixed and guaranteed terms:		
Partially fixed and guaranteed - participating	**₱5,886,327,220**	₱6,766,648,762
Fixed and guaranteed - nonparticipating	**969,370,833**	599,247,127
Cost of insurance	**35,072,281**	23,094,690
	6,890,770,334	7,388,990,579
Recoverable from reinsurers		
With fixed and guaranteed terms:		
Partially fixed and guaranteed -participating	**2,233,313**	2,222,836
Fixed and guaranteed - nonparticipating	**6,215,982**	2,320,976
Cost of insurance	**2,147**	2,123
	8,451,442	4,545,935
Net		
With fixed and guaranteed terms:		
Partially fixed and guaranteed - participating	**5,884,093,907**	6,764,425,926
Fixed and guaranteed - nonparticipating	**963,154,852**	596,926,151
Cost of insurance	**35,070,133**	23,092,567
	₱6,882,318,892	₱7,384,444,644

The movements in legal policy reserves during the year follow (in thousands):

	2011			2010		
	Insurance Contract liabilities	**Reinsurers' share of liabilities**	**Net**	Insurance Contract liabilities	Reinsurers' share of liabilities	Net
At January 1	**₱7,388,991**	**₱4,546**	**₱7,384,445**	₱6,913,701	₱4,735	₱6,908,966
Tabular net premiums or considerations	**1,227,083**	**–**	**1,227,083**	1,233,080	–	1,233,080
Tabular interest	**431,733**	**–**	**431,733**	433,100	–	433,100
Other increase	**12,277**	**3,906**	**8,371**	7,217	(189)	7,406
	9,060,084	**8,452**	**9,051,632**	8,587,098	4,546	8,582,552
Tabular cost	**(682,959)**	**–**	**(682,959)**	(825,406)	–	(825,406)
Reserves released by death	**(11,025)**	**–**	**(11,025)**	(6,752)	–	(6,752)
Reserves released by other terminations	**(1,463,719)**	**–**	**(1,463,719)**	(316,860)	–	(316,860)
	(2,157,703)	**–**	**(2,157,703)**	(2,215,974)	–	(1,149,018)
Foreign exchange adjustments	**11,610**	**–**	**11,610**	(49,089)	–	(49,089)
At December 31	**₱6,890,771**	**₱8,452**	**₱6,882,319**	₱7,388,991	₱4,546	₱7,384,445

The movements during the year in claims and benefits payable follow:

	2011	2010
At January 1	**₱386,322,619**	₱353,470,096
Arising during the year (Note 18)	**1,753,791,511**	422,564,364
Paid during the year	**(1,724,640,024)**	(389,711,841)
At December 31	**₱415,474,106**	₱386,322,619

The movements during the year in policyholders' dividends follow:

	2011	2010
At January 1	**₱251,868,381**	₱196,305,763
Arising during the year	**82,660,914**	71,200,275
Paid during the year	**(75,251,076)**	(15,637,657)
At December 31	**₱259,278,219**	₱251,868,381

The movements during the year in reserves for policyholders' dividends follow:

	2011	2010
At January 1	**₱19,731,056**	₱17,212,448
Arising during the year	**(8,181,414)**	2,518,608
At December 31	**₱11,549,642**	₱19,731,056

13. Insurance Contract Liabilities - Terms and Assumptions

Terms
Life insurance contracts offered by the Company mainly include: (a) traditional whole life participating policies (with and without anticipated endowments) and a wide range of nonparticipating riders (i.e., accidental death and dismemberment, term, critical illness, hospital income, term life, etc.); (b) unit-linked products, both regular premium and single premium with nonparticipating riders; (c) various nonparticipating products; and (d) a participating US$ single-premium product. In addition, the Company offers group yearly renewable term, credit life and personal accident insurance.

Life Insurance Contract Liabilities
For life insurance contracts with fixed and guaranteed terms (including partially fixed and guaranteed terms), the Company determines assumptions in relation to future deaths and investment returns at inception of the contracts. These assumptions are used for calculating the liabilities during the life of the contract. These assumptions, which may be changed during the life of the contract, are in compliance with statutory requirements.

Key assumptions
Material judgment is required in determining the liabilities and in the choice of assumptions relating to insurance contracts. Assumptions are based on past experience, current internal data and conditions, and external market indices and benchmarks, which reflect current observable market prices and other published information. Such assumptions are determined as appropriate at inception of the contract and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations. Assumptions are subject to the provisions of the Code and guidelines set by the IC.

For insurance contracts, the Company determines the assumptions in relation to future deaths, illness or injury and investment returns at inception of the contract. Subsequently, new estimates are developed at each reporting date and liabilities are tested to determine whether such liabilities are adequate in the light of the latest current estimates. The initial assumptions are not altered if the liabilities are considered adequate. If the liabilities are not adequate, the assumptions are altered ("unlocked") to reflect the latest current estimates. As a result, the effect of changes in the underlying variables on insurance liabilities and related assets is not symmetrical. Improvements in estimates have no impact on the value of the liabilities and related assets, while significant enough deteriorations in estimates have an impact.

The key assumptions to which the estimation and adequacy testing of liabilities are particularly sensitive follows:

- Mortality and morbidity rates
  Assumptions are based on standard industry and national mortality and morbidity tables, according to the type of contract written and which may be adjusted where appropriate to reflect contract type. For life insurance policies, increased mortality and morbidity rates would lead to a larger number of claims and claims occurring sooner than anticipated, increased the expenditure, and reduced profits for the shareholders.

- Discount rates
  Life insurance liabilities are determined as the sum of the discounted value of the expected benefits, less the discounted value of the expected future theoretical premiums that would be required to meet these future cash outflows. The weighted average rate of return is derived based on a model portfolio that is assumed to back liabilities, consistent with the long-term asset allocation strategy. These estimates are based on current market returns as well as expectations about future economic and financial developments. Interest rates used for estimating liabilities are capped at 6% by the Code. An increase in investment return would lead to an increase in profits for the shareholders. A decrease in the discount rate will increase the value of the liability.

As required by the Code, lapse, surrender and expense assumptions are not factored in the computation of the insurance contract liabilities.

The assumptions that have the greatest effect on the statements of financial position and statements of comprehensive income of the Company in 2011 and 2010 are listed below:

Portfolio assumptions by product impacting net liabilities	**Mortality and morbidity rates**	**Discount rates**
Whole life / Endowment	90% 1980 CSO	6%
	1958 CSO	6%
	1980 CSO	6%
Term insurance	1958 CSO	6%

Sensitivities
The analysis below is performed for a reasonably possible movement in key assumptions with all other assumptions held constant, on liabilities, profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumption changes had to be done on an individual basis.

December 31, 2011

	Change in assumptions	Increase/(decrease) in liabilities	Increase/(decrease) in profit before tax	Increase/(decrease) in equity
Mortality/morbidity	**+ 10%**	**₱32,192,118**	**(₱32,192,118)**	**(₱32,192,118)**
	- 10%	**(25,015,322)**	**25,015,322**	**25,015,322**
Discount rate	**-1%**	**558,001,224**	**(558,001,224)**	**(558,001,224)**

December 31, 2010

	Change in assumptions	Increase/(decrease) in liabilities	Increase/(decrease) in profit before tax	Increase/(decrease) in equity
Mortality/morbidity	+10%	₱21,703,144	(₱21,703,144)	(₱21,703,144)
	-10%	(25,421,065)	25,421,065	25,421,065
Discount rate	-1%	515,698,304	(515,698,304)	(515,698,304)

The method used for deriving sensitivity information and significant assumptions did not change from the previous period.

Reinsurance - Assumptions and Methods
The Company limits its exposure to loss within insurance operations through participation in reinsurance arrangements. Amounts receivable from reinsurer are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented under the "Insurance receivables" account in the statement of financial position. Even though the Company may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Company is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any reinsurance contract.

14. **Insurance Payables**

The rollforward analysis of this account follows:

	2011	2010
At January 1	**₱64,164,266**	₱51,090,279
Arising during the year (Note 18)	**31,274,005**	23,367,242
Paid during the year	**(10,269,153)**	(10,293,255)
At December 31	**₱85,169,118**	₱64,164,266

Insurance payables pertain to premiums due to reinsurers which are non-interest bearing.

15. **Trade and Other Liabilities**

This account consists of:

	2011	2010
Accrued Expenses		
Commissions payable (Note 24)	**₱92,234,417**	₱58,774,919
Accrued shared service costs (Note 24)	**79,837,331**	64,911,970
Accrued incentives and bonuses	**67,438,800**	153,269,508
Taxes payable	**62,848,957**	51,993,220
Telemarketing expenses	**40,890,279**	8,108,091
Accrued professional fees	**4,494,876**	3,218,469
Advertising expenses	**1,003,378**	3,424,053
Lease liability (Note 25)	**1,086,164**	2,160,317
Others	**21,016,420**	11,220,525
	370,850,622	357,081,072
Other Liability		
Accounts payable (Note 24)	**334,729,726**	218,642,065
	₱705,580,348	₱575,723,137

Commissions payable pertains to sales force commissions which are non interest bearing and payable every month.

Accrued shared service costs pertains to regional charges for IT services, consultancy and support services. These are charged based on actual costs incurred. These are non interest bearing and are payable on demand.

Accrued incentives and bonuses pertain to incentive plans based on business performance, accrual of unused leaves, mid-year and 13th month pay, medical reimbursements and provident plan contribution. These are non interest bearing and payable within approved terms.

Taxes payable includes taxes withheld from staffs and agents, fringe benefits taxes, stamp duties and premium taxes.

Telemarketing expenses pertain to direct marketing costs of telemarketers. These expenses include telephone costs, computer costs and collection fees paid to Metrobank Card Corporation, the contractor of the telemarketers. These are non interest bearing and are payable on demand.

Accounts payable pertains to amount owed to trade creditors which are noninterest-bearing and normally settled within one year.

16. **Equity**

Capital stock
This account consists of common stock as follows:

	2011	2010
Authorized - 6,000,000 shares, ₱100 par value		
Issued - 3,499,914 shares	**₱349,991,400**	₱349,991,400
Subscribed - 326 shares in 2011 and 2010 (net of subscriptions receivable of ₱21,777 in 2010)	**32,600**	10,823
	₱350,024,000	₱350,002,223

The movements of the Company's common shares follow:

	Common Stock	
	Issued	**Subscribed**
As of January 1, 2010	2,499,914	326
Issuance of shares arising from contingency surplus	985,960	–
Issuance of shares	14,040	–
As of December 31, 2010 and 2011	**3,499,914**	**326**

Deposits for future stock subscription and Contingency surplus
To comply with the capitalization requirement, on September 2, 2011 and October 6, 2009, the IC granted the Company's request for the conversion of its contingency surplus into paid-up capital. During 2010, AXA S.A., FMIC and GT Capital accepted the offer to increase their subscriptions amounting to ₱98,596,000. In 2011, the BOD approved the increase in authorized capital stock from ₱600,000,000, divided into 6,000,000 shares to ₱1,000,000,000, divided into 10,000,000 shares. Likewise, AXA S.A., FMIC and GT Capital accepted the offer to increase their subscriptions amounting to ₱304,289,900. As of December 31, 2011, the application for increase in authorized capital stock of the Company is still in process with Securities and Exchange Commission. As such, the ₱304,289,900 contingency surplus for conversion into paid-up capital has not yet been issued as capital stock and has been included in "Deposit for future stock subscriptions" account as of December 31, 2011.

Retained earnings
On April 28, 2011, the BOD approved the declaration of cash dividends amounting to ₱501 million or ₱143.13 per share payable to all stockholders of record as of the same date. The cash dividends were paid on June 6, 2011.

On December 14, 2011, the BOD approved the declaration of cash dividends amounting to ₱621 million or ₱177.50 payable to all stockholders of record as of the same date. The dividends are still unpaid as of December 31, 2011.

As of December 31, 2011 and 2010, the balance of retained earnings includes the remaining balance of the deemed cost adjustment amounting to ₱9,192,033 and ₱10,602,146, respectively, related to investment properties and certain property and equipment which arose when the Company transitioned to PFRS in 2005. This amount has yet to be absorbed through additional depreciation in profit and loss.

Retained earnings are further restricted for the payment of dividends to the extent of the cost of the common shares held in treasury.

Treasury Stock
Common shares held in treasury are 207 shares and 20 shares as of December 31, 2011 and 2010, respectively.

17. Revaluation Reserves for Available-for-sale Financial Asserts

The rollforward analysis of this account follows:

January 1, 2010	₱589,750,197
Net fair value gain (Note 6)	292,018,250
Transferred to profit or loss	(43,180,388)
At December 31, 2010	**838,588,059**
Net fair value gain (Note 6)	**529,085,450**
Transferred to profit or loss	**(277,661,028)**
At December 31, 2011	**₱1,090,012,481**

The revaluation reserve for AFS financial assets records the difference between the amortized cost and fair value of debt instruments and acquisition cost and fair value of equity investments classified as AFS financial assets.

18. Income and Benefits and Claims

The net insurance premium revenue consists of:

	2011	2010
Premium revenue arising from contracts issued		
Unit-linked insurance contracts	**₱8,131,784,020**	₱6,775,796,105
Life insurance contracts (Note 24)	**1,874,838,894**	1,578,505,212
	10,006,622,914	8,354,301,317
Premium revenue ceded to reinsurers on contracts issued (Note 14)		
Life insurance contracts	**24,931,988**	18,886,947
Unit-linked insurance contracts	**6,342,017**	4,480,295
	31,274,005	23,367,242
	₱9,975,348,909	₱8,330,934,075

The investment income account consists of:

	2011	2010
Interest on:		
AFS financial assets	**₱617,454,657**	₱467,472,672
Cash and cash equivalents (Note 24)	**53,835,357**	27,827,028
Financial assets at FVPL	**37,892,733**	218,958,312
Loans and receivables	**36,148,270**	44,226,818
Dividend income	**26,375,608**	26,451,819
Rental income (Note 8)	**1,008,241**	1,100,100
	₱772,714,866	₱786,036,749

Other income consists of:

	2011	2010
Asset management fees (Note 24)	**₱369,764,447**	₱359,228,246
Administration and service fees	**33,134**	154,410
Reversal of impairment losses – net (Notes 5 and 6)	**–**	5,261,568
Miscellaneous	**3,021,987**	175,541
	₱372,819,568	₱364,819,765

Net claims and benefits incurred during the year consist of (see Note 12):

	2011	2010
Maturities	**₱1,214,559,222**	₱89,487,177
Death and hospitalization benefits (Note 24)	**276,259,801**	192,525,498
Surrenders	**263,961,561**	149,138,678
Policyholders' dividends and interest	**82,660,914**	71,200,275
	1,837,441,498	502,351,628
Reinsurers' share on claims and benefits incurred	**(989,073)**	(8,586,989)
	₱1,836,452,425	₱493,764,639

19. **Income on assets held to cover unit-linked liabilities**

This account consists of:

	2011	2010
Income		
Net fair value gains on financial assets at FVPL	**₱493,737,786**	₱2,594,690,787
Interest on:		
Cash and cash equivalents	**30,490,781**	17,189,124
Financial assets at FVPL	**1,187,208,810**	1,142,017,230
Dividend income	**115,943,242**	155,292,537
	1,827,380,619	3,909,189,678

(Forward)

	2011	2010
Expense		
Asset management and service fees	**465,234,369**	442,097,032
Fund administration and custody fees	**23,587,933**	21,559,058
Foreign exchange loss	**640,456**	10,885,990
Other expenses	**6,513,449**	4,966,319
	495,976,207	479,508,399
Income before final tax	**1,331,404,412**	3,429,681,279
Final tax	**130,288,688**	120,183,290
	₱1,201,115,724	₱3,309,497,989

20. **Operating and Administrative Expenses**

This account consists of:

	2011	2010
Salaries, allowances and benefits (Note 21)	**₱602,045,153**	₱560,775,483
Advertising and promotions	**123,660,903**	52,610,318
Project development costs	**122,211,304**	50,106,089
Collection fees	**105,070,056**	55,933,086
Rent (Note 25)	**65,874,476**	58,317,884
Shared service costs (Note 24)	**58,557,048**	72,518,412
Training and convention	**56,260,737**	43,125,964
Communication, light and water	**51,129,707**	40,780,793
Depreciation and amortization (Notes 8, 9 and 10)	**49,029,243**	40,649,321
Transportation and travel	**41,484,639**	47,071,087
Supplies	**21,377,386**	12,348,394
Management and directors' fees (Note 24)	**15,604,835**	11,775,098
Taxes, licenses and fees	**12,563,564**	20,532,924
Courier costs	**11,645,212**	18,151,870
Repairs and maintenance	**7,510,038**	4,170,527
Miscellaneous	**21,287,992**	32,709,763
	₱1,365,312,293	₱1,121,577,013

Project development costs pertain to charges for information technology services and other expenditures.

Collection fees pertain to accrual of services in relation to premium collections of salary deduction policies and group policies. Fees are applied to collected premiums at various rates.

Shared service costs pertain to allocated regional charges for consultancy and support services based on the service level agreement.

21. **Employee Benefits**

The Company has a noncontributory defined benefit pension plan, covering substantially all of its employees, which requires contributions to be made by the Company to an administered fund. The Company's retirement fund is administered by a local bank as trustee (see Note 24).

The following tables summarize the components of the net benefit expense recognized in profit or loss and amounts recognized in the statements of financial position for the plan:

The amounts recognized in profit or loss follows:

	2011	2010
Current service cost	**₱5,061,700**	₱10,240,801
Interest cost on benefit obligation	**2,541,198**	3,822,063
Expected return on plan assets	**(3,770,183)**	(3,285,144)
Past service cost	**828,500**	828,500
Net actuarial gain recognized during the year	**(13,394,600)**	(1,648,600)
Net benefit expense (income)	**(₱8,733,385)**	₱9,957,620

The amounts recognized in the statements of financial position follow:

	2011	2010
Present value of benefit obligation	**₱49,068,000**	₱32,747,400
Fair value of plan assets	**59,698,870**	58,002,823
Net pension asset	**(10,630,870)**	(25,255,423)
Unrecognized past service cost	**(9,942,600)**	(10,771,100)
Unrecognized net actuarial gains	**21,797,704**	45,984,143
Total net pension liability	**₱1,224,234**	₱9,957,620

Past service cost pertains to the improvements on retirement benefits in relation to the increase on maximum benefits.

Changes in the present value of the defined benefit obligation follow:

	2011	2010
At January 1	**₱32,747,400**	₱36,057,200
Current service cost	**5,061,700**	10,240,801
Interest cost on benefit obligation	**2,541,198**	3,822,063
Benefits paid	**(1,844,894)**	(4,842,099)
Actuarial loss (gain)	**10,562,596**	(12,530,565)
At December 31	**₱49,068,000**	₱32,747,400

Changes in the fair value of the plan assets follow:

	2011	2010
At January 1	**₱58,002,823**	₱46,930,622
Expected return on plan assets	**3,770,183**	3,285,144
Actual contributions	**–**	8,598,226
Benefits paid	**(1,844,894)**	(4,842,099)
Actuarial gain (loss)	**(229,242)**	4,030,930
At December 31	**₱59,698,870**	₱58,002,823
Actual return on plan assets	**₱3,540,941**	₱7,316,074

Changes in unrecognized net actuarial gains follow:

	2011	2010
At January 1	**₱45,984,143**	₱31,071,248
From plan assets	**(229,242)**	4,030,930
From defined benefit obligation	**(10,562,596)**	12,530,565
Amortization of actuarial gains	**(13,394,600)**	(1,648,600)
At December 31	**₱21,797,704**	₱45,984,143

The distribution of the plan assets follows:

	2011	2010
Cash and cash equivalents	**₱1,139,543**	₱238,778
Government securities	**52,122,483**	50,863,994
Equity securities	**5,283,890**	5,985,803
Miscellaneous receivables	**1,198,487**	958,799
	59,744,403	58,047,374
Less liabilities	**45,533**	44,551
	₱59,698,870	₱58,002,823

In 2012, the Company does not expect to contribute to the plan as its Fund assets exceeded the defined benefit obligation and current service cost for plan year 2012 by ₱5,829,470.

The principal assumptions used in determining pension liability for the Company's plan follow:

	2011	2010
Discount rate	**6.04%**	7.76%
Expected rate of return on plan assets	**6.50**	6.50
Rate of salary increase	**7.00**	7.00

Expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy.

The gains (losses) on experience adjustments on plan assets and plan liabilities follow:

	2011	2010	2009	2008	2007
Plan assets	**(₱229,242)**	₱4,030,930	₱3,459,018	(₱7,416,818)	(₱1,748,400)
Plan liabilties	**(3,577,096)**	12,754,564	4,560,680	(1,022,451)	6,102,000

Amounts of the current and previous periods follow:

	2011	2010	2009	2008	2007
Plan assets	**₱59,698,870**	₱58,002,823	₱46,930,622	₱42,820,046	₱51,852,200
Defined benefit obligation	**(49,068,000)**	(32,747,400)	(36,057,200)	(14,552,500)	(25,291,800)
Surplus	**₱10,630,870**	₱25,255,423	₱10,873,422	₱28,267,546	₱26,560,400

Staff costs and other employee related costs consist of (see Note 20):

	2011	2010
Salaries and wages	**₱564,393,073**	₱497,366,805
Short-term employee benefits	**22,851,104**	32,159,824
Social security costs and Pag-ibig contributions	**22,250,990**	14,824,572
Defined benefit pension cost (income)	**(8,733,385)**	9,957,620
Others	**1,283,371**	6,466,662
	₱602,045,153	₱560,775,483

22. **Income Taxes**

Current income tax consists of:

	2011	2010
Final tax	**₱119,120,659**	₱105,373,542
MCIT	**21,487,336**	13,998,871
	₱140,607,995	₱119,372,413

Components of deferred tax assets and liabilities follow:

	2011	2010
Deferred tax assets on:		
Accrual of nondeductible expenses	**₱9,151,883**	₱12,370,558
Net pension liability	**3,350,050**	6,218,616
Accrued sick leaves and vacation leaves	**3,297,471**	5,545,409
Allowance for impairment losses	**1,159,309**	1,384,791
	16,958,713	25,519,374

(Forward)

	2011	2010
Deferred tax liabilities on:		
Unrealized foreign exchange gains	**5,722,008**	12,153,062
Unrealized gain on derivative asset	**6,174,089**	8,006,533
Revaluation of investment properties	**2,706,154**	2,900,915
Revaluation of property and equipment	**1,296,981**	1,706,553
Adjustments on finance lease	**1,059,481**	752,311
	16,958,713	25,519,374
Net deferred tax assets	**₱–**	₱–

Deferred tax assets are recognized only to the extent that realization of the related tax benefit is probable. Deferred tax asset has not been recognized in respect of the following future deductible temporary differences:

	2011	2010
Accrual of nondeductible expenses	**₱196,880,788**	₱224,654,925
MCIT	**47,980,651**	31,433,564
NOLCO	**29,220,219**	235,928,445
	₱274,081,658	₱492,016,934

The deferred tax assets have not been recognized since there is insufficient certainty as to the availability of future taxable income.

Details of the MCIT and NOLCO, which are available for offset against future income tax due and taxable income, respectively, follow:

Year		NOLCO				Expiry
Incurred	MCIT	Amount	Expired	Applied	Balance	Year
2011	₱21,487,336	₱–	₱–	₱–	₱–	2014
2010	13,998,871	29,220,219	–	–	₱29,220,219	2013
2009	12,494,444	–	–	–	–	2012
2008	–	235,928,445	230,507,508	5,420,937	–	2011
	₱47,980,651	₱265,148,664	₱230,507,508	₱5,420,937	₱29,220,219	

The reconciliation of the statutory income tax rate to the effective income tax rate follows:

	2011	2010
Statutory income tax rate	**30.00%**	30.00%
Add (deduct) tax effects of:		
Interest income subjected to final tax	**(8.52)**	(11.90)
Income exempt from tax	**(10.07)**	(10.19)
Nondeductible expenses	**0.33**	0.43
Change in unrecognized deferred tax assets	**0.95**	4.70
Effective income tax rate	**12.69%**	13.04%

23. **Management of Insurance and Financial Risks**

Governance Framework
The Company has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity, insurance and operational risk. It also supports the effective implementation of policies at the overall company and individual business unit levels.

The policies define the Company's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategies to the corporate goals and specific reporting requirements.

Regulatory Framework
Regulators are interested in protecting the rights of the policyholders and maintain close vigil to ensure that the Company is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that the Company maintains appropriate solvency position to meet liabilities arising from claims and that the risk levels are at acceptable levels.

The operations of the Company are subject to the regulatory requirements of the IC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g. MOS), fixed capitalization requirements and risk-based capital (RBC) requirements) to minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise.

Capital Management
The Company manages its capital through its compliance with the statutory requirements on MOS, minimum paid-up capital and minimum net worth. The Company is also complying with the statutory regulations on RBC to measure the adequacy of its statutory surplus in relation to the risks inherent in its business. The RBC method involves developing a risk-adjusted target level of statutory surplus by applying certain factors to various asset, premium and reserve items. Higher factors are applied to more risky items and lower factors are applied to less risky items. The target level of statutory surplus varies not only as a result of the insurer's size, but also on the risk profile of the insurer's operations.

A substantial portion of the Company's long term insurance business comprises policies where the investment risk is borne by policyholders. Risk attributable to policyholders is actively managed keeping in view their investment objectives and constraints.

The Company's policy to address the situations where the capital level maintained is lower than required is to oblige the shareholders to add more capital. The Company currently holds surplus capital as a buffer for possible deviation in future profitability.

To ensure compliance with these externally imposed capital requirements, it is the Company's policy to monitor the MOS, paid-up capital, net worth and RBC requirements on a quarterly basis as part of the Company's internal financial reporting process.

Based on its calculations, the Company fully complied with the externally imposed capital requirements during the reported financial periods and no changes were made to its capital base, objectives, policies and processes from the previous year.

MOS
Under the Code, a life insurance company doing business in the Philippines shall maintain at all times a MOS equal to ₱500,000 or ₱2 per thousand of the total amount of its insurance in force for traditional policies and ₱2 per thousand of net amount at risk for unit-linked products as of the preceding calendar year on all policies, except term insurance, whichever is higher.

The MOS shall be the excess of the value of its admitted assets (as defined under the same Code), exclusive of paid-up capital, over the amount of its liabilities, unearned premiums and reinsurance reserves. As of December 31, 2011 and 2010, the Company's MOS based on its calculations amounted to ₱1,513,982,760 and ₱2,141,344,982, respectively. The final amount of the MOS can be determined only after the accounts of the Company have been examined by the IC specifically as to admitted and non-admitted assets as defined under the same Code.

The estimated amounts of non-admitted assets as defined under the Code, and are still subject to examination by the IC, which are included in the accompanying statements of financial position, follow:

	2011	2010
Loans and receivables	**₱253,153,953**	₱121,154,059
Property and equipment - net	**50,276,191**	44,574,008
Other assets	**61,974,767**	47,429,881
	₱365,404,911	₱213,157,948

If an insurance company failed to meet the minimum required MOS, the IC is authorized to suspend or revoke all certificates of authority granted to such companies, its officers and agents, and no new business shall be done by and for such company until its authority is restored by the IC.

Fixed capitalization requirements
Department of Finance (DOF) Order 27-06 provides for the capitalization requirements for life, nonlife and reinsurance companies. Under this order, the minimum statutory net worth and minimum paid-up capital requirements vary depending on the level of the foreign ownership in the insurance company. The statutory net worth shall include the company's paid-up capital, capital in excess of par value, contingency surplus, retained earnings and revaluation increments as may be approved by the IC. The minimum paid-up capital is pegged at 50% of the minimum statutory net worth.

On October 29, 2008, the IC issued Circular Letter No. 26-2008, which recalls that in view of the compliance of insurance companies with the requirement of Insurance Memorandum Circular (IMC) No. 10-2006, the scheduled increases due December 31, 2007 have been deferred for a year. Hence, the IMC reiterates that by December 31, 2011, insurance companies should comply with the increase previously scheduled for December 31, 2010.

In compliance with IMC 10-2006, the required minimum statutory net worth and minimum paid-up capital for the Company, as mandated by DOF Order 27-06, being a 45% foreign owned insurance company is ₱700 million and ₱350 million, respectively as of December 31, 2011 and ₱600 million and ₱300 million, respectively as of December 31, 2010. As of December 31, 2011 and 2010, the Company has complied with the minimum paid-up capital requirements.

RBC requirements
IMC No. 6-2006 provides for the RBC framework for the life insurance industry to establish the required amounts of capital to be maintained by the companies in relation to their investment and insurance risks. Every life insurance company is annually required to maintain a minimum RBC ratio of 100% and not to fail the trend test. Failure to meet the minimum RBC ratio shall subject the insurance company to the corresponding regulatory intervention which has been defined at various levels.

The RBC ratio shall be calculated as net worth divided by the RBC requirement. Net worth shall include the company's paid-up capital, contributed and contingency surplus and unassigned surplus. Revaluation and fluctuation reserve accounts shall form part of net worth only to the extent authorized by the IC.

The following table shows how the RBC ratio was determined by the Company based on its calculations:

	2011	2010
Net worth	**₱2,125,081,036**	₱2,350,309,202
RBC requirement	**654,447,103**	688,602,935
RBC Ratio	**325%**	341%

The final RBC ratio can be determined only after the accounts of the Company have been examined by the IC specifically as to admitted and non-admitted assets as defined under the Code.

Consolidated compliance framework
IMC 10-2006 integrated the compliance standards for the fixed capitalization and RBC framework. The fixed capitalization requirement for a given period may be suspended for insurers that comply with the required RBC hurdle rate, provided that the industry complies with the required Industry RBC Ratio Compliance Rate. The IMC provides the annual schedule of progressive rates for the Industry RBC Ratio Compliance Rates and the RBC Hurdle Rates from 2007 to 2011. For the review year 2011, which shall be based on the 2010 synopsis, the Industry RBC Ratio Compliance Rate is 90% and the RBC Hurdle Rate is 250%. For the review year 2010, which shall be based on the 2009 synopsis, the Industry RBC Ratio Compliance Rate is 90% and the RBC Hurdle Rate is 200%. Failure to achieve one of the rates will result in the imposition of the fixed capitalization requirement for the period under review.

Unimpaired capital requirement
IMC 22-2008 provided that for the purpose of determining compliance with the law, rules and regulations requiring that the paid-up capital should remain intact and unimpaired at all times, the statement of financial position should show that the net worth or equity is at least equal to the actual paid-up capital. The Company has complied with the unimpaired capital requirement.

Insurance Risk

The risk under an insurance contract is the risk that an insured event will occur, including the uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims, actual benefits paid that are greater than those originally estimated, and subsequent development of long-term claims.

Terms and conditions

The Company principally writes life insurance where the life of policyholder is insured against death, illness, injury or permanent disability, usually for a pre-determined amount. Life insurance contracts offered by the Company mainly include whole life, term insurance, endowments and unit-linked products. Whole life and term insurance are conventional products where lump sum benefits are payable on death. Endowment products are investments/savings products where lump sum benefits are payable after a fixed period or on death before the period is completed. Unit-linked products differ from conventional policies in that a guaranteed percentage of each premium is allocated to units in a pooled investment fund and the policyholder benefits directly from the total investment growth and income of the fund.

The risks associated with the life and accident and health products are underwriting risk and investment risk.

Underwriting risk

Underwriting risk represents the exposure to loss resulting from actual policy experience adversely deviating from assumptions made in the product pricing. Underwriting risks are brought about by a combination of the following:

- Mortality risk - risk of loss arising from the policyholder's death experience being different than expected.
- Morbidity risk - risk of loss arising from the policyholder's health experience being different than expected.
- Expense risk - risk of loss arising from expense experience being different than expected.
- Policyholder decision risk - risk of loss arising due to policyholder experiences (lapses and surrenders) being different than expected.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines.

The business of the Company consists of underwriting life insurance contracts. For contracts where death is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected. These risks currently do not vary significantly in relation to the location of the risk insured by the Company whilst undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

The Company has an objective to control and minimize insurance risk to reduce volatility of operating profits. The Company manages insurance risk through the following mechanisms:

- The use and maintenance of sophisticated management information systems that provide up to date, accurate and reliable data on risk exposure at any point in time.
- The use of actuarial models based on past experience and statistical techniques to aid in pricing decisions and monitoring claims pattern.
- Issuance of guidelines for concluding insurance contracts and assuming insurance risks.
- Pro-active compliance of claims handling procedures to investigate and adjust claims, thereby preventing settlement of dubious or fraudulent claims.
- The use of reinsurance to limit the Company's exposure to large claims by placing risk with re-insurers providing high security.
- Diversification to achieve sufficiently large population of risks to reduce the variability of the expected outcome. The diversification strategy seeks to ensure that underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

The mix of insurance assets is driven by the nature and term of insurance liabilities. The management of assets and liabilities is closely monitored to attempt to match the expected pattern of claim payments with the maturity dates of assets.

Insurance risk is also affected by the policyholders' rights to terminate the contract, pay reduced premiums, refusal to pay premiums or to avail of the guaranteed annuity option. Thus, the insurance risk is subject to the policyholders' behavior and decisions.

The Company's concentration of insurance risk before and after reinsurance in relation to the type of insurance contract follows:

	2011	2010
Whole Life		
Gross	**2,851,574,518**	₱2,287,434,175
Net	**2,849,660,144**	2,285,529,179
Endowment		
Gross	**1,834,519,769**	2,885,406,566
Net	**1,834,022,212**	2,884,911,275
Cost of insurance		
Gross	**35,072,281**	23,094,690
Net	**35,070,133**	23,092,567
Term insurance		
Gross	**94,747,267**	80,105,892
Net	**94,747,267**	80,105,892
Group insurance		
Gross	**68,458,786**	54,578,775
Net	**62,679,798**	52,691,986
Rider		
Gross	**2,006,397,713**	2,058,370,481
Net	**2,006,139,338**	2,058,113,745
Total		
Gross	**6,890,770,334**	7,388,990,579
Net	**6,882,318,892**	7,384,444,644

Investment risk

The investment risk represents the exposure to loss resulting from cash flows from invested assets, primarily long-term fixed rate investments, being less than the cash flows required to meet the obligations of the expected policy and contract liabilities and the necessary return on investments. Additionally, there exists a future investment risk associated with certain policies currently in force which will have premium receipts in the future. That is, the investment of those future premium receipts may be at a yield below than that required to meet future policy liabilities.

To maintain an adequate yield to match the interest necessary to support future policy liabilities, management focus is required to reinvest the proceeds of the maturing securities and to invest the future premium receipts while continuing to maintain satisfactory investment quality.

The Company utilizes dynamic asset allocation strategies consistent with its risk appetite framework to manage investment risk and to ensure sustainable investment returns. As a management tool, the Company uses asset-liability matching to determine the composition of the invested assets and appropriate investment and marketing strategies. As part of these strategies, the Company may determine that it is economically advantageous to be temporarily in an unmatched position due to anticipated interest rate or other economic changes.

Financial Instruments

The following table sets forth the carrying values and estimated fair values of non-linked financial instruments recognized:

December 31, 2011

	Carrying Value	Fair Value
Financial assets:		
Loans and receivables		
Cash and cash equivalents	**₱2,602,493,852**	**₱2,602,493,852**
Insurance receivables - net		
Due from reinsurer	**39,580,540**	**39,580,540**
Premiums due and uncollected	**76,112,737**	**76,112,737**
Accrued income	**164,294,155**	**164,294,155**
Loans and receivables - net		
Due from agents	**9,785,624**	**9,785,624**
Intercompany receivables	**301,393,454**	**301,393,454**
Due from officers and employees	**21,209,678**	**19,618,004**
Policy loans	**362,983,535**	**362,983,535**
Other receivables	**3,145,123**	**3,145,123**
Total loans and receivables	**3,580,998,698**	**3,579,407,024**
Financial assets designated as at FVPL		
Government debt securities		
Local currency	**780,208,833**	**780,208,833**
Listed equity securities	**389,861,818**	**389,861,818**
Investment in unit-linked funds	**34,888,800**	**34,888,800**

(Forward)

	Carrying Value	Fair Value
AFS financial assets		
Government debt securities		
Local currency	**6,501,419,470**	**6,501,419,470**
Foreign currency	**912,737,591**	**912,737,591**
Private debt securities	**231,109,787**	**231,109,787**
Listed equity securities	**295,710,019**	**295,710,019**
Golf club shares	**9,404,100**	**9,404,100**
Total financial assets	**₱12,736,339,116**	**₱12,734,747,442**
Financial liabilities:		
Other financial liabilities		
Premium deposit fund	**₱188,886,299**	**₱188,886,299**
Insurance payables	**85,169,118**	**85,169,118**
Life insurance deposits	**110,232,516**	**110,232,516**
Trade and other liabilities		
Accrued expenses	**370,850,622**	**370,850,622**
Other liabilities	**334,729,726**	**334,729,726**
Total financial liabilities	**₱1,089,868,281**	**₱1,089,868,281**

December 31, 2010

	Carrying Value	Fair Value
Financial assets:		
Loans and receivables		
Cash and cash equivalents	₱1,712,391,421	₱1,712,391,421
Insurance receivables - net		
Due from reinsurer	39,652,353	39,652,353
Premiums due and uncollected	85,544,422	85,544,422
Accrued income	215,955,262	215,955,262
Loans and receivables - net		
Intercompany receivables	88,457,494	88,457,494
Due from officers and employees	26,396,645	22,530,205
Due from agents	3,706,569	3,706,569
Policy loans	375,075,118	375,075,118
Other receivables	2,527,479	2,527,479
Total loans and receivables	2,549,706,763	2,545,840,323
Financial assets designated as at FVPL		
Government debt securities		
Local currency	1,992,490,729	1,992,490,729
Foreign currency	176,841,724	176,841,724
Listed equity securities	588,709,464	588,709,464
Investment in unit-linked funds	34,421,601	34,421,601
AFS financial assets		
Government debt securities		
Local currency	4,228,298,173	4,228,298,173
Foreign currency	2,552,944,554	2,552,944,554
Private debt securities	41,936,054	41,936,054
Listed equity securities	307,342,844	307,342,844
Golf club shares	9,064,100	9,064,100
Total financial assets	₱12,523,692,060	₱12,519,825,620

(Forward)

	Carrying Value	Fair Value
Financial liabilities:		
Other financial liabilities		
Premium deposit fund	₱223,788,594	₱223,788,594
Insurance payables	64,164,266	64,164,266
Life insurance deposits	191,384,223	191,384,223
Trade and other liabilities		
Accrued expenses	357,081,072	357,081,072
Other liabilities	218,642,065	218,642,065
Total financial liabilities	₱1,055,060,220	₱1,055,060,220

Due to the short-term nature of cash and cash equivalents, insurance receivables, accrued income, short-term loans and receivables, premium deposit fund, insurance payables, life insurance deposits and trade and other liabilities, their carrying values reasonably approximate their fair values at year end.

The fair value of financial assets at FVPL and AFS financial assets that are actively traded in organized financial markets is determined by reference to quoted market bid prices, at the close of business on the reporting date, or the last trading day as applicable.

When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost.

The fair values of long-term loans and receivables are based on the discounted value of future cash flows using applicable rates for similar types of instruments ranging from 1.68% to 4.62% and 6.36% to 9.02% in 2011 and 2010, respectively.

The following table sets forth the carrying values and estimated fair values of unit-linked financial instruments recognized:

December 31, 2011

	Carrying Value	**Fair Value**
Financial assets:		
Loans and receivables		
Cash and cash equivalents	**₱1,543,420,668**	**₱1,543,420,668**
Interest receivable	**323,463,720**	**323,463,720**
Dividend receivable	**4,212,545**	**4,212,545**
Accounts receivable	**51,331,954**	**51,331,954**
Total loans and receivables	**1,922,428,887**	**1,922,428,887**
Financial assets designated at FVPL		
Government debt securities		
Local currency	**10,312,491,071**	**10,312,491,071**
Foreign currency	**9,769,759,498**	**9,769,759,498**
Listed equity securities	**4,185,788,873**	**4,185,788,873**
Derivative asset	**20,580,298**	**20,580,298**
Total financial assets	**₱26,211,048,627**	**₱26,211,048,627**

(Forward)

	Carrying Value	**Fair Value**
Financial liabilities:		
Other financial liabilities		
Accounts payable	**₱145,137,413**	**₱145,137,413**
Asset management fees payable	**63,762,058**	**63,762,058**
Administration and custody fees payable	**17,452,735**	**17,452,735**
Service fees payable	**11,096,820**	**11,096,820**
Total financial liabilities	**₱237,449,026**	**₱237,449,026**

December 31, 2010

	Carrying Value	Fair Value
Financial assets:		
Loans and receivables		
Cash and cash equivalents	₱970,025,834	₱970,025,834
Interest receivable	308,869,369	308,869,369
Dividend receivable	1,274,807	1,274,807
Accounts receivable	87,531,465	87,531,465
Total loans and receivables	1,367,701,475	1,367,701,475
Financial assets designated as at FVPL		
Government debt securities		
Local currency	8,958,514,151	8,958,514,151
Foreign currency	8,454,285,542	8,454,285,542
Listed equity securities	4,144,524,805	4,144,524,805
Derivative asset	26,688,442	26,688,442
Total financial assets	₱22,951,714,415	₱22,951,714,415
Financial liabilities:		
Other financial liabilities		
Accounts payable	₱166,227,981	₱166,227,981
Asset management fees payable	52,841,898	52,841,898
Administration and custody fees payable	20,540,501	20,540,501
Service fees payable	6,630,285	6,630,285
Total financial liabilities	₱246,240,665	₱246,240,665

Due to the short-term nature of cash and cash equivalents, interest receivable, dividend receivable, accounts receivable and other financial liabilities, their carrying values reasonably approximate their fair values at year end.

The fair value of financial assets designated as at FVPL that are actively traded in organized financial markets is determined by reference to quoted market bid prices, at the close of business on the reporting date, or the last trading day as applicable.

The currency forward derivative asset is valued using net present value method using forward curves to estimate the future cash flows from the floating leg of the forward and converted to a single currency using the current foreign exchange spot rate.

Fair value hierarchy
The Company classifies its non-linked financial assets at fair value as follows:

December 31, 2011

	Level 1	Level 2	Level 3	Total
Financial assets at FVPL				
Government debt securities				
Local currency	**₱780,208,833**	**₱–**	**₱–**	**₱780,208,833**
Listed equity securities	**389,861,818**	**–**	**–**	**389,861,818**
Investment in unit-linked funds	**34,888,800**	**–**	**–**	**34,888,800**
AFS financial assets				
Government debt securities				
Local currency	**6,501,419,470**	**–**	**–**	**6,501,419,470**
Foreign currency	**912,737,591**	**–**	**–**	**912,737,591**
Private debt securities				
Local currency	**49,276,050**	**–**	**–**	**49,276,050**
Foreign currency	**181,833,737**	**–**	**–**	**181,833,737**
Listed equity securities	**295,710,019**	**–**	**–**	**295,710,019**
Golf club shares	**9,404,100**	**–**	**–**	**9,404,100**
	₱9,155,340,418	**₱–**	**₱–**	**₱9,155,340,418**

December 31, 2010

	Level 1	Level 2	Level 3	Total
Financial assets at FVPL				
Government debt securities				
Local currency	₱1,992,490,729	₱–	₱–	₱1,992,490,729
Foreign currency	176,841,724	–	–	176,841,724
Listed equity securities	588,709,464	–	–	588,709,464
Investment in unit-linked funds	34,421,601	–	–	34,421,601
AFS financial assets				
Government debt securities				
Local currency	4,228,298,173	–	–	4,228,298,173
Foreign currency	2,552,944,554	–	–	2,552,944,554
Private debt securities	41,936,054	–	–	41,936,054
Listed equity securities	307,342,844	–	–	307,342,844
Golf club shares	9,064,100	–	–	9,064,100
	₱9,932,049,243	₱–	₱–	₱9,932,049,243

The Company classifies its unit-linked financial assets at fair value as follows:

December 31, 2011

	Level 1	Level 2	Level 3	Total
Financial assets at FVPL				
Government debt securities				
Local currency	**₱10,312,491,071**	**₱–**	**₱–**	**₱10,312,491,071**
Foreign currency	**9,769,759,498**	–	–	**9,769,759,498**
Listed equity securities	**4,185,788,873**	–	–	**4,185,788,873**
Derivative asset	–	**20,580,298**	–	**20,580,298**
	₱24,268,039,442	**₱20,580,298**	**₱–**	**₱21,584,012,940**

December 31, 2010

	Level 1	Level 2	Level 3	Total
Financial assets at FVPL				
Government debt securities				
Local currency	₱8,958,514,151	₱–	₱–	₱8,958,514,151
Foreign currency	8,454,285,542	–	–	8,454,285,542
Listed equity securities	4,144,524,805	–	–	4,144,524,805
Derivative asset	–	26,688,442	–	26,688,442
	₱21,557,324,498	₱26,688,442	₱–	₱21,584,012,940

There were no changes in the valuation technique used by the Company.

In 2011 and 2010, there have been no transfers between level 1 and level 2 fair value movements, and no transfers into and out of level 3 fair value measurement.

Financial Risk
The Company is exposed to financial risk through its financial assets, financial liabilities, insurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are credit risk, liquidity risk and market risk. These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements.

Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company manages the level of credit risk it accepts through a comprehensive credit risk policy which focuses on minimizing credit risk exposures. The credit risk policies are set as follows:

a. Concentration limit- The Company sets maximum exposure to an individual issuer and to a particular sector.
b. Counterparty ratings - The Company reviews and recommends financial institutions that will complement over-all investment objectives and service requirements.

Reporting of credit risk exposures, monitoring compliance with credit risk policy and review of credit risk policy is done on a regular basis.

Loans to policyholders granted against the surrender value of policies carry substantially no credit risk. A credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer may be unable to meet its obligations assumed under such reinsurance agreements. The Company selects only domestic and foreign companies with strong financial standing and excellent track records which are allowed to participate in the Company's reinsurance programs. In respect of investment securities, the Company secures satisfactory credit quality by setting maximum limits of portfolio securities with a single issuer or group of issuers, excluding those secured on specific assets and setting the minimum ratings for the issuer or group of issuers. The Company sets the maximum amounts and limits that may be advanced to/placed with individual corporate counterparties which are set by reference to their long term ratings.

The table below shows the maximum exposure to credit risk for the components of the statements of financial position:

Non-linked

	2011	2010
Cash and cash equivalents*	**₱2,601,848,660**	₱1,711,765,478
Insurance receivables - net		
Due from reinsurer	**39,580,540**	39,652,353
Premiums due and uncollected	**76,112,737**	85,544,422
Financial assets at FVPL		
Government debt securities		
Local currency	**780,208,833**	1,992,490,729
Foreign currency	**–**	176,841,724
Listed equity securities	**389,861,818**	588,709,464
Investment in unit-linked funds	**34,888,800**	34,421,601
AFS financial assets		
Government debt securities		
Local currency	**6,501,419,470**	4,228,298,173
Foreign currency	**912,737,591**	2,552,944,554
Private debt securities		
Local currency	**49,276,050**	41,936,054
Foreign currency	**181,833,737**	–
Listed equity securities	**295,710,019**	307,342,844
Golf club shares	**9,404,100**	9,064,100
Loans and receivables - net		
Intercompany receivables	**301,393,454**	88,457,494
Due from officers and employees	**22,029,331**	27,216,298
Due from agents	**11,391,779**	5,312,724
Other receivables	**4,583,480**	4,717,641
Accrued income	**164,294,155**	215,955,262
	₱12,376,574,554	₱12,110,670,915

** Excluding petty cash fund*

Unit-linked

	2011	2010
Cash and cash equivalents	**₱1,543,420,668**	₱970,025,834
Financial assets at FVPL		
Government debt securities		
Local currency	**10,312,491,071**	8,958,514,151
Foreign currency	**9,769,759,498**	8,454,285,542
Listed equity securities	**4,185,788,873**	4,144,524,805
Derivative asset	**20,580,298**	26,688,442
Interest receivable	**323,463,720**	308,869,369
Dividend receivable	**4,212,545**	1,274,807
Accounts receivable	**51,331,954**	87,531,465
	₱26,211,048,627	₱22,951,714,415

The Company's investment policy mandates it to invest only in investment grade bonds. The peso funds are invested in cash and money market instruments, fixed income investments (fixed rate bond issuances of the Philippine government with a minimum credit rating of AA), corporate bonds and equities of Philippine corporations included in the Philippine Stock Exchange (PSE) Index.

The dollar funds are invested in dollar-denominated cash and money market instruments, fixed income investments, particular issuances of the Philippine government with a minimum credit rating of AAA, and corporate bonds.

The table below provides information regarding the credit risk exposure of the Company by classifying non-linked assets according to the Company's credit ratings of counterparties:

December 31, 2011

	Neither past-due nor impaired			
	Investment Grade	Non-investment grade: satisfactory	Past due or impaired	Total
Cash and cash equivalents*	₱2,601,848,660	₱–	₱–	₱2,601,848,660
Insurance receivables				
Due from reinsurer	–	77,830	39,502,710	39,580,540
Premiums due and uncollected	–	76,112,737	–	76,112,737
Financial assets at FVPL				
Government debt securities				
Local currency	780,208,833	–	–	780,208,833
Listed equity securities	389,861,818	–	–	389,861,818
Investment in unit-linked funds	34,888,800	–	–	34,888,800
AFS financial assets				
Government debt securities				
Local currency	6,501,419,470	–	–	6,501,419,470
Foreign currency	912,737,591	–	–	912,737,591
Listed equity securities	295,710,019	–	–	295,710,019
Golf club shares	9,404,100	–	–	9,404,100
Private debt securities				
Local currency	49,276,050	–	–	49,276,050
Foreign currency	181,833,737	–	–	181,833,737
Loans and receivables				
Intercompany receivables	–	301,393,454	–	301,393,454
Due from officers and employees	–	21,209,678	819,653	22,029,331
Due from agents	–	9,785,624	1,606,155	11,391,779
Policy loans	–	362,983,535	–	362,983,535
Other receivables	–	3,145,123	1,438,557	4,583,680
Accrued income	164,294,155	–	–	164,294,155
	₱11,921,483,233	₱774,707,981	₱43,367,075	₱12,739,558,289

** Excluding petty cash fund*

December 31, 2010

	Neither past-due nor impaired			
	Investment Grade	Non-investment grade: satisfactory	Past due or impaired	Total
Cash and cash equivalents*	₱1,711,765,478	₱–	₱–	₱1,711,765,478
Insurance receivables				
Due from reinsurer	–	1,750,000	37,902,353	39,652,353
Premiums due and uncollected	–	85,544,422	–	85,544,422
Financial assets at FVPL				
Government debt securities				
Local currency	1,992,490,729	–	–	1,992,490,729
Foreign currency	176,481,724	–	–	176,481,724
Listed equity securities	588,709,464	–	–	588,709,464
Investment in unit-linked funds	34,421,601	–	–	34,421,601
AFS financial assets				
Government debt securities				
Local currency	4,228,298,173	–	–	4,228,298,173
Foreign currency	2,552,944,554	–	–	2,552,944,554
Listed equity securities	307,342,844	–	–	307,342,844
Golf club shares	9,064,100	–	–	9,064,100
Private debt securities				
Local currency	41,936,054	–	–	41,936,054
Loans and receivables				
Intercompany receivables	–	88,457,494	–	88,457,494
Due from officers and employees	–	26,396,645	819,653	27,216,298
Due from agents	–	3,706,569	1,606,155	5,312,724
Policy loans	–	375,075,118	–	375,075,118
Other receivables	–	2,527,479	2,190,162	4,717,641
Accrued income	215,955,262	–	–	215,955,262
	₱11,859,409,983	₱583,457,727	₱42,518,323	₱12,485,386,033

** Excluding petty cash fund*

The table below provides information regarding the credit risk exposure of the Company by classifying unit-linked assets according to the Company's credit ratings of counterparties:

December 31, 2011

	Neither past-due nor impaired			
	Investment grade	**Non-investment grade: satisfactory**	**Past due or impaired**	**Total**
Cash and cash equivalents	**₱1,543,420,668**	**₱–**	**₱–**	**₱1,543,420,668**
Financial assets at FVPL				
Government debt securities				
Local currency	**10,312,491,071**	**–**	**–**	**10,312,491,071**
Foreign currency	**9,769,759,498**	**–**	**–**	**9,769,759,498**
Listed equity securities	**4,185,788,783**	**–**	**–**	**4,185,788,783**
Derivative asset	**20,580,298**	**–**	**–**	**20,580,298**
Interest receivable	**323,463,720**	**–**	**–**	**323,463,720**
Dividend receivable	**4,212,545**	**–**	**–**	**4,212,545**
Accounts receivable	**51,331,954**	**–**	**–**	**51,331,954**
	₱26,211,048,537	**₱–**	**₱–**	**₱26,211,048,537**

December 31, 2010

	Neither past-due nor impaired			
	Investment Grade	Non-investment grade: satisfactory	Past due or impaired	Total
Cash and cash equivalents	₱970,025,834	₱–	₱–	₱970,025,834
Financial assets at FVPL				
Government debt securities				
Local currency	8,958,514,151	–	–	8,958,514,151
Foreign currency	8,454,285,542	–	–	8,454,285,542
Listed equity securities	4,144,524,805	–	–	4,144,524,805
Derivative asset	26,688,442	–	–	26,688,442
Interest receivable	308,869,369	–	–	308,869,369
Dividend receivable	1,274,807	–	–	1,274,807
Accounts receivable	87,531,465	–	–	87,531,465
	₱22,951,714,415	₱–	₱–	₱22,951,714,415

The Company uses a credit rating concept based on the borrowers' and counterparties' overall creditworthiness, as follows:

Investment grade - Rating given to counterparties who possess strong to very strong capacity to meet their obligations

Non-investment grade - Rating given to counterparties who possess above average capacity to meet their obligations.

The table below shows the analysis of age of financial assets that are past-due but are not impaired:

December 31, 2011

	Age analysis of financial assets past-due but not impaired					
	< 30 days	**31 to 90 days**	**More than 90 days**	**Total past-due but not impaired**	**Past-due and impaired**	**Total**
Insurance receivables						
Due from reinsurer	**₱–**	**₱–**	**₱39,502,710**	**₱39,502,710**	**₱–**	**₱39,502,710**
Loans and receivables						
Due from officers and employees	**–**	**–**	**–**	**–**	**819,653**	**819,653**
Due from agents	**–**	**–**	**–**	**–**	**1,606,155**	**1,606,155**
Other receivables	**–**	**–**	**–**	**–**	**1,438,557**	**1,438,557**
	₱–	**₱–**	**₱39,502,710**	**₱39,502,710**	**₱3,864,365**	**₱43,367,075**

December 31, 2010

	Age analysis of financial assets past-due but not impaired					
	< 30 days	31 to 90 days	More than 90 days	Total past-due but not impaired	Past-due and impaired	Total
Insurance receivables						
Due from reinsurer	₱–	₱–	₱37,902,353	₱37,902,353	₱–	₱37,902,353
Loans and receivables						
Due from officers and employees	–	–	–	–	819,653	819,653
Due from agents	–	–	–	–	1,606,155	1,606,155
Other receivables	–	–	–	–	2,190,162	2,190,162
	₱–	₱–	₱37,902,353	₱37,902,353	₱4,615,970	₱42,518,323

The Company conducts a periodic review of allowance for impairment losses based on the corresponding age of past due accounts, payment behavior, credit capacity and length of relationship with the counterparty.

The Company did not have any significant concentration of credit risk with a single counterparty or group of counterparties, geographical and industry segments as of December 31, 2011 and 2010.

Liquidity risk
Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or a counterparty failing on repayment of a contractual obligation; or the insurance liabilities falling due for payment earlier than expected; or the inability to generate cash inflows as anticipated.

The major liquidity risk confronting the Company is the daily calls on its available cash resources in respect of claims arising from insurance contracts and operating expenses. The Company manages liquidity by forecasting cash flow requirements. Investments are made in assets with maturities or interest payments which are matched against expected payouts of claims benefits (i.e., amount and duration of assets are matched against amount and duration of liabilities). In addition, significant outflows due to operating expenses (e.g., salaries, bonuses, IT expenditures, etc.) are scheduled based on an agreed budget timeline.

It is unusual for a company primarily transacting insurance business to predict the requirements of funding with absolute certainty as theory of probability is applied on insurance contracts to ascertain the likely provision and the time period when such liabilities will require settlement. The amounts and maturities in respect of insurance liabilities are thus based on management's best estimate based on statistical techniques and past experience.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments except for the legal policy reserves of the life insurance contracts (included in the insurance contract liabilities account) which shows the maturity analysis based on the estimated timing of the net cash outflows using the recognized insurance liability amounts. The table also analyses the maturity profile of the Company's financial assets in order to provide a complete view of the Company's contractual commitments. For the unit-linked contracts, the Company is ready to dispose its investments in securities to meet surrenders of unit-linked liabilities.

Non-linked

December 31, 2011

	On demand	Up to a year	1-3 years	3-5 years	Over 5 years	No term	Total
Financial assets:							
Loans and receivables							
Cash and cash equivalents	₱17,112,850	₱2,585,381,002	₱–	₱–	₱–	₱–	₱2,602,493,852
Insurance receivables							
Due from reinsurer	–	39,580,540	–	–	–	–	39,580,540
Premiums due and uncollected	–	76,112,737	–	–	–	–	76,112,737
Loans and receivables							
Due from officers and employees	–	6,523,985	13,319,211	2,186,135	–	–	22,029,331
Due from agents	–	11,391,779	–	–	–	–	11,391,779
Policy loans	–	362,983,535	–	–	–	–	362,983,535
Intercompany receivables	–	301,393,454	–	–	–	–	301,393,454
Other receivables	–	4,583,680	–	–	–	–	4,583,680
Accrued income	–	164,294,155	–	–	–	–	164,294,155
Financial assets at FVPL							
Government debt securities							
Local currency	–	–	179,916,518	255,928,151	344,364,164	–	780,208,833
Listed equity securities	–	–	–	–	–	389,861,818	389,861,818
Investment in unit-linked fund	–	–	–	–	–	34,888,800	34,888,800
AFS financial assets							
Government debt securities							
Local currency	–	67,679,902	367,980,320	297,218,434	5,768,540,814	–	6,501,419,470
Foreign currency	–	–	912,737,591	–	–	–	912,737,591
Private debt securities							
Local currency	–	49,276,050	–	–	–	–	49,276,050
Foreign currency	–	181,833,737	–	–	–	–	181,833,737
Listed equity securities	–	–	–	–	–	295,710,019	295,710,019
Golf club shares	–	–	–	–	–	9,404,100	9,404,100
Total financial assets	₱34,225,700	₱3,851,034,556	₱1,473,953,640	₱555,332,720	₱6,112,904,978	₱729,864,737	₱12,740,203,481
Financial liabilities:							
Other financial liabilities							
Insurance contract liabilities	270,827,861	2,948,374,956	1,424,322,315	815,351,078	2,109,744,649	–	7,568,620,859
Premium deposit fund	188,886,299	–	–	–	–	–	188,886,299
Insurance payables	–	85,169,118	–	–	–	–	85,169,118
Life insurance deposits	–	110,232,516	–	–	–	–	110,232,516
Trade and other liabilities							
Accrued expenses	–	370,850,622	–	–	–	–	370,850,622
Other liabilities	–	334,729,726	–	–	–	–	334,729,726
Dividends payable	–	621,000,000	–	–	–	–	621,000,000
Total financial liabilities	₱459,714,160	₱4,470,356,938	₱1,424,322,315	₱815,351,078	₱2,109,744,649	₱–	₱9,279,489,140
Liquidity gap							₱3,460,714,341

December 31, 2010

	On demand	Up to a year	1-3 years	3-5 years	Over 5 years	No term	Total
Financial assets:							
Loans and receivables							
Cash and cash equivalents	₱266,696,273	₱1,445,695,148	₱–	₱–	₱–	₱–	₱1,712,391,421
Insurance receivables							
Due from reinsurer	–	39,652,353	–	–	–	–	39,652,353
Premiums due and uncollected	–	85,544,422	–	–	–	–	85,544,422
Loans and receivables							
Due from officers and employees	–	10,929,132	12,233,197	4,053,969	–	–	27,216,298
Due from agents	–	5,312,724	–	–	–	–	5,312,724
Policy loans	–	375,075,118	–	–	–	–	375,075,118
Intercompany receivables	–	88,457,494	–	–	–	–	88,457,494
Other receivables	–	4,717,641	–	–	–	–	4,717,641
Accrued income	–	215,955,262	–	–	–	–	215,955,262
Financial assets at FVPL							
Government debt securities							
Local currency	–	248,431,545	739,822,043	–	1,004,237,141	–	1,992,490,729
Foreign currency	–	–	–	176,841,724	–	–	176,841,724
Listed equity securities	–	–	–	–	–	588,709,464	588,709,464
Investment in unit-linked funds	–	–	–	–	–	34,421,601	34,421,601
AFS financial assets							
Government debt securities							
Local currency	–	112,546,773	1,049,476,042	363,653,009	2,702,622,349	–	4,228,298,173
Foreign currency	–	727,261,590	466,906,065	105,292,455	1,253,484,444	–	2,552,944,554
Private debt securities	–	–	41,936,054	–	–	–	41,936,054
Listed equity securities	–	–	–	–	–	307,342,844	307,342,844
Golf club shares	–	–	–	–	–	9,064,100	9,064,100
Total financial assets	₱266,696,273	₱3,359,579,202	₱2,310,373,401	₱649,841,157	₱4,960,343,934	₱939,538,009	₱12,486,371,976
Financial liabilities:							
Other financial liabilities							
Insurance contract liabilities	₱271,599,437	₱1,016,357,661	₱1,692,100,661	₱610,558,248	₱4,451,750,693	₱–	₱8,042,366,700
Premium deposit fund	223,788,594	–	–	–	–	–	223,788,594
Insurance payables	–	64,164,266	–	–	–	–	64,164,266
Life insurance deposits	–	191,384,223	–	–	–	–	191,384,223
Trade and other liabilities							
Accrued expenses	–	354,266,514	2,814,558	–	–	–	357,081,072
Other liabilities	–	218,642,065	–	–	–	–	218,642,065
Total financial liabilities	₱495,388,031	₱1,844,814,729	₱1,694,915,219	₱610,558,248	₱4,451,750,693	₱–	₱9,097,426,920
Liquidity gap							₱3,388,945,056

Unit-linked

December 31, 2011

	On demand	**Up to a year**	**1-3 years**	**3-5 years**	**Over 5 years**	**No term**	**Total**
Financial assets:							
Loans and receivables							
Cash and cash equivalents	**₱19,668,293**	**₱1,523,752,375**	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,543,420,668**
Accrued income							
Interest receivable	**–**	**323,463,720**	**–**	**–**	**–**	**–**	**323,463,720**
Dividend receivable	**–**	**4,212,545**	**–**	**–**	**–**	**–**	**4,212,545**
Accounts receivable	**–**	**51,331,954**	**–**	**–**	**–**	**–**	**51,331,954**
Financial assets at FVPL							
Government debt securities							
Local currency	**–**	**12,267,009**	**1,263,453,614**	**4,349,635,417**	**4,687,135,031**	**–**	**10,312,491,071**
Foreign currency	**–**	**–**	**227,158,675**	**88,939,344**	**9,453,661,479**	**–**	**9,769,759,498**
Listed equity securities	**–**	**–**	**–**	**–**	**–**	**4,185,788,873**	**4,185,788,873**
Derivative asset	**–**	**–**	**20,580,298**	**–**	**–**	**–**	**20,580,298**
Total financial assets	**₱19,668,293**	**₱1,915,027,603**	**₱1,490,612,289**	**₱4,438,574,761**	**₱14,140,796,510**	**₱4,185,788,873**	**₱26,211,048,627**
Financial liabilities:							
Other financial liabilities							
Accounts payable	**₱–**	**₱145,137,413**	**₱–**	**₱–**	**₱–**	**₱–**	**₱145,137,413**
Asset management fees payable	**–**	**63,762,058**	**–**	**–**	**–**	**–**	**63,762,058**
Administration and custody fees payable	**–**	**17,452,735**	**–**	**–**	**–**	**–**	**17,452,735**
Service fees payable	**–**	**11,096,820**	**–**	**–**	**–**	**–**	**11,096,820**
Unit-linked liabilities	**25,990,649,177**	**–**	**–**	**–**	**–**	**–**	**25,990,649,177**
Total financial liabilities	**₱25,990,649,177**	**₱237,449,026**	**₱–**	**₱–**	**₱–**	**₱–**	**₱26,228,098,203**
Liquidity gap							**(₱17,049,576)**

December 31, 2010

	On demand	Up to a year	1-3 years	3-5 years	Over 5 years	No term	Total
Financial assets:							
Loans and receivables							
Cash and cash equivalents	₱58,126,949	₱911,898,885	₱–	₱–	₱–	₱–	₱970,025,834
Accrued income							
Interest receivable	–	308,869,369	–	–	–	–	308,869,369
Dividend receivable	–	1,274,807	–	–	–	–	1,274,807
Accounts receivable	–	87,531,465	–	–	–	–	87,531,465
Financial assets at FVPL							
Government debt securities							
Local currency	–	10,349,259	1,241,884,029	2,139,391,780	5,566,889,083	–	8,958,514,151
Foreign currency	–	51,502,108	48,654,674	155,712,789	8,198,415,971	–	8,454,285,542
Listed equity securities	–	–	–	–	–	4,144,524,805	4,144,524,805
Derivative asset	–	–	–	26,688,442	–	–	26,688,442
Total financial assets	₱58,126,949	₱1,371,425,893	₱1,290,538,703	₱2,321,793,011	₱13,765,305,054	₱4,144,524,805	₱22,951,714,415
Financial liabilities:							
Other financial liabilities							
Accounts payable	₱–	₱166,227,981	₱–	₱–	₱–	₱–	₱166,227,981
Asset management fees payable	–	54,965,704	–	–	–	–	54,965,704
Administration and custody fees payable	–	20,540,501	–	–	–	–	20,540,501
Service fees payable	–	4,506,479	–	–	–	–	4,506,479
Unit-linked liabilities	22,879,842,490	–	–	–	–	–	22,879,842,490
Total financial liabilities	₱23,126,083,155	₱–	₱–	₱–	₱–	₱–	₱23,126,083,155
Liquidity gap							(₱174,368,740)

The Company's investment policy is long term in nature. It is subject to annual review for update on asset-liability management, alignment with the Company's latest business plan and other developments during the year. The investment policy is reviewed, approved and endorsed by the Local Management Investment Committee (LMIC), Regional Investment Asset Liability Committee (RIALC), AXA S.A. Board Investment Committee and Philippine AXA Life Board Investment Committee (BIC).

Market risk
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: foreign exchange rate (currency risk), market interest rate (fair value interest rate risk) and market price (equity price risk).

The following policies and procedures are in place to mitigate the Company's exposure to market risk:

– Set out the assessment and determination of what constitutes market risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the risk committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.
– Establish asset allocation and portfolio limit structure to ensure that assets back specific policyholders liabilities and those assets are held to deliver income and gains for policyholders in line with expectations of the policyholders.
– Stipulate diversification benchmarks by type of instrument, as the Company is exposed to guaranteed bonuses, cash and annuity options when interest rates fall.

The Company uses derivative financial instruments, particularly bond swaps relating to AXA Philippine Armor Fund. This is entered into for the period beginning July 2009 until January 2014. The Company enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Company's policy that no trading in derivatives for speculative purposes shall be undertaken.

- *Currency risk*
  The Company's principal transactions are carried out in Philippine Peso and its foreign exchange risk arises primarily with respect to United States (US) Dollars (US$), where some of its products are denominated. The Company's financial assets are primarily denominated in the same currencies as its insurance contracts, which mitigate the foreign exchange rate risk. Thus, the main foreign exchange risk arises from recognized assets and liabilities denominated in currencies other than in which the insurance contracts are expected to be settled.

The following table shows the details of the Company's foreign currency denominated monetary assets and liabilities and their Philippine Peso equivalents.

December 31, 2011

	US$	**PHP**
Assets		
Cash and cash equivalents	**US$16,717,251**	**₱734,355,402**
AFS financial assets	**24,917,395**	**1,094,571,328**
Assets held to cover unit-linked liabilities	**237,692,748**	**10,441,367,049**
	279,327,394	**12,270,293,779**
Liabilities		
Unit-linked liabilities	**237,692,748**	**10,441,367,049**
Legal policy reserves	**36,579,385**	**1,606,859,203**
	274,272,133	**12,048,226,252**
	US$5,055,261	**₱222,067,527**

December 31, 2010

	US$	PHP
Assets		
Cash and cash equivalents	US$11,301,401	₱495,961,991
Financial assets at FVPL	4,029,662	176,841,724
AFS financial assets	58,173,512	2,552,944,554
Assets held to cover unit-linked liabilities	206,561,989	9,064,972,901
	280,066,564	12,290,721,170
Liabilities		
Unit-linked liabilities	206,561,989	9,064,972,901
Legal policy reserves	60,011,034	2,633,584,235
	266,573,023	11,698,557,136
	US$13,493,541	₱592,164,034

The analysis below is performed for reasonably possible movements in US$ with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of currency sensitive monetary assets and liabilities). The exchange rate used to present the US Dollar denominated assets and liabilities to Peso denominations are the 2011 and 2010 BSP closing rates. There is no impact on the Company's equity other than those already affecting the profit.

December 31, 2011

	Change in variable	**Impact on profit before tax**
US$	**+3%**	₱6,662,026
US$	**-3%**	(6,662,026)

December 31, 2010

	Change in variable	Impact on profit before tax
US$	+7%	₱44,387,006
US$	-7%	(44,387,006)

In 2011 and 2010, the Company used the average of changes in year-end closing rate for the past three years in determining the reasonably possible change in foreign exchange rates.

Fair value interest rate risk
Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Company's fixed rate investments classified as AFS financial assets and financial assets at FVPL in particular are exposed to such risk.

The Company's investment policy manages interest rate risk by matching the maturities of interest-bearing financial assets and interest-bearing financial liabilities. The amount, duration and yield to maturity of assets are matched against the amount and duration of the liabilities.

The following table shows the information relating to the Company's non-linked fixed interest-bearing financial instruments presented by maturity profile.

December 31, 2011

	Range of interest rate	**On demand**	**Up to a year**	**1-3 years**	**3-5 years**	**Over 5 years**
Financial assets:						
Loans and receivables						
Cash and cash equivalents	**0.25% - 4.80%**	**₱17,112,850**	**₱2,585,381,002**	**₱–**	**₱–**	**₱–**
Insurance receivables						
Loans and receivables						
Due from officers and employees	**6.00% - 12.00%**	**–**	**6,523,985**	**13,319,211**	**2,186,135**	–
Due from agents	**6.00% - 12.00%**	–	**11,391,779**	–	–	–
Policy loans	**8.00% - 10.00%**	–	**362,983,535**	–	–	–
Financial assets at FVPL						
Government debt securities						
Local currency	**8.50% - 11.25%**	**–**	**–**	**179,916,518**	**255,928,151**	**344,364,164**

(Forward)

	Range of interest rate	On demand	Up to a year	1-3 years	3-5 years	Over 5 years
AFS financial assets						
Government debt securities						
Local currency	**4.63% - 18.25%**	**–**	**67,679,902**	**367,980,320**	**297,218,434**	**5,768,540,814**
Foreign currency	**8.25% - 9.00%**	**–**	**–**	**912,737,591**	**–**	**–**
Private debt securities						
Local currency	**0%**	**–**	**49,276,050**	**–**	**–**	**–**
Foreign currency	**11.38%**	**–**	**181,833,737**	**–**	**–**	**–**
Total financial assets		**₱17,112,850**	**₱3,265,069,990**	**₱1,473,953,640**	**₱555,332,720**	**₱6,112,904,978**
Financial liabilities:						
Other financial liabilities						
Premium deposit fund	**5.00%**	**₱188,886,299**	**₱–**	**₱–**	**₱–**	**₱–**
Accrued expenses	**4.56% - 15.00%**	–	**1,086,164**	–	–	–
Total financial liabilities		**₱188,886,299**	**₱1,086,164**	**₱–**	**₱–**	**₱–**

December 31, 2010

	Range of interest rate	On demand	Up to a year	1-3 years	3-5 years	Over 5 years
Financial assets:						
Loans and receivables						
Cash and cash equivalents	0.25% - 4.06%	₱266,696,273	₱1,445,695,148	₱–	₱–	₱–
Insurance receivables						
Loans and receivables						
Due from officers and employees	6.00% - 12.00%	–	10,929,132	12,233,197	4,053,969	–
Due from agents	6.00% - 12.00%	–	5,312,724	–	–	–
Policy loans	8.00% - 10.00%	–	375,075,118	–	–	–
Financial assets at FVPL						
Government debt securities						
Local currency	7.13% - 11.38%	–	248,431,545	739,822,043	–	1,004,237,142
Foreign currency	8.34%	–	–	–	176,841,724	–
AFS financial assets						
Government debt securities						
Local currency	5.25% - 18.25%	–	112,546,773	1,049,476,042	363,653,009	2,702,622,349
Foreign currency	8.25% - 9.375%	–	727,261,590	466,906,065	105,292,455	1,253,484,445
Private debt securities	0%	–	–	41,936,054	–	–
Total financial assets		₱266,696,273	₱2,925,252,030	₱2,310,373,401	₱649,841,157	₱4,960,343,936
Financial liabilities:						
Other financial liabilities						
Premium deposit fund	5.00%	₱223,778,594	₱–	₱–	₱–	₱–
Accrued expenses	4.56% - 15.00%	–	2,160,317	–	–	–
Total financial liabilities		₱223,778,594	₱2,160,317	₱–	₱–	₱–

The following table shows the information relating to the Company's unit-linked fixed interest-bearing financial instruments presented by maturity profile.

December 31, 2011

	Range of interest rate	On demand	Up to a year	1-3 years	3-5 years	Over 5 years
Financial assets:						
Loans and receivables						
Cash and cash equivalents	**1.00% - 4.88%**	**₱19,668,293**	**₱1,523,752,375**	**₱–**	**₱–**	**₱–**
Financial assets at FVPL						
Government debt securities						
Local currency	**5.38% - 12.38%**	**–**	**12,267,009**	**1,263,453,614**	**4,349,635,417**	**4,687,135,031**
Foreign currency	**4.00% - 12.13%**	**–**	**–**	**227,158,675**	**88,939,344**	**9,453,661,479**
Total financial assets		**₱19,668,293**	**₱1,536,019,384**	**₱1,490,612,289**	**₱4,438,574,761**	**₱14,140,796,510**

December 31, 2010

	Range of interest rate	On demand	Up to a year	1-3 years	3-5 years	Over 5 years
Financial assets:						
Loans and receivables						
Cash and cash equivalents	0.46%-3.45%	₱58,126,949	₱911,898,885	₱–	₱–	₱–
Financial assets at FVPL						
Government debt securities						
Local currency	5.75%-14.38%	–	10,349,259	1,241,884,029	2,139,391,780	5,566,889,083
Foreign currency	4.00%-10.63%	–	51,502,108	48,654,674	155,712,789	8,198,415,971
Total financial assets		₱58,126,949	₱973,750,252	₱1,290,538,703	₱2,295,104,569	₱13,765,305,054

The analysis below is performed for reasonably possible movements in interest rates with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of fixed rate financial assets at FVPL) and equity (due to changes in fair value of fixed rate AFS financial assets). The impact on the Company's equity already excludes the impact on transactions affecting the profit or loss in the statement of comprehensive income.

December 31, 2011

Currency	**Change in variable**	**Impact on Profit before tax**	**Impact on equity**
Peso	**+0.78%**	**(₱27,264,308)**	**(₱356,321,896)**
US$	**+1.11%**	**–**	**(12,540,603)**
Peso	**-0.78%**	**29,270,655**	**389,912,024**
US$	**-1.11%**	**–**	**12,777,446**

December 31, 2010

Currency	Change in variable	Impact on Profit before tax	Impact on equity
Peso	+1.11%	(₱71,408,717)	(₱257,797,837)
US$	+1.92%	(462,477)	(136,510,937)
Peso	-1.11%	76,474,079	290,452,970
US$	-1.92%	428,281	151,261,561

In 2011 and 2010, the Company determined the reasonably possible change in interest rates using the percentage changes in weighted average yield rates of outstanding securities for the past two years.

Equity price risk
The Company's equity price risk exposure at year-end relates to financial assets whose values will fluctuate as a result of changes in market prices, principally, equity securities classified as financial assets at FVPL and AFS financial assets.

Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

The Company's investment policy requires it to manage such risks by setting and monitoring objectives and constraints on investments; diversification plan; limits on investment in each sector and market. Investments in derivatives are also subject to such requirements.

The Company has certain direct strategic minority investments in publicly traded companies. These investments are classified as AFS financial assets. The Company also invests in equity shares through its unit-linked funds. Investments held by these unit-linked funds were designated as financial assets at FVPL.

As of December 31, 2011 and December 31, 2010, the fair values of equity investments classified as financial assets at FVPL amounted to ₱389,861,818 and ₱588,709,464, respectively (see Note 6). As of December 31, 2011 and December 31, 2010, the fair values of equity investments classified as AFS financial assets amounted to ₱305,114,119 and ₱316,406,944, respectively (see Note 6).

The analysis below is performed for reasonably possible movements in the PSE index with all other variables held constant. The impact on profit before tax (due to changes in fair value of equity securities classified as financial assets at FVPL) and equity (due to changes in fair value of equity securities classified as AFS financial assets) is arrived at using the change in variable and the specific adjusted beta of each share of stock the Company holds at the reporting date. Adjusted beta is the forecasted measure of the volatility of a security or a portfolio in comparison to the market as a whole. The impact on the Company's equity already excludes the impact on transactions affecting profit or loss.

December 31, 2011

Market Index	**Change in variable**	**Impact on profit before tax**	**Impact on equity**
PSE index	**+11%**	**₱38,771,372**	**₱49,913,979**
PSE index	**-11%**	**(38,771,372)**	**(49,913,979)**

December 31, 2010

Market Index	Change in variable	Impact on profit before tax	Impact on equity
PSE index	+28%	₱162,218,852	₱97,517,463
PSE index	-28%	(162,218,852)	(97,517,463)

In 2011 and 2010, the change in variable was derived from the percentage changes of the composite PSE index for the past three years.

24. **Related Party Transactions**

Transactions between related parties are based on terms similar to those offered to nonrelated parties. Parties are 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 and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Related party transactions consist mainly of the following:

a. The Company maintains savings and current accounts and short-term deposits with Metropolitan Bank and Trust Company (MBTC), the parent of FMIC, details of which follow:

	2011	2010
Savings and current accounts	**₱14,912,101**	₱176,171,686
Short-term deposits	**362,325,811**	773,796,235
	₱377,237,912	₱949,967,921

Short-term deposits are to mature within 90 days. Interest rates on savings accounts and short-term deposits range from 0.25% to 2.75% in 2011 and 2010.

Interest income from these savings accounts and short-term deposits included in "Investment income" amounted to ₱14,954,201 and ₱9,842,096 in 2011 and 2010, respectively.

b. The Company maintains savings account and short-term deposits with Philippine Savings Bank, a subsidiary of MBTC, details of which are as follow:

	2011	2010
Savings and current accounts	**₱3,345,388**	₱2,278,999
Short-term deposits	**1,194,762,058**	623,949,417
	₱1,198,107,446	₱626,228,416

Short-term deposits are to mature within 90 days. Interest rates on savings account and short-term deposits range from 0.50% to 4.80% in 2011 and 2010.

Interest income from these savings account and short-term deposits included in "Investment income" amounted to ₱24,019,984 and ₱14,893,596 in 2011 and 2010, respectively.

c. The Company is entitled to an asset management fee equivalent to 1.60% per annum based on the NAV of the Fund.

The Company's "Asset management fees" from unit-linked funds included in "Other income" amounted to ₱369,764,447 and ₱359,228,246 in 2011 and 2010, respectively (see Notes 18 and 19). Asset management fees receivable included in "Intercompany receivables" under "Loans and receivables" amounted to ₱63,762,058 and ₱52,841,898 as of December 31, 2011 and 2010, respectively (see Notes 6 and 11).

d. The Company maintains a unit-linked fund agreement with MBTC - Trust Banking Group for the management of the Company's separate variable funds for its variable life insurance contracts. Under the trust agreement, MBTC shall manage the Funds faithfully in accordance with the terms and conditions of the trust agreement. As compensation for services rendered, MBTC shall be entitled to a service fee equivalent to 0.30% per annum based on the net asset value of the Funds.

Service fees charged against the funds and included under "Income on assets held to cover unit-linked liabilities" amounted to ₱95,469,922 and ₱82,868,786 in 2011 and 2010, respectively (see Note 19). Service fees payable included under "Assets held to cover unit-linked liabilities" amounted to ₱11,096,820 and ₱6,630,285 as of December 31, 2011 and 2010, respectively (see Note 11).

e. The Company entered into a bancassurance agreement with MBTC in relation to the sale of policy insurance contracts to the clients of MBTC through the Company's financial executives. The Company pays referral fees recognized as "Commission expense" in the profit or loss. Referral fees for bank and bank staff referrals are determined at various rates based on the collected premiums.

   Referral fees recognized as "Commission expense" amounted to ₱128,297,390 and ₱114,215,500 in 2011 and 2010, respectively. The outstanding balance included in "Commissions payable" under "Accrued expenses" amounted to ₱19,452,582 and ₱ 19,118,843 as of December 31, 2011 and 2010, respectively (see Note 15).

f. MBTC is the trustee bank of the Company's retirement plan. The Company's plan assets amounted to ₱59,698,870 and ₱58,002,823 as of December 31, 2011 and 2010, respectively (see Note 21). Trustee fees charged by MBTC amounted to ₱147,070 and ₱173,998 in 2011 and 2010, respectively.

g. In 2011 and 2010, "Rental income" from MBTC Skyland included in "Investment income" amounted to ₱1,008,241 and ₱1,100,100, respectively. There is no rent receivable as of December 31, 2011 and 2010.

h. Other transactions with related parties pertain to reimbursement of expenses. The Company's outstanding receivables on account of these transactions, included in "Intercompany receivables" under "Loans and receivables" follow:

	2011	2010
Federal Land	**₱7,227,236**	₱8,425,828
AXA S.A.	**1,019,299**	1,133,112
	₱8,246,535	₱9,558,940

   These receivables are non-interest bearing and due within one year.

   As of December 31, 2011 and 2010 receivables from unit-linked funds included under "Intercompany receivables" amounted to ₱26,686,245 and ₱26,056,656, respectively. These receivables pertain to redemptions from unit-linked funds payable to policyholders.

i. The Company has transactions with affiliates (companies belonging to Metrobank Group) in relation to group policies which are based on terms similar to those offered to nonrelated parties. These pertain to credit life and yearly renewable term policies. Details of the balances with affiliates are as follows:

Premiums earned

	2011	2010
Metrohome Financing Program	**₱90,978,876**	₱70,133,424
Philippine Savings Bank	**82,467,311**	87,162,773
MBTC	**9,455,224**	9,287,882
Toyota Motor Philippines Corporation	**7,903,511**	3,188,442
MBTC Provident Plan	**2,147,103**	2,405,720
Metrobank Card Corporation	**1,125,905**	926,929
Orix Metro Leasing and Finance Corporation	**457,734**	452,012
Philippine Charter Insurance Corporation	**310,122**	328,099
FMIC	**228,700**	433,797
Federal Land	**171,755**	150,268
Metro Invest Plus	**8,617**	–
MBTC - Security Guards	**–**	734,148
	₱195,254,858	₱175,203,494

Premiums due and uncollected

	2011	2010
Metrohome Financing Program	**₱8,367,837**	₱3,884,371
Philippine Savings Bank	**6,673,916**	4,672,748
MBTC - Security Guards	**691,992**	42,695
Toyota Motor Philippines Corporation	**37,275**	–
Metrobank Card Corporation	**6,820**	926,929
	₱15,777,840	₱9,526,743

Claims incurred

	2011	2010
Philippine Savings Bank	**₱40,633,250**	₱40,593,361
Metrohome Financing Program	**26,569,188**	15,140,747
Metrobank Card Corp. Term Life	**3,500,000**	1,000,000
Toyota Motor Philippines Corporation	**2,200,000**	333,333
Metrobank Housing Assistance Program	**1,427,455**	–
MBTC Provident Plan	**625,431**	244,530
Metrobank Free PA Campaign	**400,000**	400,000
Metrobank	**250,034**	–
MBTC - Security Guards	**140,000**	310,000
MBTC Technology, Inc.	**–**	400,000
	₱75,745,358	₱58,421,971

Claims payable

	2011	2010
Metrobank Card Corp. Term Life	**₱500,000**	₱–
Philippine Savings Bank	**300,000**	3,921,457
Metrobank	–	9,500,000
Toyota Motor Philippines Corporation	–	1,466,666
Metrohome Financing Program	–	545,000
	₱800,000	₱15,433,123

Outstanding gross experience refunds

	2011	2010
Philippine Savings Bank	**₱22,783,817**	₱34,594,977
Metrohome Financing Program	**14,694,130**	29,962,680
Toyota Motor Philippines Corporation	**3,190,228**	3,103,430
MBTC Provident Plan	**2,684,116**	2,557,634
Metrobank Card Corporation	**575,029**	341,030
Philippine Charter Insurance Corporation	**421,616**	296,093
MBTC - Security Guards	**592,235**	592,235
Metro Invest Plus	**165,222**	165,222
	₱45,106,393	₱71,613,301

In 2011 and 2010, the related experience refunds charged to statement of comprehensive income amounted to ₱7,115,819 and ₱10,504,408, respectively.

j. AXA S.A. allocated certain expenses to the Company that pertain to shared service costs as a result of providing services on management planning, support and maintenance services, procurement regional projects and information technology service delivery charges. Shared service costs included in "Operating and administrative expenses" amounted to ₱58,557,048 and ₱72,518,412 in 2011 and 2010, respectively (see Note 20). The outstanding balance included in "Accrued expenses" under "Trade and other liabilities" amounted to ₱79,837,331and ₱64,911,970 as of December 31, 2011 and 2010, respectively (see Note 15).

k. On December 29, 2011, the Company entered into a sale agreement of its FVPL bonds to FMIC amounting to ₱202,698,616. As of December 31, 2011, the amount is included in "Intercompany receivables" under "Loans and receivables" and will be settled on January 3, 2012. The resulting gain on the sale of FVPL bonds amounted to ₱26,486,712.

l. On December 29, 2011, the Company entered into a purchase agreement of AFS Bonds from FMIC amounting to ₱129,402,270. As of December 31, 2011 the amount is included in "Accounts Payable" under "Trade and Other Liabilities" and is payable on January 3, 2012.

m. Compensation of key management personnel

Key management personnel of the Company include all management committee officers.

The summary of compensation of key management personnel follows:

	2011	2010
Salaries and other short-term employee benefits	**58,503,727**	₱50,337,306
Retirement benefits	**2,242,368**	2,088,751
Termination benefits	**343,879**	3,461,967
	₱61,089,974	₱55,888,024

In 2011 and 2010, director fees paid to the Company's BOD included in "Management and directors' fees" amounted to ₱3,750,000 and ₱3,577,000, respectively.

n. Due from officers and employees

Amounts due from officers and employees include secured interest-bearing loans pertaining to car plan and salary loans, and other unsecured noninterest-bearing loans and advances granted to the Company's officers and employees. Interest rates on interest bearing loans range from 6% to 12% in 2011 and 2010.

Except for the car loans of the officers and employees, receivable from/payable to related parties are not secured. No guarantees were given by the Company nor received. Allowance for impairment losses on due from officers and employees amounted to ₱819,653 as of December 31, 2011 and 2010. No expense was recognized in 2011 and 2010 in respect of bad or doubtful debts due to related parties.

25. **Commitments**

Operating Lease Commitments
Company as lessee
The Company entered into commercial leases on certain offices for its branches. These leases have an average life of between 1 to 5 years with renewal terms included in the contracts. Certain lease contracts also include escalation clauses. Renewals are at the option of the specific entity that holds the lease. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rental payments under noncancellable operating leases follow:

	2011	2010
Within one year	**₱35,934,125**	₱34,879,925
After one year but not more than five years	**7,163,093**	43,097,218
	₱43,097,218	₱77,977,143

Company as lessor
The Company has entered into property leases on its investment properties, consisting of the Company's surplus office spaces. These noncancellable leases have remaining lease terms of below 5 years. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions.

Future minimum rentals receivable under noncancellable operating leases follow:

	2011	2010
Within one year	**₱788,726**	₱870,225
After one year but not more than five years	**1,821,958**	2,010,219
	₱2,612,695	₱2,880,444

Finance Lease Commitments
The Company has finance leases for various items of property and equipment. Future minimum lease payments under the finance leases together with the present value of the net minimum lease payments included in the "Accrued expenses" under the "Trade and other liabilities" account follow:

	2011		2010	
	Minimum payments	**Present value of payments**	Minimum payments	Present value of payments
Within one year	**₱1,045,935**	**₱983,583**	₱1,255,122	₱1,221,670
After one year but not more than five years	**–**	**–**	1,045,935	983,583
Total minimum lease payments	**1,045,935**	**983,583**	2,301,057	2,205,253
Less amounts representing finance charges	**(62,352)**	**–**	**(95,804)**	–
Present value of minimum lease payments	**₱983,583**	**₱983,583**	₱2,205,253	₱2,205,253

As of December 31, 2011 and 2010, the carrying amount of property and equipment under finance lease amounted to ₱1,694,851 and ₱3,007,659, respectively.

26. Contingencies

The Company is a defendant in several lawsuits arising from the normal course of carrying out its insurance business. The Company currently does not believe these proceedings will have a material adverse effect on the Company's financial position.

27. Notes to Cash Flow Statements

In 2011, the Company's non cash financing activity pertains to the transfer of the contingency surplus to deposit for future stock subscription amounting to ₱304,289,900 (see Note 16).

In 2010, the Company's non cash financing activity pertains to the conversion of contingency surplus into paid-up capital amounting to ₱98,596,000 (see Note 16).

28. **Supplementary Information Required Under Revenue Regulation (RR) 19-2011**

In compliance with the requirements set forth by RR19-2011, the following schedule presents the Company's itemized deductions and resulting net taxable income for 2011.

Revenue		
Net premiums		₱9,975,348,909
Total revenue		9,975,348,909
Less:		
Direct charges-salaries, wages and benefits	301,813,556	
Direct charges- materials, supplies and facilities	8,797,653	
Direct charges- depreciation	2,950,734	
Direct charges- rental	26,851,798	
Direct charges- others	9,011,431,351	
Total cost of services		9,351,845,092
Gross income from operations		623,503,817
Add: Other taxable income not subject to final tax		
Asset management charges	369,764,447	
Realized foreign exchange gains	40,510,207	
Interest income	36,148,270	
Rent income	1,008,241	
Others	3,431,839	
Total other taxable income not subject to final tax		450,863,004
Gross income		1,074,366,821
Less:		
Salaries, allowances and benefits	₱559,445,731	
Advertising and promotions	123,660,903	
Project development costs	107,285,944	
Communication, light and water	51,129,707	
Depreciation and amortization	43,230,612	
Premium and documentary stamp taxes	44,979,943	
Transportation and travel	41,484,639	
Rent	40,017,077	
Management and director's fees	14,328,428	
Taxes, licenses and fees	12,563,564	
Supplies	12,579,733	
Repairs and maintenance	7,510,038	
Amortization of intangibles	833,450	
Miscellaneous	9,896,115	
Total itemized deductions		1,068,945,884
Taxable income		5,420,937
Less net operating loss carryover		5,420,937
Taxable loss		₱–
Regular corporate income tax (RCIT) at 30%		₱–
Minimum corporate income tax (MCIT) at 2%		21,487,336
Excess of MCIT over RCIT		₱21,487,336

29. **Supplementary Tax Information under Revenue Regulations No. 15 - 2010**

In compliance with the requirements set forth by RR 15-2010 hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year.

Value added tax (VAT)
The Company is exempt from VAT being engaged in the business of life insurance under Section 4.109-1 (B)(e)(6) of Revenue Regulation No. 16-05 or otherwise known as the Consolidated VAT Regulations of 2005. However, it is subject to percentage tax under Section 123 of the Tax Code, as amended. Hence, it paid the amount of ₱40,856,332 in 2011 as percentage tax based on the amount reflected in the premiums on insurance contracts of ₱2,042,816,611.

Revenue Memorandum Circular (RMC) No. 30-08, as amended by RMC 59-08, provides that management fees, rental income, or income earned by the life insurance company from services which can be pursued independently of the insurance business activity are not subject to 5% (now 2%) premium tax but the same are treated as income for services that are subject to the imposition of VAT pursuant to Section 108 of the Tax Code, as amended.

In compliance with the said RMC, the Company paid VAT amounting to ₱45,602,606. Details are as follows:

	Tax base	VAT
Asset management charge (AMC)	₱377,453,875	₱45,294,465
Disposal of motor vehicle	1,828,486	219,418
Rental income	739,358	88,723
Balance at end of the year	₱380,021,719	₱45,602,606

Documentary Stamp Tax (DST)
The DST paid/accrued on the following transactions are:

Transaction	Tax base	DST
Life insurance policies		
Sum insured	₱43,213,007,742	₱2,723,610
Premium collection	5,301,145	662,660
Shares of stock	100,000,000	500,001
Transfer of certificate of title	8,000,000	228,830
Contract of lease	8,504,527	8,510
Balance at end of the year	₱43,334,813,414	₱4,123,611

Other Taxes and Licenses
This includes all other taxes, local and national, including real estate taxes, licenses and permit fees lodged under the 'Operating and administrative expenses' sections in the Company's 2011 Statement of Comprehensive Income. Details consist of the following:

	2011
Local	
Mayor's permit	₱7,949,371
Real estate taxes	429,488
Community tax	10,500
PTR	300
	8,389,359
National	
Fringe benefit tax	2,772,746
Regulatory body fees	1,378,320
BIR annual registration	12,500
Others	10,639
	4,174,205
	₱12,563,564

Withholding Taxes
The amount of withholding taxes paid and accrued for the year 2011 amounted to:

	2011
Tax on compensation and benefits	₱111,231,562
Creditable withholding taxes	67,720,892
Final withholding taxes	28,407,414
	₱207,359,868

Philippine AXA Life Insurance Corporation

Financial Statements
December 31, 2010, December 31, 2009 and January 1, 2009
and Years Ended December 31, 2010 and 2009

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

SGV & Co
Ernst & Young

AXA redefining / insurance

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Philippine AXA Life Insurance Corporation** is responsible for all information and representations contained in the financial statements for the years ended December 31, 2010 and 2009. The financial statements have been prepared in conformity with generally accepted accounting principles 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 Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the company.

Sycip Gorres Velayo & Co., the independent auditors and appointed by the stockholders, has examined the financial statements of the company in accordance with generally accepted auditing standards and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to stockholders.

SOLOMON S. CUA
Chairman of the Board of Directors

SEVERINUS PETRUS PAULUS HERMANS
President & Chief Executive Officer

RONALDO C. SAN JOSE
Chief Finance Officer

April 5, 2011

AXA Philippines
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BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Philippine AXA Life Insurance Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Philippine AXA Life Insurance Corporation, which comprise the statements of financial position as at December 31, 2010, December 31, 2009 and January 1, 2009, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended December 31, 2010 and 2009, 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 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.

SGV&Co
ERNST & YOUNG

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Philippine AXA Life Insurance Corporation as at December 31, 2010, December 31, 2009 and January 1, 2009, and its financial performance and its cash flows for the years ended December 31, 2010 and 2009 in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required under Revenue Regulations 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 28 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 Company's management. 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.

Lucy L. Chan

Lucy L. Chan
Partner
CPA Certificate No. 88118
SEC Accreditation No. 0114-AR-2
Tax Identification No. 152-884-511
BIR Accreditation No. 08-001998-46-2009,
June 1, 2009, Valid until May 31, 2012
PTR No. 2641512, January 3, 2011, Makati City

April 5, 2011

PHILIPPINE AXA LIFE INSURANCE CORPORATION
STATEMENTS OF FINANCIAL POSITION

	December 31		January 1
		2009	2009
	2010	(As restated)	(As restated)
ASSETS			
Cash and Cash Equivalents (Notes 4, 23 and 24)	**₱1,712,391,421**	₱872,679,055	₱1,245,630,598
Insurance Receivables - net (Notes 5 and 23)	**125,196,775**	84,372,725	76,906,647
Financial Assets (Notes 6, 23 and 24)			
Financial assets at fair value through profit or loss	**2,792,463,518**	2,778,371,647	2,541,176,686
Available-for-sale financial assets	**7,139,585,725**	6,270,305,066	5,139,610,686
Loans and receivables - net	**496,163,305**	441,057,089	456,824,570
Accrued Income (Notes 7 and 23)	**215,955,262**	225,063,680	211,734,410
Investment Properties - net (Notes 8 and 25)	**19,502,514**	14,110,940	24,802,203
Property and Equipment - net (Note 9)	**126,819,999**	124,149,957	144,661,870
Intangible Assets - net (Notes 10 and 24)	**3,962,092**	–	2,563,840
Deferred Tax Assets	**–**	–	3,273,685
Other Assets	**42,287,859**	14,846,863	17,920,209
	12,674,328,470	10,824,957,022	9,865,105,404
Assets Held to Cover Unit-Linked Liabilities (Note 11)	**22,879,842,490**	21,984,529,176	20,852,282,445
	₱35,554,170,960	₱32,809,486,198	₱30,717,387,849
LIABILITIES AND EQUITY			
Liabilities			
Insurance contract liabilities (Notes 12, 13 and 23)	**₱7,770,767,263**	₱7,262,436,019	₱6,869,654,426
Policyholders' dividends (Note 23)	**251,868,381**	196,305,763	165,802,092
Reserve for policyholders' dividends (Note 23)	**19,731,056**	17,212,448	13,836,491
Premium deposit fund (Note 23)	**223,788,594**	260,856,388	260,535,797
Insurance payables (Notes 14 and 23)	**64,164,266**	51,090,279	44,347,747
Life insurance deposits (Note 23)	**191,384,223**	58,042,205	66,031,577
Trade and other liabilities (Notes 15, 23 and 25)	**575,723,137**	443,866,302	695,505,419
Income tax payable (Note 22)	**1,006,963**	7,146,525	–
Pension liability - net (Note 21)	**9,957,620**	8,598,226	4,580,404
	9,108,391,503	8,305,554,155	8,120,293,953
Unit-Linked Liabilities (Note 11)	**22,879,842,490**	21,984,529,176	20,852,282,445
	31,988,233,993	30,290,083,331	28,972,576,398
Equity			
Capital stock (Note 16)	**350,002,223**	250,002,223	215,704,023
Treasury stock	**(2,000)**	(2,000)	(2,000)
Deposits for future stock subscriptions	**60,376**	60,376	60,376
Contributed surplus	**50,000,000**	50,000,000	50,000,000
Contingency surplus (Note 16)	**313,633,083**	412,229,083	412,229,083
Revaluation reserves (Note 17)	**849,190,205**	601,762,456	283,204,764
Retained earnings (Note 16)	**2,003,053,080**	1,205,350,729	783,615,205
	3,565,936,967	2,519,402,867	1,744,811,451
	₱35,554,170,960	₱32,809,486,198	₱30,717,387,849

See accompanying Notes to Financial Statements.

PHILIPPINE AXA LIFE INSURANCE CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2010	2009 (As restated)
Gross premiums on insurance contracts	**₱8,354,301,317**	₱4,480,162,039
Reinsurers' share of gross premiums on insurance contracts	**(23,367,242)**	(42,308,169)
Net insurance premiums (Note 18)	**8,330,934,075**	4,437,853,870
Subscriptions allocated to investment in unit-linked funds (Note 18)	**(6,323,969,836)**	(2,693,980,613)
	2,006,964,239	1,743,873,257
Income on assets held to cover unit-linked liabilities (Note 19)	**3,309,497,989**	3,939,887,804
Change in unit-linked liabilities	**(3,309,497,989)**	(3,939,887,804)
Investment income (Note 18)	**786,036,749**	739,872,730
Fair value gains from financial assets at fair value through profit or loss (Note 6)	**241,361,180**	244,806,510
Gain on sale of available-for-sale financial assets (Note 17)	**43,180,388**	5,121,187
Foreign exchange gains	**40,510,208**	62,289,565
Gain on sale of investment properties	–	5,772,736
Other income (Note 18)	**364,819,765**	376,652,670
	3,482,872,529	3,178,388,655
BENEFITS, CLAIMS AND OPERATING EXPENSES		
Gross benefits and claims incurred on insurance contracts	**8,569,204,407**	5,836,562,880
Decrease in unit-linked liabilities due to surrenders	**(8,138,053,054)**	(5,353,134,444)
Reinsurers' share of gross benefits and claims incurred on insurance contracts (Note 18)	**(8,586,989)**	(17,932,323)
Net benefits and claims incurred in insurance contracts (Note 18)	**422,564,364**	465,496,113
Net change in legal policy reserves	**524,567,987**	460,754,326
Net insurance benefits and claims	**947,132,351**	926,250,439
Operating and administrative expenses (Note 20)	**1,121,577,013**	969,255,861
Commission expense (Note 24)	**340,566,249**	189,208,555
Policy dividends and policy dividend interest	**71,200,275**	38,710,611
Premium and documentary stamp taxes	**51,468,673**	77,835,793
Experience refunds	**14,921,477**	2,972,174
Agency development expenses	**9,396,747**	2,704,905
Interest on premium deposit fund	**5,809,723**	10,445,416
Medical and inspection fees	**2,616,762**	2,424,485
Increase in reserves for policyholders' dividends	**2,518,608**	3,375,957
	2,567,207,878	2,223,184,196
INCOME BEFORE INCOME TAX	**915,664,651**	955,204,459
Current tax	**119,372,413**	103,437,833
Deferred tax	–	3,273,685
Provision for income tax (Note 22)	**119,372,413**	106,711,518
NET INCOME	**796,292,238**	848,492,941

(Forward)

	Years Ended December 31	
	2010	2009 (As restated)
OTHER COMPREHENSIVE INCOME (Note 17)		
Net change in fair value of available-for-sale financial assets	**₱248,837,862**	₱322,800,498
Net transfer of revaluation on investment properties	**(649,204)**	(5,297,266)
Transfer of revaluation on property and equipment	**(1,365,243)**	(763,886)
Income tax relating to components of other comprehensive income	**604,334**	1,818,346
	247,427,749	318,557,692
TOTAL COMPREHENSIVE INCOME	**₱1,043,719,987**	₱1,167,050,633

See accompanying Notes to Financial Statements.

PHILIPPINE AXA LIFE INSURANCE CORPORATION
STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 16)	Treasury Stock	Deposits for Future Stock Subscriptions	Contributed Surplus	Contingency Surplus (Note 16)	Revaluation Reserves: Revaluation Reserve for Available-for-sale Financial Assets (Note 17)	Revaluation Reserves: Revaluation Increment on Investment Properties (Note 17)	Revaluation Reserves: Revaluation Increment on Property and Equipment (Note 17)	Retained Earnings (Note 16)	Total
As of January 1, 2010	**₱250,002,223**	**(₱2,000)**	**₱60,376**	**₱50,000,000**	**₱412,229,083**	**₱589,750,197**	**₱7,074,632**	**₱4,937,627**	**₱1,205,350,729**	**₱2,519,402,867**
Net income	–	–	–	–	–	–	–	–	**796,292,238**	**796,292,238**
Other comprehensive income	–	–	–	–	–	**248,837,862**	**(454,443)**	**(955,670)**	–	**247,427,749**
Total comprehensive income	–	–	–	–	–	**248,837,862**	**(454,443)**	**(955,670)**	**796,292,238**	**1,043,719,987**
Transfer directly to retained earnings	–	–	–	–	–	–	–	–	**1,410,113**	**1,410,113**
Conversion of contingency surplus	**98,596,000**	–	–	–	**(98,596,000)**	–	–	–	–	–
Subscriptions	**1,404,000**	–	–	–	–	–	–	–	–	**1,404,000**
As of December 31, 2010	**₱350,002,223**	**(₱2,000)**	**₱60,376**	**₱50,000,000**	**₱313,633,083**	**₱838,588,059**	**₱6,620,189**	**₱3,981,957**	**₱2,003,053,080**	**₱3,565,936,967**
As of January 1, 2009	₱215,704,023	(₱2,000)	₱60,376	₱50,000,000	₱412,229,083	₱266,949,699	₱10,782,718	₱5,472,347	₱783,615,205	₱1,744,811,451
Net income	–	–	–	–	–	–	–	–	848,492,941	848,492,941
Other comprehensive income	–	–	–	–	–	322,800,498	(3,708,086)	(534,720)	–	318,557,692
Total comprehensive income	–	–	–	–	–	322,800,498	(3,708,086)	(534,720)	848,492,941	1,167,050,633
Transfer directly to retained earnings	–	–	–	–	–	–	–	–	4,242,806	4,242,806
Stock dividends	34,298,200	–	–	–	–	–	–	–	(34,298,200)	–
Cash dividends	–	–	–	–	–	–	–	–	(396,702,023)	(396,702,023)
As of December 31, 2009	₱250,002,223	(₱2,000)	₱60,376	₱50,000,000	₱412,229,083	₱589,750,197	₱7,074,632	₱4,937,627	₱1,205,350,729	₱2,519,402,867

See accompanying Notes to Financial Statements.

PHILIPPINE AXA LIFE INSURANCE CORPORATION
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2010	2009 (As restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱915,664,651**	₱955,204,459
Adjustments for:		
Subscriptions allocated to investment in unit-linked funds	**6,323,969,836**	2,693,980,613
Change in unit-linked liabilities	**3,309,497,989**	3,939,887,804
Net change in legal policy reserves (Note 18)	**524,567,987**	460,754,326
Foreign exchange losses	**68,082,052**	2,381,977
Depreciation on property and equipment (Note 9)	**39,081,737**	36,693,487
Depreciation on investment properties (Note 8)	**1,362,426**	1,362,426
Amortization on intangible assets (Note 10)	**205,158**	2,563,840
Gain on sale of investment properties	–	(5,772,736)
Dividend income (Note 18)	**(26,451,819)**	(21,163,219)
Gain on sale of available-for-sale financial assets (Note 17)	**(43,180,388)**	(5,121,187)
Fair value gain on financial assets at fair value through profit or loss (Note 6)	**(241,361,180)**	(244,806,510)
Interest income (Note 18)	**(758,484,830)**	(717,888,947)
Decrease in unit-linked liabilities due to surrenders	**(8,138,053,054)**	(5,353,134,444)
Operating income before changes in working capital	**1,974,900,565**	1,744,941,889
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Insurance receivables	**(40,824,050)**	(7,466,078)
Loans and receivables	**(55,106,216)**	15,767,481
Other assets	**(27,440,996)**	3,073,346
Increase (decrease) in:		
Unit-linked liabilities	**(1,495,414,771)**	(1,280,733,973)
Claims payable	**32,852,523**	73,794,652
Policyholders' dividends	**55,562,618**	30,503,671
Reserves for policyholders' dividends	**2,518,608**	3,375,957
Premium deposit fund	**(37,067,794)**	320,591
Insurance payables	**13,073,987**	6,742,532
Life insurance deposits	**133,342,018**	(7,989,372)
Trade and other liabilities	**131,856,835**	148,360,883
Pension liability - net	**1,359,394**	4,017,822
Net cash generated from operations	**689,612,721**	734,709,401
Proceeds from disposal/maturities of:		
Available-for-sale financial assets (Note 6)	**739,251,875**	167,920,574
Financial assets at fair value through profit or loss (Note 6)	**218,064,954**	1,392,960
Acquisition of available-for-sale financial assets (Note 6)	**(1,505,126,370)**	(1,062,329,032)
Interest received	**848,238,371**	657,325,146
Dividend received	**26,451,819**	21,163,219
Income taxes paid	**(125,511,975)**	(96,291,308)
Net cash provided by operating activities	**890,981,395**	423,890,960

(Forward)

	Years Ended December 31	
	2010	2009 (As restated)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposals of:		
Property and equipment (Note 9)	**₱365,878**	₱993,828
Investment properties (Note 8)	**–**	15,101,573
Acquisitions of:		
Property and equipment (Note 9)	**(42,117,657)**	(17,175,402)
Investment properties (Note 8)	**(6,754,000)**	–
Intangible asset (Note 10)	**(4,167,250)**	–
Net cash used in investing activities	**(52,673,029)**	(1,080,001)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of stock	**1,404,000**	–
Cash dividends paid (Note 16)	**–**	(795,762,502)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**839,712,366**	(372,951,543)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**872,679,055**	1,245,630,598
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱1,712,391,421**	₱872,679,055

See accompanying Notes to Financial Statements.

PHILIPPINE AXA LIFE INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS

1. **Corporate Information**

Philippine AXA Life Insurance Corporation (the Company) was incorporated in the Philippines on November 30, 1962 to engage in selling personal and group insurance, including life insurance, accident and other insurance products that are permitted to be sold by a life insurance company in the Philippines. On May 22, 2003, the Insurance Commission (IC) approved the Company's license to sell variable or unit-linked insurance, a life insurance product which is linked to investment funds.

The registered office address of the Company is Ground Floor, Philippine AXA Life Centre, Sen. Gil Puyat Avenue corner Tindalo Street, Makati City.

The Company is 45% owned by the AXA Group of Companies through AXA Asia Pacific Holdings (AXAAPHL), a company based in Australia, 28% owned by First Metro Investment Corporation (FMIC), a domestic corporation and 25% owned by GT Capital Holdings, Inc., a domestic corporation.

The accompanying financial statements were authorized for issue by the Board of Directors (BOD) through the Board Risk Management, Audit and Compliance Committee (BRMACC) on April 5, 2011.

2. **Summary of Significant Accounting Policies**

Basis of Preparation
The financial statements of the Company have been prepared on a historical cost basis, except for available-for-sale (AFS) financial assets and financial assets at fair value through profit or loss (FVPL), which have been measured at fair value. The financial statements are presented in Philippine Peso (₱), which is the Company's functional currency.

Statement of Compliance
The financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new and amended PFRS and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) interpretations which became effective on January 1, 2010. Except as otherwise indicated, the adoption of the new and amended Standards and Philippine Interpretations did not have a significant impact on the financial statements of the Company.

- PFRS 2 (Amended), *Share-based Payment - Group Cash-settled Share-based Payment Transactions*
  The amendment to PFRS 2 clarified the scope and the accounting for group cash-settled share-based payment transactions.

- PFRS 3 (Revised), *Business Combinations,* and PAS 27 (Amended), *Consolidated and Separate Financial Statements*
  PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of noncontrolling interest (NCI), 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 NCI after January 1, 2010.

- PAS 39 (Amended), *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*
  The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations.

- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*
  This Philippine 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.

Improvements to PFRSs
Improvements to PFRSs, an omnibus of amendments to standards, deal primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The amendments are effective for annual periods beginning January 1, 2010 except as otherwise stated. The adoption of these amendments did not have any significant impact on the financial statements of the Company, unless otherwise indicated.

Improvements to PFRSs 2008
- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*
  This amendment clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a NCI after the sale transaction.

Improvements to PFRSs 2009
- PFRS 2, *Share-based Payment*
  This amendment clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3.

- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*
  This amendment clarifies that the disclosures required in respect of noncurrent assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRS only apply if specifically required for such noncurrent assets or discontinued operations.

- PFRS 8*, Operating Segments*
  This amendment clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

- PAS 1*, Presentation of Financial Statements*
  This amendment clarifies that the terms of a liability that could result at anytime in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

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

- PAS 17, *Leases*
  This amendment removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. This amendment requires that leases of land are classified as either 'finance' or 'operating' in accordance with the general principles of PAS 17.

- PAS 36, *Impairment of Assets*
  This 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.

- PAS 38, *Intangible Assets*
  This amendment clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. Also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

- PAS 39, *Financial Instruments: Recognition and Measurement*
  This amendment clarifies the following: 1) that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract; 2) that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken; and 3) that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
  This Philippine Interpretation clarifies that it does not apply to possible reassessment, at the date of acquisition, to embedded derivatives in contracts acquired in a combination between entities or businesses under common control or the formation of a joint venture.

- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
  This Philippine Interpretation states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

Reclassification of Accounts
The Company previously presents the assets, liabilities, income and expenses of the unit-linked funds in similar accounts in the statement of financial position and statement of comprehensive income. In 2010, the Company restated its financial statements to segregate the assets and liabilities of the unit-linked funds and classify these under the account "Assets held to cover unit-linked liabilities" while the related income and expense are presented under "Income on assets held to cover unit-linked liabilities" account. Likewise, the unit-linked liabilities is presented as a separate account in the statement of financial position.

Management believes that the current year presentation provides more relevant and meaningful information. The unit-linked assets and liabilities have been segregated from the Company's non-linked businesses for better understanding of the Company's performance. Comparative amounts as of December 31, 2009 and January 1, 2009 were reclassified for consistency.

PAS 1, *Presentation of Financial Statements*, requires an entity to present a statement of financial position as at the beginning of the earliest period when it reclassifies items in its financial statements.

Reclassification of Accounts within the Statement of Financial Position
The Company restated its assets and liabilities to effect certain reclassification adjustments as follow:

Reclassified from:	Reclassified to:	December 31, 2009	January 1, 2009
Cash and cash equivalents	Assets held to cover unit-linked liabilities	₱840,722,048	₱1,742,163,633
Financial assets at fair value through profit or loss	Assets held to cover unit-linked liabilities	20,726,617,502	18,781,848,813
Loans and receivables	Assets held to cover unit-linked liabilities	132,252,763	1,397,968
Accrued income	Assets held to cover unit-linked liabilities	346,098,688	400,961,003
Trade and other liabilities	Assets held to cover unit-linked liabilities	(61,161,825)	(74,088,972)
Insurance contract liabilities	Unit-linked liabilities	(21,984,529,176)	(20,852,282,445)

Reclassification of Accounts within the Statement of Comprehensive Income

The Company restated its income and expenses to effect certain reclassification adjustments as follow:

Reclassified from:	Reclassified to:	December 31, 2009
Investment income	Income on assets held to cover unit-linked liabilities	(₱1,433,062,995)
Fair value gains from financial assets at FVPL	Income on assets held to cover unit-linked liabilities	(3,098,624,824)
Other income	Income on assets held to cover unit-linked liabilities	376,589,606
Foreign exchange gains	Income on assets held to cover unit-linked liabilities	9,635,107
Operating and administrative expenses	Income on assets held to cover unit-linked liabilities	92,050,522
Current tax	Income on assets held to cover unit-linked liabilities	113,524,780
Change in legal policy reserves	Subscriptions allocated to investment in unit-linked funds	2,693,980,613
Change in legal policy reserves	Decrease in unit-linked liabilities due to surrenders	5,353,134,444
Change in legal policy reserves	Change in unit-linked liabilities	3,939,887,804

Foreign Currency Translation

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated using the functional currency rate of exchange ruling at the reporting date. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. All foreign exchange differences are taken to profit or loss, except where it relates to equity securities where gains or losses are recognized directly in other comprehensive income, the gain or loss is then recognized net of the exchange component in other comprehensive income.

Product Classification

Insurance contracts are defined as those contracts under which the Company (the insurer) accepts significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholder. As a general guideline, the Company defines significant insurance risk by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index, or other variable. Investment contracts mainly transfer significant financial risk but can also transfer insignificant insurance risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or have expired. Investment contracts can however be reclassified as insurance contracts after inception if the insurance risk becomes significant.

Insurance and investment contracts are further classified as being with or without discretionary participation features (DPF). DPF is a contractual right to receive, as a supplement to guaranteed contracts, additional benefits that are likely to be a significant portion of the total contractual benefits, whose amount or timing is contractually at the discretion of the issuer, and that are contractually based on the performance of a specified pool of contracts or a specified type of contract, realized and or unrealized investment returns on a specified pool of assets held by the issuer, or the profit or loss of the company, fund or other entity that issues the contract.

For financial options and guarantees which are not closely related to the host insurance contract and/or investment contract with DPF, bifurcation is required to measure these embedded financial derivatives separately at FVPL. Bifurcation is not required if the embedded derivative is itself an insurance contract and/or investment contract with DPF or when the host insurance contract and/or investment contract with DPF itself is measured at FVPL. The options and guarantees within the insurance contracts issued by the Company are treated as derivative financial instruments which are clearly and closely related to the host insurance and therefore not bifurcated subsequently. As such, the Company does not separately measure options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate). Likewise, the embedded derivative in unit-linked insurance contracts linking the payments on the contract to units of an internal investment fund meets the definition of an insurance contract and is therefore not accounted for separately from the host insurance contract.

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash equivalents (including those under "Assets held to cover unit-linked liabilities") are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of placement and that are subject to an insignificant risk of changes in value and are free of any encumbrances.

Insurance Receivables
Insurance receivables are recognized when due and measured on initial recognition at the fair value of the consideration received. Subsequent to initial recognition, insurance receivables are measured at amortized cost, using effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in profit or loss. Insurance receivables are derecognized following the derecognition criteria of financial assets.

Financial Instruments
Date of recognition
Financial instruments are recognized in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. 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 trade date.

Initial recognition
Financial instruments are recognized initially at fair value. Except for financial instruments at FVPL, the initial measurement of financial assets includes transaction costs. The Company classifies its financial assets in the following categories: financial assets at FVPL, AFS financial assets and loans and receivables. The Company classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Determination of fair value
The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price 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 ask 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. Valuation techniques include net present value techniques, comparison to similar instruments for which observable current market prices exist, option pricing models, and other relevant valuation models. Any difference noted between the fair value and the transaction price is recognized in profit or loss, unless it qualifies for recognition as some type of asset or liability.

Fair value hierarchy
The Company uses the following hierarchy for determining and disclosing the fair value of financial assets by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

'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 market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' profit or loss) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' profit or loss amount.

Financial instruments at FVPL
This category consists of financial assets or financial liabilities that are held-for-trading or designated by management as at FVPL on initial recognition.

Financial assets or financial liabilities are classified as held-for-trading if they are entered into for the purpose of short-term profit taking.

Financial assets or financial liabilities classified in this category are designated by management on initial recognition when any of the following criteria are met:

- 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 investments of the unit-linked funds set up by the Company underlying the unit-linked insurance contracts (included under "Assets held to cover unit-linked liabilities") are designated as at FVPL since these are managed and their performance are evaluated on a fair value basis, in accordance with the investment strategy. Also, the Company designates the assets of the life insurance business that are managed under the Company's Risk Management Statement on a fair value basis, and are reported to the Board on this basis. These assets have been valued on a fair value basis with movements taken through the profit or loss.

Financial assets at FVPL are recorded in the statement of financial position at fair value, with changes in the fair value recorded in profit or loss, included under the "Fair value gains or losses from financial assets at FVPL" account.

As of December 31, 2010 and 2009, the Company has no financial liabilities classified as FVPL.

Derivative financial instruments
Derivative financial instruments are classified as held-for-trading unless they are designated as effective hedging instruments. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative. Derivative financial instruments held-for-trading are initially recorded at fair value and are typically entered into with the intention to settle in the near future. Subsequent to initial ecognition, these instruments are remeasured at fair value. Changes in fair value of derivative instruments not accounted as hedges are recognized immediately in profit or loss.

In 2009, the Company's unit-linked funds entered into a derivative transaction pertaining to a foreign exchange forward contract and bond swap classified under financial assets at FVPL (see Note 11).

Embedded derivatives
An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid or combined instrument is not recognized at FVPL. Bifurcated embedded derivatives are accounted for at FVPL.

The Company assesses whether embedded derivatives are required to be separated from the host contracts when the Company becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows. The Company determines whether modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract, or both have changed and whether the change is significant relative to the previously expected cash flows on the contract.

Loans and receivables
Loans and receivables are nonderivative 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, nor designated as AFS or at FVPL. This accounting policy relates to the statement of financial position captions: (a) Insurance receivables, (b) Loans and receivables, and (c) Accrued income.

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included under "Investment income" account in profit or loss. The losses arising from impairment of such loans and receivables are recognized as "Provision for impairment losses" under the "Operating and administrative expenses" caption in profit or loss.

AFS financial assets
AFS financial assets are those which are designated as such or do not qualify to be classified as financial assets 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 government securities, equity investments, and other debt instruments.

After initial measurement, AFS financial assets 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 profit or loss. Interest earned on holding AFS financial assets is reported as interest income using the effective interest rate. Dividends earned on holding AFS financial assets are recognized in profit or loss when the right to receive payment has been established. Interests and dividends are recognized under "Investment income" account in profit or loss. The unrealized gains and losses arising from the fair valuation of AFS financial assets are reported in equity as "Revaluation reserve for AFS financial assets." The losses arising from impairment of such financial assets are recognized as "Provision for impairment losses" under the "Operating and administrative expenses" caption in profit or loss. When a security is disposed of, the cumulative gain or loss previously recognized as other comprehensive income is reported as "Gain or loss on sale of AFS financial assets" in profit or loss.

When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost, less any allowance for impairment loss.

Other financial liabilities
Issued financial liabilities or their components, which are not designated as financial liabilities at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. This includes investment contracts which mainly transfer financial risk and has no or insignificant insurance risk.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate 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 effective interest rate.

Any effects of restatement of foreign currency-denominated liabilities are recognized in profit or loss.

This accounting policy relates to the statement of financial position captions: (a) Policyholders' dividends, (b) Premium deposit fund, (c) Insurance payables, (d) Life insurance deposits and (e) Trade and other liabilities that meet the above definition (other than liabilities covered by other accounting standards, such as pension liability and income tax payable).

Classification of Financial Instruments Between Debt and Equity
A financial instrument is classified as debt if it has a contractual obligation to:

- deliver cash or another financial asset to another entity, or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Company.

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

Financial instruments are classified as liability or equity in accordance with the substance of the contractual agreement. Interests, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instrument classified as equity are charged directly to liabilities and equity, net of any related income tax benefits.

Offsetting
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.

Impairment of Financial Assets
The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired.

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

Loans and receivables
For loans and receivables carried at amortized cost, the Company 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. If the Company determines that no objective evidence of impairment exists for an 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. 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.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Company. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is recognized in profit or loss. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. Time value is generally not considered when the effect of discounting is not material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, 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.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as type of borrower, collateral type, past-due status and term.

AFS financial assets carried at fair value
For equity investments classified as AFS financial assets, impairment indicators would include a significant or prolonged decline in the fair value of an investment below its cost or where other objective evidence of impairment exists. 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 profit or loss) is removed from equity and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as AFS, 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 using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss and is recorded as part of "Investment income" account in profit or loss. If, in a subsequent period, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

AFS financial assets carried at cost
If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Derecognition of Financial Assets and Liabilities
Financial asset
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Company 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 Company has transferred its right 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 substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its right to receive cash flows from an asset or has entered into a 'pass-through' arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company'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 the consideration that the Company could be required to repay.

Financial liability
A financial liability is derecognized when the obligation under the liability is discharged, 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 profit or loss.

Reinsurance
The Company cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is charged to profit or loss.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

Premiums are presented on gross basis for ceded reinsurance.

Reinsurance assets or liabilities are derecognized when the contractual right are extinguished, has expired, or when the contract is transferred to another party.

Investment Properties
Property held for long-term rental yields or for capital appreciation, or for both, is classified as investment property. These properties are initially measured at cost, which includes transaction cost, but excludes day-to-day servicing cost. Subsequently, at each end of the reporting period, such properties are carried at cost less accumulated depreciation and impairment in value.

Depreciation of investment property is computed using the straight-line method over its useful life, regardless of utilization. The estimated useful life and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of investment properties. The estimated useful life of the investment properties is 20 years.

Transfers are made to and from investment property when, and only when, there is a change in use, evidenced by ending of owner occupation, commencement of an operating lease to another party. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property and equipment up to the date of the change in use.

Investment property is derecognized when it has been disposed of or when permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss on the retirement or disposal of investment properties is recognized in profit or loss in the year of derecognition.

Property and Equipment
Property and equipment, including owner occupied properties, are carried at cost less accumulated depreciation and amortization and accumulated impairment in value. Such cost includes initial transaction costs, but excludes day-to-day servicing cost. Replacement or major inspection cost is capitalized if it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be reliably measured.

Depreciation and amortization is computed using the straight-line method over the estimated useful life of the assets. Leasehold improvements are amortized over the estimated useful life of the improvements or the term of the related lease, whichever is shorter. The estimated useful lives of the different categories of property and equipment follow:

	Years
Building	20
Leasehold improvements	5
Transportation equipment	5
Computer equipment	3
Furniture and equipment	3

The assets' residual values, useful lives and depreciation and amortization method are reviewed at each reporting date and adjusted if appropriate to ensure that the period, residual value and the method of depreciation and amortization are consistent with the expected pattern of consumption of future economic benefits embodied in the asset.

An item of property and equipment is derecognized upon disposal or when no further 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 value of the asset) is included in profit or loss in the year the asset is derecognized. This is not applicable to items that still have useful lives but are currently classified as idle. Depreciation continues for those items until fully depreciated or disposed.

Intangible Assets
Intangible assets, consisting mainly of software (not an integral part of its related hardware), are capitalized at cost. These costs are amortized on a straight-line basis over their estimated useful lives ranging from 3 to 5 years. Periods and method of amortization for intangible assets with finite useful lives are reviewed annually or earlier when an indicator of impairment exists.

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

Impairment of Nonfinancial Assets
At each reporting date, the Company assesses whether there is any indication that nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Company makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's or cash generating unit'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 of those from other assets or groups of assets, in which case the recoverable amount is assessed for the cash generating unit to which the asset belongs. Where the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the asset (or cash generating unit) 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 (or cash generating unit).

An impairment loss is charged to operations in the year in which it arises, unless the asset is carried at revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset.

For nonfinancial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior periods. Such reversal is recognized in profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase in other comprehensive income. After such reversal, the depreciation and amortization expense is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Insurance Contract Liabilities

Life insurance contract liabilities

Life insurance contract liabilities are recognized when the contracts are entered into and the premiums are recognized. The reserve for life insurance contracts is calculated on the basis of a prudent prospective actuarial valuation method where the assumptions used depend on the circumstances prevailing in each life operation. Assumptions and actuarial valuation methods are also subject to provisions of the Insurance Code (the Code) and guidelines set by IC.

Insurance contracts with fixed and guaranteed terms

The liability is determined as the expected discounted value of the benefit payments less the expected discounted value of the theoretical premiums that would be required to meet the benefits based on the valuation assumptions used. The liability is based on mortality, morbidity and investment income assumptions that are established at the time the contract is issued.

The Company has different assumptions for different products. However, liabilities for contractual benefits are computed to comply with statutory requirements, which require discount rates to be not more than 6% compound interest and mortality and morbidity rates to be in accordance with the standard table of mortality and morbidity. Reserves are computed per thousand of sum insured and depend on the issue age and policy duration. The net change in legal policy reserves during the year is taken to profit or loss.

Unit-linked insurance contracts

The Company issues unit-linked insurance contracts. In addition to providing life insurance coverage, a unit-linked contract links payments to units of an internal fund (unit-linked fund) set up by the Company with the consideration received from the policyholders. As allowed by PFRS 4, the Company chose not to unbundle the investment portion of its unit-linked products. Premiums received from the issuance of unit-linked insurance contracts are recognized as premiums revenue. Consideration received from the policyholders that are transferred to the unit-linked funds is recognized as "Subscriptions allocated to investment in unit-linked funds" in the statement of comprehensive income. These are separated to fund assets from which the Company withdraws administrative and cost of insurance charges in accordance with the policy provisions of the unit-linked insurance contracts. After deduction of these charges, the remaining amounts in the fund assets are equal to the surrender value of the unit-linked policies, and are withdrawable anytime. The assets and liabilities of the unit-linked funds have been segregated and reflected in "Assets held to cover unit-linked liabilities" in the Company's statement of financial position. Income or loss arising from the unit linked funds are classified under "Income on assets held to cover unit-linked liabilities" in the statement of comprehensive income. Withdrawals or surrenders of unit-linked funds are presented as "Decrease in unit-linked liabilities due to surrenders" in the statement of comprehensive income.

Assets held to cover unit-linked liabilities are valued at market price. Changes in the assets held to cover unit-linked liabilities due to investment earnings or market value fluctuations result to the same corresponding change in the unit-linked liabilities. Such changes in fund value have no effect on the Company's statement of comprehensive income. As of end of the reporting period, unit-linked liabilities are computed on the basis of the number of units allocated to the policyholders multiplied by the unit price of the underlying funds.

The equity of each unit-linked policyholder in the fund is monitored through the designation of outstanding units for each policy. Hence, the equity of each unit-linked insurance contract in the fund is equal to its total number of outstanding units multiplied by the net assets value per unit (NAVPU). The NAVPU is the market value of the fund divided by its total number of outstanding units.

Liability adequacy test
Liability adequacy tests are performed annually to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and policy administration expenses are used. Any deficiency is immediately charged against profit or loss initially by establishing a provision for losses arising from the liability adequacy tests.

Reserve for Policyholders' Dividends
DPF is a contractual right that gives policyholders the right to receive supplementary discretionary returns through participation in the surplus arising from participating business. These returns are subject to the discretion of the Company and are within the constraints of the terms and conditions of the contract. Reserves for discretionary benefits, such as dividends, are currently set at the minimum allowed by regulation, which is the earned portion of dividends for the next policy year.

Pension Benefit Obligation
Pension cost is actuarially determined using the projected unit credit method. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur. Pension cost includes current service cost, interest cost, expected return on any plan assets, recognized actuarial gains and losses, the effect of any past service cost and curtailment or settlement.

The net pension liability recognized by the Company in respect of its defined benefit pension plan is the present value of the defined benefit obligation at the reporting date less the fair value of the plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs that shall be recognized in later periods.

The present value of the defined benefit obligation, as computed by an independent actuary, is determined using risk-free interest rate of government bonds that have terms to maturity approximating to the terms of the related pension liability or applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments. Cumulative actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged against profit or loss when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Past service cost, if any, is recognized immediately in profit or loss, 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 cost is amortized on a straight-line basis over the vesting period.

Revenue Recognition
Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. The Company assesses its revenue arrangements against specific criteria in order to determine if it acting as principal or agent. The Company has concluded that it is acting as principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Premium income
Gross recurring premiums from life insurance contracts are recognized as revenue when payable by the policyholder. For single premium business, revenue is recognized on the date from which the policy becomes effective. For regular premium contracts, receivables are recorded at the date when payments are due.

Investment income
Interest income
For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as AFS financial assets, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The change in carrying amount is recorded as interest income.

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss.

For interest-bearing financial assets at FVPL, interest income is recognized as it accrues.
Dividend income
Dividend income is recognized when the shareholders' right to receive the payment is established.

Rental income
Rental income from investment properties is recognized on a straight-line basis over the lease term.

Asset management fees
Unit-linked funds are charged for fund management and administration. These fees are recognized as revenue in the period in which the related services are rendered.

Benefits, Claims and Expenses Recognition
Benefits and claims
Benefits and claims consist of cost of all claims incurred during the period, which includes excess benefit claims for unit-linked contracts, as well as changes in the valuation of insurance contract liabilities. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. Ceded reinsurance recoveries are accounted for in the same period as the underlying claim.

Interest expense
Interest expense on accumulated policyholders' dividends and premium deposit fund is recognized through profit or loss as it accrues and is calculated by using the effective interest rate method. Accrued interest is credited to the liability account every month.

Commission expense
Commission expense is recognized as incurred. Commissions are paid to agents and financial executives from selling individual and group policies. Rates applied on collected premiums vary depending on the type of product and payment terms of the contract. Referral fees are also paid in relation to the referrals made through the bancassurance business (see Note 24).

Taxes, operating and administrative expenses
Taxes, operating and administrative expenses are recognized in the statement of comprehensive income as incurred.

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

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

Company as a lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term. Minimum lease payments are recognized on a straight-line basis while the variable rent is recognized as an expense based on the terms of the lease contract.

Company as a lessor
Leases where the lessor 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.

Income Tax
Income tax for the year consists of current and deferred tax. Income tax is determined in accordance with Philippine tax laws. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity or other comprehensive income. Tax on these items is recognized in equity or other comprehensive income.

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 this amount are those that are enacted or substantively enacted as of the reporting date.

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

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess of minimum corporate income tax (MCIT) over the regular corporate 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 excess MCIT and NOLCO can be utilized.

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

Current tax and deferred tax relating to items recognized directly in other comprehensive income are likewise recognized in other comprehensive income.

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply 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 as of end of the reporting period. Movements in the deferred tax assets and liabilities arising from changes in the rates are charged or credited to profit or loss for the period.

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

Provisions
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, and when 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 discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

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

Events After the Reporting Date
Post year-end events that provide additional information about the Company's financial position at end of the reporting date (adjusting event) are reflected in the financial statements. Post year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

Future Changes in Accounting Policies

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

- PAS 24 (Amended), *Related Party Disclosures*
  The amended Standard is effective for annual periods beginning on or after January 1, 2011. 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. Early adoption is permitted for either the partial exemption for government-related entities or for the entire Standard.

- PAS 32 (Amended), *Financial Instruments: Presentation - 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.

- PAS 12 (Amended), *Income Taxes - 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.

- PFRS 7 (Amended), *Financial Instruments: Disclosures - 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.

- 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 early 2011. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

- Philippine Interpretation IFRIC 14 (Amended), *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 15, *Agreement for Construction of Real Estate*
  This Philippine 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 Philippine Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*
  This Philippine Interpretation is effective for annual periods beginning on or after July 1 2010. The Philippine 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.

Improvements to PFRS
The omnibus amendments to PFRS released in May 2010 were issued primarily with a view to removing inconsistencies and clarifying wordings. There are separate transitional provisions for each Standard and these will become effective January 1, 2011, except as otherwise indicated. The Company does not expect the adoption of these Amendments to have significant impact on its financial statements.

- PFRS 3, *Business Combinations*
  This amendment clarifies that the amendments to PFRS 7, *Financial Instruments: Disclosures*, PAS 32, *Financial Instruments: Presentation* and PAS 39, *Financial Instruments: Recognition and Measurement*, 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).

  It also limits the scope of the measurement choices that only the components of 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.

- PFRS 7, *Financial Instruments: Disclosures*
  This amendment emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments. 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) Requires, 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 disclosure 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.

- PAS 1, *Presentation of Financial Statements*
  This amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

- PAS 27, *Consolidated and Separate Financial Statements*
  This amendment clarifies that the consequential amendments from PAS 27 made to PAS 21, *The Effect of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates* and PAS 31, *Interests in Joint Ventures* apply prospectively for annual periods beginning on or after July 1, 2009 or earlier when PAS 27 is applied earlier.

- PAS 34, *Interim Financial Reporting*
  This amendment provides guidance to illustrate how to apply disclosure principles in PAS 34 and add disclosure requirements around: 1) the circumstances likely to affect fair values of financial instruments and their classification; 2) transfers of financial instruments between different levels of the fair value hierarchy; 3) changes in classification of financial assets; and 4) changes in contingent liabilities and assets.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
  This amendment clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.

3. **Significant Accounting Judgments, Estimates and Assumptions**

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

Estimates and judgments 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.

Judgments

Product classification

The Company has determined that the traditional insurance policies and the unit-linked insurance policies have significant insurance risks and therefore meet the definition of insurance contracts and should be accounted for as such.

Operating leases - Company as a lessor

The Company has entered into property leases on its investment property portfolio. The Company has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases. The future minimum rentals receivable under noncancellable operating leases amounted to ₱2,880,444, ₱3,457,920 and ₱5,186,880 as of December 31, 2010, December 31, 2009 and January 1, 2009, respectively (see Note 25).

Operating leases - Company as a lessee

The Company has entered into contracts of lease for the office spaces of its branches. The Company has determined that all significant risks and rewards of ownership on these properties are retained by the respective lessors. The future minimum rentals payable under noncancellable operating lease amounted to ₱77,977,143, ₱117,320,024 and ₱147,304,065 as of December 31, 2010, December 31, 2009 and January 1, 2009, respectively (see Note 25).

Estimates

Legal policy reserves

In determining the legal policy reserves, estimates are made as to the expected number of deaths, illness or injury for each of the years in which the Company is exposed to risk. These estimates are based on standard mortality and morbidity tables as required by the Code. The estimated number of deaths, illness or injury determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves, which in return is monitored against current and future premiums. Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns, as well as expectations about future economic and financial developments.
In accordance with the provisions of the Code, estimates for future deaths, illness or injury and investment returns are determined at the inception of the contract and are used to calculate the liability over the term of the contract. The interest rate used to discount future liabilities does not exceed 6% as required by the Code. Likewise, no lapse, surrender and expense assumptions are factored in the computation of the liability.

The carrying values of legal policy reserves, shown as part of insurance contract liabilities, amounted to ₱7,384,444,644, ₱6,908,965,923 and ₱6,589,978,982 as of December 31, 2010, December 31, 2009 and January 1, 2009, respectively (see Note 12).

Fair value of financial instruments
Fair value determinations for financial instruments are based generally on listed or quoted market prices. Where the fair values of financial assets and financial liabilities recorded in the statement of financial position or disclosed in the notes to the financial statements cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation. Certain financial assets and liabilities were initially recorded at fair values by using the discounted cash flow method.

As of December 31, 2010, December 31, 2009 and January 1, 2009, the carrying value of the financial assets at FVPL amounted to ₱2,792,463,518, ₱2,778,371,647 and ₱2,541,176,686, respectively (see Note 6). As of December 31, 2010, December 31, 2009 and January 1, 2009, the carrying value of AFS financial assets recognized at fair value amounted to ₱7,130,521,625, ₱6,262,625,966 and ₱5,133,376,586, respectively (see Note 6).

Impairment of loans and receivables
The Company reviews its loans and receivables at each reporting date to assess whether an allowance for impairment should be recognized. In particular, judgment by 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.

The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, age of balances, financial status of counterparties, payment behavior and known market factors. The Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowance on a regular basis.

In addition to specific allowance against individually significant loans and receivables, the Company 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 amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase recorded expenses and decrease net income.

Insurance receivables, net of allowance for impairment losses, amounted to ₱125,196,775, ₱84,372,725 and 76,906,647 as of December 31, 2010, December 31, 2009 and January 1, 2009, respectively. The related allowance for impairment losses amounted to nil, ₱6,043,055 and ₱6,043,055 as of Dcember 31, 2010, December 31, 2009 and January 1, 2009, respectively (see Note 5).

As of December 31, 2010, December 31, 2009 and January 1, 2009, loans and receivables, net of allowance for impairment losses, amounted to ₱496,163,305, ₱441,057,089 and ₱456,824,570, respectively. The related allowance for impairment losses amounted to ₱4,615,970, ₱9,011,886 and ₱11,270,818 as of December 31, 2010, December 31, 2009 and January 1, 2009, respectively (see Note 6).

Impairment of AFS financial assets
The Company treats AFS equity investments as 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. The determination of what is 'significant' or 'prolonged' requires judgment. The Company treats 'significant' generally as 20% or more and 'prolonged' as greater than 12 months for quoted equity investments. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. Impairment may be appropriate also when there is evidence of deterioration in the financial health of the investee, the industry and sector performance, changes in technology and operational and financing cash flows.

The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase recorded expenses and decrease net income.

As of December 31, 2010, December 31, 2009 and January 1, 2009, the carrying value of AFS equity investments amounted to ₱316,406,944, ₱174,160,145 and ₱96,966,610, respectively (see Note 6).

Estimated useful lives of property and equipment, investment properties and intangible assets
The Company reviews annually the estimated useful lives of property and equipment, investment properties and intangible assets based on the period over which the assets are expected to be available for use. It is possible that future results of operations could be materially affected by changes in these estimates. A reduction in the estimated useful lives of property and equipment, investment properties and intangible assets would increase recorded depreciation and amortization expense and decrease the related asset accounts.

As of December 31, 2010, the carrying values of the property and equipment, investment properties and intangible assets amounted to ₱126,819,999, ₱19,502,514 and ₱3,962,092, respectively. As of December 31, 2009, the carrying values of property and equipment, investment properties and intangible assets amounted to ₱124,149,957, ₱14,110,940 and nil, respectively. As of January 1, 2009, the carrying values of the property and equipment, investment properties and intangible assets amounted to ₱144,661,870, ₱24,802,203 and ₱2,563,840, respectively (see Notes 8, 9 and 10).

Impairment of nonfinancial assets
The Company assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amounts of assets may not be recoverable. The factors that the Company 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 Company recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. Recoverable amount is computed using the value in use approach. Recoverable amounts are estimated for individual assets or, if not possible, for the cash-generating unit to which the asset belongs.

As of December 31, 2010, the carrying values of the property and equipment, investment properties and intangible assets amounted to ₱126,819,999, ₱19,502,514 and ₱3,962,092, respectively. As of December 31, 2009, the carrying values of property and equipment, investment properties and intangible assets amounted to ₱124,149,957, ₱14,110,940 and nil, respectively. As of January 1, 2009, the carrying values of the property and equipment, investment properties and intangible assets amounted to ₱144,661,870, ₱24,802,203 and ₱2,563,840, respectively (see Notes 8, 9 and 10).

Recognition of deferred tax assets
Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which these can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized. These assets are periodically reviewed for realization. Periodic reviews cover the nature and amount of deferred income and expense items, expected timing when assets will be used or liabilities will be required to be reported, reliability of historical profitability of businesses expected to provide future earnings and tax planning strategies which can be utilized to increase the likelihood that tax assets will be realized.

As of January 1, 2009, the Company's recognized deferred tax assets amounted ₱3,273,685. As of December 31, 2010, December 31, 2009 and January 1, 2009, certain deferred tax assets have not been recognized since there is insufficient certainty as to the availability of future taxable income (see Note 22).

Pension and other employee benefits
The determination of pension obligation and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rate, expected return on plan assets and salary increase rate. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payouts as of reporting dates. Refer to Note 21 for the details of assumptions used in the calculation. In accordance with PAS 19, actual results that differ from the Company's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension obligation.

As of December 31, 2010 and 2009, the Company has unrecognized net actuarial gains of ₱45,984,143 and ₱31,071,248, respectively (see Note 21). The carrying values of net pension liabilities as of December 31, 2010, December 31, 2009 and January 1, 2009 amounted to ₱9,957,620, ₱8,598,226 and 4,580,404, respectively (see Note 21).

The Company also estimates other employee benefit obligations and expenses, including costs of paid leaves based on historical leave availments of employees and subject to the Company's policy. These estimates may vary depending on the future changes in salaries and actual experiences during the year.

The accrued balance of other employee benefits included in accrued incentives and bonuses as of December 31, 2010, December 31, 2009 and January 1, 2009 amounted to ₱18,294,804, ₱22,301,014 and ₱20,322,868, respectively.

Contingencies
The Company is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with legal counsels and based upon an analysis of potential results. The Company currently does not believe these proceedings will have a material adverse effect on the Company's financial position.

4. **Cash and Cash Equivalents**

This account consists of:

	December 31		January 1
	2010	2009 (As restated)	2009 (As restated)
Petty cash fund	**₱625,943**	₱579,376	₱279,743
Cash in commercial banks (Notes 23 and 24)	**266,070,330**	458,420,708	97,812,107
Short-term deposits in commercial banks (Note 24)	**1,445,695,148**	413,678,971	1,147,538,748
	₱1,712,391,421	₱872,679,055	₱1,245,630,598

Cash in banks earns interest at the prevailing bank deposit rates. Short-term deposits are made for varying periods not exceeding three months depending on the immediate cash requirements of the Company, and earn interest at the prevailing short-term deposit rates.

5. **Insurance Receivables**

This account consists of:

	December 31		January 1
	2010	2009	2009
Due from reinsurers	**₱39,652,353**	₱31,277,044	₱26,530,530
Less allowance for impairment losses	**–**	6,043,055	6,043,055
	39,652,353	25,233,989	20,487,475
Premiums due and uncollected	**85,544,422**	59,138,736	56,419,172
	₱125,196,775	₱84,372,725	₱76,906,647

Amounts due from reinsurers pertain to amounts recoverable from the reinsurers in respect of claims already incurred by the Company.

The following table shows aging information of insurance receivables:

December 31, 2010

	< 30 days	**30 - 60 days**	**61 - 120 days**	**121 - 180 days**	**> 180 days**	**Total**
Due from reinsurers	**₱–**	**₱1,750,000**	**₱–**	**₱–**	**₱37,902,353**	**₱39,652,353**
Premiums due and uncollected	**48,657,060**	**17,616,240**	**14,670,459**	**4,600,663**	**–**	**85,544,422**
	₱48,657,060	**₱19,366,240**	**₱14,670,459**	**₱4,600,663**	**₱37,902,353**	**₱125,196,775**

December 31, 2009

	< 30 days	30 - 60 days	61 - 120 days	121 - 180 days	> 180 days	Total
Due from reinsurers	₱1,465,090	₱–	₱–	₱–	₱29,811,954	₱31,277,044
Premiums due and uncollected	31,434,833	10,812,212	12,403,596	4,488,095	–	59,138,736
	₱32,899,923	₱10,812,212	₱12,403,596	₱4,488,095	₱29,811,954	₱90,415,780

January 1, 2009

	< 30 days	30 - 60 days	61 - 120 days	121 - 180 days	> 180 days	Total
Due from reinsurers	₱2,500,000	₱10,200,000	₱–	₱7,787,475	₱6,043,055	₱26,530,530
Premiums due and uncollected	28,099,313	9,034,550	13,232,954	6,052,355	–	56,419,172
	₱30,599,313	₱19,234,550	₱13,232,954	₱13,839,830	₱6,043,055	₱82,949,702

The following is a reconciliation of the changes in the allowance for impairment losses on due from reinsurer:

	2010	2009
At January 1	**₱6,043,055**	₱6,043,055
Recoveries (Note 18)	**(6,043,055)**	–
At December 31	**₱–**	₱6,043,055

6. **Financial Assets**

The Company's financial assets are summarized by measurement categories as follows:

	December 31		January 1
	2010	2009 (As restated)	2009 (As restated)
Financial assets at FVPL	**₱2,792,463,518**	₱2,778,371,647	₱2,541,176,686
AFS financial assets	**7,139,585,725**	6,270,305,066	5,139,610,686
Loans and receivables - net	**496,163,305**	441,057,089	456,824,570
	₱10,428,212,548	₱9,489,733,802	₱8,137,611,942

As of December 31, 2010 and 2009, the financial assets at FVPL are designated by management as at FVPL on initial recognition.

The assets included in each of the categories above are detailed below:

Financial assets at FVPL and AFS financial assets

	Financial assets at FVPL			AFS financial assets		
	December 31		January 1	December 31		January 1
	2010	2009 (As restated)	2009 (As restated)	**2010**	2009	2009
Government debt securities						
Local currency	**₱1,992,490,729**	₱2,016,662,481	₱1,976,268,340	**₱4,228,298,173**	₱3,067,060,576	₱2,258,030,852
Foreign currency	**176,841,724**	255,554,671	251,125,815	**2,552,944,554**	2,986,389,685	2,744,173,339
Listed equity securities	**588,709,464**	479,704,394	294,072,130	**307,342,844**	166,481,045	90,732,510
Golf club shares	–	–	–	**9,064,100**	7,679,100	6,234,100
Private debt securities	–	–	–	**41,936,054**	42,694,660	40,439,885
Investment in unit-linked funds (Note 11)	**34,421,601**	26,450,101	19,710,401	–	–	–
	₱2,792,463,518	₱2,778,371,647	₱2,541,176,686	**₱7,139,585,725**	₱6,270,305,066	₱5,139,610,686

The carrying values of financial assets at FVPL and AFS financial assets have been determined as follows:

	Financial assets at FVPL	**AFS financial assets**	**Total**
At January 1, 2009 (As restated)	₱2,541,176,686	₱5,139,610,686	₱7,680,787,372
Additions	–	1,062,329,032	1,062,329,032
Disposals/maturities	(1,392,960)	(167,920,574)	(169,313,534)
Net fair value gains (Note 17)	244,806,510	327,921,685	572,728,195
Amortization of premium	–	(29,327,573)	(29,327,573)
Foreign exchange adjustments	(6,218,589)	(62,308,190)	(68,526,779)
At December 31, 2009 (As restated)	**2,778,371,647**	**6,270,305,066**	**9,048,676,713**
Additions	**–**	**1,505,126,370**	**1,505,126,370**
Disposals/maturities	**(218,064,954)**	**(739,251,875)**	**(957,316,829)**
Net fair value gains (Note 17)	**241,361,180**	**292,018,250**	**533,379,430**
Amortization of premium	**–**	**(80,645,122)**	**(80,645,122)**
Foreign exchange adjustments	**(9,204,355)**	**(107,966,964)**	**(117,171,319)**
At December 31, 2010	**₱2,792,463,518**	**₱7,139,585,725**	**₱9,932,049,243**

As of December 31, 2010, December 31, 2009 and January 1, 2009, government securities totaling ₱87,500,000 are deposited with the IC in accordance with the provisions of the Code as security for the benefit of policyholders and creditors of the Company.

Investments in bonds and government securities bear interest ranging from 5.25% to 18.25% per annum for peso bonds and from 8.25% to 9.88% per annum for dollar bonds.

Loans and receivables

	December 31		January 1
	2010	2009 (As restated)	2009 (As restated)
Intercompany receivables (Note 24)	**₱88,457,494**	₱45,652,337	₱32,198,562
Due from officers and employees	**27,216,298**	33,338,587	23,322,479
Due from agents	**10,490,127**	15,244,688	17,360,554
Other receivables	**4,717,641**	2,737,775	1,354,224
	130,881,560	96,973,387	74,235,819
Less allowance for impairment losses	**9,793,373**	9,011,886	11,270,818
	121,088,187	87,961,501	62,965,001
Policy loans	**375,075,118**	353,095,588	393,859,569
	₱496,163,305	₱441,057,089	₱456,824,570

Amounts due from officers and employees include secured interest-bearing loans pertaining to car plan and salary loans, and other unsecured non-interest bearing loans and advances granted to the Company's officers and employees. Interest rates on interest bearing loans range from 6% to 12% in 2010 and 2009.

Policy loans pertain to loans granted to policyholders. The loan is granted with the cash surrender value of the policyholder's insurance policy as collateral. Interest rates on peso and dollar policy loans are pegged at 10% and 8%, respectively.

The following is a reconciliation of the changes in the allowance for impairment losses on loans and receivables:

	Due from officers and employees	Due from agents	Other receivables	Total
At January 1, 2009	₱819,652	₱9,042,490	₱1,408,675	₱11,270,817
Recoveries	–	(51,167)	–	(51,167)
Amount written off	–	(2,207,764)	–	(2,207,764)
At December 31, 2009	**819,652**	**6,783,559**	**1,408,675**	**9,011,886**
Charges (Note 18)	**–**	**–**	**781,487**	**781,487**
At December 31, 2010	**₱819,652**	**₱6,783,559**	**₱2,190,162**	**₱9,793,373**

7. Accrued Income

This account consists of accrued interest on:

	December 31		January 1
		2009	2009
	2010	(As restated)	(As restated)
AFS financial assets	**₱153,065,509**	₱152,122,716	₱143,132,299
Financial assets at FVPL	**46,186,389**	52,399,013	51,738,340
Loans and receivables	**15,826,973**	20,192,323	15,101,131
Cash and cash equivalents	**876,391**	349,628	1,762,640
	₱215,955,262	₱225,063,680	₱211,734,410

8. Investment Properties

The rollforward analysis of this account follows:

	2010	2009
Cost		
At January 1	**₱33,899,097**	₱65,231,702
Additions	**6,754,000**	–
Disposals	**–**	(31,332,605)
At December 31	**40,653,097**	33,899,097
Accumulated depreciation		
At January 1	**19,788,157**	40,429,499
Disposals	**–**	(22,003,768)
Depreciation (Note 20)	**1,362,426**	1,362,426
At December 31	**21,150,583**	19,788,157
Net book value	**₱19,502,514**	₱14,110,940

Depreciation expense charged to operations in 2010 and 2009 amounted to ₱1,362,426.
Based on the appraisal conducted on November 24, 2010, the investment properties have a total fair value of ₱33,083,400. The values were arrived at using the Sales Comparison Approach. This approach involves the analysis of rental and capital values of comparable properties in the vicinity. Adjustments are made to reflect the differences in use, location, tenure, size, amenities, efficiency, age and condition of the subject property. Upon confirmation with the Company's independent appraiser, management believes that there is no significant change in the fair value of the condominium units from the appraisal conducted on November 24, 2010 compared to its value on December 31, 2010.

Rental income on investment properties amounted to ₱1,100,100 and ₱820,564 in 2010 and 2009, respectively (see Notes 18 and 25). Direct operating expenses related to these investment properties in 2010 and 2009 amounted to ₱1,440,816 and ₱1,467,589, respectively.

9. Property and Equipment

The rollforward analysis of this account follows:

	Building	Leasehold Improvements	Transportation Equipment	Computer Equipment	Furniture and Equipment	Total
Cost						
At January 1, 2009	₱124,204,877	₱66,173,001	₱22,039,833	₱115,675,435	₱56,798,060	₱384,891,206
Additions	–	1,127,353	3,276,140	11,845,952	925,957	17,175,402
Disposals	–	–	(5,670,891)	–	(70,520)	(5,741,411)
At December 31, 2009	**124,204,877**	**67,300,354**	**19,645,082**	**127,521,387**	**57,653,497**	**396,325,197**
Additions	**–**	**7,195,162**	**4,099,847**	**28,263,010**	**2,559,638**	**42,117,657**
Disposals	**–**	**–**	**(2,176,474)**	**(1,097,110)**	**–**	**(3,273,584)**
At December 31, 2010	**₱124,204,877**	**₱74,495,516**	**₱21,568,455**	**₱154,687,287**	**₱60,213,135**	**₱435,169,270**
Accumulated depreciation and amortization						
At January 1, 2009	₱62,788,129	₱22,273,607	₱14,453,512	₱91,190,707	₱49,523,381	₱240,229,336
Depreciation and amortization (Note 20)	5,356,740	10,194,087	2,948,014	15,942,097	2,252,549	36,693,487
Disposals	–	–	(4,677,063)	–	(70,520)	(4,747,583)
At December 31, 2009	**68,144,869**	**32,467,694**	**12,724,463**	**107,132,804**	**51,705,410**	**272,175,240**
Depreciation and amortization (Note 20)	**5,926,740**	**10,578,317**	**3,431,816**	**16,514,049**	**2,630,815**	**39,081,737**
Disposals	**–**	**–**	**(1,835,417)**	**(1,072,289)**	**–**	**(2,907,706)**
At December 31, 2010	**₱74,071,609**	**₱43,046,011**	**₱14,320,862**	**₱122,574,564**	**₱54,336,225**	**₱308,349,271**
Net book value						
At December 31, 2010	**₱50,133,268**	**₱31,449,505**	**₱7,247,593**	**₱32,112,723**	**₱5,876,910**	**₱126,819,999**
At December 31, 2009	₱56,060,008	₱34,832,660	₱6,920,619	₱20,388,583	₱5,948,087	₱124,149,957

Depreciation and amortization expense charged to operations amounted to ₱39,081,737 and ₱36,693,487 in 2010 and 2009, respectively.

10. Intangible Assets

The rollforward analysis of this account follows:

	2010	2009
Cost		
At January 1	**₱73,062,432**	₱73,062,432
Additions	**4,167,250**	–
At December 31	**77,229,682**	73,062,432
Accumulated amortization		
At January 1	**73,062,432**	70,498,592
Amortization (Note 20)	**205,158**	2,563,840
At December 31	**73,267,590**	73,062,432
Net book value	**₱3,962,092**	₱–

Intangible assets pertain to software costs. In 2010, the amount of additions pertains to the present value of installment payments for the enhancement of the Company's software.

Amortization expense charged to operations amounted to ₱205,158 and ₱2,563,840 in 2010 and 2009, respectively.

11. **Assets Held to Cover Unit-Linked Liabilities**

This account consists of:

	December 31		January 1
	2010	2009 (As restated)	2009 (As restated)
Net asset values of the unit-linked funds (Note 24)	**₱22,705,473,750**	₱21,899,924,553	₱20,854,721,643
Subscriptions to be transferred to unit-linked funds	**208,790,341**	111,054,724	17,271,203
Investment in unit-linked funds under financial assets at FVPL (Note 6)	**(34,421,601)**	(26,450,101)	(19,710,401)
	₱22,879,842,490	₱21,984,529,176	₱20,852,282,445

The unit-linked funds' net asset value consists of:

	December 31		January 1
	2010	2009 (As restated)	2009 (As restated)
Assets			
Cash and cash equivalents			
Cash in bank	**₱58,126,949**	₱14,435,823	₱4,244,330
Short-term deposits	**911,898,885**	826,286,225	1,737,919,303
Financial assets at fair value through profit or loss			
Government debt securities			
Local currency	**8,958,514,151**	7,927,144,986	7,595,738,727
Foreign currency	**8,454,285,542**	8,381,692,859	8,400,149,805
Listed equity securities	**4,144,524,805**	4,331,245,820	2,788,399,478
Derivative asset	**26,688,442**	1,929,214	–
Accrued income			
Interest receivable	**308,869,369**	345,258,075	400,961,003
Dividend receivable	**1,274,807**	840,613	751,273
Accounts receivable	**87,531,465**	132,252,763	646,696
	22,951,714,415	21,961,086,378	20,928,810,615
Liabilities			
Accounts payable	**166,227,981**	12,775,299	12,029,192
Asset management fees payable (Note 24)	**52,841,898**	35,523,525	31,552,352
Administration and custody fees payable (Note 24)	**20,540,501**	7,242,684	25,419,455
Service fees payable (Note 24)	**6,630,285**	5,620,317	5,087,973
	246,240,665	61,161,825	74,088,972
	₱22,705,473,750	₱21,899,924,553	₱20,854,721,643

Derivative asset
The Company, through AXA Philippine Armor Fund, entered into a derivative transaction with Metropolitan Bank and Trust Company (MBTC), an affiliate. The derivative asset pertains to bond swap classified under financial assets at FVPL. The Company exchanged ₱223,572,719 to buy US$4,650,982 at US$1 to ₱48.07 spot rate. Under this agreement, the Company used the US dollars to purchase US$4,130,000 par value Republic of the Philippines (ROP) bonds maturing on January 14, 2014. At maturity date, the aggregate face value of the ROP bonds plus the last coupon payment, both in US dollars, will be exchanged for Philippine peso using the pre-agreed forward rate of ₱51.62. The market value of the bonds and the unrealized gain on the derivative asset amounted to ₱200,015,704 and ₱26,688,442 as of December 3, 2010, and ₱22,289,212 and ₱1,929,214 as of December 31, 2009.

Accounts receivable pertain to due from brokers and subscriptions from unitholders.

Accounts payable pertain to due to brokers and redemptions payable to unitholders.

12. **Insurance Contract Liabilities**

This account consists of:

	December 31		January 1
	2010	2009 (As restated)	2009 (As restated)
Legal policy reserves	**₱7,384,444,644**	₱6,908,965,923	₱6,589,978,982
Claims payable	**386,322,619**	353,470,096	279,675,444
	₱7,770,767,263	₱7,262,436,019	₱6,869,654,426

Insurance contract liabilities may be analyzed as follows (in thousands):

December 31, 2010

	Insurance contract liabilities	**Reinsurers' share of liabilities**	**Net**
Aggregate reserves for ordinary life policies	**₱7,311,317**	**₱2,657**	**₱7,308,660**
Policy and contract claims	**386,323**	**–**	**386,323**
Aggregate reserves for group life policies	**53,774**	**1,887**	**51,887**
Cost of insurance related reserves	**23,095**	**2**	**23,093**
Aggregate reserves for accident and health policies	**804**	**–**	**804**
	₱7,775,313	**₱4,546**	**₱7,770,767**

December 31, 2009 (As restated)

	Insurance contract liabilities	Reinsurers' share of liabilities	Net
Aggregate reserves for ordinary life policies	₱6,829,534	₱2,458	₱6,827,076
Policy and contract claims	353,470	–	353,470
Aggregate reserves for group life policies	56,018	2,275	53,743
Cost of insurance related reserves	22,098	2	22,096
Aggregate reserves for accident and health policies	6,051	–	6,051
	₱7,267,171	₱4,735	₱7,262,436

January 1, 2009 (As restated)

	Insurance contract liabilities	Reinsurers' share of liabilities	Net
Aggregate reserves for ordinary life policies	₱6,497,582	₱1,224	₱6,496,358
Policy and contract claims	279,675	–	279,675
Aggregate reserves for group life policies	58,866	2,145	56,721
Cost of insurance related reserves	36,702	222	36,480
Aggregate reserves for accident and health policies	420	–	420
	₱6,873,245	₱3,591	₱6,869,654

Legal policy reserves may be analyzed as follows:

	December 31		January 1
	2010	2009 (As restated)	2009 (As restated)
Gross			
With fixed and guaranteed terms:			
Fixed and guaranteed - nonparticipating	**₱599,247,127**	₱650,594,744	₱745,155,086
Partially fixed and guaranteed - participating	**6,766,648,762**	6,241,007,732	5,811,712,556
Cost of insurance	**23,094,690**	22,098,288	36,701,980
	7,388,990,579	6,913,700,764	6,593,569,622
Recoverable from reinsurers			
With fixed and guaranteed terms:			
Fixed and guaranteed - nonparticipating	**2,320,976**	2,677,416	2,268,469
Partially fixed and guaranteed - participating	**2,222,836**	2,055,462	1,100,469
Cost of insurance	**2,123**	1,963	221,702
	4,545,935	4,734,841	3,590,640
Net			
With fixed and guaranteed terms:			
Fixed and guaranteed - nonparticipating	**596,926,151**	647,917,328	742,886,617
Partially fixed and guaranteed - participating	**6,764,425,926**	6,238,952,270	5,810,612,087
Cost of insurance	**23,092,567**	22,096,325	36,480,278
	₱7,384,444,644	₱6,908,965,923	₱6,589,978,982

The movements in legal policy reserves during the year follow (in thousands):

	2010			2009 (As restated)		
	Insurance Contract liabilities	**Reinsurers' share of liabilities**	**Net**	Insurance Contract liabilities	Reinsurers' share of liabilities	Net
At January 1	**₱6,913,701**	**₱4,735**	**₱6,908,966**	₱6,593,570	₱3,591	₱6,589,979
Tabular net premiums or considerations	**1,233,080**	**–**	**1,233,080**	670,519	–	670,519
Tabular interest	**433,100**	**–**	**433,100**	410,937	–	410,937
Other increase	**7,217**	**(189)**	**7,406**	215,895	1,144	214,751
	8,587,098	**4,546**	**8,582,552**	7,890,921	4,735	7,886,186
Tabular cost	**825,406**	**–**	**825,406**	643,540	–	643,540
Reserves released by death	**6,752**	**–**	**6,752**	3,414	–	3,414
Reserves released by other terminations	**316,860**	**–**	**316,860**	264,121	–	264,121
	1,149,018	**–**	**1,149,018**	911,075	–	911,075
Foreign exchange adjustments	**(49,089)**	**–**	**(49,089)**	(66,145)	–	(66,145)
At December 31	**₱7,388,991**	**₱4,546**	**₱7,384,445**	₱6,913,701	₱4,735	₱6,908,966

The movements during the year in claims payable follow:

	2010	2009
At January 1	**₱353,470,096**	₱279,675,444
Arising during the year (Note 18)	**422,564,364**	465,496,113
Paid during the year	**(389,711,841)**	(391,701,461)
At December 31	**₱386,322,619**	₱353,470,096

13. **Insurance Contract Liabilities - Terms and Assumptions**

Terms
Life insurance contracts offered by the Company mainly include: (a) traditional whole life participating policies (with and without anticipated endowments) and a wide range of nonparticipating riders (i.e., accidental death and dismemberment, term, critical illness, hospital income, term life, etc.); (b) unit-linked products, both regular premium and single premium with nonparticipating riders; (c) various nonparticipating products; and (d) a participating US$ single-premium product. In addition, the Company offers group yearly renewable term, credit life and personal accident insurance.

<u>Life Insurance Contract Liabilities</u>
For life insurance contracts with fixed and guaranteed terms (including partially fixed and guaranteed terms), the Company determines assumptions in relation to future deaths and investment returns at inception of the contracts. These assumptions are used for calculating the liabilities during the life of the contract. These assumptions, which may be changed during the life of the contract, are in compliance with statutory requirements.

Key assumptions
Material judgment is required in determining the liabilities and in the choice of assumptions relating to insurance contracts. Assumptions are based on past experience, current internal data and conditions, and external market indices and benchmarks, which reflect current observable market prices and other published information. Such assumptions are determined as appropriate at inception of the contract and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations. Assumptions are subject to the provisions of the Code and guidelines set by the IC.

For insurance contracts, the Company determines the assumptions in relation to future deaths, illness or injury and investment returns at inception of the contract. Subsequently, new estimates are developed at each reporting date and liabilities are tested to determine whether such liabilities are adequate in the light of the latest current estimates. The initial assumptions are not altered if the liabilities are considered adequate. If the liabilities are not adequate, the assumptions are altered ("unlocked") to reflect the latest current estimates. As a result, the effect of changes in the underlying variables on insurance liabilities and related assets is not symmetrical. Improvements in estimates have no impact on the value of the liabilities and related assets, while significant enough deteriorations in estimates have an impact.

The key assumptions to which the estimation and adequacy testing of liabilities are particularly sensitive follows:

- Mortality and morbidity rates
  Assumptions are based on standard industry and national mortality and morbidity tables, according to the type of contract written and which may be adjusted where appropriate to reflect contract type. For life insurance policies, increased mortality and morbidity rates would lead to a larger number of claims and claims occurring sooner than anticipated, increased the expenditure, and reduced profits for the shareholders.

- Discount rates
  Life insurance liabilities are determined as the sum of the discounted value of the expected benefits, less the discounted value of the expected future theoretical premiums that would be required to meet these future cash outflows. The weighted average rate of return is derived based on a model portfolio that is assumed to back liabilities, consistent with the long-term asset allocation strategy. These estimates are based on current market returns as well as expectations about future economic and financial developments. Interest rates used for estimating liabilities are capped at 6% by the Code. An increase in investment return would lead to an increase in profits for the shareholders. A decrease in the discount rate will increase the value of the liability.

As required by the Code, lapse, surrender and expense assumptions are not factored in the computation of the insurance contract liabilities.

The assumptions that have the greatest effect on the statements of financial position and statements of comprehensive income of the Company in 2010 and 2009 are listed below:

Portfolio assumptions by product impacting net liabilities	Mortality and morbidity rates	Discount rates
Whole life / Endowment	90% 1980 CSO	6%
	1958 CSO	6%
	1980 CSO	6%
Term insurance	1958 CSO	6%

Sensitivities
The analysis below is performed for a reasonably possible movement in key assumptions with all other assumptions held constant, on liabilities, profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumption changes had to be done on an individual basis.

December 31, 2010

	Change in assumptions	**Increase/(decrease) in liabilities**	**Increase/(decrease) in profit before tax**	**Increase/(decrease) in equity**
Mortality/morbidity	**+10%**	**₱ 21,703,144**	**(₱21,703,144)**	**(₱21,703,144)**
	-10%	**(25,421,065)**	**25,421,065**	**25,421,065**
Discount rate	**-1%**	**515,698,304**	**(515,698,304)**	**(515,698,304)**

December 31, 2009

	Change in assumptions	Increase/(decrease) in liabilities	Increase/(decrease) in profit before tax	Increase/(decrease) in equity
Mortality/morbidity	+10%	₱20,512,949	(₱20,512,949)	(₱20,512,949)
	-10%	(23,969,690)	23,969,690	23,969,690
Discount rate	-1%	483,440,378	(483,440,378)	(483,440,378)

The method used for deriving sensitivity information and significant assumptions did not change from the previous period.

Reinsurance - Assumptions and Methods
The Company limits its exposure to loss within insurance operations through participation in reinsurance arrangements. Amounts receivable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented under the "Insurance receivables" account in the statement of financial position. Even though the Company may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Company is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any reinsurance contract.

14. **Insurance Payables**

The rollforward analysis of this account follows:

	December 31		January 1
	2010	2009	2009
At January 1	**₱51,090,279**	₱44,347,747	₱40,382,333
Arising during the year (Note 18)	**23,367,242**	42,308,169	17,264,533
Paid during the year	**(10,293,255)**	(35,565,637)	(13,299,119)
At December 31	**₱64,164,266**	₱51,090,279	₱44,347,747

Insurance payables pertain to premiums due to reinsurers.

15. **Trade and Other Liabilities**

This account consists of:

	December 31		January 1
	2010	2009 (As restated)	2009 (As restated)
Accrued Expenses			
Accrued incentives and bonuses	**₱153,269,508**	₱161,727,511	₱150,315,688
Accrued shared service costs (Note 24)	**64,911,970**	25,710,896	15,192,457
Commissions payable (Note 24)	**58,774,919**	46,791,444	42,566,601
Taxes payable	**21,901,140**	50,281,942	15,424,090
Advertising expenses	**3,424,053**	12,466,332	10,246,611
Accrued professional fees	**3,218,469**	6,997,850	6,070,988
Lease liability	**2,160,317**	2,869,502	3,643,731
Dividends payable (Note 16)	**1,339,811**	1,339,811	400,400,290
Others	**48,080,885**	21,806,398	12,672,848
	357,081,072	329,991,686	656,533,304
Other Liability			
Accounts payable	**218,642,065**	113,874,616	38,972,115
	₱575,723,137	₱443,866,302	₱695,505,419

Accrued incentives and bonuses pertain to annual incentive plan and long-term incentive plan based on business performance, accrual of paid unused leaves, mid-year and 13th month pay, medical reimbursements and provident plan contribution. These are non interest bearing and payable within approved terms.

Accrued shared service costs pertain to regional charges for IT services, consultancy and support services. These are charged based on actual costs incurred. These are non interest bearing and are payable on demand.

Commissions payable pertain to sales force commissions which are non interest bearing and payable every month.

Taxes payable includes taxes withheld from staffs and agents, fringe benefits taxes, stamp duties and premium taxes.

16. Capital Stock and Retained Earnings

Capital stock
This account consists of:

	December 31		January 1
	2010	2009	2009
Authorized - 6,000,000 shares, ₱100 par value			
Issued - 3,499,914 shares as of December 31, 2010, 2,499,914 shares as of December 31, 2009 and 2,156,932 shares as of January 1, 2009	**₱349,991,400**	₱249,991,400	₱215,693,200
Subscribed - 326 shares (net of subscriptions receivable of ₱21,777)	**10,823**	10,823	10,823
	₱350,002,223	₱250,002,223	₱215,704,023

The movement of issued shares follows:

	2010	2009	2008
At January 1	**2,499,914**	2,156,932	2,156,932
Stock dividend	**–**	342,982	–
Subscriptions	**14,040**	–	–
Conversion of contingency surplus	**985,960**	–	–
At December 31	**3,499,914**	2,499,914	2,156,932

Contingency surplus
To comply with the capitalization requirement, on October 6, 2009, the Insurance Commission granted the Company's request for the conversion of its contingency surplus into paid-up capital. During the year, AXAAPH, FMIC and GT Holdings Capital accepted the offer to increase its subscription amounting to ₱98,596,000.

Retained earnings
On December 15, 2009, the BOD authorized the declaration of 16% stock dividend or a total of ₱34,298,200 and cash dividend of ₱184 per share or a total of ₱396,702,023 payable to all stockholders of record as of the same date. The cash dividends were paid on December 23, 2009.

On December 16, 2008, the BOD approved the declaration of cash dividends amounting to ₱185 per share or a total of ₱400,000,000 payable to all stockholders of record as of the same date. The cash dividends were paid on January 30, 2009.

17. **Revaluation Reserves**

The rollforward analysis of this account follows:

	Revaluation Increment on Investment Properties	Revaluation Increment on Property and Equipment	Revaluation Reserve for AFS Financial Assets	Total
At January 1, 2009	₱10,782,718	₱5,472,347	₱266,949,699	₱283,204,764
Transfers on revaluation	(675,046)	(763,886)	–	(1,438,932)
Net fair value gain (Note 6)	–	–	327,921,685	327,921,685
Transferred to profit or loss	(4,622,220)	–	(5,121,187)	(9,743,407)
Income tax effect	1,589,180	229,166	–	1,818,346
At December 31, 2009	**7,074,632**	**4,937,627**	**589,750,197**	**601,762,456**
Transfers on revaluation	**(649,204)**	**(1,365,243)**	**–**	**(2,014,447)**
Net fair value gain (Note 6)	**–**	**–**	**292,018,250**	**292,018,250**
Transferred to profit or loss	**–**	**–**	**(43,180,388)**	**(43,180,388)**
Income tax effect	**194,761**	**409,573**	**–**	**604,334**
At December 31, 2010	**₱6,620,189**	**₱3,981,957**	**₱838,588,059**	**₱849,190,205**

At the date of transition to PFRS in 2005, the Company adopted the cost method in valuing its investment properties and building under the property and equipment account, using the appraised value as its deemed cost. The revaluation increment on fixed assets was used to record increments in the fair values of investment properties and property and equipment.

The revaluation reserve for AFS financial assets records the difference between the amortized cost and fair value of debt instruments and acquisition cost and fair value of equity investments classified as AFS financial assets.

18. **Income and Benefits and Claims**

The net insurance premium revenue consists of:

	2010	2009
Premium revenue arising from contracts issued		
Unit-linked insurance contracts	**₱6,775,796,105**	₱3,276,425,045
Life insurance contracts	**1,578,505,212**	1,203,736,994
	8,354,301,317	4,480,162,039
Premium revenue ceded to reinsurers on insurance contracts issued (Note 14)		
Life insurance contracts	**18,886,947**	41,648,162
Unit-linked insurance contracts	**4,480,295**	660,007
	23,367,242	42,308,169
	₱8,330,934,075	₱4,437,853,870

The investment income account consists of:

	2010	2009 (As restated)
Interest on:		
Financial assets at FVPL	**₱218,958,312**	₱163,598,624
AFS financial assets	**467,472,672**	496,656,025
Loans and receivables	**44,226,818**	33,932,126
Cash and cash equivalents (Note 24)	**27,827,028**	23,702,172
Dividend income	**26,451,819**	21,163,219
Rental income (Note 8)	**1,100,100**	820,564
	₱786,036,749	₱739,872,730

Other income consists of:

	2010	2009 (As restated)
Asset management fees (Note 24)	**₱359,228,246**	₱376,589,606
Reversal of impairment losses - net	**5,261,568**	–
Administration and service fees	**154,410**	63,064
Miscellaneous	**175,541**	–
	₱364,819,765	₱376,652,670

Claims and benefits incurred during the year consist of (see Note 12):

	2010	2009 (As restated)
Death and hospitalization benefits	**₱192,525,498**	₱159,086,007
Surrenders	**149,138,678**	259,704,126
Maturities	**89,487,177**	64,638,303
	431,151,353	483,428,436
Reinsurers' share on claims and benefits incurred	**(8,586,989)**	(17,932,323)
	₱422,564,364	₱465,496,113

19. **Income on assets held to cover unit-linked liabilities**

This account consists of:

	2010	2009 (As restated)
Income		
Net fair value gains on financial assets at FVPL	**₱2,594,690,787**	₱3,098,624,823
Interest and dividend income	**1,314,498,891**	1,433,062,995
	3,909,189,678	4,531,687,818

(Forward)

	2010	2009 (As restated)
Expense		
Service fees	**442,097,032**	445,809,386
Fund administration and custody fees	**21,559,058**	21,336,683
Foreign exchange loss	**10,885,990**	9,635,107
Other expenses	**4,966,319**	1,494,058
	479,508,399	478,275,234
Income before final tax	**3,429,681,279**	4,053,412,584
Final tax	**120,183,290**	113,524,780
	₱3,309,497,989	₱3,939,887,804

20. **Operating and Administrative Expenses**

This account consists of:

	2010	2009 (As restated)
Salaries, allowances and benefits (Note 21)	**₱560,775,483**	₱500,379,743
Shared service costs (Note 24)	**72,518,412**	65,928,369
Rent (Note 25)	**58,317,884**	51,925,160
Collection fees	**55,933,086**	41,770,578
Advertising and promotions	**52,610,318**	28,393,521
Project development costs	**50,106,089**	34,671,049
Transportation and travel	**47,071,087**	41,148,506
Training and convention	**43,125,964**	39,916,885
Communication, light and water	**40,780,793**	37,182,315
Depreciation and amortization (Notes 8, 9 and 10)	**40,649,321**	40,619,753
Taxes, licenses and fees	**20,532,924**	15,861,839
Supplies	**12,348,394**	10,351,580
Management and directors' fees (Note 24)	**11,775,098**	17,271,953
Repairs and maintenance	**4,170,527**	4,029,651
Miscellaneous	**50,861,633**	39,804,959
	₱1,121,577,013	₱969,255,861

Collection fees pertain to accrual of services in relation to premium collections of salary deduction policies and group policies. Fees are applied to collected premiums at various rates.

Shared service costs pertain to allocated regional charges for consultancy and support services based on the service level agreement. These are non interest bearing and payable on demand.

Project development costs pertain to charges for information technology services and other expenditures. These are non interest bearing and payable on demand based on actual time spent.

21. **Employee Benefits**

The Company has a noncontributory defined benefit pension plan, covering substantially all of its employees, which requires contributions to be made by the Company to an administered fund. The Company's retirement fund is administered by a local bank as trustee (see Note 24).

The following tables summarize the components of the net benefit expense recognized in profit or loss and amounts recognized in the statements of financial position for the plan:

The amounts recognized in profit or loss follows:

	2010	2009
Current service cost	**₱10,240,801**	₱5,264,600
Interest cost on benefit obligation	**3,822,063**	3,056,025
Expected return on plan assets	**(3,285,144)**	(2,569,203)
Past service cost	**828,500**	828,500
Net actuarial gain recognized during the year	**(1,648,600)**	(2,562,100)
Net benefit expense	**₱9,957,620**	₱4,017,822

The amounts recognized in the statements of financial position follow:

	December 31		January 1
	2010	2009	2009
Fair value of plan assets	**₱58,002,823**	₱46,930,622	₱42,820,046
Present value of benefit obligation	**32,747,400**	36,057,200	14,552,500
Net pension asset	**25,255,423**	10,873,422	28,267,546
Unrecognized past service cost	**10,771,100**	11,599,600	12,428,100
Unrecognized net actuarial gains	**(45,984,143)**	(31,071,248)	(45,276,050)
Total net pension liability	**(₱9,957,620)**	(₱8,598,226)	(₱4,580,404)

Past service cost pertains to the improvements on retirement benefits in relation to the increase on maximum benefits.

Changes in the present value of the defined benefit obligation follow:

	2010	2009	2008
At January 1	**₱36,057,200**	₱14,552,500	₱25,291,800
Current service cost	**10,240,801**	5,264,600	7,099,700
Interest cost on benefit obligation	**3,822,063**	3,056,025	2,607,600
Benefits paid	**(4,842,099)**	(1,917,645)	(5,504,251)
Past service cost	–	–	13,960,800
Actuarial loss (gain)	**(12,530,565)**	15,101,720	(28,903,149)
At December 31	**₱32,747,400**	₱36,057,200	₱14,552,500

Changes in the fair value of the plan assets follow:

	2010	2009	2008
At January 1	**₱46,930,622**	₱42,820,046	₱51,852,200
Expected return on plan assets	**3,285,144**	2,569,203	3,888,915
Actual contributions	**8,598,226**	–	–
Benefits paid	**(4,842,099)**	(1,917,645)	(5,504,251)
Actuarial gain	**4,030,930**	3,459,018	(7,416,818)
At December 31	**₱58,002,823**	₱46,930,622	₱42,820,046
Actual return on plan assets	**₱7,316,074**	₱6,028,221	(₱3,527,903)

Changes in unrecognized net actuarial gains follow:

	2010	2009	2008
At January 1	**₱31,071,248**	₱45,276,050	₱24,952,500
From plan assets	**4,030,930**	3,459,018	(7,416,818)
From defined benefit obligation	**12,530,565**	(15,101,720)	28,903,149
Amortization of actuarial gains	**(1,648,600)**	(2,562,100)	(1,162,781)
At December 31	**₱45,984,143**	₱31,071,248	₱45,276,050

The distribution of the plan assets follows:

	December 31		January 1
	2010	2009	2009
Cash and cash equivalents	**₱238,778**	₱1,002,882	₱12,799,200
Government securities	**50,863,994**	38,845,269	25,485,692
Equity securities	**5,985,803**	6,184,494	4,080,670
Miscellaneous receivables	**958,799**	932,557	485,408
	58,047,374	46,965,202	42,850,970
Less liabilities	**44,551**	34,580	30,924
	₱58,002,823	₱46,930,622	₱42,820,046

In 2011, the Company does not expect to contribute to the plan as its Fund assets exceeded the AAL and normal cost for plan year 2011 by ₱15,887,823.

The principal assumptions used in determining pension liability for the Company's plan follow:

	2010	2009
Discount rate	**7.76%**	10.60%
Expected rate of return on plan assets	**6.50**	7.00
Rate of salary increase	**7.00**	5.50

The gains (losses) on experience adjustments on plan assets and plan liabilities follow:

	2010	2009	2008	2007	2006
Plan assets	**₱4,030,930**	₱3,459,018	(₱7,416,818)	(₱1,748,400)	₱6,210,495
Plan liabilties	**12,754,564**	4,560,680	(1,022,451)	6,102,000	6,212,500

Amounts of the current and previous periods follow:

	2010	2009	2008	2007	2006
Plan assets	**₱58,002,823**	₱46,930,622	₱42,820,046	₱51,852,200	₱52,347,200
Defined benefit obligation	**(32,747,400)**	(36,057,200)	(14,552,500)	(25,291,800)	(36,985,000)
Surplus	**₱25,255,423**	₱10,873,422	₱28,267,546	₱26,560,400	₱15,362,200

Staff costs and other employee related costs consist of (see Note 20):

	2010	2009
Salaries and wages	**₱497,366,805**	₱438,893,099
Short-term employee benefits	**32,159,824**	34,507,319
Social security costs and Pag-ibig contributions	**14,824,572**	12,995,086
Defined benefit pension cost	**9,957,620**	4,017,822
Others	**7,058,751**	9,966,417
	₱561,367,572	₱500,379,743

22. **Income Taxes**

Current income tax consists of:

	2010	2009 (As restated)
Final tax	**₱105,373,542**	₱90,943,389
MCIT	**13,998,871**	12,494,444
	₱119,372,413	₱103,437,833

Components of deferred tax assets and liabilities follow:

	December 31		January 1
	2010	2009	2009
Deferred tax assets on:			
Net pension liability	**₱6,218,616**	₱6,059,348	₱5,102,551
Accrued sick leaves and vacation leaves	**5,545,409**	5,488,441	757,163
Accrual of nondeductible expenses	**4,364,025**	8,322,053	–
Allowance for impairment losses	**1,384,791**	4,516,482	5,194,162
	17,512,841	24,386,324	11,053,876
Deferred tax liabilities on:			
Unrealized foreign exchange gains	**12,153,062**	18,686,870	–
Revaluation of investment properties	**2,900,915**	3,095,676	4,873,752
Revaluation of property and equipment	**1,706,553**	2,116,126	2,525,699
Adjustments on finance lease	**752,311**	487,652	259,620
Adjustments on intangible assets	–	–	121,120
	17,512,841	24,386,324	7,780,191
Net deferred tax assets	**₱–**	₱–	₱3,273,685

Deferred tax assets are recognized only to the extent that realization of the related tax benefit is probable. Deferred tax asset has not been recognized in respect of the following future deductible temporary differences:

	December 31		January 1
	2010	2009	2009
NOLCO	**₱235,928,445**	₱1,246,496,242	₱2,215,392,701
Accrual of nondeductible expenses	**251,343,368**	202,268,934	216,561,424
MCIT	**31,433,564**	17,434,693	4,940,249
Unrealized foreign exchange losses	**–**	–	21,251,615
Accrued sick leaves and vacation leaves	**–**	–	7,349,034
	₱518,705,377	₱1,466,199,869	₱2,465,495,023

The deferred tax assets have not been recognized since there is insufficient certainty as to the availability of future taxable income.

Details of the MCIT and NOLCO, which is available for offset against future taxable income follow:

Year		NOLCO				Expiry
Incurred	MCIT	Amount	Expired	Applied	Balance	Year
2010	₱13,998,871	₱29,220,219	₱–	₱–	₱29,220,219	2013
2009	12,494,444	–	–	–	–	2012
2008	4,940,249	235,928,445	–	–	235,928,445	2011
2007	–	1,010,567,797	1,010,567,979	–	–	2010
	₱31,433,564	₱1,275,716,461	₱1,010,567,979	₱–	₱265,148,664	

The reconciliation of the statutory income tax rate to the effective income tax rate follows:

	2010	2009 (As restated)
Statutory income tax rate	**30.00%**	30.00%
Add (deduct) tax effects of:		
Interest income subjected to final tax	**(11.90)**	(12.16)
Income exempt from tax	**(10.19)**	(8.30)
Nondeductible expenses	**0.43**	0.52
Change in unrecognized deferred tax assets	**4.70**	1.11
Effective income tax rate	**13.04%**	11.17%

23. Management of Insurance and Financial Risks

Governance Framework

The Company has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity, insurance and operational risk. It also supports the effective implementation of policies at the overall company and individual business unit levels.

The policies define the Company's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategies to the corporate goals and specific reporting requirements.

Regulatory Framework

Regulators are interested in protecting the rights of the policyholders and maintain close vigil to ensure that the Company is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that the Company maintains appropriate solvency position to meet liabilities arising from claims and that the risk levels are at acceptable levels.

The operations of the Company are subject to the regulatory requirements of the IC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g. margin of solvency (MOS), fixed capitalization requirements and risk-based capital (RBC) requirements) to minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise.

Capital Management

The Company manages its capital through its compliance with the statutory requirements on MOS, minimum paid-up capital and minimum net worth. The Company is also complying with the statutory regulations on RBC to measure the adequacy of its statutory surplus in relation to the risks inherent in its business. The RBC method involves developing a risk-adjusted target level of statutory surplus by applying certain factors to various asset, premium and reserve items. Higher factors are applied to more risky items and lower factors are applied to less risky items. The target level of statutory surplus varies not only as a result of the insurer's size, but also on the risk profile of the insurer's operations.

A substantial portion of the Company's long term insurance business comprises policies where the investment risk is borne by policyholders. Risk attributable to policyholders is actively managed keeping in view their investment objectives and constraints.

The Company's policy to address the situations where the capital level maintained is lower than required is to oblige the shareholders to add more capital. The Company currently holds surplus capital as a buffer for possible deviation in future profitability.

To ensure compliance with these externally imposed capital requirements, it is the Company's policy to monitor the MOS, paid-up capital, net worth and RBC requirements on a quarterly basis as part of the Company's internal financial reporting process.

Based on its calculations, the Company fully complied with the externally imposed capital requirements during the reported financial periods and no changes were made to its capital base, objectives, policies and processes from the previous year.

MOS

Under the Code, a life insurance company doing business in the Philippines shall maintain at all times a MOS equal to ₱500,000 or ₱2 per thousand of the total amount of its insurance in force for traditional policies and ₱2 per thousand of net amount at risk for unit-linked products as of the preceding calendar year on all policies, except term insurance, whichever is higher.

The MOS shall be the excess of the value of its admitted assets (as defined under the same Code), exclusive of paid-up capital, over the amount of its liabilities, unearned premiums and reinsurance reserves. As of December 31, 2010, December 31, 2009 and January 1, 2009, the Company's MOS based on its calculations amounted to ₱2,141,344,982, ₱1,896,675,044 and ₱1,924,075,594, respectively. The final amount of the MOS can be determined only after the accounts of the Company have been examined by the IC specifically as to admitted and non-admitted assets as defined under the same Code.

The estimated amounts of non-admitted assets as defined under the Code, and are still subject to examination by the IC, which are included in the accompanying statements of financial position, follow:

	December 31		January 1
	2010	2009	2009
Loans and receivables	**₱121,154,059**	₱81,980,461	₱82,470,289
Property and equipment - net	**44,574,008**	47,701,366	58,760,394
Intangible assets	**–**	–	2,563,840
Other assets	**47,429,881**	14,809,797	26,083,876
	₱213,157,948	₱144,491,624	₱169,878,399

If an insurance company failed to meet the minimum required MOS, the IC is authorized to suspend or revoke all certificates of authority granted to such companies, its officers and agents, and no new business shall be done by and for such company until its authority is restored by the IC.

Fixed capitalization requirements
Department of Finance (DOF) Order 27-06 provides for the capitalization requirements for life, nonlife and reinsurance companies. Under this order, the minimum statutory net worth and minimum paid-up capital requirements vary depending on the level of the foreign ownership in the insurance company. The statutory net worth shall include the company's paid-up capital, capital in excess of par value, contingency surplus, retained earnings and revaluation increments as may be approved by the IC. The minimum paid-up capital is pegged at 50% of the minimum statutory net worth.

On October 29, 2008, the IC issued Circular Letter No. 26-2008, which recalls that in view of the compliance of insurance companies with the requirement of Insurance Memorandum Circular (IMC) No. 10-2006, the scheduled increases due December 31, 2007 have been deferred for a year. Hence, the IMC reiterates that by December 31, 2010, insurance companies should comply with the increase previously scheduled for December 31, 2009. As of December 31, 2010, December 31, 2009 and January 1, 2009, the Company has complied with the minimum paid-up capital requirements.

In compliance with IMC 10-2006, the required minimum statutory net worth and minimum paid-up capital for the Company, as mandated by DOF Order 27-06, being a 45% foreign owned insurance company is ₱600 million and ₱300 million, respectively as of December 31, 2010 and ₱500 million and ₱250 million, respectively as of December 31, 2009.

RBC requirements
IMC No. 6-2006 provides for the RBC framework for the life insurance industry to establish the required amounts of capital to be maintained by the companies in relation to their investment and insurance risks. Every life insurance company is annually required to maintain a minimum RBC ratio of 100% and not to fail the trend test. Failure to meet the minimum RBC ratio shall subject the insurance company to the corresponding regulatory intervention which has been defined at various levels.

The RBC ratio shall be calculated as net worth divided by the RBC requirement. Net worth shall include the company's paid-up capital, contributed and contingency surplus and unassigned surplus. Revaluation and fluctuation reserve accounts shall form part of net worth only to the extent authorized by the IC.

The following table shows how the RBC ratio was determined by the Company based on its calculations:

	December 31		January 1
	2010	2009	2009
Net worth	**₱2,350,309,202**	₱1,705,846,545	₱933,580,371
RBC requirement	**688,602,935**	572,601,357	466,752,323
RBC Ratio	**341%**	298%	200%

The final RBC ratio can be determined only after the accounts of the Company have been examined by the IC specifically as to admitted and non-admitted assets as defined under the Code.

Consolidated compliance framework
IMC 10-2006 integrated the compliance standards for the fixed capitalization and RBC framework. The fixed capitalization requirement for a given period may be suspended for insurers that comply with the required RBC hurdle rate, provided that the industry complies with the required Industry RBC Ratio Compliance Rate. The IMC provides the annual schedule of progressive rates for the Industry RBC Ratio Compliance Rates and the RBC Hurdle Rates from 2007 to 2011. For the review year 2011, which shall be based on the 2010 synopsis, the Industry RBC Ratio Compliance Rate is 90% and the RBC Hurdle Rate is 200%. For the review year 2010, which shall be based on the 2009 synopsis, the Industry RBC Ratio Compliance Rate is 85% and the RBC Hurdle Rate is 200%. Failure to achieve one of the rates will result in the imposition of the fixed capitalization requirement for the period under review.

Unimpaired capital requirement
IMC 22-2008 provided that for the purpose of determining compliance with the law, rules and regulations requiring that the paid-up capital should remain intact and unimpaired at all times, the statement of financial position should show that the net worth or equity is at least equal to the actual paid-up capital. The Company has complied with the unimpaired capital requirement.

Insurance Risk
The risk under an insurance contract is the risk that an insured event will occur, including the uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims, actual benefits paid that are greater than those originally estimated, and subsequent development of long-term claims.

Terms and conditions
The Company principally writes life insurance where the life of policyholder is insured against death, illness, injury or permanent disability, usually for a pre-determined amount. Life insurance contracts offered by the Company mainly include whole life, term insurance, endowments and unit-linked products. Whole life and term insurance are conventional products where lump sum benefits are payable on death. Endowment products are investments/savings products where lump sum benefits are payable after a fixed period or on death before the period is completed. Unit-linked products differ from conventional policies in that a guaranteed percentage of each premium is allocated to units in a pooled investment fund and the policyholder benefits directly from the total investment growth and income of the fund.

The risks associated with the life and accident and health products are underwriting risk and investment risk.

Underwriting risk
Underwriting risk represents the exposure to loss resulting from actual policy experience adversely deviating from assumptions made in the product pricing. Underwriting risks are brought about by a combination of the following:

- Mortality risk - risk of loss arising from the policyholder's death experience being different than expected.
- Morbidity risk - risk of loss arising from the policyholder's health experience being different than expected.
- Expense risk - risk of loss arising from expense experience being different than expected.
- Policyholder decision risk - risk of loss arising due to policyholder experiences (lapses and surrenders) being different than expected.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines.

The business of the Company consists of underwriting life insurance contracts. For contracts where death is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected. These risks currently do not vary significantly in relation to the location of the risk insured by the Company whilst undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

The Company has an objective to control and minimize insurance risk to reduce volatility of operating profits. The Company manages insurance risk through the following mechanisms:

- The use and maintenance of sophisticated management information systems that provide up to date, accurate and reliable data on risk exposure at any point in time.
- The use of actuarial models based on past experience and statistical techniques to aid in pricing decisions and monitoring claims pattern.
- Issuance of guidelines for concluding insurance contracts and assuming insurance risks.
- Pro-active compliance of claims handling procedures to investigate and adjust claims, thereby preventing settlement of dubious or fraudulent claims.
- The use of reinsurance to limit the Company's exposure to large claims by placing risk with re-insurers providing high security.

- Diversification to achieve sufficiently large population of risks to reduce the variability of the expected outcome. The diversification strategy seeks to ensure that underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

The mix of insurance assets is driven by the nature and term of insurance liabilities. The management of assets and liabilities is closely monitored to attempt to match the expected pattern of claim payments with the maturity dates of assets.

Insurance risk is also affected by the policyholders' rights to terminate the contract, pay reduced premiums, refusal to pay premiums or to avail of the guaranteed annuity option. Thus, the insurance risk is subject to the policyholders' behavior and decisions.

The Company's concentration of insurance risk before and after reinsurance in relation to the type of insurance contract follows:

	December 31		January 1
	2010	2009 (As restated)	2009 (As restated)
Whole Life			
Gross	**₱2,287,434,175**	₱1,822,519,319	₱1,506,133,364
Net	**2,285,529,179**	1,820,803,065	1,504,894,990
Endowment			
Gross	**2,885,406,566**	2,999,266,490	3,042,208,479
Net	**2,884,911,275**	2,998,768,648	3,042,195,589
Cost of insurance			
Gross	**23,094,690**	22,098,288	36,701,980
Net	**23,092,567**	22,096,325	36,480,278
Term insurance			
Gross	**80,105,892**	29,338,025	31,264,861
Net	**80,105,892**	29,338,025	31,264,861
Group insurance			
Gross	**54,578,775**	62,068,715	59,286,041
Net	**52,691,986**	59,792,792	57,141,346
Rider			
Gross	**2,058,370,481**	1,978,409,927	1,917,974,897
Net	**2,058,113,745**	1,978,167,068	1,918,001,918
Total			
Gross	**7,388,990,579**	6,913,700,764	6,593,569,622
Net	**7,384,444,644**	6,908,965,923	6,589,978,982

Investment risk

The investment risk represents the exposure to loss resulting from cash flows from invested assets, primarily long-term fixed rate investments, being less than the cash flows required to meet the obligations of the expected policy and contract liabilities and the necessary return on investments. Additionally, there exists a future investment risk associated with certain policies currently in force which will have premium receipts in the future. That is, the investment of those future premium receipts may be at a yield below than that required to meet future policy liabilities.

To maintain an adequate yield to match the interest necessary to support future policy liabilities, management focus is required to reinvest the proceeds of the maturing securities and to invest the future premium receipts while continuing to maintain satisfactory investment quality.

The Company utilizes dynamic asset allocation strategies consistent with its risk appetite framework to manage investment risk and to ensure sustainable investment returns. As a management tool, the Company uses asset-liability matching to determine the composition of the invested assets and appropriate investment and marketing strategies. As part of these strategies, the Company may determine that it is economically advantageous to be temporarily in an unmatched position due to anticipated interest rate or other economic changes.

Financial Instruments
The following table sets forth the carrying values and estimated fair values of non-linked financial instruments recognized:

December 31, 2010

	Carrying Value	Fair Value
Financial assets:		
Loans and receivables		
Cash and cash equivalents	**₱1,712,391,421**	**₱1,712,391,421**
Insurance receivables - net		
Due from reinsurers	**39,652,353**	**39,652,353**
Premiums due and uncollected	**85,544,422**	**85,544,422**
Accrued income	**215,955,262**	**215,955,262**
Loans and receivables - net		
Intercompany receivables	**88,457,494**	**88,457,494**
Due from officers and employees	**26,396,646**	**22,530,206**
Due from agents	**3,706,568**	**3,706,568**
Policy loans	**375,075,118**	**375,075,118**
Other receivables	**2,527,479**	**2,527,479**
Total loans and receivables	**2,549,706,763**	**2,545,840,323**
Financial assets designated as at FVPL		
Government debt securities		
Local currency	**1,992,490,729**	**1,992,490,729**
Foreign currency	**176,841,724**	**176,841,724**
Listed equity securities	**588,709,464**	**588,709,464**
Investment in unit-linked funds	**34,421,601**	**34,421,601**
AFS financial assets		
Government debt securities		
Local currency	**4,228,298,173**	**4,228,298,173**
Foreign currency	**2,594,880,608**	**2,594,880,608**
Private debt securities	**41,936,054**	**41,936,054**
Listed equity securities	**307,342,844**	**307,342,844**
Golf club shares	**9,064,100**	**9,064,100**
Total financial assets	**₱12,523,692,060**	**₱12,519,825,620**

(Forward)

	Carrying Value	Fair Value
Financial liabilities:		
Other financial liabilities		
Policyholders' dividends	**₱251,868,381**	**₱251,868,381**
Premium deposit fund	**223,788,594**	**223,788,594**
Insurance payables	**64,164,266**	**64,164,266**
Life insurance deposits	**191,384,223**	**191,384,223**
Trade and other liabilities		
Accrued expenses	**305,087,852**	**305,087,852**
Other liabilities	**218,642,065**	**218,642,065**
Total financial liabilities	**₱1,254,935,381**	**₱1,254,935,381**

December 31, 2009 (As restated)

	Carrying Value	Fair Value
Financial assets:		
Loans and receivables		
Cash and cash equivalents	₱872,679,055	₱872,679,055
Insurance receivables - net		
Due from reinsurers	25,233,989	25,233,989
Premiums due and uncollected	59,138,736	59,138,736
Accrued income	225,063,680	225,063,680
Loans and receivables - net		
Intercompany receivables	45,652,337	45,652,337
Due from officers and employees	32,518,935	30,589,822
Due from agents	8,461,129	8,461,129
Policy loans	353,095,588	353,095,588
Other receivables	1,329,100	1,329,100
Total loans and receivables	1,623,172,549	1,621,243,436
Financial assets designated as at FVPL		
Government debt securities		
Local currency	2,016,662,481	2,016,662,481
Foreign currency	255,554,671	255,554,671
Listed equity securities	479,704,394	479,704,394
Investment in unit-linked funds	26,450,101	26,450,101
AFS financial assets		
Government debt securities		
Local currency	3,109,755,236	3,109,755,236
Foreign currency	2,986,389,685	2,986,389,685
Private debt securities	42,694,660	42,694,660
Listed equity securities	166,481,045	166,481,045
Golf club shares	7,679,100	7,679,100
Total financial assets	₱10,714,543,922	₱10,712,614,809

(Forward)

	Carrying Value	Fair Value
Financial liabilities:		
Other financial liabilities		
Policyholders' dividends	₱196,305,763	₱196,305,763
Premium deposit fund	260,856,388	260,856,388
Insurance payables	51,090,279	51,090,279
Life insurance deposits	58,042,205	58,042,205
Trade and other liabilities		
Accrued expenses	279,709,743	279,709,743
Other liabilities	113,874,616	113,874,616
Total financial liabilities	₱959,878,994	₱959,878,994

January 1, 2009 (As restated)

	Carrying Value	Fair Value
Financial assets:		
Loans and receivables		
Cash and cash equivalents	₱1,245,630,598	₱1,245,630,598
Insurance receivables - net		
Due from reinsurers	20,847,475	20,847,475
Premiums due and uncollected	56,419,172	56,419,172
Accrued income	211,734,410	211,734,410
Loans and receivables - net		
Intercompany receivables	32,198,562	32,198,562
Due from officers and employees	22,502,827	21,012,504
Due from agents	8,318,064	8,318,064
Policy loans	393,859,569	393,859,569
Other receivables	1,354,224	1,354,224
Total loans and receivables	1,992,864,901	1,991,374,578
Financial assets designated as at FVPL		
Government debt securities		
Local currency	1,976,268,340	1,976,268,340
Foreign currency	251,125,815	251,125,815
Listed equity securities	294,072,130	294,172,130
Investment in unit-linked funds	19,710,401	19,710,401
AFS financial assets		
Government debt securities		
Local currency	2,298,470,737	2,298,470,737
Foreign currency	2,744,173,339	2,744,173,339
Private debt securities	40,439,885	40,439,885
Listed equity securities	90,732,510	90,732,510
Golf club shares	6,234,100	6,234,100
Total financial assets	₱9,714,092,158	₱9,712,701,835

(Forward)

	Carrying Value	Fair Value
Financial liabilities:		
Other financial liabilities		
Policyholders' dividends	₱165,802,092	₱165,802,092
Premium deposit fund	260,535,797	260,535,797
Insurance payables	44,347,747	44,347,747
Life insurance deposits	66,031,577	66,031,577
Trade and other liabilities		
Accrued expenses	641,109,214	641,109,214
Other liabilities	38,972,115	38,972,115
Total financial liabilities	₱1,216,798,542	₱1,216,798,542

The following table sets forth the carrying values and estimated fair values of unit-linked financial instruments recognized:

December 31, 2010

	Carrying Value	**Fair Value**
Financial assets:		
Loans and receivables		
Cash and cash equivalents	**₱970,025,834**	**₱970,025,834**
Accrued income		
Interest income	**308,869,369**	**308,869,369**
Dividend receivable	**1,274,807**	**1,274,807**
Accounts receivable	**87,531,465**	**87,531,465**
Total loans and receivables	**1,367,701,475**	**1,367,701,475**
Financial assets designated as at FVPL		
Government debt securities		
Local currency	**8,958,514,151**	**8,958,514,151**
Foreign currency	**8,454,285,542**	**8,454,285,542**
Listed equity securities	**4,144,524,805**	**4,144,524,805**
Derivative asset	**26,688,442**	**26,688,442**
Total financial assets	**₱22,951,714,415**	**₱22,951,714,415**
Financial liabilities:		
Other financial liabilities		
Accounts payable	**₱166,227,981**	**₱166,227,981**
Asset management fees payable	**54,965,704**	**54,965,704**
Administration and custody fees payable	**20,540,501**	**20,540,501**
Service fees payable	**4,506,479**	**4,506,479**
Unit-linked liabilities	**22,879,842,490**	**22,879,842,290**
Total financial liabilities	**₱23,126,083,155**	**₱23,126,083,155**

December 31, 2009

	Carrying Value	Fair Value
Financial assets:		
Loans and receivables		
Cash and cash equivalents	₱840,722,048	₱840,722,048
Accrued income		
Interest income	345,258,075	345,258,075
Dividend receivable	840,613	840,613
Accounts receivable	132,252,763	132,252,763
Total loans and receivables	1,319,073,499	1,319,073,499
Financial assets designated as at FVPL		
Government debt securities		
Local currency	7,927,144,986	7,927,144,986
Foreign currency	8,381,692,859	8,381,692,859
Listed equity securities	4,331,245,820	4,331,245,820
Derivative asset	1,929,214	1,929,214
Total financial assets	₱21,961,086,378	₱21,961,086,378
Financial liabilities:		
Other financial liabilities:		
Accounts payable	₱12,775,299	₱12,775,299
Asset management fees payable	35,752,110	35,752,110
Administration and custody fees payable	7,242,684	7,242,684
Service fees payable	5,391,732	5,391,732
Unit-linked liabilities	21,984,529,176	21,984,529,176
Total financial liabilities	₱22,045,691,001	₱22,045,691,001

January 1, 2009

	Carrying Value	Fair Value
Financial assets:		
Loans and receivables		
Cash and cash equivalents	₱1,742,163,633	₱1,742,163,633
Accrued income		
Interest income	400,961,003	400,961,003
Dividend receivable	751,273	751,273
Accounts receivable	646,696	646,696
Total loans and receivables	2,144,522,605	2,144,522,605
Financial assets designated as at FVPL		
Government debt securities		
Local currency	7,595,738,727	7,595,738,727
Foreign currency	8,400,149,805	8,400,149,805
Listed equity securities	2,788,399,478	2,788,399,478
Total financial assets	₱20,928,810,615	₱20,928,810,615

(Forward)

	Carrying Value	Fair Value
Financial liabilities:		
Other financial liabilities		
Accounts payable	₱12,092,192	₱12,092,192
Asset management fees payable	28,051,947	28,051,947
Administration and custody fees payable	25,419,455	25,419,455
Service fees payable	8,588,378	8,588,378
Unit-linked liabilities	20,852,282,445	20,852,282,445
Total financial liabilities	₱20,926,434,417	₱20,926,434,417

Due to the short-term nature of cash and cash equivalents, insurance receivables, accrued income, short-term loans and receivables, policyholders' dividends, premium deposit fund, insurance payables, life insurance deposits and trade and other liabilities, their carrying values reasonably approximate their fair values at year end.

The fair value of financial assets at FVPL and AFS financial assets that are actively traded in organized financial markets is determined by reference to quoted market bid prices, at the close of business on the reporting date, or the last trading day as applicable.

When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost.

The fair values of long-term loans and receivables are based on the discounted value of future cash flows using applicable rates for similar types of instruments ranging from 6.36% to 9.02% and 6.08% to 7.24% in 2010 and 2009, respectively.

The fair value of unit-linked liabilities is determined by reference to the unit-linked fund's net asset value per unit at the close of business on the reporting date.

Fair value hierarchy
The Company classifies its non-linked financial assets at fair value as follows:

December 31, 2010

	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at FVPL				
Government debt securities				
Local currency	**₱1,992,490,729**	**₱–**	**₱–**	**₱1,992,490,729**
Foreign currency	**176,841,724**	**–**	**–**	**176,841,724**
Listed equity securities	**588,709,464**	**–**	**–**	**588,709,464**
Investment in unit-linked funds	**34,421,601**	**–**	**–**	**34,421,601**
AFS financial assets				
Government debt securities				
Local currency	**4,228,298,173**	**–**	**–**	**4,228,298,173**
Foreign currency	**2,552,944,554**	**–**	**–**	**2,552,944,554**
Private debt securities	**41,936,054**	**–**	**–**	**41,936,054**
Listed equity securities	**307,342,844**	**–**	**–**	**307,342,844**
Golf club shares	**9,064,100**	**–**	**–**	**9,064,100**
	₱9,932,049,243	**₱–**	**₱–**	**₱9,932,049,243**

December 31, 2009 (As restated)

	Level 1	Level 2	Level 3	Total
Financial assets at FVPL				
Government debt securities				
Local currency	₱2,016,662,481	₱–	₱–	₱2,016,662,481
Foreign currency	255,554,671	–	–	255,554,671
Listed equity securities	479,704,394	–	–	479,704,394
Investment in unit-linked funds	26,450,101	–	–	26,450,101
AFS financial assets				
Government debt securities				
Local currency	3,067,060,576	–	–	3,067,060,576
Foreign currency	2,986,389,685	–	–	2,986,389,685
Private debt securities	42,694,660	–	–	42,694,660
Listed equity securities	166,481,045	–	–	166,481,045
Golf club shares	7,679,100	–	–	7,679,100
	₱9,048,676,713	₱–	₱–	₱9,048,676,713

January 1, 2009 (As restated)

	Level 1	Level 2	Level 3	Total
Financial assets at FVPL				
Government debt securities				
Local currency	₱1,976,268,340	₱–	₱–	₱1,976,268,340
Foreign currency	251,125,815	–	–	251,125,815
Listed equity securities	294,072,130	–	–	294,072,130
Investment in unit-linked funds	19,710,401	–	–	19,710,401
AFS financial assets				
Government debt securities				
Local currency	2,258,030,852	–	–	2,258,030,852
Foreign currency	2,744,173,339	–	–	2,744,173,339
Private debt securities	40,439,885	–	–	40,439,885
Listed equity securities	90,732,510	–	–	90,732,510
Golf club shares	6,234,100	–	–	6,234,100
	₱7,680,787,372	₱–	₱–	₱7,680,787,372

The Company classifies its unit-linked financial assets at fair value as follows:

December 31, 2010

	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at FVPL				
Government debt securities				
Local currency	**₱8,958,514,151**	**₱–**	**₱–**	**₱8,958,514,151**
Foreign currency	**8,454,285,542**	**–**	**–**	**8,454,285,542**
Listed equity securities	**4,144,524,805**	**–**	**–**	**4,144,524,805**
Derivative asset	**–**	**26,688,442**	**–**	**26,688,442**
	₱21,557,324,498	**₱26,688,442**	**₱–**	**₱21,584,012,940**

December 31, 2009

	Level 1	Level 2	Level 3	Total
Financial assets at FVPL				
Government debt securities				
Local currency	₱7,927,144,986	₱–	₱–	₱7,927,144,986
Foreign currency	8,381,692,859	–	–	8,381,692,859
Listed equity securities	4,331,245,820	–	–	4,331,245,820
Derivative asset	–	1,929,214	–	1,929,214
	₱20,640,083,665	₱1,929,214	₱–	₱20,642,012,879

January 1, 2009

	Level 1	Level 2	Level 3	Total
Financial assets at FVPL				
Government debt securities				
Local currency	₱7,595,738,727	₱–	₱–	₱7,595,738,727
Foreign currency	8,400,149,805	–	–	8,400,149,805
Listed equity securities	2,788,399,478	–	–	2,788,399,478
	₱18,784,288,010	₱–	₱–	₱18,784,288,010

In 2010, 2009 and 2008, there have been no transfers between level 1 and level 2 fair value movements, and no transfers into and out of level 3 fair value measurement.

Financial Risk

The Company is exposed to financial risk through its financial assets, financial liabilities, insurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are credit risk, liquidity risk and market risk. These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company manages the level of credit risk it accepts through a comprehensive credit risk policy which focuses on minimizing credit risk exposures. The credit risk policies are set as follows:

a. Concentration limit- The Company sets maximum exposure to an individual issuer and to a particular sector.
b. Counterparty ratings - The Company reviews and recommends financial institutions that will complement over-all investment objectives and service requirements.

Reporting of credit risk exposures, monitoring compliance with credit risk policy and review of credit risk policy is done on a regular basis.

Loans to policyholders granted against the surrender value of policies carry substantially no credit risk. A credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer may be unable to meet its obligations assumed under such reinsurance agreements. The Company selects only domestic and foreign companies with strong financial standing and excellent track records which are allowed to participate in the Company's reinsurance programs. In respect of investment securities, the Company secures satisfactory credit quality by setting maximum limits of portfolio securities with a single issuer or group of issuers, excluding those secured on specific assets and setting the minimum ratings for the issuer or group of issuers. The Company sets the maximum amounts and limits that may be advanced to/placed with individual corporate counterparties which are set by reference to their long term ratings.

The table below shows the maximum exposure to credit risk for the components of the statements of financial position:

Non-linked

	December 31		January 1
	2010	2009 (As restated)	2009 (As restated)
Cash and cash equivalents*	**₱1,711,765,478**	₱872,099,679	₱1,245,350,855
Insurance receivables - net			
Due from reinsurers	**39,652,353**	25,233,989	20,487,475
Premiums due and uncollected	**85,544,422**	59,138,736	56,419,172
Financial assets			
Financial assets at FVPL			
Government debt securities			
Local currency	**1,992,490,729**	2,016,662,481	1,976,268,340
Foreign currency	**176,841,724**	255,554,671	251,125,815
Listed equity securities	**588,709,464**	479,704,394	294,172,130
Investment in unit-linked funds	**34,421,601**	26,450,101	19,710,401
AFS financial assets			
Government debt securities			
Local currency	**4,228,298,173**	3,067,060,576	2,258,030,852
Foreign currency	**2,594,880,608**	2,986,389,685	2,744,173,339
Private debt securities	**41,936,054**	42,694,660	40,439,885
Listed equity securities	**307,342,844**	166,481,045	90,732,510
Golf club shares	**9,064,100**	7,679,100	6,234,100
Loans and receivables - net			
Policy loans	**375,075,188**	353,095,588	393,859,569
Intercompany receivables	**86,267,332**	44,243,662	32,789,888
Due from officers and employees	**26,396,646**	32,518,935	22,502,827
Due from agents	**3,706,568**	8,461,129	8,318,064
Other receivables	**4,717,641**	2,737,775	1,354,224
Accrued income	**215,955,262**	225,063,680	211,734,410
	₱12,523,066,187	₱10,671,269,886	₱9,673,703,856

** Excluding petty cash fund*

Unit-linked

	December 31		January 1
	2010	2009	2009
Cash and cash equivalents	**₱970,025,834**	₱840,722,048	₱1,742,163,633
Financial assets at FVPL			
Government debt securities			
Local currency	**8,958,514,151**	7,927,144,986	7,595,738,727
Foreign currency	**8,454,285,542**	8,381,692,859	8,400,149,805
Listed equity securities	**4,144,524,805**	4,331,245,820	2,788,399,478
Derivative asset	**26,688,442**	1,929,214	–
Accrued income			
Interest receivable	**308,869,369**	345,258,075	400,961,003
Dividend receivable	**1,274,807**	840,613	751,273
Accounts receivable	**87,531,465**	132,252,763	646,696
	₱22,951,714,415	₱21,961,086,378	₱20,928,810,615

The Company's investment policy mandates it to invest only in investment grade bonds. The peso funds are invested in cash and money market instruments, fixed income investments (fixed rate bond issuances of the Philippine government with a minimum credit rating of AA), corporate bonds and equities of Philippine corporations included in the Philippine Stock Exchange (PSE) Index.

The dollar funds are invested in dollar-denominated cash and money market instruments, fixed income investments, particular issuances of the Philippine government with a minimum credit rating of AAA, and corporate bonds.

The table below provides information regarding the credit risk exposure of the Company by classifying non-linked assets according to the Company's credit ratings of counterparties:

December 31, 2010

	Neither past-due nor impaired			
	Investment grade	Non-investment grade: satisfactory	Past due or impaired	Total
Cash and cash equivalents*	₱1,711,765,478	₱–	₱–	₱1,711,765,478
Insurance receivables				
Due from reinsurers	–	1,750,000	37,902,353	39,652,353
Premiums due and uncollected	–	85,544,422	–	85,544,422
Financial assets				
Financial assets at FVPL				
Government debt securities				
Local currency	1,992,490,729	–	–	1,992,490,729
Foreign currency	176,481,724	–	–	176,481,724
Investment in unit-linked funds	34,421,601	–	–	34,421,601
AFS financial assets				
Government debt securities				
Local currency	4,228,298,173	–	–	4,228,298,173
Foreign currency	2,594,880,608	–	–	2,594,880,608
Private debt securities	41,936,054	–	–	41,936,054
Loans and receivables				
Intercompany receivables	–	86,267,332	2,190,162	88,457,494
Due from officers and employees	–	26,396,646	819,652	27,216,298
Due from agents	–	–	10,490,127	10,490,127
Policy loans	–	375,075,118	–	375,075,118
Other receivables	–	4,717,641	–	4,717,641
Accrued income	215,955,262	–	–	215,955,262
	₱10,996,229,629	₱579,751,159	₱51,402,294	₱11,627,383,082

** Excluding petty cash fund*

December 31, 2009 (As restated)

	Neither past-due nor impaired			
	Investment grade	**Non-investment grade: satisfactory**	**Past due or impaired**	**Total**
Cash and cash equivalents*	₱872,099,679	₱–	₱–	₱872,099,679
Insurance receivables				
Due from reinsurers	–	1,465,090	29,811,954	31,277,044
Premiums due and uncollected	–	59,138,736	–	59,138,736
Financial assets				
Financial assets at FVPL				
Government debt securities				
Local currency	2,016,662,481	–	–	2,016,662,481
Foreign currency	255,554,671	–	–	255,554,671
Investment in unit-linked funds	26,450,101	–	–	26,450,101
AFS financial assets				
Government debt securities				
Local currency	3,067,060,576	–	–	3,067,060,576
Foreign currency	2,986,389,685	–	–	2,986,389,685
Private debt securities	42,296,440	–	–	42,296,440
Loans and receivables				
Intercompany receivables	–	44,243,662	1,408,675	45,652,337
Due from officers and employees	–	32,518,935	819,652	33,338,587
Due from agents	–	195,695	15,048,993	15,244,688
Policy loans	–	353,095,588	–	353,095,588
Other receivables	–	2,737,775	–	2,737,775
Accrued income	225,063,680	–	–	225,063,680
	₱9,491,577,313	₱493,395,481	₱47,089,274	₱10,032,062,068

** Excluding petty cash fund*

January 1, 2009 (As restated)

	Neither past-due nor impaired			
	Investment grade	Non-investment grade: satisfactory	Past due or impaired	Total
Cash and cash equivalents*	₱1,245,350,855	₱–	₱–	₱1,245,350,855
Insurance receivables				
Due from reinsurers	–	2,500,000	24,030,530	26,530,530
Premiums due and uncollected	–	56,419,172	–	56,419,172
Financial assets				
Financial assets at FVPL				
Government debt securities				
Local currency	1,976,268,340	–	–	1,976,268,340
Foreign currency	251,125,815	–	–	251,125,815
Investment in unit-linked funds	19,710,401	–	–	19,710,401
AFS financial assets				
Government debt securities				
Local currency	2,258,030,852	–	–	2,258,030,852
Foreign currency	2,744,173,339	–	–	2,744,173,339
Private debt securities	40,439,885	–	–	40,439,885

(Forward)

	Neither past-due nor impaired: Investment grade	Non-investment grade: satisfactory	Past due or impaired	Total
Loans and receivables				
Intercompany receivable	₱–	₱30,789,887	₱1,408,675	₱32,198,562
Due from officers and employees	–	22,474,629	847,850	23,322,479
Due from agents	–	825,560	16,534,994	17,360,554
Policy loans	–	393,859,569	–	393,859,569
Other receivables	–	1,354,224	–	1,354,224
Accrued income	211,734,410	–	–	211,734,410
	₱8,746,833,897	₱508,223,041	₱42,822,049	₱9,297,878,987

** Excluding petty cash fund*

The table below provides information regarding the credit risk exposure of the Company by classifying unit-linked assets according to the Company's credit ratings of counterparties:

December 31, 2010

	Neither past-due nor impaired: Investment grade	**Non-investment grade: satisfactory**	**Past due or impaired**	**Total**
Cash and cash equivalents	**₱970,025,834**	**₱–**	**₱–**	**₱970,025,834**
Financial assets				
Financial assets at FVPL				
Government debt securities				
Local currency	**8,958,514,151**	**–**	**–**	**8,958,514,151**
Foreign currency	**8,454,285,542**	**–**	**–**	**8,454,285,542**
Derivative asset	**26,688,442**	**–**	**–**	**26,688,442**
Accrued income				
Interest receivable	**308,869,369**	**–**	**–**	**308,869,369**
Dividend receivable	**1,274,807**	**–**	**–**	**1,274,807**
Accounts receivable	**87,531,465**	**–**	**–**	**87,531,465**
	₱18,807,189,610	**₱–**	**₱–**	**₱18,807,189,610**

December 31, 2009

	Neither past-due nor impaired: Investment grade	Non-investment grade: satisfactory	Past due or impaired	Total
Cash and cash equivalents	₱840,722,048	₱–	₱–	₱840,722,048
Financial assets				
Financial assets at FVPL				
Government debt securities				
Local currency	7,927,144,986	–	–	7,927,144,986
Foreign currency	8,381,692,859	–	–	8,381,692,859
Derivative asset	1,929,214	–	–	1,929,214
Accrued income				
Interest receivable	345,258,075	–	–	345,258,075
Dividend receivables	840,613	–	–	840,613
Accounts receivable	132,252,763	–	–	132,252,763
	₱17,629,840,558	₱–	₱–	₱17,629,840,558

January 1, 2009

	Neither past-due nor impaired: Investment grade	Neither past-due nor impaired: Non-investment grade: satisfactory	Past due or impaired	Total
Cash and cash equivalents	₱1,742,163,633	₱–	₱–	₱1,742,163,633
Financial assets				
Financial assets at FVPL				
Government debt securities				
Local currency	7,595,738,727	–	–	7,595,738,727
Foreign currency	8,400,149,805	–	–	8,400,149,805
Accrued income				
Interest receivable	400,961,003	–	–	400,961,003
Dividend receivables	751,273	–	–	751,273
Accounts receivable	646,696	–	–	646,696
	₱18,140,411,137	₱–	₱–	₱18,140,411,137

The Company uses a credit rating concept based on the borrowers' and counterparties' overall creditworthiness, as follows:

Investment grade - Rating given to counterparties who possess strong to very strong capacity to meet their obligations

Non-investment grade - Rating given to counterparties who possess above average capacity to meet their obligations.

The table below shows the analysis of age of financial assets that are past-due but are not impaired:

December 31, 2010

	Age analysis of financial assets past-due but not impaired: < 30 days	**31 to 90 days**	**More than 90 days**	**Total past-due but not impaired**	**Past-due and impaired**	**Total**
Insurance receivables						
Due from reinsurers	**₱–**	**₱–**	**₱37,902,353**	**₱37,902,353**	**₱–**	**₱37,902,353**
Loans and receivables						
Due from officers and employees	–	–	–	–	**819,652**	**819,652**
Due from agents	–	**1,277,037**	**2,429,531**	**3,706,568**	**6,783,559**	**10,490,127**
Intercompany receivables	–	–	–	–	**2,190,162**	**2,190,162**
	₱–	**₱1,277,037**	**₱40,331,884**	**₱41,608,921**	**₱9,793,373**	**₱51,402,294**

December 31, 2009 (As restated)

	Age analysis of financial assets past-due but not impaired: < 30 days	31 to 90 days	More than 90 days	Total past-due but not impaired	Past-due and impaired	Total
Insurance receivables						
Due from reinsurers	₱–	₱–	₱23,768,899	₱23,768,899	₱6,043,055	₱29,811,954
Loans and receivables						
Due from officers and employees	–	–	–	–	819,652	819,652
Due from agents	424,478	206,263	7,634,693	8,265,434	6,783,559	15,048,993
Intercompany receivables	–	–	–	–	1,408,675	1,408,675
	₱424,478	₱206,263	₱31,403,592	₱32,034,334	₱15,054,941	₱47,089,274

January 1, 2009 (As restated)

	Age analysis of financial assets past-due but not impaired					
	< 30 days	31 to 90 days	More than 90 days	Total past-due but not impaired	Past-due and impaired	Total
Insurance receivables						
Due from reinsurers	₱10,200,000	₱–	₱7,787,475	₱17,987,475	₱6,043,055	₱24,030,530
Loans and receivables						
Due from officers and employees	–	–	28,198	28,198	819,652	847,850
Due from agents	–	732,935	6,759,569	7,492,504	9,042,490	16,534,994
Intercompany receivables	–	–	–	–	1,408,675	1,408,675
	₱10,200,000	₱732,935	₱14,575,242	₱25,508,177	₱17,313,872	₱42,822,049

The Company conducts a periodic review of allowance for impairment losses based on the corresponding age of past due accounts, payment behavior, credit capacity and length of relationship with the counterparty.

The Company did not have any significant concentration of credit risk with a single counterparty or group of counterparties, geographical and industry segments as of December 31, 2010 and 2009.

Liquidity risk
Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or is counterparty failing on repayment of a contractual obligation; or the insurance liabilities falling due for payment earlier than expected; or the inability to generate cash inflows as anticipated.

The major liquidity risk confronting the Company is the daily calls on its available cash resources in respect of claims arising from insurance contracts and operating expenses. The Company manages liquidity by forecasting cash flow requirements. Investments are made in assets with maturities or interest payments which are matched against expected payouts of claims benefits (i.e., amount and duration of assets are matched against amount and duration of liabilities). In addition, significant outflows due to operating expenses (e.g., salaries, bonuses, IT expenditures, etc.) are scheduled based on an agreed budget timeline.

It is unusual for a company primarily transacting insurance business to predict the requirements of funding with absolute certainty as theory of probability is applied on insurance contracts to ascertain the likely provision and the time period when such liabilities will require settlement. The amounts and maturities in respect of insurance liabilities are thus based on management's best estimate based on statistical techniques and past experience.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments except for the legal policy reserves of the life insurance contracts (included in the insurance contract liabilities account) which shows the maturity analysis based on the estimated timing of the net cash outflows using the recognized insurance liability amounts. The table also analyses the maturity profile of the Company's financial assets in order to provide a complete view of the Company's contractual commitments.

Non-linked

December 31, 2010

	On demand/ No term	Up to a year	1-3 years	3-5 years	Over 5 years	Total
Financial assets:						
Loans and receivables						
Cash and cash equivalents	**₱266,696,273**	**₱1,445,695,148**	**₱–**	**₱–**	**₱–**	**₱1,712,391,421**
Insurance receivables						
Due from reinsurers	**–**	**39,652,353**	**–**	**–**	**–**	**39,652,353**
Premiums due and uncollected	**–**	**85,544,422**	**–**	**–**	**–**	**85,544,422**
Loans and receivables						
Due from officers and employees	**–**	**10,929,132**	**12,233,197**	**4,053,969**	**–**	**27,216,298**
Due from agents	**–**	**10,490,127**	**–**	**–**	**–**	**10,490,127**
Policy loans	**–**	**375,075,118**	**–**	**–**	**–**	**375,075,118**
Intercompany receivables	**–**	**88,457,494**	**–**	**–**	**–**	**88,457,494**
Other receivables	**–**	**4,717,641**	**–**	**–**	**–**	**4,717,641**
Accrued income	**–**	**215,955,262**	**–**	**–**	**–**	**215,955,262**
Financial assets at FVPL						
Government debt securities						
Local currency	**–**	**248,431,545**	**739,822,043**	**–**	**1,004,237,141**	**1,992,490,729**
Foreign currency	**–**	**–**	**–**	**176,841,724**	**–**	**176,841,724**
Listed equity securities	**588,709,464**	**–**	**–**	**–**	**–**	**588,709,464**
Investment in unt-linked fund	**34,421,601**	**–**	**–**	**–**	**–**	**34,421,601**
AFS financial assets						
Government debt securities						
Local currency	**–**	**112,546,773**	**1,007,539,988**	**363,653,009**	**2,702,622,349**	**4,186,362,119**
Foreign currency	**–**	**727,261,590**	**508,842,119**	**105,292,455**	**1,253,484,444**	**2,594,880,608**
Private debt securtities	**–**	**–**	**41,936,054**	**–**	**–**	**41,936,054**
Listed equity securities	**307,342,844**	**–**	**–**	**–**	**–**	**307,342,844**
Golf club shares	**9,064,100**	**–**	**–**	**–**	**–**	**9,064,100**
Total financial assets	**₱1,206,234,282**	**₱3,364,756,605**	**₱2,310,373,401**	**₱649,841,157**	**₱4,960,343,934**	**₱12,491,549,379**
Financial liabilities:						
Other financial liabilities						
Insurance contract liabilities	**₱–**	**₱1,016,357,661**	**₱1,692,100,661**	**₱610,558,248**	**₱4,451,750,693**	**₱7,770,767,263**
Policyholders' dividends	**251,868,381**	**–**	**–**	**–**	**–**	**251,868,381**
Reserve for policyholder's dividends	**19,731,056**	**–**	**–**	**–**	**–**	**19,731,056**
Premium deposit fund	**223,788,594**	**–**	**–**	**–**	**–**	**223,788,594**
Insurance payables	**–**	**64,164,266**	**–**	**–**	**–**	**64,164,266**
Life insurance deposits	**–**	**191,384,223**	**–**	**–**	**–**	**191,384,223**
Trade and other liabilities						
Accrued expenses	**–**	**302,273,294**	**2,814,558**	**–**	**–**	**305,087,852**
Other liabilities	**–**	**218,642,065**	**–**	**–**	**–**	**218,642,065**
Total financial liabilities	**₱495,388,031**	**₱1,792,821,509**	**₱1,694,915,219**	**₱610,558,248**	**₱4,451,750,693**	**₱9,045,433,700**

December 31, 2009 (As restated)

	On demand/ No term	Up to a year	1-3 years	3-5 years	Over 5 years	Total
Financial assets:						
Loans and receivables						
Cash and cash equivalents	₱459,000,083	₱413,678,972	₱–	₱–	₱–	₱872,679,055
Insurance receivables						
Due from reinsurers	–	31,277,044	–	–	–	31,277,044
Premiums due and uncollected	–	59,138,736	–	–	–	59,138,736
Loans and receivables						
Due from officers and employees	–	14,509,079	17,129,594	1,699,914	–	33,338,587
Due from agents	–	15,244,688	–	–	–	15,244,688
Policy loans	353,095,588	–	–	–	–	353,095,588
Intercompany receivables	–	45,652,337	–	–	–	45,652,337
Other receivables	–	2,737,775	–	–	–	2,737,775
Accrued income	–	225,063,680	–	–	–	225,063,680

(Forward)

	On demand/ No term	Up to a year	1-3 years	3-5 years	Over 5 years	Total
Financial assets at FVPL						
Government debt securities						
Local currency	₱–	₱101,607,405	₱366,122,174	₱624,644,909	₱924,287,993	₱2,016,662,481
Foreign currency	–	–	199,341,615	–	56,213,056	255,554,671
Listed equity securities	479,704,394	–	–	–	–	479,704,394
Investment in unit-linked fund	24,650,101	–	–	–	–	24,650,101
AFS financial assets						
Government debt securities						
Local currency	–	164,100,272	868,601,195	426,772,475	1,607,586,634	3,067,060,576
Foreign currency	–	–	801,387,057	926,605,505	1,258,397,123	2,986,389,685
Private debt securities	–	–	42,694,660	–	–	42,694,660
Listed equity securities	166,481,045	–	–	–	–	166,481,045
Golf club shares	7,679,100	–	–	–	–	7,679,100
Total financial assets	₱1,490,610,311	₱1,073,009,988	₱2,295,276,295	₱1,979,722,803	₱3,846,484,806	₱10,685,104,203
Financial liabilities:						
Other financial liabilities						
Insurance contract liabilities	₱–	₱862,413,344	₱1,289,043,396	₱860,338,710	₱4,250,640,569	₱7,262,436,019
Policyholders' dividends	196,305,763	–	–	–	–	196,305,763
Reserve for policyholders' dividends	17,212,448	–	–	–	–	17,212,448
Premium deposit fund	260,856,388	–	–	–	–	260,856,388
Insurance payables	–	51,090,279	–	–	–	51,090,279
Life insurance deposits	–	58,042,205	–	–	–	58,042,205
Trade and other liabilities						
Accrued expenses	–	279,709,744	–	–	–	279,709,744
Other liabilities	–	113,874,616	–	–	–	113,874,616
Total financial liabilities	₱474,374,599	₱1,365,130,188	₱1,289,043,396	₱860,338,710	₱4,250,640,569	₱8,239,527,462

January 1, 2009 (As restated)

	On demand/ No term	Up to a year	1-3 years	3-5 years	Over 5 years	Total
Financial assets:						
Loans and receivables						
Cash and cash equivalents*	₱98,091,850	₱1,147,538,748	₱–	₱–	₱–	₱1,245,630,598
Insurance receivables						
Due from reinsurers	–	26,530,530	–	–	–	26,530,530
Premiums due and uncollected	–	56,419,172	–	–	–	56,419,172
Loans and receivables						
Due from officers and employees	–	9,064,907	11,853,963	2,403,609	–	23,322,479
Due from agents	–	17,360,554	–	–	–	17,360,554
Policy loans	393,859,569	–	–	–	–	393,859,569
Intercompany receivables	–	32,198,562	–	–	–	32,198,562
Other receivables	–	1,354,224	–	–	–	1,354,224
Accrued income	–	211,734,410	–	–	–	211,734,410
Financial assets at FVPL						
Government debt securities						
Local currency	–	–	359,514,573	720,711,554	896,042,213	1,976,268,340
Foreign currency	–	–	200,197,746	–	50,928,069	251,125,815
Listed equity securities	294,072,130	–	–	–	–	294,072,130
Investment in unit-linked fund	19,710,401	–	–	–	–	19,710,401
AFS financial assets						
Government debt securities						
Local currency	–	95,638,185	304,054,519	1,008,131,154	850,206,994	2,258,030,852
Foreign currency	–	14,300,710	822,469,381	515,236,351	1,392,166,897	2,744,173,339
Private debt securities	–	–	40,439,885	–	–	40,439,885
Listed equity securities	90,732,510	–	–	–	–	90,732,510
Golf club shares	6,234,100	–	–	–	–	6,234,100
Total financial assets	₱902,700,560	₱1,612,140,002	₱1,738,530,067	₱2,246,482,668	₱3,189,344,173	₱9,689,197,470
Financial liabilities:						
Other financial liabilities						
Insurance contract liabilities	₱–	₱873,200,536	₱983,853,007	₱1,368,781,308	₱3,643,819,575	₱6,869,654,426
Policyholders' dividends	165,802,092	–	–	–	–	165,802,092
Reserve for policyholders' dividends	13,836,491	–	–	–	–	13,836,491
Premium deposit fund	260,535,797	–	–	–	–	260,535,797
Insurance payables	–	44,347,747	–	–	–	44,347,747
Life insurance deposits	–	66,031,577	–	–	–	66,031,577
Trade and other liabilities						
Accrued expenses	–	638,294,656	2,814,558	–	–	641,109,214
Other liabilities	–	38,972,115	–	–	–	38,972,115
Total financial liabilities	₱440,174,380	₱1,660,846,631	₱986,667,565	₱1,368,781,308	₱3,643,819,575	₱8,100,289,459

Unit-linked

December 31, 2010

	On demand/ No term	Up to a year	1-3 years	3-5 years	Over 5 years	Total
Financial assets:						
Loans and receivables						
Cash and cash equivalents	**₱58,126,949**	**₱911,898,885**	**₱–**	**₱–**	**₱–**	**₱970,025,834**
Accrued income						
Interest receivable	–	**308,869,369**	–	–	–	**308,869,369**
Dividend receivable	–	**1,274,807**	–	–	–	**1,274,807**
Accounts receivable	–	**87,531,465**	–	–	–	**87,531,465**
Financial assets at FVPL						
Government debt securities						
Local currency	–	**10,349,259**	**1,241,884,029**	**2,139,391,780**	**5,566,889,083**	**8,958,514,151**
Foreign currency	–	**51,502,108**	**48,654,674**	**155,712,789**	**8,198,415,971**	**8,454,285,542**
Listed equity securities	**4,144,524,805**	–	–	–	–	**4,144,524,805**
Derivative asset	–	–	–	**26,688,442**	–	**26,688,442**
Total financial assets	**₱4,202,651,734**	**₱1,371,425,893**	**₱1,290,538,703**	**₱2,321,793,011**	**₱13,765,305,054**	**₱22,951,714,415**
Financial liabilities:						
Other financial liabilities						
Accounts payable	**₱166,227,981**	**₱–**	**₱–**	**₱–**	**₱–**	**₱166,227,981**
Asset management fees payable	**54,965,704**	–	–	–	–	**54,965,704**
Administration and custody fees payable	**20,540,501**	–	–	–	–	**20,540,501**
Service fees payable	**4,506,479**	–	–	–	–	**4,506,479**
Unit-linked liabilities	**22,879,842,490**					**22,879,842,490**
Total financial liabilities	**₱23,126,083,155**	**₱–**	**₱–**	**₱–**	**₱–**	**₱23,126,083,155**

December 31, 2009

	On demand/ No term	Up to a year	1-3 years	3-5 years	Over 5 years	Total
Financial assets:						
Loans and receivables						
Cash and cash equivalents	₱14,435,823	₱826,286,225	₱–	₱–	₱–	₱840,722,048
Accrued interest income	–	345,258,075	–	–	–	345,258,075
Dividend receivables	–	840,613	–	–	–	840,613
Account receivables	–	132,252,763	–	–	–	132,252,763
Financial assets at FVPL						
Government debt securities						
Local currency	–	261,323,266	1,263,618,437	3,091,106,737	3,311,096,547	7,927,144,987
Foreign currency	–	28,443,912	73,002,325	128,187,100	8,152,059,512	8,381,692,849
Listed equity securities	4,331,245,820	–	–	–	–	4,331,245,820
Derivative asset	–	–	–	1,929,214	–	1,929,214
Total financial assets	₱4,345,681,643	₱1,594,404,854	₱1,336,620,762	₱3,221,223,051	₱11,463,156,059	₱21,961,086,369
Financial liabilities:						
Other financial liabilities						
Accounts payable	₱12,775,299	₱–	₱–	₱–	₱–	₱12,775,299
Asset management fees payable	35,752,110	–	–	–	–	35,752,110
Administration and custody fees payable	7,242,684	–	–	–	–	7,242,684
Service fees payable	5,391,732	–	–	–	–	5,391,732
Unit-linked liabilities	21,984,529,176	–	–	–	–	21,984,529,176
Total financial liabilities	₱22,045,691,001	₱–	₱–	₱–	₱–	₱22,045,691,001

January 1, 2009

	On demand/ No term	Up to a year	1-3 years	3-5 years	Over 5 years	Total
Financial assets:						
Loans and receivables						
Cash and cash equivalents	₱4,244,330	₱1,737,919,030	₱–	₱–	₱–	₱1,742,163,360
Accrued income						
Interest receivable	–	400,961,003	–	–	–	400,961,003
Dividend receivable	–	751,273	–	–	–	751,273
Accounts receivable	–	646,696	–	–	–	646,696
Financial assets at FVPL						
Government debt securities						
Local currency	–	–	1,093,210,855	3,903,305,838	2,599,222,034	7,595,738,727
Foreign currency	–	70,717,299	130,108,292	49,399,833	8,149,924,381	8,400,149,805
Listed equity securities	2,788,399,478	–	–	–	–	2,788,399,478
Total financial assets	₱2,792,643,808	₱2,210,995,301	₱1,223,319,147	₱3,952,705,671	₱10,749,146,415	₱20,928,810,342
Financial liabilities:						
Other financial liabilities						
Accounts payable	₱12,029,192	₱–	₱–	₱–	₱–	₱12,029,192
Asset management fees payable	28,051,947	–	–	–	–	28,051,947
Administration and custody fees payable	25,419,455	–	–	–	–	25,419,455
Service fees payable	8,588,278	–	–	–	–	8,588,278
Unit-linked liabilities	20,852,282,445	–	–	–	–	20,852,282,445
Total financial liabilities	₱20,926,371,317	₱–	₱–	₱–	₱–	₱20,926,371,317

The Company's investment policy is long term in nature. It is subject to annual review for update on asset-liability management, alignment with the Company's latest business plan and other developments during the year. The investment policy is reviewed, approved and endorsed by the Local Management Investment Committee (LMIC), Regional Investment Asset Liability Committee (RIALC), AXAAPHL Board Investment Committee and Philippine AXA Life Board Investment Committee (BIC).

Market risk
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: foreign exchange rate (currency risk), market interest rate (fair value interest rate risk) and market price (equity price risk).

The following policies and procedures are in place to mitigate the Company's exposure to market risk:

- Set out the assessment and determination of what constitutes market risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the risk committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.
- Establish asset allocation and portfolio limit structure to ensure that assets back specific policyholders liabilities and those assets are held to deliver income and gains for policyholders in line with expectations of the policyholders.
- Stipulate diversification benchmarks by type of instrument, as the Company is exposed to guaranteed bonuses, cash and annuity options when interest rates fall.

The Company uses derivative financial instruments, particularly interest rate swaps relating to AXA Philippine Armor Fund. This is entered into for the period beginning July 2009 until January 2014. The Company enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Company's policy that no trading in derivatives for speculative purposes shall be undertaken.

- *Currency risk*
  The Company's principal transactions are carried out in Philippine Peso and its foreign exchange risk arises primarily with respect to United States (US) Dollars (US$), where some of its products are denominated. The Company's financial assets are primarily denominated in the same currencies as its insurance contracts, which mitigate the foreign exchange rate risk. Thus, the main foreign exchange risk arises from recognized assets and liabilities denominated in currencies other than in which the insurance contracts are expected to be settled.

  The following table shows the details of the Company's foreign currency denominated monetary assets and liabilities and their Philippine Peso equivalents.

December 31, 2010

	US$	**PHP**
Assets		
Cash and cash equivalents	**US$11,301,401**	**₱495,961,991**
Financial assets		
Financial assets at FVPL	**4,029,662**	**176,841,724**
AFS financial assets	**59,129,101**	**2,594,880,608**
Assets held to cover unit-linked liabilities	**206,561,989**	**9,064,972,901**
	281,022,153	**12,332,657,224**
Liabilities		
Unit-linked liabilities	**206,561,989**	**9,064,972,901**
Legal policy reserves	**60,011,034**	**2,633,584,235**
	266,573,023	**11,698,557,136**
	US$14,449,130	**₱634,100,088**

December 31, 2009 (As restated)

	US$	PHP
Assets		
Cash and cash equivalents	US$6,344,087	₱294,086,492
Financial assets		
Financial assets at FVPL	5,512,871	255,554,671
AFS financial assets	64,422,937	2,986,389,685
Assets held to cover unit-linked liabilities	187,796,297	8,705,485,146
	264,076,192	12,241,515,994

(Forward)

	US$	PHP
Liabilities		
Unit-linked liabilities	187,796,297	8,705,485,146
Legal policy reserves	58,424,213	2,708,312,841
	246,220,510	11,413,797,987
	US$17,855,682	₱827,718,007

January 1, 2009 (As restated)

	US$	PHP
Assets		
Cash and cash equivalents	US$12,828,112	₱609,142,882
Financial assets		
Financial assets at FVPL	5,288,529	251,125,815
AFS financial assets	57,790,320	2,744,173,339
Assets held to cover unit-linked liabilities	190,510,253	9,046,379,350
	266,417,214	12,650,821,386
Liabilities		
Unit-linked liabilities	190,510,253	9,046,379,350
Legal policy reserves	65,722,281	3,120,822,510
	256,232,534	12,167,201,860
	US$10,184,680	₱483,619,526

The analysis below is performed for reasonably possible movements in US$ with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of currency sensitive monetary assets and liabilities). The exchange rate used to present the US Dollar denominated assets and liabilities to Peso denominations are the 2010, 2009 and 2008 BSP closing rates. There is no impact on the Company's equity other than those already affecting the profit.

December 31, 2010

	Change in variable	**Impact on profit before tax**
US$	**+7%**	**₱44,387,006**
US$	**-7%**	**(44,387,006)**

December 31, 2009

	Change in variable	Impact on profit before tax
US$	+7%	₱57,940,260
US$	-7%	(57,940,260)

Decembe 31, 2008

	Change in variable	Impact on profit before tax
US$	+6%	₱29,017,172
US$	-6%	(29,017,172)

In 2010, 2009 and 2008, the Company used the average of changes in year-end closing rate for the past three years in determining the reasonably possible change in foreign exchange rates.

Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Company's fixed rate investments classified as AFS financial assets and financial assets at FVPL in particular are exposed to such risk.

The Company's investment policy manages interest rate risk by matching the maturities of interest-bearing financial assets and interest-bearing financial liabilities. The amount, duration and yield to maturity of assets are matched against the amount, and duration of the liabilities.

The following table shows the information relating to the Company's non-linked fixed interest-bearing financial instruments presented by maturity profile.

December 31, 2010

	Range of interest rate	**On demand**	**Up to a year**	**1-3 years**	**3-5 years**	**Over 5 years**
Financial assets:						
Loans and receivables						
Cash and cash equivalents	**0.25% - 4.06%**	**₱266,696,273**	**₱1,445,695,148**	**₱–**	**₱–**	**₱–**
Insurance receivables						
Loans and receivables						
Due from officers and						–
employees	**6.00% - 12.00%**	**10,929,132**	**12,233,197**	**4,053,969**	–	
Due from agents	**6.00% - 12.00%**	–	**3,706,568**	–	–	–
Policy loans	**8.00% - 10.00%**	–	**375,075,118**	–	–	–
Financial assets at FVPL						
Government debt securities						
Local currency	**7.13% - 11.38%**	–	**248,431,545**	**739,822,043**	–	**1,004,237,142**
Foreign currency	**8.34%**	–	–	–	**176,841,724**	–
AFS financial assets						
Government debt securities						
Local currency	**5.25% - 18.25%**	–	**112,546,773**	**1,007,539,988**	**363,653,009**	**2,702,622,349**
Foreign currency	**8.25% - 9.375%**	–	**727,261,590**	**508,842,119**	**105,292,455**	**1,253,484,445**
Private debt securities	**0%**	–	–	**41,936,054**	–	–
Total financial assets		**₱277,625,405**	**₱2,924,949,939**	**₱2,302,194,173**	**₱645,787,188**	**₱4,960,343,936**
Financial liabilities:						
Other financial liabilities						
Policyholders' dividends	**3.50% - 8.00%**	**₱251,868,381**	**₱–**	**₱–**	**₱–**	**₱–**
Premium deposit fund	**5.00%**	**223,778,594**	–	–	–	–
Accrued expenses	**4.56% - 15.00%**	–	**2,160,317**	–	–	–
Total financial liabilities		**₱475,646,975**	**₱2,160,317**	**₱–**	**₱–**	**₱–**

December 31, 2009 (As restated)

	Range of interest rate	On demand	Up to a year	1-3 years	3-5 years	Over 5 years
Financial assets:						
Loans and receivables						
Cash and cash equivalents	0.15% - 4.38%	₱459,000,083	₱413,678,972	₱–	₱–	₱–
Loans and receivables						
Due from officers and employees	6.00% - 12.00%	–	14,509,079	17,129,594	1,699,914	–
Due from agents	6.00% - 12.00%	–	15,244,688	–	–	–
Policy loans	8.00% - 10.00%	353,095,588	–	–	–	–
Financial assets at FVPL						
Government debt securities						
Local currency	7.13% - 11.5%	–	101,607,405	366,122,174	624,644,909	924,287,993
Foreign currency	8.375% - 8.875%	–	–	199,341,615	–	56,213,108
AFS financial assets						
Government debt securities						
Local currency	5.25% - 18.25%	–	164,100,274	868,601,195	426,772,475	1,607,586,634
Foreign currency	8.25% - 9.88%	–	–	801,387,057	926,605,505	1,258,398,123
Private debt securities	0%	–	–	42,694,660	–	–
Total financial assets		₱812,095,671	₱709,140,418	₱2,295,276,295	₱1,979,722,803	₱3,846,485,858

(Forward)

	Range of interest rate	On demand	Up to a year	1-3 years	3-5 years	Over 5 years
Financial liabilities:						
Other financial liabilities						
Policyholders' dividends	3.50%-8.00%	₱196,305,763	₱–	₱–	₱–	₱–
Premium deposit fund	5.00%	260,856,388	–	–	–	–
Trade and other liabilities						
Accrued expenses	4.56%-15.00%	–	2,869,502	–	–	–
Total financial liabilities		₱457,162,151	₱2,869,502	₱–	₱–	₱–

January 1, 2009 (As restated)

	Range of interest rate	On demand	Up to a year	1-3 years	3-5 years	Over 5 years
Financial assets:						
Loans and receivables						
Cash and cash equivalents	2.78% - 6.40%	₱97,812,107	₱1,147,538,748	₱–	₱–	₱–
Loans and receivables						
Due from officers and employees	6.00% - 12.00%	–	9,064,907	11,853,963	2,403,609	–
Due from agents	6.00% - 12.00%	–	463,119	–	–	–
Policy loans	8.00% - 10.00%	393,859,569	–	–	–	–
Financial assets at FVPL						
Government debt securities						
Local currency	5.75% - 17.50%	–	–	359,514,573	720,711,554	896,042,213
Foreign currency	7.50% - 10.63%	–	–	200,197,746	–	50,928,069
AFS financial assets						
Government debt securities						
Local currency	5.75% - 18.25%	–	95,638,185	304,054,519	1,008,131,154	850,206,994
Foreign currency	8.25% - 10.50%	–	14,300,710	822,469,381	515,236,351	1,392,166,897
Private debt securities	0%	–	–	40,439,885	–	14,300,710
Total financial assets		₱491,671,676	₱1,267,005,669	₱1,738,530,067	₱2,246,482,668	₱3,203,644,883
Financial liabilities:						
Other financial liabilities						
Policyholders' dividends	3.50% - 8.00%	₱165,802,092	₱–	₱–	₱–	₱–
Premium deposit fund	5.00%	260,535,797	–	–	–	–
Trade and other liabilities						
Accrued expenses	4.56% - 15.00%	–	829,173	2,814,558	–	–
Total financial liabilities		₱426,337,889	₱829,173	₱2,814,558	₱–	₱–

The following table shows the information relating to the Company's unit-linked fixed interest-bearing financial instruments presented by maturity profile.

December 31, 2010

	Range of interest rate	**On demand/ No term**	**Up to a year**	**1-3 years**	**3-5 years**	**Over 5 years**
Financial assets:						
Loans and receivables						
Cash and cash equivalents	**0.46%-3.45%**	**₱58,126,949**	**₱911,898,885**	**₱–**	**₱–**	**₱–**
Financial assets at FVPL						
Government debt securities						
Local currency	**5.75%-14.38%**	**–**	**10,349,259**	**1,241,884,029**	**2,139,391,780**	**5,566,889,083**
Foreign currency	**4.00%-10.63%**	**–**	**51,502,108**	**48,654,674**	**155,712,789**	**8,198,415,971**
Total financial assets		**₱58,126,949**	**₱973,750,252**	**₱1,290,538,703**	**₱2,295,104,569**	**₱13,765,305,054**

December 31, 2009

	Range of interest rate	Up to a year	1-3 years	3-5 years	Over 5 years	Total
Financial assets:						
Loans and receivables						
Cash and cash equivalents	0.05%-5.80%	₱826,286,225	₱–	₱–	₱–	₱826,286,225
Financial assets at FVPL						
Government debt securities						
Local currency	5.75%-14.38%	261,323,266	1,263,618,437	3,091,106,737	3,311,096,547	7,927,144,987
Foreign currency	4.00%-10.63%	28,443,912	73,002,325	128,187,100	8,152,059,512	8,381,692,849
Total financial assets		₱1,116,053,403	₱1,336,620,762	₱3,219,293,837	₱11,463,156,059	₱17,135,124,061

January 1, 2009

	Range of interest rate	Up to a year	1-3 years	3-5 years	Over 5 years	Total
Financial assets:						
Loans and receivables						
Cash and cash equivalents	2.00%-7.00%	₱1,737,919,030	₱–	₱–	₱–	₱1,737,919,030
Financial assets at FVPL						
Government debt securities						
Local currency	5.75%-14.38%	–	1,093,210,855	3,903,305,838	2,599,222,034	7,595,738,727
Foreign currency	4.00%-10.63%	70,717,299	130,108,292	49,399,833	8,149,924,381	8,400,149,805
Total financial assets		₱1,808,636,329	₱1,223,319,147	₱3,952,705,671	₱10,749,146,415	₱17,733,807,562

The analysis below is performed for reasonably possible movements in interest rates with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of fixed rate financial assets at FVPL) and equity (due to changes in fair value of fixed rate AFS financial assets). The impact on the Company's equity already excludes the impact on transactions affecting the profit or loss in the statement of comprehensive income.

December 31, 2010

Currency	**Change in variable**	**Impact on profit before tax**	**Impact on equity**
Peso	**+1.11%**	**(₱71,408,717)**	**(₱257,797,837)**
US$	**+1.92%**	**(462,477)**	**(136,510,937)**
Peso	**-1.11%**	**76,474,079**	**290,452,970**
US$	**-1.92%**	**428,281**	**151,261,561**

December 31, 2009

Currency	Change in variable	Impact on profit before tax	Impact on equity
Peso	+0.28%	(₱18,295,290)	(₱36,831,724)
US$	+0.78%	(3,528,657)	(78,266,475)
Peso	-0.28%	18,615,242	37,744,721
US$	-0.78%	3,626,889	81,294,828

December 31, 2008

Currency	Change in variable	Impact on profit before tax	Impact on equity
Peso	+0.64%	(₱46,366,713)	(₱40,969,131)
USD	+0.37%	(2,321,532)	(39,338,332)
Peso	-0.64%	48,196,210	42,646,657
USD	-0.37%	2,354,654	40,219,530

In 2010, 2009 and 2008, the Company determined the reasonably possible change in interest rates using the percentage changes in weighted average yield rates of outstanding securities for the past two years.

Equity price risk
The Company's equity price risk exposure at year-end relates to financial assets whose values will fluctuate as a result of changes in market prices, principally, equity securities classified as financial assets at FVPL and AFS financial assets.

Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

The Company's investment policy requires it to manage such risks by setting and monitoring objectives and constraints on investments; diversification plan; limits on investment in each sector and market. Investments in derivatives are also subject to such requirements.

The Company has certain direct strategic minority investments in publicly traded companies. These investments are classified as AFS financial assets. The Company also invests in equity shares through its unit-linked funds. Investments held by these unit-linked funds were designated as financial assets at FVPL.

As of December 31, 2010, December 31, 2009 and January 1, 2009, the fair values of equity investments classified as financial assets at FVPL amounted to ₱588,709,464, ₱479,704,394 and ₱294,072,130 (see Note 6). As of December 31, 2010, December 31, 2009 and January 1, 2009, the fair values of equity investments classified as AFS financial assets amounted to ₱316,406,944, ₱174,160,145 and ₱96,966,610, respectively (see Note 6).

The analysis below is performed for reasonably possible movements in the PSE index with all other variables held constant. The impact on profit before tax (due to changes in fair value of equity securities classified as financial assets at FVPL) and equity (due to changes in fair value of equity securities classified as AFS financial assets) is arrived at using the change in variable and the specific adjusted beta of each share of stock the Company holds at the reporting date. Adjusted beta is the forecasted measure of the volatility of a security or a portfolio in comparison to the market as a whole. The impact on the Company's equity already excludes the impact on transactions affecting profit or loss.

December 31, 2010

Market Index	**Change in variable**	**Impact on profit before tax**	**Impact on equity**
PSE index	**+28%**	**₱1,028,271,506**	**₱97,517,463**
PSE index	**-28%**	**(1,028,271,506)**	**(97,517,463)**

December 31, 2009

Market Index	Change in variable	Impact on profit before tax	Impact on equity
PSE index	+7%	₱35,201,208	₱12,543,507
PSE index	-7%	(35,201,208)	(12,543,507)

December 31, 2008

Market Index	Change in variable	Impact on profit before tax	Impact on equity
PSE index	+51%	₱150,599,749	₱47,746,073
PSE index	-51%	(150,599,749)	(47,746,073)

In 2010, 2009 and 2008, the change in variable was derived from the percentage changes of the composite PSE index for the past three years.

24. **Related Party Transactions**

Transactions between related parties are based on terms similar to those offered to nonrelated parties. Parties are 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 and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Related party transactions consist mainly of the following:

a. The Company maintains savings and current accounts and short-term deposits with Metropolitan Bank and Trust Company (MBTC), an affiliate, details of which follow:

	December 31		January 1
	2010	2009	2009
Savings and current accounts	**₱176,171,686**	₱342,899,566	₱55,112,988
Short-term deposits	**773,796,235**	226,676,138	843,413,778
	₱949,967,921	₱569,575,704	₱898,526,766

Interest income from these savings and current accounts and short-term deposits included in "Investment income" amounted to ₱9,842,096 and ₱14,548,708 in 2010 and 2009, respectively.

b. The Company maintains savings and current accounts and short-term deposits with Philippine Savings Bank, a subsidiary of MBTC, details of which are as follow:

	December 31		January
	2010	2009	2009
Savings and current accounts	**₱2,278,999**	₱1,840,209	₱1,271,096
Short-term deposits	**623,949,417**	178,022,250	304,124,970
	₱626,228,416	₱179,862,459	₱305,396,066

Interest income from these savings and current accounts and short-term deposits included in "Investment income" amounted to ₱14,893,596 and ₱15,511,276 in 2010 and 2009, respectively.

c. The Company's long-term investments coursed through MBTC follow:

	December 31		January 1
	2010	2009	2009
Peso debt securities	**₱2,467,739,040**	₱2,171,231,433	₱1,556,580,000
Dollar debt securities	**1,813,786,163**	2,142,240,155	1,852,627,275
	₱4,281,525,203	₱4,313,471,588	₱3,409,207,275

d. The Company maintains a unit-linked fund agreement with MBTC - Trust Banking Group for the management of the Company's separate variable funds for its variable life insurance contracts (the Funds). Under the trust agreement, MBTC shall manage the Funds faithfully in accordance with the terms and conditions of the trust agreement. As compensation for services rendered, MBTC shall be entitled to a service fee equivalent to 0.30% per annum based on the net asset value of the Funds. The net asset values of the Funds follow:

	December 31		January 1
	2010	2009	2009
AXA Philippine Premium Bond Fund	**₱7,904,202,227**	₱8,420,079,845	₱8,765,438,760
AXA Philippine Wealth Balanced Fund	**5,667,510,838**	7,213,562,377	7,011,269,406
AXA Philippine Wealth Bond Fund	**1,893,950,572**	2,518,741,614	3,147,738,326
AXA Philippine 3Gxceed B16 Series 2	**1,542,965,508**	–	–
AXA Philippine Wealth Equity Fund	**1,493,732,131**	1,439,187,816	850,748,079
AXA Philippine 3Gxceed B16	**1,200,975,540**	609,328,069	–
AXA Philippine Locked and Loaded	**826,064,628**	877,994,822	513,683,367
AXA Philippine 3Gxceed $B19	**630,985,538**	–	–
AXA Philippine 3Gxceed B17	**417,161,780**	–	–
AXA Philippine Capital Investment Fund	**414,046,481**	469,271,433	517,217,334
AXA Philippine Opportunity Fund	**315,801,495**	51,920,208	–
AXA Philippine Armor Fund	**226,527,020**	230,335,989	–
AXA Philippine 3Gxceed B19	**155,651,715**	46,750,066	–
AXA Philippine Peso Liquidity Fund	**15,898,277**	22,752,314	48,626,371
	₱22,705,473,750	₱21,899,924,553	₱20,854,721,643

Service fees charged against "Income on assets held to cover unit-linked liabilities" amounted to ₱82,868,786 and ₱69,219,780 in 2010 and 2009, respectively (see Note 19). Service fees payable deducted to "Assets held to cover unit-linked liabilities" amounted to ₱4,506,479, ₱5,391,732 and ₱8,588,378 as of December 31, 2010, December 31, 2009 and January 1, 2009, respectively (see Note 11).

e. The unit-linked fund was established through a Unit-Linked Fund Agreement between the Company and MBTC. The agreement states that the Company is entitled to an asset management fee equivalent to 1.60% per annum based on the NAV of the Fund.

   The Company's "Asset management fees" from unit-linked funds included in "Other income" amounted to ₱359,228,246 and ₱376,589,606 in 2010 and 2009, respectively (see Notes 18 and 19). Asset management fees receivable included in "Intercompany receivables" under "Loans and receivables" amounted to ₱52,841,898, ₱35,523,525 and ₱31,552,351 as of December 31, 2010, December 31, 2009 and January 1, 2009 (see Note 11).

f. The Company entered into a bancassurance agreement with MBTC in relation to the sale of policy insurance contracts to the clients of MBTC through the Company's financial executives. The Company pays referral fees recognized as "Commission expense" in the profit or loss. Bank and bank staff referrals are applied at various rates based on the collected premiums.

   Referral fees recognized as "Commission expense" amounted to ₱114,215,500 and ₱53,868,743 in 2010 and 2009, respectively. The outstanding balance included in "Commissions payable" under "Accrued expenses" amounted to ₱19,118,843, ₱14,746,916 and ₱18,962,754 as of December 31, 2010, December 31, 2009 and January 1, 2009, respectively (see Note 15).

g. MBTC is the trustee bank of the Company's retirement plan. The Company's plan assets amounted to ₱58,002,823, ₱46,930,622 and ₱42,820,046 as of December 31, 2010, December 31, 2009 and January 1, 2009, respectively (see Note 21).

h. In 2010 and 2009, "Rental income" from MBTC Skyland included in "Investment income" amounted to ₱1,100,100 and ₱820,564, respectively. There is no rent receivable as of December 31, 2010, December 31, 2009 and January 1, 2009.

i. Other transactions with affiliates pertain to reimbursement of expenses. The Company's outstanding receivables on account of these transactions, included in "Intercompany receivables" under "Loans and receivables" follow:

	December 31		January 1
	2010	2009	2009
Federal Land	**₱8,425,828**	₱9,532,562	₱–
AXAAPHL	**1,133,112**	364,635	144,010
First Metro Travel, Inc.	**–**	–	308,331
AXA Indonesia	**–**	–	157,666
AXA Thailand	**–**	–	36,203
	₱9,558,940	₱9,897,197	₱646,210

   As of December 31, 2010, December 31, 2009 and January 1, 2009, receivables from unit-linked funds included under "Intercompany receivables" amounted to ₱26,056,656, ₱231,615 and nil, respectively. These receivables pertain to redemptions from unit-linked funds payable to policyholders.

j. The Company has transactions with affiliates in relation to group policies. These pertain to credit life and yearly renewable term policies. Details of the balances with affiliates are as follows:

Premiums earned

	2010	2009
Philippine Savings Bank	**₱87,162,773**	₱53,883,098
Metrohome Financing Program	**70,133,424**	46,151,676
MBTC	**9,287,882**	–
Toyota Motor Philippines Corporation	**3,188,442**	–
MBTC Provident Plan	**2,405,720**	2,267,556
Metrobank Card Corporation	**926,929**	608,518
MBTC - Security Guards	**734,148**	–
Orix Metro Leasing and Finance Corporation	**452,012**	–
First Metro Investment Corporation	**433,797**	–
Philippine Charter Insurance Corporation	**328,099**	299,031
Federal Land	**150,268**	–
Metro Invest Plus	**–**	87,583
	₱175,203,494	₱103,297,462

Premiums due and uncollected

	December		January
	2010	2009	2009
Philippine Savings Bank	**₱4,672,748**	₱4,690,870	₱3,948,307
Metrohome Financing Program	**3,884,371**	3,733,501	2,873,978
Metrobank Card Corporation	**926,929**	608,518	608,518
MBTC - Security Guards	**42,695**	358	–
Toyota Motor Philippines Corporation	**–**	–	14,064
Philippine Charter Insurance Corporation	**–**	2,655	1,478
Metro Invest Plus	**₱9,526,743**	₱9,035,902	₱7,446,345

Claims incurred

	2010	2009
Philippine Savings Bank	**₱34,174,139**	₱14,523,584
Metrohome Financing Program	**15,140,747**	3,041,065
Philippine Savings BankMetrobank	**6,419,222**	–
Metrobank Card Corp. Term Life	**1,000,000**	–
Metrobank Free PA Campaign	**400,000**	–
MBTC Technology, Inc.	**400,000**	–
Toyota Motor Philippines Corporation	**333,333**	–
MBTC - Security Guards	**310,000**	–
MBTC Provident Plan	**244,530**	–
Metro Invest Plus	**–**	12,933
	₱58,421,971	₱17,577,582

Claims payable

	December		January
	2010	2009	2009
Philippine Savings Bank	**₱3,921,457**	₱2,641,448	₱4,878,829
Metrobank	**9,500,000**	13,500,000	19,500,000
Toyota Motor Philippines Corporation	**1,466,666**	733,333	892,133
Metrohome Financing Program	**545,000**	2,950,615	5,405,000
MBTC - Security Guards	**–**	30,000	–
Metro Invest Plus	**₱15,433,123**	₱19,855,396	₱30,675,962

Outstanding gross experience refunds

	December 31		January 1
	2010	2009	2009
Philippine Savings Bank	**₱34,594,977**	₱11,031,477	₱16,130,756
Metrohome Financing Program	**29,962,680**	8,562,926	7,623,708
Toyota Motor Philippines Corporation	**3,103,430**	–	738,304
MBTC Provident Plan	**2,557,634**	424,721	557,835
Metrobank Card Corporation	**341,030**	233,855	225,922
Philippine Charter Insurance Corporation	**296,093**	109,213	58,929
Metro Invest Plus	**165,222**	25,282	64,529
MBTC - Security Guards	**592,235**	–	244,684
	₱71,613,301	₱20,387,474	₱25,644,667

k. Compensation of key management personnel

Key management personnel of the Company include all management committee officers.

The summary of compensation of key management personnel follows:

	2010	2009
Salaries and other short-term employee benefits	**₱50,337,306**	₱52,869,376
Termination benefits	**3,461,967**	2,901,141
Retirement benefits	**2,088,751**	609,361
	₱55,888,024	₱56,379,878

AXAAPHL allocated certain expenses to the Company that pertain to shared service costs as a result of providing services on management planning, support and maintenance services, procurement regional projects and information technology service delivery charges. Shared service costs included in "Operating and administrative expenses" amounted to ₱72,518,412 and ₱65,928,369 in 2010 and 2009, respectively (see Note 20). The outstanding balance included in "Accrued expenses" under "Trade and other liabilities" amounted to ₱64,911,970, ₱25,710,896 and ₱15,192,457 as of December 31, 2010, December 31, 2009 and January 1, 2009, respectively (see Note 15).

25. **Commitments**

Operating Lease Commitments

Company as lessee

The Company entered into commercial leases on certain offices for its branches. These leases have an average life of between 1 to 5 years with renewal terms included in the contracts. Certain lease contracts also include escalation clauses. Renewals are at the option of the specific entity that holds the lease. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rental payments under noncancellable operating leases follow:

	December 31		January 1
	2010	2009	2009
Within one year	**₱34,879,925**	₱39,342,881	₱37,132,587
After one year but not more than five years	**43,097,218**	77,977,143	110,171,578
	₱77,977,143	₱117,320,024	₱147,304,165

Company as lessor

The Company has entered into property leases on its investment properties, consisting of the Company's surplus office spaces. These noncancellable leases have remaining noncancellable lease terms of below 5 years. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions.

Future minimum rentals receivable under noncancellable operating leases follow:

	December 31		January 1
	2010	2009	2009
Within one year	**₱870,225**	₱1,728,960	₱1,728,960
After one year but not more than five years	**2,010,219**	1,728,960	3,457,920
	₱2,880,444	₱3,457,920	₱5,186,880

Finance Lease Commitments

The Company has finance leases for various items of property and equipment. These leases have no terms of renewal or purchase options and escalation clauses. Future minimum lease payments under the finance leases together with the present value of the net minimum lease payments included in the "Accrued expenses" under the "Trade and other liabilities" account follow:

December 31, 2010

	Minimum payments	**Present value of payments**
Within one year	**₱1,255,122**	**₱1,255,122**
After one year but not more than five years	**1,045,935**	**–**
	₱2,301,057	**₱1,255,122**

December 31, 2009

	Minimum payments	Present value of payments
Within one year	₱1,255,122	₱1,255,122
After one year but not more than five years	2,301,057	2,097,091
	₱3,556,179	₱3,352,213

January 1, 2009

	Minimum payments	Present value of payments
Within one year	₱1,255,122	₱1,225,176
After one year but not more than five years	3,556,179	3,075,780
	₱4,811,301	₱4,300,956

26. **Contingencies**

The Company is a defendant in several lawsuits arising from the normal course of carrying out its insurance business. Provisions have been recognized in the financial statements to cover liabilities that may arise as a result of adverse decisions that may be rendered by the courts. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* is not disclosed on the grounds that it can be expected to prejudice the Company's position with regard to the outcome of these claims.

27. **Notes to Cash Flow Statements**

In 2010, the Company's non cash activity pertains to the conversion of contingency surplus into paid-up capital amounting to ₱98,596,000 (see Note 16).

28. **Supplementary Tax Information under Revenue Regulations No. 15 - 2010**

In compliance with the requirements set forth by RR 15-2010 hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year.

Value added tax (VAT)
The Company is a non-VAT registered company engaged in the business of life insurance and paid the amount of ₱44,340,755 as percentage tax pursuant to the Tax Code and based on the amount reflected in the premiums on insurance contracts of ₱2,006,964,239.

Documentary Stamp Tax (DST)
The DST paid/accrued on the following transactions are:

Transaction	Amount	DST
Life insurance policies	₱31,382,707,426	₱6,776,660
Shares of stock	34,298,200	171,502
Balance at end of the year	₱31,417,005,626	₱6,948,162

Other Taxes and Licenses
This includes all other taxes, local and national, including real estate taxes, licenses and permit fees lodged under the 'Operating and administrative expenses' sections in the Company's Statement of Comprehensive Income. Details consist of the following:

Local	
Mayor's permit	₱8,276,786
Real estate taxes	458,749
PTR	300
Others	47,905
	8,788,740
National	
Percentage taxes	2,434,823
BIR annual registration	11,000
	2,445,823
	₱11,234,563

Withholding Taxes
The amount of withholding taxes paid and accrued for the year amounted to:

Tax on compensation and benefits	₱96,334,460
Creditable withholding taxes	50,084,697
Final withholding taxes	175,861
	₱146,595,018

APPENDIX A – PHILIPPINE REAL ESTATE STUDY BY COLLIERS INTERNATIONAL

Industry Study

MARCH 2012

Prepared by:
Paul Chua
Melanie Roxas

Prepared for:
GT Capital Holdings, Inc.

Colliers International Philippines, Inc.
Valuation & Advisory Services

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March 13, 2012

GT CAPITAL HOLDINGS, INC.
43/F GT Tower International
6813 Ayala Avenue cor. H.V. Dela Costa St.,
1227 Makati City
Philippines

For the attention of: Mr. Carmelo Bautista

Re: Property Industry Study (the "Project")

With reference to your instructions received on 09 December 2011, we have prepared a property industry study (the "Project"). As we understand, this report is for inclusion into the Prospectus of the impending initial public offering of GT Capital Holdings, Inc.

The market report is enclosed herewith.

Yours faithfully,
For and on behalf of
Colliers International Philippines, Inc.

Paul Chua
Associate Director

Industry Study

TABLE OF CONTENTS

Industry Study

1 INTRODUCTION

1.1 INSTRUCTIONS

This report has been prepared upon the instructions of GT Capital Holdings, Inc. (the “Client”) to conduct an Industry Study that covers the real estate property sector. We understand that the Client will use the report for inclusion in its Prospectus.

The primary purpose of the study is to provide the Client substantial knowledge of the property sector and evaluate its projects in the market.

The study needs to include an overview of the economy, fundamentals of the real estate market, overview of the areas where the Client has existing landbank and overview of the office and commercial sectors which are relevant to the Client and its projects.

1.2 INFORMATION SOURCES

The information provided in this report has been obtained from the Client, applicable government bureaus, other public information sources and our internal database.

1.3 CAVEATS AND ASSUMPTIONS

This report is subject to our Standard Caveats and Assumptions as set out in Section 7.

2 PHILIPPINE MACROECONOMIC OVERVIEW

2.1 NATIONAL INCOME ACCOUNTS

Table 1 : Historical Economic Indicators (At Constant 2000 Prices)

	2005	2006	2007	2008	2009	2010	2011
Gross National Product	3.5%	4.8%	6.1%	6.0%	6.5%	8.4%	2.6%
Gross Domestic Product	4.8%	5.2%	6.6%	4.2%	1.1%	7.6%	3.7%
Personal Consumption Expenditure	4.4%	4.2%	4.6%	3.7%	2.3%	3.4%	6.1%
Gov't. Expenditure	2.1%	10.6%	6.9%	0.3%	10.9%	4.0%	-0.7%
Investments	3.0%	-15.1%	-0.5%	23.4%	-8.7%	31.6%	11.1%
Exports	5.0%	12.6%	6.7%	-2.7%	-7.8%	21.0%	-3.8%
Imports	3.3%	3.5%	1.7%	1.6%	-8.1%	22.5%	1.9%
Agriculture	2.2%	3.6%	4.7%	3.2%	-0.7%	-0.2%	2.6%
Industry	4.2%	4.6%	5.8%	4.8%	-1.9%	11.6%	1.9%
Services	5.8%	6.0%	7.6%	4.0%	3.4%	7.2%	5.0%
Average Inflation (full-year)	7.6%	6.2%	2.8%	9.3%	3.2%	3.8%	4.4%
Budget Deficit (Billion Pesos)	P147	P65	P12	P68	P298	P314	-
P:US$ (Average)	P55.09	P51.30	P46.15	P44.47	P47.64	P45.11	P43.31

Source: National Statistical Coordination Board, Bangko Sentral ng Pilipinas

GDP grew by 6.6% in 2007 – the country's best rate in 31 years. Growth was driven by consumption and investment spending. A stronger peso, combined with other headwinds such as high global oil, commodity, and food prices, and a generally deteriorating external outlook have, however, led to slower growth in 2008.

Despite the global financial crisis that shocked the world in the second half of 2008, the Philippines' GDP still grew by 4.2%. This was largely driven by a resilient private consumption sector despite a sharp slowdown across other sectors of the economy. Outside of private consumption, government spending, fixed investment, and export growth all contracted sharply in sequential trend terms. Services and agriculture were strong while the industry component weakened.

In 2009, the global recession continued to affect the economy of countries in Asia including the Philippines. Almost all indicators were down, some of which even posted a negative growth. Investments and trading activities slowed down as exporters do not produced much as demand from importers weakened. In the services sector, though expansions of Business Process Outsourcing (BPO) companies were put on hold, this industry was able to keep the sector afloat.

Buoyed by election spending and trust in the new administration, the Philippine economy grew by 7.6% in 2010. The industry and services sectors expanded considerably in the last quarter of 2010 while the agriculture sector recovered after four consecutive quarters of decline due to El Niño.

In 2011, the national economy has been hampered by external factors such as high oil prices brought about by the crisis in the Middle East and the natural disasters in Japan, which is one of the Philippines' major trading partners.

Outlook is positive for the economy in 2012. The National Economic and Development Authority is expecting an increase in consumer spending, more government spending on infrastructure and other capital outlay, plus the anticipation of investments coming in from both the public and private sectors.

2.2 DRIVERS OF THE REAL ESTATE SECTOR

The key drivers of the real estate sector in the Philippines can be summarized in the following categories: population growth, income and expenditure levels, affordability of real estate products, OFW remittances, and the robust employment opportunities in the Offshoring & Outsourcing sector (O&O) including the BPO sector.

2.2.1 POPULATION

The National Capital Region or Metro Manila's population at end-2007 was estimated at 11.6 million and has been growing at a rate of 2.0% per annum from 2000 to 2007.

Table 2 : Population and Annual Growth Rates – Philippines and NCR

Region/City	Total Population			Compounded Annual Growth Rate	
	2007	2000	1995	2000 - 2007	1995 - 2000
PHILIPPINES	**88,574,614**	**76,506,928**	**68,616,536**	**2.0**	**2.4**
NATIONAL CAPITAL REGION (NCR)	**11,553,427**	**9,932,560**	**9,454,040**	**2.1**	**1.1**
Manila	1,660,714	1,581,082	1,654,761	0.7	-1.0
Mandaluyong	305,576	278,474	286,870	1.3	-0.6
Marikina	424,610	391,170	357,231	1.1	2.0
Pasig	617,301	505,058	471,075	2.8	1.5
Quezon City	2,679,450	2,173,831	1,989,419	2.9	1.9
San Juan	125,338	117,680	124,187	0.9	-1.2
Kalookan	1,378,856	1,177,604	1,023,159	2.2	3.1
Malabon	363,681	338,855	347,484	1.0	-0.5

Region/City	Total Population			Compounded Annual Growth Rate	
	2007	2000	1995	2000 - 2007	1995 - 2000
Navotas	245,344	230,403	229,039	0.9	0.1
Valenzuela	568,928	485,433	437,165	2.2	2.3
Las Piñas	532,330	472,780	413,086	1.7	2.9
Makati	510,383	444,867	484,176	1.9	-1.8
Muntinlupa	452,943	379,310	399,846	2.5	-1.1
Parañaque	552,660	449,811	391,296	2.9	3.0
Pasay	403,064	354,908	408,610	1.8	-3.0
Taguig	613,343	467,375	381,350	3.8	4.5
Pateros	61,940	57,407	55,286	1.1	0.8

Source: National Statistics Office

Among the highly urbanized cities/ municipalities in the NCR, the most populated is Quezon City with a 23.3% share of the region's total population. This was followed by the cities of Manila (14.5%) and Kalookan (12.0%). The municipality of Pateros has the lowest share of 0.5%.

Based on the latest Census done in 2007, the fastest growing districts are Taguig and Quezon City, with growth rates of 3.8% and 2.9%, respectively.

As there is a concentration of population in Metro Manila, housing demand has generally been increasing, which is an opportunity for real estate developers.

2.2.2 INCOME AND EXPENDITURE

Table 3 : Family Income and Expenditure Survey 2000-2009

	2009	2006	2003	2000
Estimated Number of Families	18.5 million	17.4 million	16.5 million	15.1 million
Total Income	P3.80 trillion	P3.01 trillion	P2.44 trillion	P2.19 trillion
Total Expenditure	P3.24 trillion	P2.56 trillion	P2.04 trillion	P1.79 trillion
Average Income	P 206,000	P 173,000	P 148,000	P 145,000
Average Expenditure	P 176,000	P 147,000	P 124,000	P 119,000
Gini Coefficient	0.448	0.458	0.461	0.482

Source: National Statistics Office

Results of the 2009 Family Income and Expenditure Survey (FIES) showed that Filipino families earned a total income of P3.80 trillion within the year, an average of P206,000 annually. On the other hand, annual family expenditure also registered an increase from the 2006 survey, totaling P3.24 trillion, or an average of P176,000 per family.

Annual family income and expenditure across all regions registered an increase from 2003 to 2006, with the NCR accounting for ¼ of the country's total family income at P734 billion.

2.2.3 AFFORDABILITY

In real estate market, affordability is considered a significant factor that can significantly affect the buying decision of an individual. Based on observations from the market, affordability can be derived from residential units' size and payment terms.

Unit Size. In Makati, the average condominium size during the 1990's was 95 square meters, whereas the average unit sizes of projects launched from 2007 to present is only 68 square meters. In addition, looking at the unit configuration, the percentage share of 2BR and 3BR units in stock has been steadily declining with the market being flooded by smaller units such as studio and 1BR units.

Payment Terms. With the continuous shift in sizes of condominium units, affordability has also improved over time. Affordability may be defined as a unit having a low total contract price but may also be defined as having a flexible payment term or low monthly amortization. Below is a comparison of the prevailing payment terms in the years 2000 and 2010.

Table 4 : Payment Terms (Year 2000 & 2010)

	Year 2000 Projects	Year 2010 Projects
Total Contract Price	from P2M up, mostly above P3M	from P1.5M up
Price/sqm	P60K - P100K	P75K - P130K
Construction Period	3 years	4-5 years
Downpayment	30% spot	as low as 20% over 3 years
Payment Duration	24 to 36 months	as much as 180 months (bank financing)
Balance During Construction	70%-80%	just the DP
Monthly	at least P50K	P10K - 20K possible
Balloon Payments	N/A	optional: every 12 months
Payment Upon Turnover	0%-20%	40%-70%
Interest Rates	Bank: 13%-20%	Bank: 8%-10%
		0% for the construction period
Reservation Fees	at least P100K	P25K - P100K
Smallest Unit Size	40sqm	15-20sqm
Financing	Largely reliant on in-house financing by developers	Tie-up with banks

Source: Colliers International Research

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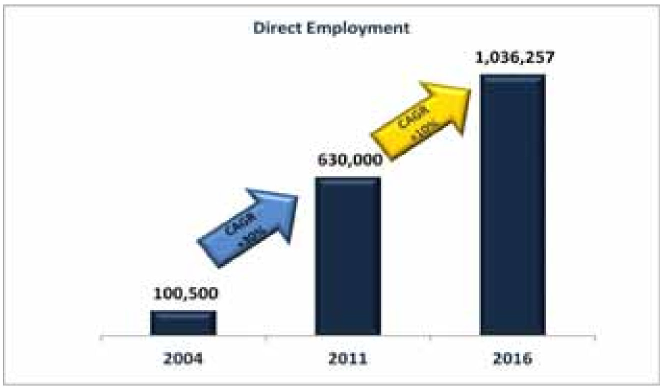
2.2.4 EMPLOYMENT OPPORTUNITIES

The O&O industry, or commonly known as the BPO sector, is one of the major contributors to the national economy and has provided a number of employment opportunities for the populace.

The graph below shows the impact of new employment coming from this sector. In 2004, there were approximately 100,500 full time employees, primarily working in what was earlier known as call centers.



Source: Business Processing Association of the Philippines

In 2011, this grew at compounded annual growth rate of 30%, ending the year with approximately 630,000 employed in this sector, but the shift in the type of BPO according to BPAP has also changed to 65% in the call center industry and 35% in the back-office KPO (Knowledge Process Outsourcing).

There still remains a lot of room for growth in the Philippine BPO sector, particularly in the higher value services, like KPO. By 2016, it is estimated that there will be more than one million workers in this industry, and this is expected to contribute to higher wages as compared to traditional entry level employment in the Philippines.

2.3 OFW REMITTANCES

The continued strength of cash inflows through remittances is primarily due to the higher deployment of workers abroad and the improved delivery of services of financial institutions.

Discussions with developers revealed that overseas Filipinos' remittances have a significant impact on the residential segment. In fact, the Bangko Sentral ng Pilipinas (BSP) estimates that approximately 30% of all remittances go towards housing expenses.

Table 5 : OFW Remittances (in Billion US Dollars)

Year	OFW Remittance	Exchange Rate
2000	6.1	P44.19
2001	6.0	P50.99
2002	6.9	P51.60
2003	7.6	P54.20
2004	8.6	P56.04
2005	10.7	P55.09
2006	12.8	P51.31
2007	14.4	P46.15
2008	16.4	P44.47
2009	17.3	P47.64
2010	18.8	P45.11
2011	20.1	P43.31

Source: Bangko Sentral ng Pilipinas

End-2011 remittances amount to US$20.12 billion which grew by 7.2% as compared to 2010. This is despite the external shocks for the year such as the Middle East crisis, disasters in Japan and the "saudization" policy of Saudi Arabia in which the government encourages employment of Saudi nationals in the private sector which is currently dominated by expatriate workers from Southeast Asia.

Table 6 : Percentage Distribution of OFWs by Region of Origin

Region	2007	2008	2009	2010
NCR	16.0%	14.0%	13.9%	13.8%
CAR	2.1%	1.9%	2.1%	1.8%
I – Ilocos	7.7%	7.8%	8.6%	9.5%
II - Cagayan Valley	5.9%	5.5%	5.7%	6.1%
III - Central Luzon	14.3%	14.5%	14.7%	14.4%
IVA – CALABARZON	17.7%	18.4%	16.4%	16.0%
IVB – MIMAROPA	1.7%	2.2%	1.7%	1.7%
V – Bicol	3.0%	3.1%	3.0%	3.1%
VI - Western Visayas	8.5%	7.8%	9.2%	8.3%
VII - Central Visayas	5.1%	5.6%	6.1%	6.6%
VIII - Eastern Visayas	2.1%	2.9%	2.9%	2.0%
IX - Zamboanga Peninsula	2.0%	1.8%	2.2%	2.3%
X - Northern Mindanao	3.1%	2.8%	2.8%	3.0%
XI – Davao	2.6%	2.8%	2.8%	2.8%
XII – SOCCSKSARGEN	4.2%	4.5%	4.2%	4.2%
XIII – Caraga	1.0%	1.2%	1.3%	1.4%
ARMM	3.1%	3.3%	2.4%	3.1%
Philippines	100.0%	100.0%	100.0%	100.0%

Source: National Statistics Office

Based on the 2007 to 2010 Survey on Overseas Filipinos conducted by the National Statistics Office, the majority of Filipino workers deployed came from CALABARZON which comprised 17.7%, 18.4%, 16.4% and 16.0% of the total number for 2007, 2008, 2009 and 2010, respectively. Central Luzon (14.4%) followed next and the NCR (13.8%) is in 3rd place. OFW remittances are usually sent to relatives in the worker's respective place of origin.

3 FUNDAMENTALS OF THE PHILIPPINE REAL ESTATE MARKET

3.1 OVERVIEW OF THE PHILIPPINE REAL ESTATE MARKET

In 2010, affordable condominiums have dominated the residential market – where the target market is principally aimed at the OFWs as well as growth in the middle class population of Metro Manila, which is primarily driven by the growth of the BPO industry.

In 2011, regardless of the perception of overcrowding in Metro Manila, with what is seemed as the condominium for the masses, which are smaller sized units compared to those offered a few years back, the demand for these units continues to grow. Sales take-up of over 40,000 units has surpassed 2010's some 36,000 units sold in Metro Manila.

3.2 METRO MANILA HOUSING DEMAND

3.2.1 GOVERNMENT ESTIMATES

The Housing and Urban Development Coordinating Council's (HUDCC) national shelter program estimates that 5.73 million houses are needed from 2011 to 2016 or approximately 955,409 houses each year. About 30% of the total is needed in Metro Manila, which is 17% more than the estimates for the period 2005 to 2010. The need for housing is expected to remain significant as household formation outstrips the supply of houses. Philippine household growth has averaged 2.1% annually in the 2000 to 2007 census, or 344,389 families each year.

In Metro Manila alone, the six-year demand is estimated at an average of 289,507 units per year. The table below summarizes housing demand for Metro Manila and the Philippines.

Table 7 : Housing Demand as Estimated by the Philippine Government

Area	2011	2012	2013	2014	2015	2016	Total
Metro Manila	418,328	355,579	302,242	256,906	218,370	185,614	1,737,039
Philippines	1,380,537	1,173,456	997,438	847,822	720,649	612,552	5,732,454

Source: Housing and Urban Development Coordinating Council

3.2.2 HOUSEHOLD POPULATION

As of 2007, there were 2,481,066 households in Metro Manila. The annual growth rate was 2.2%, or an additional 55,960 households per annum until 2011. This number may be referred to as the pure housing demand. By the end-2011, household population was estimated at 2,704,907.

Table 8 : Annual HH Addition

Year	HH Pop'n	Annual Addition
2007	2,481,066	
2008	2,535,226	54,161
2009	2,590,570	55,343
2010	2,647,121	56,551
2011	2,704,907	57,786
Average		**55,960**

Source: National Statistics Office

3.2.3 AFFORDABILITY SEGMENTATION

In order to better understand the housing demand in Metro Manila, we have segregated it according to how the Government classifies housing segments.

Table 9 : Assumptions for Minimum required Family Income by Price Points

Category	Price Range	Reservation Fee	DP	Payment Term	Interest
Socialized	Not more than P400,000	P25,000	20%	36	0%
Low Cost	P400,001 to P1,250,000	P25,000	20%	36	0%
Mid-income	P1,250,001 to P5 million	P25,000	20%	36	0%
High-end	Above P5 million				

Source: Colliers International Research

Taking the residential classification further, it is possible to segregate the various types of housing with consideration as to affordability. To arrive at the minimum required annual family income, we employed the assumptions as enumerated in the table above.

To get the values associated with the minimum required family incomes per annum for each housing category, we utilized the following methodology:

- Compute for the monthly amortization payment as based on the downpayment, interest rate, and number of monthly pay periods.
- Divide the total annual amortization by 30%, the rate used by the Government in estimating the portion of disposable income allocated for housing.
- The resulting amount is divided further by the income tax rate, which could range from 12% to 32%.

Based on the foregoing assumptions, the table below summarises the computed required annual income for each housing category.

Table 10 : Price Range and Required Annual Family Income

Category	Price Range	Required Income
Socialized	Not more than P400,000	At least P61,889
Low Cost	P400,001 to P1,250,000	At least P81,167
Mid-income	P1,250,001 to P5 million	At least P300,000
High-end	Above P5 million	At least P516,667

Source: Colliers International Research

Given these required annual income, the next step is to embed these to Metro Manila income distribution. We used the FIES 2006 Survey as seen in the next table.

Table 11 : Family Income Distribution (2006 FIES)

Ave. Income per Family	Average Income	Number of Families	Percentage
Under P10,000	-	-	0%
P10,000-P19,999	P16,798	549	<1%
P20,000-P29,999	P26,825	2,523	<1%
P30,000-P39,999	P33,001	2,438	<1%
P40,000-P49,999	P46,040	10,417	<1%
P50,000-P59,999	P54,728	19,226	1%
P60,000-P79,999	P71,677	66,007	5%
P80,000-P99,999	P91,071	107,005	5%
P100,000-P149,999	P126,842	462,901	20%
P150,000-P249,999	P195,685	672,405	28%
P250,000-P499,999	P345,573	670,612	28%
P500,000 and over	P851,118	347,780	15%
Total		**2,361,863**	**100%**

Source: National Statistics Office

A vital variable in projecting income is the CAGR employed. The table below presents the results of average family income per year under various survey periods.

Table 12 : Historical Family Income (Metro Manila)

Year	Average Income	CAGR
1991	P138,256	
1994	P173,599	7.88%
1997	P270,933	16.00%
2000	P300,304	3.48%
2003	P266,000	-3.96%
2006	P311,000	5.35%
2009	P356,000	4.61%

Source: National Statistics Office

Below are our income projection and stratification using a CAGR from 2003 to 2009 of 4.98%. We used the 2007 population census, however, the household population has not been released yet. Thus, we adopted the household size in the 2000 census to come up with the household population. We distributed the end-2011 estimated household population of 2.705 million to our projected income. For analysis purposes, we performed a five-year income projection.

Table 13 : Family Income Distribution (2011 Projected)

Ave. Income Per Family	Average Income	Number of Families	Percentage
Under P13,000	-	-	0%
P13,001-P25,000	P20,400	629	<1%
P25,001-P38,000	P32,578	2,889	<1%
P38,001-P51,000	P40,078	2,792	<1%
P51,001-P64,000	P55,914	11,930	<1%
P64,001-P76,000	P66,464	22,018	1%
P76,001-P102,000	P87,048	75,594	5%
P102,001-P127,000	P110,602	122,547	5%
P127,001-P191,000	P154,043	530,134	20%
P191,001-P319,000	P237,649	770,067	28%
P319,001-P637,000	P419,680	768,014	28%
P637,001 and over	P1,033,638	398,293	15%
Total		**2,704,907**	**100%**

Source: Colliers International Research

Industry Study

The next step is to look at the stratification of families based on income. The table below shows the stratification of households based on affordability of housing units. Based on Colliers' estimate that the least expensive housing units have a minimum required annual income of P61,889, less than 1% of the household population of Metro Manila, or 16,331 families cannot afford to purchase the cheapest housing unit. The low cost segment accounts for a significant portion of the housing demand at 51% of total. Meanwhile, the socialized segment is at 1%. The remaining 47% is attributed to the mid-income up to the high-end segment of the residential market.

Table 14 : Housing Types and Qualified Families (2011 Projected)

Category	Families	Percentage
Can't Afford	16,331	<1%
Socialized	39,046	1%
Low Cost	1,367,713	51%
Mid-income	1,247,309	46%
High-end	34,507	1%
Total	**2,704,907**	**100%**

Source: Colliers International Research

However, it should be noted that the last income bracket in the FIES (P637,001 and over) accounts for a wide segment of the real estate market. To further break this down, we look at certain proxy indicators:

- We looked at passenger car sales and compared the performance of the Chamber of Automotive Manufacturers of the Philippines (CAMPI) members that include Toyota, Mitsubishi and Honda versus the non-CAMPI sales that includes BMW and Jaguar. Non-CAMPI sales account for roughly 3% of total passenger car sales. Adding the high-end sales of CAMPI members, this would be approximately 5%.
- Another indicator could be the ratio of depositors in private banking to the commercial banking operations. Discussions with investment bankers revealed that private banking clients represent approximately 5% of their total depositor base in Metro Manila and less than 2% for the Philippines.

Given these indicators, we segregated the middle income from the high-end by assuming that 5% of the mid-income to high-end bracket can afford high-end residential units priced in excess of P5 million.

Also, it is widely believed that reported annual income figures are undervalued by as much as 30%, primarily as a shield against taxation. We further investigated the magnitude of under reporting by comparing the personal consumption expenditure (PCE) and the spending reported in the FIES survey. As expected, the PCE versus the FIES survey yielded a differential ranging from 20% (during economic expansions) to 30% (during economic recessions). Given this background, we present here two sensitivity analyses of family income stratification—one, at a conservative adjustment of +15%; the other, at the maximum perceived of +30%. The table below shows the comparison of the distribution of household population in our projected 2011 figures.

Table 15 : Housing Types and Qualified Families

Category	Families	2011F	2011F +15%	2011F +30%
Can't Afford	8,935	1%	<1%	<1%
Socialized	21,416	1%	1%	<1%
Low Cost	1,161,720	51%	43%	37%
Mid Income	1,477,177	46%	55%	61%
High-End	35,659	1%%	1%	2%
Total	**2,704,907**	**100%**	**100%**	**100%**

Source: National Statistics Office (2006 FIES),
Colliers International Research (all forecasts)

Applying our affordability distribution to the annual households created, we derive the pure demand from household formation for the years 2002 to 2011. For purposes of our demand analysis, we are employing the results of the segmentation under a +15% income adjustment, taking a conservative stance.

Table 16 : Annual Households Created in the Metro Manila (2011F with a +15% adjustment)

Year	Households	Can't Afford	Socialized	Low Cost	Mid Income	High-End
2002	47,579	157	377	20,434	25,983	627
2003	48,618	161	385	20,881	26,551	641
2004	49,679	164	393	21,336	27,130	655
2005	50,763	168	402	21,802	27,722	669
2006	51,872	171	411	22,278	28,328	684
2007	53,004	175	420	22,764	28,946	699
2008	54,161	179	429	23,261	29,578	714
2009	55,343	183	438	23,769	30,223	730
2010	56,551	187	448	24,288	30,883	746
2011	57,786	191	458	24,818	31,557	762
Total	**525,355**	**1,735**	**4,159**	**225,633**	**286,902**	**6,926**
Average	**52,536**	**174**	**416**	**22,563**	**28,690**	**693**

Source: Colliers International Research

The table above shows an average of 52,536 households were created since 2002. Based on Colliers' calculations as explained in the previous table, approximately 1% of the average annual households created in Metro Manila have insufficient income to afford even the least expensive housing unit. On average, there are approximately 174 new households created per annum that cannot afford socialized housing.

According to our calculations, the housing segment that offered the most significant potential is middle income housing. Middle income has an average need of 28,690 units per annum, while low cost represents an annual need of 22,563 units. Together, these segments account for 97% of the housing demand as based on the computed average annual number of households created.

3.3 RESIDENTIAL MARKET

The Philippines housing sector may be divided into four distinct market segments: (1) socialized, (2) low cost, (3) middle income and (4) high end.

Table 17 : Philippine Residential Market Segmentation

Characteristics	Socialized	Low Cost	Middle Income	High End
Price per Unit	Not more than P400,000	P400,001 to P1,250,000	P1,250,001 to P5,000,000	Above P5,000,000
Source of Mortgage Financing	Funding agencies* like HDMF, SSS, GSIS	Funding agencies like HDMF, SSS, GSIS; Government financial institutions** like LBP, DBP, PNB; a few private banks	Private financial institutions, particularly banks; in-house financing from developers	Private financial institutions, particularly banks; in-house financing from developers
Mortgage Terms:				
Max Loan Amt.	P300,000	P1,125,000	P3,500,000	70% of appraised value
Mortgage Rate	6%-9%	9%-12%	Market rates	Market rates
Max Loan Term	30 years	20-30 years	15 years	10 years
Loan: Appraisal Value	1	0.9	70%-80%	60% - 70%
Typical Size and Type of Housing	Row houses; min. lot area of 32 sq.m., min. floor area of 18 sq.m.	Duplexes; single detached units; min. lot area of 36 sq.m., min. floor area of 22 sq.m.	Lots; single detached units; townhouses; condominiums	Subdivided lots usually 500 sq.m. and above; luxury condominiums

Source: Colliers International Research
**Funding agencies: Home Development Mutual Fund (HDMF), Social Security System (SSS) and Government Service Insurance System (GSIS)*
***Government financial institutions: Land Bank of the Philippines (LBP), Development Bank of the Philippines (DBP) and Philippine National Bank (PNB).*

The segments could likewise be characterized on the hand-over condition of housing units. The table below compares the physical hand-over conditions.

Table 18 : Philippine Residential Market Segmentation

	Socialized	Low Cost	Middle Income	High-End
Structure	Concrete hollow block structure	Concrete pre-cast panel or concrete hollow block structure	Concrete pre-cast panels or purposely built, all-steel frame structure	Purposely built, concrete on an all-steel frame structure
Flooring	Plain cement floor	Would vary from plain cement floor finish to vinyl flooring	Would vary from vinyl, vitrified floor tiles and wood parquet	Ceramic tiles for living and kitchen area), narra wood parquet for bedroom
Roofing	Galvanized metal roofing	Pre-painted galvanized roofing	Concrete roof tiles or metal roofing	Concrete roof tiles or metal roofing
Windows	Aluminum frame jalousies	Steel casement window	Steel casement with clear glass and built-in grill	Sliding steel casement with clear glass
Interior Partitions/Walls	None	Concrete hollow block walls, unpainted prefab concrete panel	Gypsum board, painted	Cement plaster walls, painted
Ceiling	None	Plywood	Gypsum board on metal runners, painted	Gypsum board on metal runners, painted
Kitchen	Sink with basic fittings	Kitchen counter and sink, basic fittings	Pre-fabricated cabinets, laminated countertop, splashboards, average quality fittings and fixtures	Granite countertop, modular kitchen cabinets, splashboards, high-quality fittings and fixtures
Toilet and Bath	Plain cement floor, toilet and water closet with basic fittings	Vitrified floor tiles, toilet and water closet with basic fittings	Vitrified floor tiles, glazed wall tiles with borders	Vitrified floor tiles, ceramic wall tiles and marbles counter top for master's T&B

	Socialized	Low Cost	Middle Income	High-End
Stairs	None, usually single storey	None, usually single storey	Wooden construction with steel balustrade and wooden handrail	Wooden or steel construction with balustrade and handrail
Garage	None	None	Concrete slab, roofing optional	Concrete slab with roofing
Painting	None	Painted exterior walls only	Painted finish for interior walls and ceilings	Painted finish for interior walls and ceilings
Others			Utility Area, provision for telephone	Utility area, pocket garden, provision for telephone and cable TV, built in closets, porch

Source: Colliers International Research

3.3.1 LOW INCOME HOUSING

The low-income residential sector is divided into two sub-sectors: (1) socialized housing which costs no more than P400,000 per unit and (2) low cost housing priced between P400,001 to P1,250,000 per unit.

Although profits are marginal on a per housing unit basis as there is a ceiling on pricing, developer profitability in this sector could be substantial if:

- macro-economic growth is at least reasonably stable;
- the inflation level is manageable; and
- there is substantial availability of funding given that the Home Development Mutual Fund (HDMF) or the Pag-Ibig Fund is the only major funding agency to address this sector's need.

Given such conditions, the developer would only need to maintain a proper landbank (i.e. in terms of location and acquisition cost), employ an efficient construction design, as well as install an aggressive, yet organized marketing network. In the past, Government funding institutions' shortage of funds has strained the growth of the low-income residential sector.

Socialized Housing

Socialized housing is a special market segment that has been created by the Government to provide housing for the lower end of the income scale. To augment the supply of socialized housing, subdivision developers were mandated under Republic Act 7279 to allocate at least 20% of their total subdivision area or total project cost for socialized housing. Socialized houses can be sold for not more than P400,000 and must have a minimum lot area of 32 square meters, and minimum floor area of 18 square meters.

Financing for homebuyers has traditionally been dependent on Government funding institutions (GFI's) such as the Home Development Mutual Fund (HDMF), the Social Security System (SSS) and the Government Service Insurance System (GSIS). Socialized housing loans extended by these GFI's bear interest at 6% per annum, with the term extended up to a maximum of 30 years.

Low Cost Housing

The low cost housing segment which has been reclassified at P400,001 to P1,250,000 per unit, relies on the same funding institutions for home lending as the socialized population segment. Low-cost housing loans provided by HDMF bear a fixed interest rate of 7% to 10.5% per annum.

Unlike the socialized housing segment, the low-cost housing segment has been receiving more attention from developers in recent times. Developers have seen that the financial capacity of the low-cost population have improved as the source of funds do not only merely rely on the Government funding institutions but also from banks, with this developers become comfortable with providing in-house financing to these buyers.

It appears that increased competition among banks to expand home loan portfolios has led some banking institutions to venture into and consider this market. Moreover, the ample monetary liquidity of the market allows banks to offer all-time low borrowing rates.

With a broader option base for mortgage financing, we believe more low cost homebuyers are opting to go through bank financing, despite the higher lending rate, to avoid the hassle of complying with various documentation requirements of HDMF.

3.3.2 MIDDLE INCOME HOUSING

The middle income housing segment covers the widest price range - from P1,250,001 to P5 million. Middle income housing may come in the form of single detached units, townhouses or condominiums. This market is heavily reliant on bank and in-house financing.

Interest rates for in-house financing are higher than commercial banks' rates but developers who provide in-house financing are less stringent in terms of documentation, hence the apparent popularity of this option to OFW workers.

Middle income housing developments are mostly located in the CALABA (Cavite, Laguna and Batangas) provinces. It is worth noting that the intensification of land use in the CALABA particularly during the 1980's and 1990's for middle income housing development is an obvious response to:

- increasing land values in Metro Manila;
- diminished quality of life due to inefficient urban transportation and infrastructure;
- affordable property within acceptable commuting distance from centers of employment; and
- increased economic activity as the Government conferred fiscal incentives to relocate industrial activity (particularly polluting industries) away from Metro Manila housing.

Industry Study

3.3.3 HIGH-END RESIDENTIAL

High-end or luxury condominium units are primarily located in the Makati Central Business District (CBD), Ortigas Center and niche communities such as Rockwell Center and Bonifacio Global City. For horizontal developments, there are high-end villages around the business districts of Makati (Forbes Park, Dasmariñas, San Lorenzo and Urdaneta) and Ortigas (Wack Wack, Corinthian and White Plains). Outside of Metro Manila, there are horizontal developments that breach the P5 million mark for lot prices including the themed communities located in Cavite and Laguna.

3.4 HLURB LICENSES TO SELL

Table 19 : HLURB Approved Residential Licenses to Sell (Philippines)

Units	2010	2011	Growth
Socialized Housing	32,841	22,103	-33%
Low Cost Housing	40,413	28,615	-29%
Mid Income Housing	25,742	21,954	-15%
High Rise Residential	25,946	37,384	44%
Commercial Condominium	1,912	605	-68%
Farm Lot	283	225	-20%
Memorial Park	172	60	-65%
Industrial Subdivision	-	30	-
Commercial Subdivision	175	473	170%
Total	**127,484**	**111,449**	**-13%**

Source: Housing and Land Use Regulatory Board
**Jan-Aug 2011*

The Housing and Land Use Regulatory Board (HLURB) has approved a total of 111,449 units across various product groups as of August 2011. This is lower by 13% as compared to the samed period a year ago.

Obvious trends are:

- the horizontal segment (socialized, low cost, mid income) declined significantly by 27%;
- other property types (commercial condominium, farmlot, memorial park) also declined; and
- the high rise residential segment was significantly up by 44%.

The significant increase on registrations for the high rise residential segment is an indication of developers' recent focus on this segment to leverage on higher demand for condominium living over the past few years.

Industry Study

4 FEDERAL LAND, INC. LANDBANK

4.1 RECENTLY COMPLETED PROJECTS

The table below summarizes the recently completed projects of Federal Land, Inc. (Fed Land)

Table 20 : Fed Land Completed Residential Projects

Completed Projects	Location
Bay Garden Residences (5 towers)	Pasay City
Bay Garden Club and Residences 1 (Banyan)	Pasay City
Marquinton Residences 3 (Cordova)	Marikina
Peninsula Garden Midtown Homes 1 (Molave)	Manila
The Capital Towers 1 (Athens)	Quezon City
The Oriental Place	Makati
Tropicana Garden City 1 (Toledo)	Marikina
Oriental Garden Residences 1 (Bellflower)	Gen. Trias, Cavite
Oriental Garden Residences 2 (Cypress)	Gen. Trias, Cavite

Source: Federal Land Inc.

4.2 ON GOING PROJECTS

Listed in the table below are Fed Land's 19 on going projects and their locations.

Table 21 : Fed Land On Going Projects

Project	Location
2012	
Bay Garden Club and Residences 2 (Royal Palm)	Pasay City
The Grand Midori Makati 1	Makati
Oriental Garden Residences 3 (Acacia)	Gen. Trias, Cavite
Jacksonville*	Gen. Trias, Cavite
2013	
Four Seasons – Riviera 1 (Plum Blossom)	Manila
Riverview Mansion	Manila
Marco Polo Residences 1	Cebu
The Grand Midori Makati2	Makati
Oriental Garden Makati 3 (Lilac)	Makati
Peninsula Garden Midtown Homes 2 (Maple)	Manila
The Capital Towers 2 (Beijing)	Quezon City
Tropicana Garden City 2 (Valderamma)	Marikina
2014	

Project	Location
Marco Polo Residences 2	Cebu
Peninsula Garden Midtown Homes 3 (Narra)	Manila
Tropicana Garden City 3 (Ibiza)	Marikina
2015	
Bay Garden Club and Residences 3 (Mandarin)	Pasay City
Parkwest Tower	Fort Bonifacio
Paseo de Roces 1 (Legaspi)	Makati
Axis Residences	Mandaluyong

Source: Federal Land Inc.

**Horizontal development*

4.3 LANDBANK

Fed Land has an existing landbank of 100.8 hectares, which are located in various strategic locations in Metro Manila and the provinces of Laguna, Cavite and Cebu.

Table 22 : Fed Land Landbank Size (in hectares)

Location	Lot Area
Metro Manila	
Pasay (Macapagal)	7.0
Taguig (BGC)	1.8
Marikina	15.4
Mandaluyong	2.1
Manila (Paco)	2.2
Manila (Ermita)	0.6
Manila (Binondo)	0.9
Makati City	0.4
Quezon City	0.5
Biñan, Laguna	43.5
Sta. Rosa, Laguna	5.3
Cavite	18.3
Cebu	2.8
Total	100.8

Source: Federal Land Inc.

Pasay City is in a strategic location as it is adjacent to the City of Manila and near Makati and Taguig. It is also in Pasay where the domestic and international airports are located. Pasay City is also known for its entertainment-dining strip which stretches along Roxas Boulevard. Many hotels can also be found on this area.

Fed Land's has their "Metropolitan Area" in Pasay. This consists of several residential buildings of its Bay Garden Residences project and some commercial establishments. In addition to this project, Fed Land still has a 7.0-hectare landbank for future developments. The property is very near to the SM Mall of Asia, a super regional mall, and to the planned "Pagcor City", wherein investors will put up gaming facilities, hotels and other recreational facilities. There are already on-going land development activities in the area and the first phase of the planned developments may be completed in the next 3-5 years.

Based on our analysis of current listings, raw land values in this area range from P60,000 to P70,000 per square meter.

Bonifacio Global City, a former military base, has a total area of approximately 240 hectares and was developed by the Fort Bonifacio Development Corporation (FBDC). It is located in Taguig City and is very accessible from Makati CBD, Ortigas Center and Manila's domestic and international airports as it is directly linked to two major thoroughfares: EDSA and C-5 road. FBDC has zoned this area and has bidded out parcels of land to different developers. Being referred to as the next CBD, Bonifacio Global City is expected to be a developed integrated CBD where there are a number of residential, commercial and institutional establishments. Some of multinational companies which relocated their headquarters here include HSBC, Deutsche Bank and JP Morgan Chase Bank. There are also completed upscale residential condominiums in BGC: Essensa and Pacific Plaza Towers. There are also several international schools in the area: Japanese School, British School and International School Manila. Numerous dining and retail facilities can also be found in Bonifacio High Street and Serendra. Another attraction in BGC is The Mind Museum, a science museum, which will open in March 2012.

Park West Tower is Fed Land's first residential condominium development in BGC, which is located just across the Grand Hyatt Hotel (under construction), which is a planned 6-star hotel. Fed Land still has a 1.8-hectare landbank within the area fit for another high-end development.

Based on our analysis of current listings, raw land values in this area range from P150,000 to P190,000 per square meter.

Marikina City is located on the eastern border of Metro Manila. Marikina City is known as the "Shoe Capital" of the country as shoe-making is its main industry. Marikina City is also predominantly residential as there are several existing subdivisions which cater to the mid-income market.

Fed Land's on-going projects in Marikina include Marquinton Residences and Tropical Garden City which are part of a masterplanned community comprised of residential buildings and a retail complex. It is located along Sumulong Highway which is considered one of the commercial strips in Marikina. The back portion of the projects is mostly residential subdivisions. Fed Land still has a 15.4-hectare landbank, which is adjacent to its on-going projects. The site is conveniently accessible to establishments including Blue Wave Mall, Marikina public market, Marikina sports center, Amang Rodriguez Medical Center and Marikina City Hall. It is also a few minutes from Marcos Highway where malls such as Sta. Lucia East Grand Mall and SM Marikina is located. The property is also near the Riverbanks Center which is considered to be the center of shopping, commerce, business and entertainment in Marikina. It is alse accessible to schools located in Katipunan Avenue including Ateneo De Manila University and Miriam College.

Based on our analysis of current listings, raw land values in this area range from P10,000 to P25,000 per square meter.

Mandaluyong City is located in the center of Metro Manila. It is bounded by areas of Quezon City, Pasig, Makati and Taguig City where the major business districts of Ortigas CBD, Makati CBD and Bonifacio Global City are located. Ortigas Center is where the headquarters of the Asian Development Bank and San Miguel Corporation, a large food & beverage company, are located. Commercial establishments in the area include SM Megamall, Shangri-La Plaza, The Podium, Starmall and Robinsons Forum. There are also several hotels in Mandaluyong which includes EDSA Shangri-La Manila, Legend Villas, New Horizon Hotel, Lancaster Hotel and Richville Hotel.

Axis Residences, a joint project of Fed Land and Robinsons Land, is located in Pioneer St. It is a two-tower developmet but only the first tower was launched in 2011. The area is within the Robinsons Cyberpark Complex which is an integrated residential-commercial complex. In 2011, several major developers have also launched their residential condominium projects along Pioneer area. Fed Land has a 2.1-hectare landbank adjacent to the Axis Residence's site.

Based on our analysis of current listings, raw land values in this area range from P35,000 to P40,000 per square meter.

Manila, as the national capital of the Philippines, this is considered to be a major commercial, cultural, educational, religious and transportation center of the country. Fed Land has several landbanks in Manila that are located on the following areas:

Paco is a district in Manila in which the area is characterized as residential and commercial-industrial in nature. It is accessible through major roads such as Pres. Quirino Ave., United Nations Ave., P.M. Guanzon St. and Pres. Osmeña Highway. Fed Land has an on-going project in Paco, The Peninsula Garden Midtown Homes, which is composed of several residential condominiums. Fed Land still has a

2.2-hectare landbank in this area where it will build the remaining planned towers for the Peninsula Garden development. In its vicinity are Robinsons' Otis Mall and a number of car showrooms.

Based on our analysis of current listings, raw land values in this area range from P20,000 to P30,000 per square meter.

Ermita is one of the commercial districts in Manila as several hotels, restaurants and bars are located in this area. There are also schools such as St. Paul's University and the University of the Philippines – Manila campus. Nearby recreational facilities include the Manila Ocean Park, Rizal Park and the National Museum of the Philippines. The consular offices of the US Embassy are also located in this area. Fed Land still has a 0.6-hectare property in Ermita.

Based on our analysis of current listings, raw land values in this area range from P40,000 to P60,000 per square meter.

Binondo is an enclave in Manila which is dubbed as the local *China Town* as this is the center of commerce and trade for all types of businesses run by Filipino-Chinese merchants. The area is regularly visited by shopping enthusiasts as a wide variety of products are sold here at a relatively cheaper price. There are several commercial stalls, shophouses, banks and restaurants in Binondo. Fed Land has an on-going project in this area, the Riverview Mansion, a residential condominium overlooking the Pasig River. Fed Land still has a 0.9-hectare landbank in Binondo which may be developed for future developments.

Based on our analysis of current listings, raw land values in this area range from P80,000 to P100,000 per square meter.

Makati City functions as the country's CBD and is the Philippines' largest business and financial center where large conglomerates and multinational companies have established their headquarters. Several government agencies also hold offices in the area, namely the Board of Investments, the Department of Trade and Industry and the Board of Export Trade Promotion. There are various shopping centers, including Glorietta, Greenbelt and SM Makati. There are also several deluxe hotels such as The Peninsula Manila, Makati Shangri-La and Mandarin Oriental and serviced apartments operated by the Ascott Group. It is also in Makati where some of the elite residential subdivisions in the country, such as the Dasmariñas Village and Forbes Park Makati are located.

Fed Land's on-going projects in Makati include The Grand Midori Makati Towers in Legaspi Village and Oriental Garden Makati and Paseo de Roces, which are both located in Chino Roces Ave. Fed Land has a 0.4-hectare landbank in Makati which has strong potential for either a residential or commercial real estate development.

Based on our analysis of current listings, raw land values in the Chino Roces area in Makati range from P50,000 to P80,000 per square meter.

Quezon City (QC) is the largest city in Metro Manila both in terms of land area and population. Having been the former national capital, many government offices are located in this city, including the Batasang Pambansa Complex, wherein congressional representatives hold their offices. The main campuses of two of the leading universities in the county, the Ateneo de Manila University and University of the Philippines Diliman, are also located in QC. Several mall complex are also in this area, including SM City North EDSA and Trinoma Mall. There are also several commercial establishments and dining facilities in the city. It is also in this city where Smart Araneta Coliseum is located, where several concerts, sports and other major events are held. It is also in QC where the offices and studios of the major broadcasting networks are located. In addition, there are several self-contained communities of residential condominiums, retail and offices.

The Capital Towers 1 (Athens) is a recently completed project of Fed Land in QC. Another tower, The Capital Towers 2 (Beijing) is an on-going project which has a concept of My HOBS (home, office, business, shopping) which allows buyers to convert their units into office or business spaces as desired.

Fed Land still has a 0.5-hectare landbank in QC where developments that will complement The Capital Towers are expected to be built. The property is located along E. Rodriguez Sr. Avenue and near major thoroughfares such as Araneta Avenue and Aurora Boulevard which makes it accessible to public transportation bound to different areas in Metro Manila. Several district malls are located near the property such as Walter Mart and Puregold Supermarket. There are also nearby schools such as St. Joseph's College and Trinity University of Asia. It is also close to several medical facilities which includes De Los Santos Medical Center, National Children's Hospital and St. Luke's Medical Center - one of the best hospitals in the country.

Based on our analysis of current listings, raw land values in this area range from P40,000 to P50,000 per square meter.

Laguna, a province in Region IV-A, is located about 30 kilometers south of Metro Manila. Fed Land has several lots in Laguna that are located in the following areas:

Biñan is one of the three towns which comprises the first congressional district of Laguna. Via the South Luzon Expressway, if coming from Metro Manila, Biñan is the second town in Laguna that may be reached. The economy of Biñan is driven by commercial activities mainly from industrial estates and export processing zones and trading operations of its public market in the town proper.

Fed Land has a large landbank located in Barangay Malamig in Biñan which is approximately 43.5 hectares – a sizeable area fit for a masterplanned community. The area is characterized by residential subdivisions and industrial facilities. The property can be accessed from Laguna Boulevard which is directly linked to Sta. Rosa-Tagaytay Road – an area where Southern Luzon Hospital and Medical Center, Paseo de Sta. Rosa (a retail complex) and other commercial establishments can be located. The property is also located near De La Salle Canlubang which is a private school offering primary to tertiary education.

Based on our analysis of current listings, raw land values in this area range from P3,000 to P4,000 per square meter.

Santa Rosa is located south of Manila. It was dubbed as the "Automotive Capital" of the country because of its substantial production of passenger cars from major manufacturers: Toyota, Honda, Ford and Nissan. Santa Rosa, being part of Metro Laguna, was included in the top next wave cities for BPO locations. Existing ICT related companies in Santa Rosa includes InfoNXX, Teletech and Convergys. In addition, there were already several masterplanned developments in the area which includes Greenfield City, Nuvali and Eton City. Santa Rosa is also known to tourists due to the popularity of Enchanted Kingdom, a theme park and Sta. Elena Golf and Country Club.

Fed Land has a 5.3-hectare landbank in Barangay Pulong Sta. Cruz in Sta. Rosa which can be located near the Toyota Motor Philippines Corporation and Coca-Cola manufacturing plants. It is also near Laguna Bel-Air, Santa Rosa Business Park and Paseo de Santa Rosa.

Based on our analysis of current listings, raw land values in this area range from P4,000 to P6,000 per square meter.

General Trias is located in the northern part of Cavite. The Government's master plan for this municipality is to achieve an agro-industrial and residential balance. It is considered as one of the new frontiers of growth and development in Region IV-A as attested by the industrial subdivisions located in this municipality.

Florida Sun Estate is Fed Land's masterplanned community in Gen. Trias. This development is set to have clusters of residential subdivisions, low-rise residential buildings and commercial developments complemented by open spaces and several amenities. On-going projects in this community include Oriental Garden Residences and Jacksonville.

Fed Land has an 18.3-hectare landbank in Gen. Trias. It is on this site where the other planned clusters of Florida Sun Estate will be built. The vicinity is characterized as a commercial and residential area. It is located along Governor's Drive which is a major thoroughfare in Cavite. It is along this road where large retail players such as Robinsons' Place and SM City are located. In addition, a number of industrial parks are operating in the area which provides employment for most of the residents.

Based on our analysis of current listings, raw land values in this area range from P5,000 to P8,000 per square meter.

Cebu City is located on the central eastern part of Cebu Province. Cebu City is considered to be a significant center of commerce and industry in the Visayas and Mindanao regions. It can also be considered as an educational hub in the region producing many graduates annually. Given the available manpower and relatively lower costs to conduct business, Cebu has also emerged to be one of the preferred location of BPO companies in the Philippines. In addition, another significant factor in its economy is the tourism market, which was supported by both foreign and domestic visitors.

Fed Land has an on-going project in Lahug, Cebu City: Marco Polo Residences Towers 1 & 2. The first tower was launched in November 2010 and its success led to the launch of the second tower only after three months – launched in February 2011. These projects will offer hotel-like facilities as property management will be handled by Marco Polo Plaza. In addition, it is located on an elevated area which provides a panoramic view of Cebu City. It is also a few minutes away from business districts such as Asiatown IT Park and Cebu Business Park and commercial centers such as Ayala Center Cebu, SM City Cebu and the downtown area.

Fed Land still has a 2.8- hectare landbank in this area where few more towers of Marco Polo Residences are expected to be built including Marco Polo Parkview which will be launched in the first quarter of 2012.

Based on our analysis of current listings, raw land values in this area range from P20,000 to P30,000 per square meter.

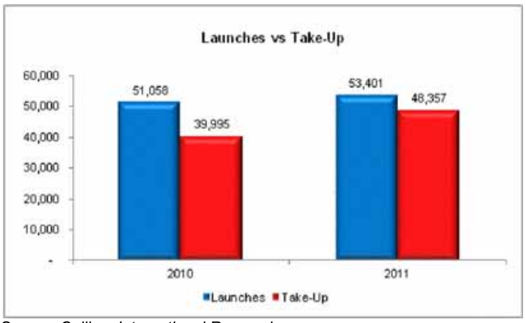
Industry Study

5 RESIDENTIAL MARKET STUDY

5.1 METRO MANILA RESIDENTIAL CONDOMINIUM MARKET

The residential condominium market has been very active over the last two years. Approximately 50,000 units per year were launched in 2010 and 2011 in Metro Manila including locations within the CBDs as well as in the fringe areas.

Of the total number of units launched from 2010 to 2011 including additional units (109,157 units), 38.0% (41,538) are studio units, 38.2% (41,736) are 1BRs, 19.3% (21,060) are 2BRs and the remaining 4.4% (4,823 units) are 3BRs, 4BRs and 5BR units.



Source: Colliers International Research
Note: Launches in 2011 do not include the additional units of projects launched in 2010. Total no. of units from projects launched in 2011 and 2010 including the additional inventory will sum up to 109,157 units.

The average sizes of condominium units in Metro Manila per unit type are as follow: Studio (27 sqm), 1BR (40 sqm), 2BR (61 sqm), 3BR (101 sqm), 4BR (226 sqm) and 5BR units (297 sqm).

The average price per unit type are as follow: Studio (P2.1 million), 1BR (P3.3 million), 2BR (P4.8 million), 3BR (P8.6 million), 4BR (P26.4 million) and 5BR (P35.5 million). The overall average price in Metro Manila is P3.5 million.

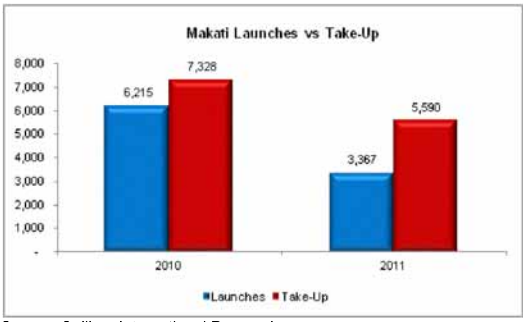
In terms of take-up, approximately 48,357 units were sold in 2011, which is 21% higher than the 39,995 units sold in 2010.

A market overview of certain areas are provided below.

5.1.1 MAKATI CITY

Residential condominiums in Makati City can be located either in the CBD or fringe area. Makati CBD is referred to as the main business center and is bounded by Paseo De Roxas, Makati Avenue, Gil Puyat Avenue and portions of Amorsolo Street and Arnaiz Avenue. Residential condominiums in Makati CBD were priced relatively higher and target more of the upper mid-income to high-end segment. While those developments on the fringe are positioned for the mid-income segment, thus units are relatively smaller and prices are lower.

Fed Land's Grand Midori Towers in Legaspi Village targets the high-end market as it offers relatively larger units and more zen-inspired amenities. Oriental Garden and Paseo de Roces located along Chino Roces Avenue targets the mid-income segment as units are relatively smaller and prices are less expensive.



Source: Colliers International Research
Note: Includes Makati CBD and Fringe Areas

In 2011, there were approximately 3,367 units that were launched – less than the previous year's 6,215 units. The average sizes of condominium units in Makati City per unit type are as follow: Studio (30 sqm), 1BR (45 sqm), 2BR (76 sqm), 3BR (157 sqm), 4BR (348 sqm) and 5BR units (637 sqm).

The average price per unit type are as follows: Studio (P3.1 million), 1BR (P4.9 million), 2BR (P8.3 million), 3BR (P19.3 million), 4BR (P62.0 million) and 5BR (P147.6 million). The overall average price in Makati City is P6.2 million.

In terms of take-up, approximately 5,590 units were sold in 2011, a decline of 24% from 7,328 units sold in 2010.

5.1.2 MARIKINA CITY

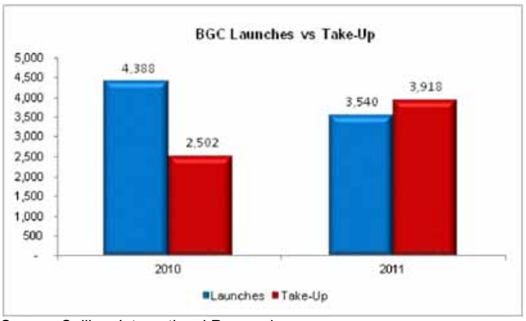
Marikina's condominium market is dominated by Fed Land's Marquinton Residences and Tropicana Garden City as this city is characterized mostly by horizontal subdivisions. Buyers of units in Marikina are end-users which are usually small families and early nesters.

The closest competitor of Fed Land's project may be located in the Cainta and Pasig areas.

5.1.3 BONIFACIO GLOBAL CITY (BGC)

Given its positioning to be the next CBD in Metro Manila, developers are aggressively acquiring lots where they can implement masterplanned developments. This high demand has caused the land values to increase at a fast pace. Construction of office and residential developments are all in full swing in almost every block of BGC. Given the areas' facilities and proximity to amenities – offices, retail, schools and hospital, most of the residential project in this area were priced for the upper-mid to high-end segment.

Park West Tower is Fed Land's residential condominium project in BGC. It caters to the high-end segment as to complement the Grand Hyatt Hotel and premium office building that will be built within their property.



Source: Colliers International Research
Note: Includes BGC Fringe Areas such as McKinley Hill and other Taguig City townships.

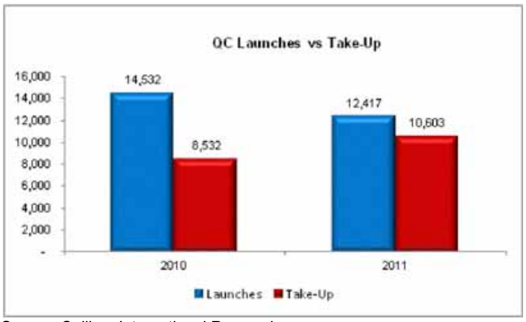
Similar with Makati, the number of units launched in 2011 is lower than 2010's 4,388 units. The average sizes of condominium units in BGC per unit type are as follow: Studio (36 sqm), 1BR (51 sqm), 2BR (76 sqm), 3BR (111 sqm), 4BR (177 sqm) and 5BR units (288 sqm).

The average price per unit type are as follows: Studio (P3.3 million), 1BR (P4.7 million), 2BR (P6.0 million), 3BR (P9.3 million), 4BR (P19.7 million) and 5BR (P34.1 million). The overall average price in BGC is P4.9 million.

In terms of take-up, approximately 3,918 units were sold in 2011, which is 57% higher than the 2,502 units sold in 2010.

5.1.4 QUEZON CITY (QC)

Fed Land's project in QC is The Capital Towers – a mixed use development which is located along one of the city's major road. This project was able to provide the residential need, as well as the business space requirement of the buyers through the *home-office-business-shopping* concept of the project.



Source: Colliers International Research

Total units launched in 2011 decreased by approximately 2,115 units from the previous year. The average sizes of condominium units in Quezon City per unit type are as follow: Studio (26 sqm), 1BR (37 sqm), 2BR (56 sqm), 3BR (77 sqm), 4BR (151 sqm) and 5BR units (116 sqm).

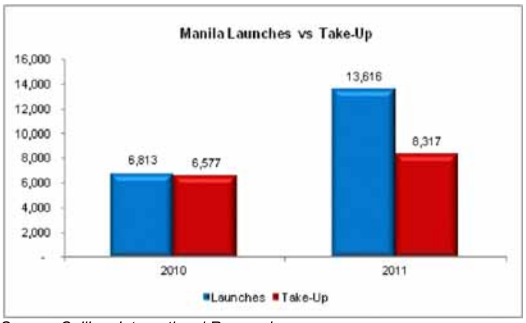
The average price per unit type are as follows: Studio (P1.8 million), 1BR (P2.9 million), 2BR (P4.0 million), 3BR (P5.3 million), 4BR (P10.8 million) and 5BR (P7.8 million). The overall average price in Quezon City is P2.7 million.

In terms of take-up, approximately 10,603 units were sold in 2011, which is 24% higher than the 8,532 units sold in 2010.

5.1.5 MANILA

The residential condominium market in Manila caters to various markets. Projects located along Roxas Boulevard cater to the upper-mid to high-end markets; projects in Binondo cater to to the mid-income and high-end segments; and projects near the universities, like Taft Avenue and Sampaloc area cater mostly to the mid-income segment specifically targeting the student and investors populace.

Fed Land's projects were located in various locations in Manila: The Peninsula Garden Midtown in Paco and the Riverview Mansion in Binondo.



Source: Colliers International Research

The spike in the number of units launched in 2011 was primarily due to high-density residential buildings that were launched in prime areas in Manila. The average sizes of condominium units in per unit type are as follow: Studio (24 sqm), 1BR (37 sqm), 2BR (58 sqm), 3BR (106 sqm), 4BR (197 sqm) and 5BR units (391 sqm).

The average price per unit type are as follows: Studio (P1.8 million), 1BR (P2.7 million), 2BR (P4.2 million), 3BR (P8.1 million), 4BR (P17.3 million) and 5BR (P31.2 million). The overall average price in Manila is P3.4 million.

In terms of take-up, approximately 8,317 units were sold in 2011, which is 26% higher to the 6,577 units sold in 2010.

5.2 GENERAL TRIAS, CAVITE SUBDIVISION MARKET

The housing requirement of Gen. Trias is being served by the low-cost to mid-income brands of major developers: Camella (Vista Land), Suntrust (Megaworld) and Amaia (Ayala Land).

The average lot cut in subdivisions is 142 square meters, while a house and lot unit has an average floor area of 83 square meters. The prices of open lots range from P450,000 to P2.4 million with an average of P800,000 per lot, while a typical house and lot unit has an average of P2.3 million (P850,000 to P4.0 million). Given this pricing, developers were able to address the market in the area which is more of the low cost to mid-income segment.

Only few projects were launched in Gen. Trias in 2011 which include Asian Leaf (San Miguel Properties), Le Rica Ph.2 (Surewell Equities), Amaia Scapes Cavite (Amaia Land) and Florida Sun Estates (Fed Land).

Fed Land's on-going project in Gen. Trias is Florida Sun Estates. Based on the project's masterplan, there will be a mix of residential and commercial developments plus an ample amount of open space. Similar with the other projects in the area, the Florida Sun Estates' clusters of residential subdivisions and buildings will cater to the middle-income segment or the working class of the market.

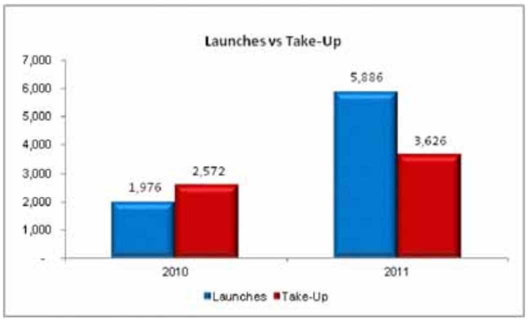
5.3 CEBU CITY CONDOMINIUM MARKET

The residential condominium market started to flourish in Cebu in 2010, but even before that, there are already a few buildings, particularly in Mactan where the beach resorts are located.

In 2010, there were 15 projects launched with 1,976 units and in 2011, 23 projects were launched with an additional 5,886 units – almost three times the number of launched units in 2010. Most of these projects are in Cebu City, but there are also launches in Mandaue and Lapu-Lapu City.

The estimated number of condominium units in Cebu is 14,286 units, of which 49% (7,039) are studio units, 27% (3,797) are 1BR units, 20% (2,884) are 2BR units and the remaining 4% (566) are 3BR and 4BR units. Studio units have an average size of 29 sqm, 46 sqm for 1BRs, 71 sqm for 2BRs, 121 sqm for 3BRs and 289 sqm for 4BR units.

Average prices range from P1.2 million to P16.4 million, with an average of P4.5 million per unit. Average price per square meter is P82,600.



Source: Colliers International Research

Full year take-up in 2010 is approximately 2,572 units. It increased by 40% in 2011 in which total take-up is about 3,626 units. Among the projects that were launched in 2011 that have driven the sales up include Solinea (Ayala Land), Horizons 101 (Taft Properties), One Pavilion (Gold Peach) and the Two Residences at Marco Polo (Fed Land).

Fed Land has foreseen the strong demand for the condomium market in Cebu City. It has launched The Residences at Marco Polo in late-2010. The project's concept is luxury residences as it is planned to have first class amenities similar with that of the Marco Polo Hotel is offering. In addition, its location can be considered to be one of its success factors – secluded area but only few minutes away from the downtown area and business parks.

5.4 BIÑAN, LAGUNA SUBDIVISION MARKET

The major developers in Biñan include the Extraordinary Development Group, Filinvest Land and Alveo Land. Most of the projects were located in Mamplasan, Biñan.

The average lot cut in subdivisions is 476 square meters, while a house and lot unit has an average floor area of 200 square meters. The prices of open lots can be as low as P432,000 or can be as high as P30 million with an average of P7.1 million per lot or P11,000 per square meter, while a typical house and lot unit has an average of P6.6 million (P900,000 to P24.0 million).

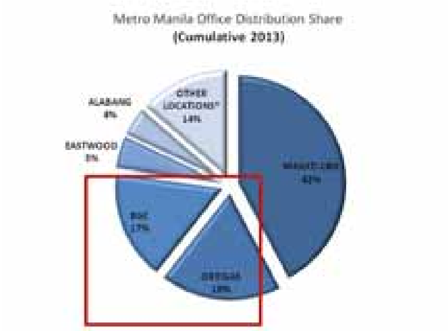
Given the relatively large size and high price, the market being addressed in this area is primarily the mid-income to high end segment.

Industry Study

6 OFFICE AND RETAIL MARKET STUDY

6.1 OFFICE

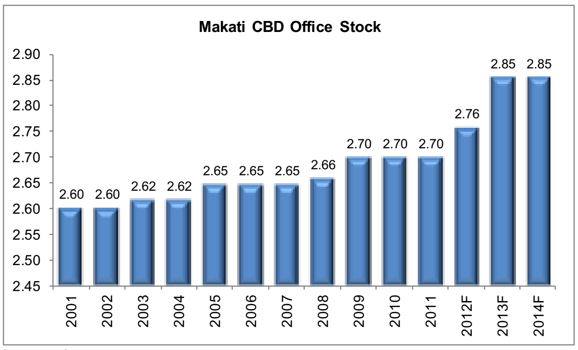
The three major CBDs in Metro Manila include the Makati CBD, Ortigas Center and Bonifacio Global City (BGC). Distribution of office stock in Metro Manila were illustrated on the charts below:



Source: Colliers International Research

6.1.1 MAKATI CBD

The current total office stock in Makati CBD is 2.70 million square meters and is expected to increase by 154,000 square meters by the end-of 2013. Next completions include that of the Zuelling Building and Alphaland Makati Tower.

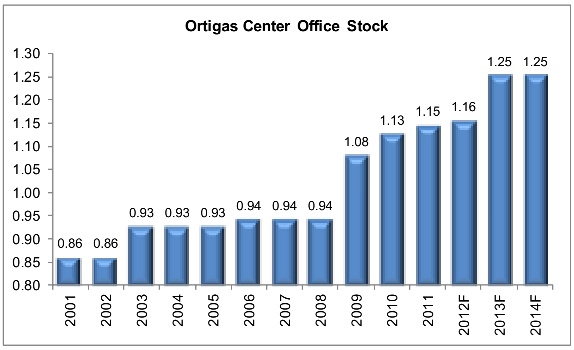


Source: Colliers International Research
** Based on Net Usable Area (NUA)~ in million square meters*

As of the end of 2011, vacancy is 4.08% and average lease rate is P850 per square meter for Premium-grade buildings, P684 per square meter for Grade A and P469 per square meter for Grade B buildings.

6.1.2 ORTIGAS CENTER

The current total office stock in Ortigas Center is 1.15 million square meters and is expected to increase by 107,650 square meters by end-of 2013.



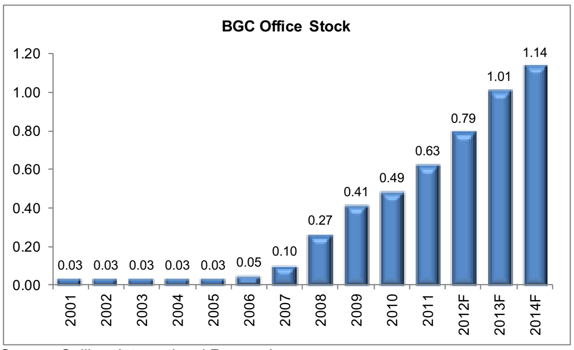
Source: Colliers International Research
** Based on Net Usable Area (NUA)~ in million square meters*

As of end-2011, vacancy is 4.38% and average lease rate is P550 per square meter for Grade A and P390 per square meter for Grade B buildings.

6.1.3 BONIFACIO GLOBAL CITY (BGC)

The current total office stock in BGC is 626,000 square meters and is expected to increase by 509,000 square meters by the end of 2014. Next completions include that of the Net Lima, planned BPO offices of Megaworld in McKinley Hill, W Fifth Avenue, RCBC Savings Bank Centre and Globe Telecom.

Industry Study



Source: Colliers International Research
** Based on Net Usable Area (NUA)~ in million square meter*

As of end-2011, vacancy is 6.36% and average lease rate is P700 per square meter for Grade A and P500 per square meter for Grade B buildings.

6.2 RETAIL

As of the end of 2011, Metro Manila retail stock is currently at more than five million square meters. However, an additional supply of more than 170,000 square meters of gross leasable area is expected in the next six months following the completion of Lucky China Town Mall in Manila, BHS East Block in BGC and Two Shopping Center in Pasay.

Trends in the retail sector remain the same with the expansion plans of developers across the geographical level. Projects by major mall developers such as Ayala Malls, SM Prime and Robinsons continue to emerge in major cities and provinces, namely General Santos, Davao, Cebu, Bacolod, Palawan, Cavite and Pampanga. In Metro Manila, SM continues to scale up its retail foothold with new, upcoming malls in Sucat and Novaliches and the expansion of SM Megamall in Ortigas. Ayala has recently broken ground for its latest commercial development, Fairview Terraces, in Quezon City while projects of Megaworld such as The Venice Phase 2 and the Uptown Mall and are expected to build more retail space in BGC.

Apart from the upcoming large-scale mall developments, district to neighbourhood retail centres are also expected to increase in the long term. Partnerships between property and retail investors are expected to strengthen in the next few years as the demand for small- to medium-scale retail spaces makes a key component across the growing business process sector and residential market.

Occupancy level of both super-regional and regional malls across Metro Manila remains high at 99% as of end-2011.

Table 23: Metro Manila Retail Stock

Level	Stock (in sq. m.)
Super Regional	2,943,353
Regional	1,115,378
District/ Neighbourhood	1,045,540
Total	5,104,271

Source: Colliers International Research

The average monthly rental rate in Ayala Center is P1,218 per square meter, while in Ortigas, rent is P1,069 per square meter on average.

7 CAVEATS AND ASSUMPTIONS

1. **Definitions**
In these Caveats and Assumptions the following words or phrases shall have the meaning or meanings set out below:
'Confidential Information' means information that:
(a) Is by its nature confidential.
(b) Is designed by Us as confidential.
(c) You know or ought to know is confidential.
(d) Includes, without limitation: information comprised in or relating to any of Our intellectual property in the Services or any reports or certificates provided as part of the Services.
'Currency Date' means, in relation to any valuation report, the date as at which our professional opinion is stated to be current.
'**Fee**' means the amount agreed to be paid for the Services as set out in the Quotation.
'**Parties**' means You or Us as the context dictates.
'**Quotation**' means the written quote provided by Us in relation to the Services.
'**Services**' means the valuation services provided pursuant to these Terms and Conditions and the Quotation, and includes any documents, reports or certificates provided by Us in connection with the Services.
'**The Property**' means the assets which are subject of our appointment as your advisor.
'**We**', '**Us**', '**Our**', '**Colliers**' means Colliers International Limited.
'**You**', '**Your**', '**Client**' means the person, company, firm or other legal entity by or on whose behalf instructions are given, and any person, firm, company or legal entity who actually gave the instructions to us even though such instructions were given as agent for another.
'**Professional Property Practice Standards**' refers to RICS Valuation and Appraisal Handbook, or appropriate standards.

2. **PERFORMANCE OF SERVICES**
2.1 We have provided the Services in accordance with:
(a) The Terms and Conditions contained herein; or
(b) As specifically instructed by You for the purpose of the Services; and
(c) Within the current provisions set by the prevailing Professional Property Practice Standards.

3. **CONDITION OF THE PROPERTY**
3.1 No allowance has been made in our report for any charges, mortgages or amounts owing on any neither of the properties valued nor for any expenses or taxation which may be incurred in effecting a sale. We have assumed that the Property is free from and clear of any and all charges, liens and encumbrances of an onerous nature likely to affect value, whether existing or otherwise, unless otherwise stated. We assume no responsibility for matters legal in nature nor do we render any opinion as to the title which is assumed to be good and marketable. We are not aware of any easements or rights of way affecting the property and our valuation assumes that none exists.
3.2 We have assumed that the Property has been constructed, occupied and used in full compliance with, and without contravention of, all ordinances, except only where otherwise stated. We have further assumed that, for any use of the Property upon which this report is based, any and all required licences, permits, certificates, and authorisations have been obtained, except only where otherwise stated.
3.3 We have assumed that any development sites are in a condition suitable for development; this has not been checked by us.
3.4 We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.
3.5 We have assumed that there is no timber infestation, asbestos or any other defect (unless advised otherwise) and that the property is compliant with all relevant environmental laws. It is Your responsibility to provide reports to Us that are relevant to these issues.
3.6 An internal inspection has been made; no detailed on site measurements have been taken.

3.7 While due care is exercised in the course of our inspection to note any serious defects, no structural survey of the Property will or has been undertaken, and We will not (and are not qualified to) carry out a structural, geotechnical or environmental survey. We will not inspect those parts of the property that are unexposed or inaccessible.

3.8 None of the services have been tested by Us and we are unable therefore to report on their present condition, but will presume them to be in good working order.
3.9 We have not undertaken a detailed inspection of any plant and equipment or obtained advice on its condition or suitability.

3.10 We recommend that You engage appropriately qualified persons to undertake investigations excluded from our Services.

3.11 No responsibility will be accepted either to You or to any third party for loss or damage that may result directly or indirectly from the condition of the property.

4. **ENVIRONMENT AND PLANNING**
4.1 We have obtained only verbal town planning information. It is your responsibility to check the accuracy of this information by obtaining a certificate under the appropriate legislation.
4.2 We do not hold ourselves to be experts in environmental contamination. Unless otherwise stated, our inspection of the site did not reveal any contamination or pollution affectation, and our valuation has been prepared on the assumption that that the land is not contaminated and has not been affected by pollutants of any kind. We would recommend that that this matter be checked by a suitably qualified environmental consultant. Should subsequent investigation show that the site is contaminated, our valuation may require revision.

5. **BUILDING AREAS AND LETTABLE AREAS**
5.1 Where a survey is provided to Us for consideration, We will assume that information contained in the survey is accurate and has been prepared in accordance with the prevailing Professional Property Practice Standards.
5.2 If you do not provide Us with a survey, We will estimate building and/or lettable areas based only upon available secondary information (including but not limited to building plans, deposited plans, and our own measurements). Such estimates do not provide the same degree of accuracy or certainty as would be provided by a survey prepared by an appropriately qualified professional in accordance with the prevailing Professional Property Practice Standards.
5.3 Where such a survey is subsequently produced which differs from the areas estimated then You will refer the valuation back to Us for comment or, where appropriate, amendment.

6. **OTHER ASSUMPTIONS**
6.1 Unless otherwise notified by You, We will assume:
(a) There are no easements, mortgages, leases, encumbrances, covenants, caveats, rights of way or encroachments except those shown on the Title.
(b) All licences and permits can be renewed and We have not made any enquires in this regard.
6.2 Where third party expert or specialist information or reports are provided to Us or obtained by Us in connection with Services (including but not limited to surveys, quantity surveyors reports, environmental audits, structural/ dilapidation reports), we will rely upon the apparent expertise of such experts/ specialists. We will not verify the accuracy of this information or reports, and assume no responsibility for their accuracy.
6.3 Our services are provided on the basis that the client has provided us with a full and frank disclosure of all information and other facts which may affect the service, including all secrecy clauses and side agreements. We accept no responsibility or liability whatsoever for the

valuation unless such a full disclosure has been made.

6.4 Any plans, sketches or maps included in this report are for identification purposes only and should not be treated as certified copies of areas or other particulars contained therein.

6.5 The study of possible alternative development options and the related economics are not within the scope of this report.

6.6 Our opinion about the Market Value of the property is free from any influence and/ or point of views of any other parties.

7. VALUATION FOR FIRST MORTGAGE SECURITY

7.1 Where the Services are provided for mortgage purposes, You agree that You will not use the valuation report where the property:
- (a) Is used as security other than by first registered mortgage;
- (b) Is used as part of a group of securities (except where the property forms part of a trust); or
- (c) Is used as security for more than one loan.

7.2 We reserve the right, at Our absolute discretion, to determine whether or not to assign Our valuation to any third party. Without limiting the extent of Our discretion, We may decline a request for assignment where:
- (a) The proposed assignee is not a major recognised lending institution (such as a major bank);
- (b) The assignment is sought in excess of 3 months after the date of valuation;
- (c) We consider that there has been a change in conditions which may have a material impact on the value of the property.
- (d) The proposed assignee seeks to use the valuation for an inappropriate purpose (including in a manner inconsistent with Your agreement at Clause 7.1); or
- (e) Our fee has not been paid in full.

7.3 Where we decline to provide an assignment on either of the basis at 7.2(b) or (c), we may be prepared to provide an updated valuation on terms to be agreed at that time.

7.4 In the event that You request Us to assign Our valuation and We agree to do so, You authorize Us to provide to the assignee a copy of these Terms and Conditions, the Quotation and any other document, including instructions provided by You, relevant to the scope of Our Services.

8. ESTIMATED SELLING PRICE

8.1 Where you instruct Us to provide an Estimated Selling Price, You agree that the Services:
- (a) Are limited to the provision of an opinion based on Our knowledge of the market and informal enquiries
- (b) We are not required to carry out a full inspection of the property; any inspection of comparable properties; a search of Title(s) or other enquiries as to encumbrances, restrictions or impediments on Title(s); or other investigations which would be required for a formal valuation.
- (c) Provide an indicative figure only which is not suitable for use for any purpose other than as general information or guide as to sale expectations. It is not suitable to be relied upon for the purpose of entry into any transaction.

8.2 No responsibility will be accepted either to You or to any third party for loss or damage that may result from the issue of such an Estimated Selling Price.

9. CURRENCY OF VALUATION

9.1 Due to possible changes in market forces and circumstances in relation to the property the Services can only be regarded as relevant as at the Currency Date.

9.2 Where You rely upon Our valuation report after the Currency Date, You accept the risks associated with market movements between the Currency Date and the date of such reliance.

9.3 Without limiting the generality of 9.2, You should not rely upon Our valuation:
- (a) After the expiry of 3 months from the Currency Date;
- (b) Where circumstances have occurred during that period which may have a material effect on the value of the property or the assumptions or methodology used in the valuation report.

10. MARKET PROJECTIONS

10.1 Any market projections incorporated within our Services including, but not limited to, income, expenditure, associated growth rates, interest rates, incentives, yields and costs are projections only and may prove to be inaccurate. Accordingly, such market projections should be interpreted as an indicative assessment of potentialities only, as opposed to certainties.

10.2 Where Our Services include market projections such projections require the dependence upon a host of variables that are highly sensitive to varying conditions. Accordingly, variation in any of these conditions may significantly affect these market projections.

10.3 Where market projections form part of Our Services, We draw your attention to the fact that there will be a number of variables within acceptable market parameters that could be pertinent to Our Services and the projections adopted are representative of only one of these acceptable parameters.

11. YOUR OBLIGATIONS

11.1 You warrant that the instructions and subsequent information supplied by You contain a full and frank disclosure of all information that is relevant to Our provision of the Services.

11.2 You warrant that all third party expert or specialist reports provided to Us by You for the purpose of Us providing the Services are provided with the authority of the authors of those reports.

11.3 You authorise and license Us to incorporate Your intellectual property within Our report(s).

11.4 You will not release any part of Our valuation report or its substance to any third party without Our written consent. Such consent will be provided at Our absolute discretion and on such conditions as We may require including that a copy of these Terms and Conditions be provided to such third party. This clause shall not apply to persons noted as recipients in Your prior instruction to Us or in the Quotation provided that You shall provide any such recipient with a copy of these Terms and Conditions.

11.5 We reserve the right to reconsider or amend the valuation advice, or the Fee set out in Our Quotation to You, if;
- (a) Certificates, surveys, leases, side agreements or related documentation that were not provided to Us prior to the provision of the Services are subsequently provided, and contain matters that may affect the value of the advice; or
- (b) Where subsequent site inspections made in relation to any of the matters raised in Clause 3 materially affect or may alter the value of the property, the subject of the Services.

11.6 If You release any part of the valuation advice or its substance without written consent, You agree: a) to inform the other person of the terms of our consent; and b) to compensate Us if You do not do so. We have no responsibility to any other person even if that person suffers damage as a result of any other person receiving this valuation.

12. CONFIDENTIALITY

12.1 This report and each part of it is prepared and intended for the exclusive use of the Client for the sole purpose outlined in Our agreement for internal reference purposes, and in accepting this report, the Client expressly agrees not to use or rely upon this report or any part of it for any other purpose. No person other than the Client shall use or rely upon this report or any part of it for any purpose unless we have given Our express written consent. Similarly neither the whole nor any part of this report nor any reference there to may be included in any document, circular or statement nor published in any way without our written approval of the form and context in which it may appear.

12.2 If consent to disclose the Confidential Information is provided by Us, You agree to abide by any additional terms and conditions that We may apply to that disclosure.

12.3 You agree that You will indemnify, hold harmless and defend Us from and against any and all loss, liability, costs or expenses (including but not limited to professional or executive time) We may suffer or reasonably incur, directly or indirectly, as a result of a breach of this clause.

12.4 Unless otherwise directed in writing by Client, Colliers International retains the right to include references to the Services in its promotional material. Such references shall not contain confidential material.

13. PRIVACY

13.1 We may obtain personal information about You in the course of performing Our Services. We respect your privacy and advise You that we will only obtain information that is necessary to assist us in the course of performing Our Services. If it is necessary for Us to engage third parties, we will inform these parties that they are not to disclose any personal information about You to any person or organisation other than Us.

14. SUBCONTRACTING

14.1 We may sub-contract or otherwise arrange for another person to perform any part of the Services or to discharge any of Our obligations under any part of these Terms and Conditions, with Your consent.

15. LIMITATION OF COLLIERS LIABILITY

15.1 To the extent permissible under applicable laws, in no event shall Colliers International be liable to Client or anyone claiming by, through or under Client, including insurers, for any lost, delayed, or diminished profits, revenues, production, business, use or opportunities, or any incidental, special, indirect, or economic losses, wasted costs, diminution of value or consequential damages, of any kind or nature whatsoever, however caused.

15.2 All the costs and benefits forecasted will, ultimately, be determined by future market conditions. Forecasts of these elements are based on assumptions of certain variable factors, which, in turn, are extremely sensitive to changes in the market and economic contexts. For this reason, the figures mentioned in this report were not computed under any known or guaranteed conditions. Rather, these are forecasts drawn from reliable sources of data and information and made in the best judgment and professional integrity of Colliers International. Notwithstanding this, Colliers International reiterates that it will not accept any responsibilities in the face of damage claims that might result from any error, omission or recommendations, viewpoints, judgments and information provided in this report.

15.3 Colliers International, or any employee of Ours shall not be required to give testimony or to appear in court or any other tribunal or to any government agency by reason of this valuation report or with reference to the property in question unless prior arrangements have been made and we are properly reimbursed.

15.4 We are free from any possible legal and/ or non-legal issue which may attach to the Property's title documents.

16. ENTIRE AGREEMENT

16.1 No further agreement, amendment or modification of these Terms and Conditions shall be valid or binding unless made in writing and executed on behalf of the Parties by their duly authorised officers.

16.2 If there is inconsistency between these Terms and Conditions and the Quotation, any letter of instruction from You, or other specific request or information shall prevail to the extent of the inconsistency.

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